

Loblaw
Companies
Limited

focused

2018 ANNUAL REPORT – FINANCIAL REVIEW

2018 Annual Report - Financial Review

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Financial Highlights⁽¹⁾

On November 1, 2018, Loblaw Companies Limited (the “Company”) and its parent George Weston Limited (“Weston”) completed a reorganization under which the Company distributed its approximate 61.6% effective interest in Choice Properties Real Estate Investment Trust (“Choice Properties”) to Weston on a tax-free basis to the Company and its Canadian shareholders (“the reorganization” or “the spin-out”). The Company no longer retains its interest in Choice Properties and has ceased to consolidate its equity interest in Choice Properties from its consolidated financial statements as of the date of the reorganization. The Company’s interest in Choice Properties has been presented separately as Discontinued Operations in the Company’s current and comparative results. Unless otherwise indicated, all financial information represents the Company’s results from Continuing Operations.

As at or for the years ended December 29, 2018 and December 30, 2017 (millions of Canadian dollars except where otherwise indicated)	2018 (52 weeks)	2017 ⁽⁴⁾⁽⁵⁾ (52 weeks)
Consolidated Results of Operations		
Revenue	\$ 46,693	\$ 46,587
Revenue growth	0.2%	0.6%
Operating Income	\$ 1,923	\$ 2,049
Adjusted EBITDA ⁽²⁾	3,528	3,521
Adjusted EBITDA margin ⁽²⁾	7.6%	7.6%
Net interest expense and other financing charges	\$ 564	\$ 374
Adjusted net interest expense and other financing charges ⁽²⁾	387	374
Income taxes	606	365
Adjusted income taxes ⁽²⁾	580	596
Adjusted income tax rate ⁽²⁾	26.8%	26.9%
Net earnings	\$ 800	\$ 1,541
Continuing Operations	753	1,310
Discontinued Operations	47	231
Net earnings attributable to shareholders of the Company from Continuing Operations	719	1,286
Net earnings available to common shareholders of the Company ⁽ⁱ⁾	754	1,505
Continuing Operations	707	1,274
Discontinued Operations	47	231
Adjusted net earnings available to common shareholders of the Company ⁽²⁾	1,746	1,797
Continuing Operations	1,539	1,585
Discontinued Operations	207	212
Consolidated Per Common Share (\$)		
Diluted net earnings	\$ 1.99	\$ 3.79
Continuing Operations	\$ 1.87	\$ 3.21
Discontinued Operations	\$ 0.12	\$ 0.58
Adjusted diluted net earnings ⁽²⁾	\$ 4.60	\$ 4.52
Continuing Operations	\$ 4.06	\$ 3.99
Discontinued Operations	\$ 0.54	\$ 0.53
Dividends		
Dividends declared per common share (\$)	\$ 1.155	\$ 1.070
Consolidated Financial Position and Cash Flows⁽ⁱⁱ⁾		
Cash and cash equivalents and short term investments	\$ 1,159	\$ 2,344
Cash flows from operating activities	2,501	3,209
Capital investments	1,334	1,259
Free cash flow ⁽²⁾	366	1,479
Financial Measures		
Retail debt to retail adjusted EBITDA ⁽²⁾	1.9x	1.9x
Adjusted return on equity ⁽²⁾	12.6%	12.6%
Adjusted return on capital ⁽²⁾	9.8%	9.8%

(i) Net earnings available to common shareholders of the Company are net earnings attributable to shareholders of the Company net of dividends declared on the Company’s Second Preferred Shares, Series B.

(ii) Includes amounts from Continuing and Discontinued Operations.

The Financial Highlights include the impacts of the consolidation of franchises.

Financial Highlights⁽¹⁾

As at or for the years ended December 29, 2018 and December 30, 2017
(millions of Canadian dollars except where otherwise indicated)

	2018 (52 weeks)	2017 ⁽⁴⁾⁽⁵⁾ (52 weeks)
Retail Results of Operations		
Sales	\$ 45,836	\$ 45,867
Operating Income	1,717	1,843
Adjusted gross profit ⁽²⁾	13,459	13,053
Adjusted gross profit % ⁽²⁾	29.4%	28.5%
Adjusted EBITDA ⁽²⁾	\$ 3,332	\$ 3,329
Adjusted EBITDA margin ⁽²⁾	7.3%	7.3%
Depreciation and amortization	\$ 1,487	\$ 1,444
Retail Operating Statistics		
Food retail same-store sales growth	1.1%	0.6%
Drug retail same-store sales growth	2.4%	3.0%
Drug retail same-store pharmacy sales growth	1.2%	3.1%
Drug retail same-store front store sales growth	3.5%	2.9%
Total retail square footage (in millions)	70.4	70.3
Number of corporate stores	550	559
Number of franchise stores	535	534
Number of Associate-owned drug stores	1,337	1,334
Financial Services Results of Operations		
Revenue	\$ 1,082	\$ 953
Earnings before income taxes	137	150
Financial Services Operating Measures and Statistics		
Average quarterly net credit card receivables	\$ 3,073	\$ 2,908
Credit card receivables	3,329	3,100
Allowance for credit card receivables	167	47
Annualized yield on average quarterly gross credit card receivables	13.1%	13.2%
Annualized credit loss rate on average quarterly gross credit card receivables	3.1%	3.7%

The Financial Highlights include the impacts of the consolidation of franchises.

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Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") for Loblaw Companies Limited and its subsidiaries (collectively, the "Company" or "Loblaw") should be read in conjunction with the annual audited consolidated financial statements and the accompanying notes on page 65 to 139 of this Annual Report – Financial Review ("Annual Report").

The Company's annual audited consolidated financial statements and accompanying notes for the year ended December 29, 2018 have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") and include the accounts of the Company and other entities that the Company controls and are reported in Canadian dollars, except when 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 adjusting 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 17, "Non-GAAP Financial Measures", of this MD&A for more information on the Company's non-GAAP financial measures.

The information in this MD&A is current to February 20, 2019, unless otherwise noted. A glossary of terms used throughout this Annual Report can be found on page 140.

Unless otherwise indicated, all comparisons of results for the fourth quarter of 2018 (12 weeks ended December 29, 2018) are against results for the fourth quarter of 2017 (12 weeks ended December 30, 2017) and all comparisons of results for the full-year of 2018 (52 weeks ended December 29, 2018) are against the results for the full-year 2017 (52 weeks ended December 30, 2017).

On November 1, 2018, the Company and its parent George Weston Limited ("Weston") completed a reorganization under which the Company distributed its approximate 61.6% effective interest in Choice Properties Real Estate Investment Trust ("Choice Properties") to Weston on a tax-free basis to the Company and its Canadian shareholders ("the reorganization" or "the spin-out"), as described in Section 5 "Overall Financial Performance Business Developments" of this MD&A. The Company no longer retains its interest in Choice Properties and has ceased to consolidate its equity interest in Choice Properties from its consolidated financial statements as of the date of the reorganization. The reorganization has been presented separately as discontinued operations in the Company's current and comparative results. Unless otherwise indicated, all financial information represents the Company's results from continuing operations.

1. Forward-Looking Statements

This Annual Report, including this MD&A, 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 further healthcare reform, future liquidity, planned capital investments, and the status and impact of information technology ("IT") systems implementations. These specific forward-looking statements are contained throughout this Annual Report including, without limitation, in Section 3 "Strategic Framework", Section 5.1 "Consolidated Results of Operations", "Section 6.1 "Retail Segment" Other Retail Business Matters, Section 6.2 "Financial Services Segment", Section 7 "Liquidity and Capital Resources", Section 15.3 "Future Accounting Standards", Section 16 "Outlook" and Section 17 "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", "should" and similar expressions, as they relate to the Company and its management.

Forward-looking statements reflect the Company's 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 2019 is based on certain assumptions including assumptions about healthcare reform impacts, anticipated cost savings and operating efficiencies from Process and Efficiency initiatives and anticipated benefits from strategic initiatives. 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 2018 Annual Information Form ("AIF") (for the year ended December 29, 2018). 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;
- 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 realize benefits from investments in the Company's new IT systems;

- failure to realize the anticipated benefits associated with the Company's strategic priorities and major initiatives, including revenue growth, anticipated cost savings and operating efficiencies or organizational changes that may impact the relationships with franchisees and associates;
- failure to effectively respond to consumer trends or heightened competition, whether from current competitors or new entrants to the marketplace;
- failure to maintain an effective supply chain and consequently an appropriate assortment of available product at store level;
- failure to execute the Company's e-commerce initiatives or to adapt its business model to the shifts in the retail landscape caused by digital advances;
- public health events including those related to food and drug safety;
- errors made through medication dispensing or errors related to patient services or consultation;
- adverse outcomes of legal and regulatory proceedings and related matters;
- changes to any of the laws, rules, regulations or policies applicable to the Company's business;
- failure to achieve desired results in labour negotiations, including the terms of future collective bargaining agreements; and
- 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.

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 ("securities regulators") from time to time, including, without limitation, the section entitled "Risks" in the Company's 2018 AIF (for the year ended December 29, 2018). Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect the Company's expectations only as of the date of this MD&A. 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

The Company has two operating segments: Retail and Financial Services. The Retail segment consists primarily of corporate and franchise-owned retail food and Associate-owned drug stores, includes in-store pharmacies and other health and beauty products, apparel and other general merchandise and supports the *PC Optimum* program. The Company's Financial Services segment provides credit card services, the *PC Optimum* program, insurance brokerage services, and telecommunication services. As a result of the spin-out of Choice Properties to Weston, announced in 2018, the Company no longer holds an interest in Choice Properties.

3. Strategic Framework

The Company's strategic framework is anchored by a powerful purpose: Live Life Well. The Company is committed to delivering industry leading financial results through data-driven insights and process and efficiency excellence - a model that fuels truly customer-centric investments in Everyday Digital Retail, Payments and Rewards, and a future Connected Healthcare Network.

The Company strives to be the "best in food, health and beauty." The approach to offering "best in food" is driven by fresh food selection, 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, and delivering a diverse and differentiated beauty offering.

All of these objectives require our customers to have the convenience to shop, when, where and how they want - which is the fundamental strength of the Company's omni-channel strategy.

4. Key Financial Performance Indicators

The Company's interest in Choice Properties has been presented separately as Discontinued Operations in the Company's current and comparative results. Unless otherwise indicated, all financial information represents the Company's results from Continuing Operations.

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

As at or for the years ended December 29, 2018 and December 30, 2017 (millions of Canadian dollars except where otherwise indicated)	2018 (52 weeks)	2017 ⁽⁴⁾⁽⁵⁾ (52 weeks)
Consolidated:		
Revenue growth	0.2%	0.6%
Operating Income	\$ 1,923	\$ 2,049
Adjusted EBITDA ⁽²⁾	3,528	3,521
Adjusted EBITDA margin ⁽²⁾	7.6%	7.6%
Net earnings	\$ 800	\$ 1,541
Continuing Operations	753	1,310
Discontinued Operations	47	231
Net earnings attributable to shareholders of the Company from Continuing Operations	719	1,286
Net earnings available to common shareholders of the Company ⁽ⁱ⁾	754	1,505
Continuing Operations	707	1,274
Discontinued Operations	47	231
Adjusted net earnings available to common shareholders of the Company ⁽²⁾	1,746	1,797
Continuing Operations	1,539	1,585
Discontinued Operations	207	212
Diluted net earnings per common share (\$)	\$ 1.99	\$ 3.79
Continuing Operations	\$ 1.87	\$ 3.21
Discontinued Operations	\$ 0.12	\$ 0.58
Adjusted diluted net earnings per common share ⁽²⁾ (\$)	\$ 4.60	\$ 4.52
Continuing Operations	\$ 4.06	\$ 3.99
Discontinued Operations	\$ 0.54	\$ 0.53
Cash and cash equivalents and short term investments	1,159	2,344
Cash flows from operating activities ⁽ⁱⁱ⁾	2,501	3,209
Free cash flow ⁽²⁾⁽ⁱⁱⁱ⁾	366	1,479
Financial Measures:		
Retail debt to retail adjusted EBITDA ⁽²⁾	1.9x	1.9x
Adjusted return on equity ⁽²⁾	12.6%	12.6%
Adjusted return on capital ⁽²⁾	9.8%	9.8%
Retail Segment:		
Food retail same-store sales growth	1.1%	0.6%
Drug retail same-store sales growth	2.4%	3.0%
Operating Income	\$ 1,717	\$ 1,843
Adjusted gross profit ⁽²⁾	13,459	13,053
Adjusted gross profit % ⁽²⁾	29.4%	28.5%
Adjusted EBITDA ⁽²⁾	\$ 3,332	\$ 3,329
Adjusted EBITDA margin ⁽²⁾	7.3%	7.3%
Financial Services Segment:		
Earnings before income taxes	\$ 137	\$ 150
Annualized yield on average quarterly gross credit card receivables	13.1%	13.2%
Annualized credit loss rate on average quarterly gross credit card receivables	3.1%	3.7%

(i) Net earnings available to common shareholders of the Company are net earnings attributable to shareholders of the Company net of dividends declared on the Company's Second Preferred Shares, Series B.

(ii) Includes amounts from Continuing and Discontinued Operations.

5. Overall Financial Performance

Business Developments

Spin-out of Choice Properties On November 1, 2018, the Company and its parent Weston completed a reorganization under which the Company distributed its approximate 61.6% effective interest in Choice Properties to Weston on a tax-free basis to the Company and its Canadian shareholders. In connection with the reorganization, the common shareholders of the Company, other than Weston and its subsidiaries, received 0.135 of a common share of Weston for each common share of the Company held, which was equivalent to the market value of their pro rata interest in Choice Properties as at the announcement date of the spin-out, and Weston received the Company's approximate 61.6% effective interest in Choice Properties.

The Company no longer retains its interest in Choice Properties and ceased to consolidate its equity interest in Choice Properties from its consolidated financial statements, which resulted in a reduction in total assets and liabilities as at October 31, 2018 of approximately \$11.2 billion and \$11.1 billion, respectively with the difference recorded in retained earnings. The reduction includes balances acquired with Choice Properties' acquisition of CREIT in the second quarter of 2018. The spin-out represents a decrease in total assets and liabilities of \$4.8 billion and \$4.5 billion, respectively compared to December 30, 2017. The transaction has no significant impact on the ongoing operating relationship between the Company and Choice Properties and the Strategic Alliance Agreement and leases, remain in place. The Company continues to be Choice Properties' largest tenant.

The reorganization has been reflected separately as Discontinued Operations in the current and comparative results. Unless otherwise noted, all comparisons of operating results exclude the results of Choice Properties. The results of Continuing Operations reflect transactions between the Company and Choice Properties in the current and comparative period, including, but not limited to, rent payments made by the Retail segment to Choice Properties for the annual period. Prior to the reorganization, these transactions were eliminated on consolidation. All intercompany transactions prior to the spin-out have been eliminated as part of Discontinued Operations.

Impact on Consolidated Financial Results, including Discontinued Operations The Company's 2018 consolidated financial results, including Discontinued Operations, reflect Choice Properties financial results up until October 31, 2018. Subsequent to the spin-out, from November 1, 2018 to December 29, 2018, the Company's consolidated financial results no longer include Choice Properties' rent received from third party tenants, depreciation and amortization on properties owned by Choice Properties or net interest expense and other financial charges related to trust unit distributions to third parties and Choice Properties' debt.

In addition, post spin-out, the Company's consolidated financial results reflect the on-going operating relationship between the Company and Choice Properties, including but not limited to rent paid to Choice Properties from November 1, 2018 to December 29, 2018, which is no longer eliminated on consolidation, as well as incremental depreciation and amortization as a result of the change in estimated useful life of certain building components owned by the Company, as discussed below.

As a result of the above, the spin-out had a negative year-over-year impact on the total Company consolidated financial performance in 2018. The spin-out negatively impacted adjusted net earnings available to common shareholders of the Company⁽²⁾, including Discontinued Operations by approximately \$30 million (\$0.08 per common share) compared to 2017.

Impact on Retail Segment Results The Company has restated the financial results of the Retail segment on a Continuing Operations basis, to include amounts paid between the Company and Choice Properties in the current and comparative period. The Company's current and comparative period Retail segment results include rent and lease surrender payments paid to Choice Properties, gains related to the sale leaseback of properties to Choice Properties and site intensification payments received from Choice Properties. In addition, the Retail segment no longer includes depreciation and amortization on properties owned by Choice Properties previously treated as own use fixed assets. See Section 13, "Related Party Transactions", of this MD&A for more information on the transactions between the Company and Choice Properties.

Post spin-out the Retail segment no longer includes depreciation and amortization on Choice Properties owned land and building and includes incremental depreciation and amortization as a result of the change in estimated useful life of certain building components owned by the Company. Prior to the spin-out, buildings owned by Choice Properties and leased by the Company as well as any related building components owned by the Company were considered own use fixed assets and were depreciated over 40 years. As a result of the spin-out, buildings owned by Choice Properties and leased by the Company will be accounted for as operating leases. The building components associated with these leases post spin-out are classified as leasehold improvements and depreciated over the lesser of the lease term and useful life up to 25 years. The remaining average lease term on the leases related to these leasehold improvements as of the date of the reorganization was approximately 10 years. The impact of this change is expected to be an increase in depreciation and amortization of approximately \$85 million compared to 2018. The Company's 2018 financial results includes incremental depreciation and amortization for the post spin-out period.

The spin-out did not have a significant impact on the Company's Retail segment fourth quarter and 2018 financial performance as the Company's current and comparative period financial results have been restated to reflect the ongoing operating relationship with Choice Properties, as discussed above.

Gas Bar Network The disposition of the Company's gas bar operations in the third quarter of 2017 had a negative year-over-year impact on financial performance in 2018. The disposition negatively impacted Retail sales growth by \$843 million, adjusted EBITDA⁽²⁾ by approximately \$45 million, and adjusted net earnings available to common shareholders of the Company⁽²⁾ by approximately \$26 million (\$0.06 per common share), compared to 2017. Net earnings available to common shareholders of the Company in the third quarter of 2017 included a post-tax gain of \$432 million, net of related costs from the disposition. The disposition did not have a year-over-year impact on fourth quarter results.

5.1. Consolidated Results of Operations

The Company's interest in Choice Properties has been presented separately as Discontinued Operations in the Company's current and comparative results. Unless otherwise indicated, all financial information represents the Company's results from Continuing Operations.

For the years ended December 29, 2018 and December 30, 2017 (millions of Canadian dollars except where otherwise indicated)	2018 (52 weeks)	2017 ⁽⁴⁾⁽⁵⁾ (52 weeks)	\$ Change	% Change
Revenue	\$ 46,693	\$ 46,587	\$ 106	0.2 %
Operating income	1,923	2,049	(126)	(6.1)%
Adjusted EBITDA ⁽²⁾	3,528	3,521	7	0.2 %
Adjusted EBITDA margin ⁽²⁾	7.6%	7.6%		
Depreciation and amortization	\$ 1,497	\$ 1,454	\$ 43	3.0 %
Net interest expense and other financing charges	564	374	190	50.8 %
Adjusted net interest expense and other financing charges ⁽²⁾	387	374	13	3.5 %
Income taxes	606	365	241	66.0 %
Adjusted income taxes ⁽²⁾	580	596	(16)	(2.7)%
Adjusted income tax rate ⁽²⁾	26.8%	26.9%		
Net earnings attributable to shareholders of the Company from Continuing Operations	\$ 719	\$ 1,286	\$ (567)	(44.1)%
Net earnings available to common shareholders of the Company⁽ⁱ⁾	754	1,505	(751)	(49.9)%
Continuing Operations	707	1,274	(567)	(44.5)%
Discontinued Operations	47	231	(184)	(79.7)%
Adjusted net earnings available to common shareholders of the Company ⁽²⁾	\$ 1,746	\$ 1,797	\$ (51)	(2.8)%
Continuing Operations	1,539	1,585	(46)	(2.9)%
Discontinued Operations	207	212	(5)	(2.4)%
Diluted net earnings per common share (\$)	\$ 1.99	\$ 3.79	\$ (1.80)	(47.5)%
Continuing Operations	\$ 1.87	\$ 3.21	\$ (1.34)	(41.7)%
Discontinued Operations	\$ 0.12	\$ 0.58	\$ (0.46)	(79.3)%
Adjusted diluted net earnings per common share ⁽²⁾ (\$)	\$ 4.60	\$ 4.52	\$ 0.08	1.8 %
Continuing Operations	\$ 4.06	\$ 3.99	\$ 0.07	1.8 %
Discontinued Operations	\$ 0.54	\$ 0.53	\$ 0.01	1.9 %
Diluted weighted average common shares outstanding (in millions)	379.3	397.3		

(i) Net earnings available to common shareholders of the Company are net earnings attributable to shareholders of the Company net of dividends declared on the Company's Second Preferred Shares, Series B.

2018 Select Annual Highlights In 2018, the Company completed the spin-out of Choice Properties. The reorganization simplifies the Company as a pure-play retailer by spinning out a non-strategic business and allows the Company to focus on pursuing its core retail, connected healthcare, digital retail and payments and rewards strategy. The Company's 2018 financial results from Discontinued Operations include ten months of Choice Properties' financial results compared to a full year in 2017.

The following annual highlights include both continuing and Discontinued Operations and also reflect the impact of the consolidation of franchises and the disposition of gas bar operations in the Retail segment as well as the acquisition of Canadian Real Estate Investment Trust ("CREIT") by Choice Properties. The Company's year-over-year financial performance were negatively impacted by minimum wage increases and incremental healthcare reform.

- Inclusive of Discontinued Operations, net earnings available to common shareholders of the Company were \$754 million, a decrease of \$751 million compared to 2017. Diluted net earnings per common share were \$1.99, a decrease of \$1.80 compared to 2017.
 - Net earnings available to common shareholders of the Company and diluted net earnings per common share were negatively impacted by the charge related to Glenhuron Bank Limited ("Glenhuron") in the third quarter of 2018. Net earnings available to common shareholders of the Company and diluted net earnings per common share were also negatively impacted year-over-year by the 2017 gain on disposition of gas bars operations.
- Inclusive of Discontinued Operations, adjusted net earnings available to common shareholders of the Company⁽²⁾ were \$1,746 million, a decrease of \$51 million, or 2.8%, compared to 2017. Adjusted diluted net earnings per common share⁽²⁾ were \$4.60, an increase of \$0.08, or 1.8%, compared to 2017. Normalized for the impact of the reorganization, Choice Properties acquisition of CREIT and the 2017 disposition of gas bar operations, adjusted net earnings available to common shareholders of the Company⁽²⁾ increased by approximately \$3 million (\$0.22 or 5.0% per common share) compared to 2017.
 - The spin-out of Choice Properties in the fourth quarter of 2018 had a negative year-over-year impact on financial performance in 2018. The spin-out negatively impacted adjusted net earnings available to common shareholders of the Company⁽²⁾ by approximately \$30 million (\$0.08 per common share) compared to 2017.
 - Choice Properties completed the acquisition of CREIT in the second quarter of 2018. In 2018, the acquisition resulted in an increase in adjusted net earnings available to common shareholders of the Company⁽²⁾ of \$2 million. The acquisition had a nominal impact on adjusted diluted net earnings per common share⁽²⁾ in 2018.
 - The disposition of the Company's gas bar operations, in the third quarter of 2017 had a negative year-over-year impact on financial performance in 2018. The disposition negatively impacted adjusted net earnings available to common shareholders of the Company⁽²⁾ by approximately \$26 million (\$0.06 per common share) compared to 2017.

Net Earnings Available to Common Shareholders of the Company from Continuing Operations and Diluted Net Earnings Per Common Share from Continuing Operations

Net earnings available to common shareholders of the Company from Continuing Operations were \$707 million (\$1.87 per common share) in 2018, a decrease of \$567 million (\$1.34 per common share) compared to 2017. The decrease was driven by a decline in underlying operating performance of \$20 million, excluding the unfavourable impact of the disposition of gas bar operations of approximately \$26 million, and the unfavourable year-over-year net impact of adjusting items totaling \$521 million, as described below:

- decline in underlying operating performance of \$46 million (\$0.11 per common share), was primarily due to the following:
 - the Retail segment (excluding the impact of the consolidation of franchises), driven by an increase in selling, general and administrative expenses ("SG&A"), an increase in depreciation and amortization and the unfavourable impact of the disposition of gas bar operations of approximately \$26 million, partially offset by an increase in adjusted gross profit⁽²⁾; and
 - an increase in adjusted net interest expense and other financing charges⁽²⁾, primarily as a result of an increase in interest rates on borrowings in the Financial Services segment.
- the unfavourable year-over-year net impact of adjusting items totaling \$521 million (\$1.41 per common share) primarily due to the following:
 - the prior year gain on the disposition of gas bars operations of \$432 million (\$1.09 per common share); and
 - the charge recorded in 2018 related to Glenhuron of \$367 million (\$0.97 per common share);
 partially offset by,
 - prior year charges related to the *PC Optimum* Program of \$137 million (\$0.34 per common share); and
 - the year-over-year favourable impact of restructuring and other related costs of \$128 million (\$0.32 per common share).
- the increase in diluted net earnings per common share also included the favourable impact of the repurchase of common shares (\$0.18 per common share).

Management's Discussion and Analysis

Adjusted net earnings available to common shareholders of the Company⁽²⁾ from Continuing Operations were \$1,539 million (\$4.06 per common share) in 2018, a decrease of \$46 million (increase of \$0.07 per common share) compared to 2017. Normalized for the disposition of gas bar operations, adjusted net earnings available to common shareholders of the Company⁽²⁾ decreased by approximately \$20 million, for the reasons described above. Adjusted net earnings per common share⁽²⁾ from continuing operations also included the favourable impact of the repurchase of common shares (\$0.18 per common share). Normalized for the disposition of gas bar operations, adjusted diluted net earnings per common share⁽²⁾ increased by approximately 3.3%.

Discontinued Operations Net earnings available to common shareholders of the Company from Discontinued Operations were negatively impacted year-over-year by the spin-out of Choice Properties on November 1, 2018. The Company's 2018 financial results from Discontinued Operations include ten months of Choice Properties' financial results compared to a full year in 2017.

Net earnings available to common shareholders of the Company from Discontinued Operations were \$47 million (\$0.12 per common share) in 2018, a decrease of \$184 million (\$0.46 per common share) compared to 2017. The decrease included a decline in underlying operating performance of \$5 million (\$0.01 per common share), primarily due to unfavourable year-over-year impact of the spin-out, and the unfavourable year-over-year net impact of adjusting items totaling \$179 million (\$0.47 per common share). The impact was primarily driven by:

- acquisition and other costs related to Choice Properties' acquisition of CREIT of \$119 million (\$0.31 per common share);
- the fair value adjustment to the Trust Unit Liability of \$43 million (0.12 per common share); and
- the fair value adjustment on investment properties of \$30 million (\$0.08 per common share);

partially offset by,

- the gain on sale of air rights of \$11 million (\$0.03 per common share).

Net earnings available to common shareholders of the Company from Discontinued Operations also included the favourable impact of the repurchase of common shares (\$0.02 per common share).

Revenue

For the years ended December 29, 2018 and December 30, 2017 (millions of Canadian dollars except where otherwise indicated)	2018 (52 weeks)	2017 ⁽⁴⁾⁽⁵⁾ (52 weeks)	\$ Change	% Change
Retail	\$ 45,836	\$ 45,867	\$ (31)	(0.1)%
Financial Services	1,082	953	129	13.5 %
Consolidation and Eliminations	(225)	(233)	8	3.4 %
Revenue from Continuing Operations	\$ 46,693	\$ 46,587	\$ 106	0.2 %

Revenue was \$46,693 million in 2018, an increase of \$106 million, or 0.2%, compared to 2017, primarily due to an increase in Financial Services segment sales of \$129 million driven by higher year-over-year sales attributable to *The Mobile Shop* as well as higher interest and interchange income, partially offset by a decrease in Retail segment sales. Excluding the consolidation of franchises, Retail segment sales decreased by \$369 million, or 0.8%. The decrease was primarily due to the impact of the 2017 disposition of gas bar operations of \$843 million, partially offset by positive same-store sales growth.

Operating Income Operating income was \$1,923 million in 2018, a decrease of \$126 million compared to 2017. The decrease in operating income was driven by a decline in underlying operating performance of \$39 million and the unfavourable year-over-year net impact of adjusting items totaling \$87 million, as described below:

- the decline in underlying operating performance of \$39 million was primarily due to the Retail segment, partially offset by the improvement in underlying operation performance of the Financial Services segment. The Retail segment year-over-year performance included the favourable contribution from the consolidation of franchises of \$10 million and the unfavourable impact of the 2017 disposition of gas bar operations; and
- the unfavourable year-over-year net impact of adjusting items totaling \$87 million primarily due to the following:
 - the prior year gain on the disposition of gas bars operations of \$501 million; and
 - the year-over-year unfavourable impact of fixed asset and other related impairments, net of recoveries of \$30 million; partially offset by,
 - prior year charges related to the *PC Optimum* Program of \$187 million;
 - the year-over-year favourable impact of restructuring and other related costs of \$167 million; and
 - the year-over-year favourable impact of prior year charges related to the Loblaw Card Program of \$103 million.

Adjusted EBITDA⁽²⁾

For the years ended December 29, 2018 and December 30, 2017 (millions of Canadian dollars except where otherwise indicated)	2018 (52 weeks)	2017 ⁽⁴⁾⁽⁵⁾ (52 weeks)	\$ Change	% Change
Retail	\$ 3,332	\$ 3,329	\$ 3	0.1%
Financial Services	196	192	4	2.1%
Adjusted EBITDA ⁽²⁾	\$ 3,528	\$ 3,521	\$ 7	0.2%

Adjusted EBITDA⁽²⁾ was \$3,528 million in 2018, an increase of \$7 million compared to 2017. The increase in adjusted EBITDA⁽²⁾ was primarily due to improvements in the Financial Services segment and the Retail segment. The Retail segment included the favourable contribution from the consolidation of franchises of \$26 million and an increase in adjusted gross profit⁽²⁾, partially offset by an increase in SG&A and the unfavourable impact of the 2017 disposition of gas bar operations of \$45 million.

Depreciation and Amortization Depreciation and amortization was \$1,497 million in 2018, an increase of \$43 million compared to 2017, primarily driven by the consolidation of franchises, an increase in IT assets and the change in estimated useful life of certain building components as a result of the spin-out of Choice Properties. Included in depreciation and amortization is the amortization of intangible assets related to the acquisition of Shoppers Drug Mart Corporation (“Shoppers Drug Mart”) of \$521 million (2017 – \$524 million).

Net Interest Expense and Other Financing Charges

For the years ended December 29, 2018 and December 30, 2017 (millions of Canadian dollars except where otherwise indicated)	2018 (52 weeks)	2017 ⁽⁵⁾ (52 weeks)	\$ Change	% Change
Net interest expense and other financing charges	\$ 564	\$ 374	\$ 190	50.8 %
Add (deduct) impact of the following:				
Charge related to Glenhuron	(176)	—	(176)	(100.0)%
Spin-out of Choice Properties	(1)	—	(1)	(100.0)%
Adjusted net interest expense and other financing charges ⁽²⁾	\$ 387	\$ 374	\$ 13	3.5 %

Net interest expense and other financing charges were \$564 million in 2018, an increase of \$190 million compared to 2017. The increase was primarily due to the charge related to Glenhuron of \$176 million, as described in “Other Business Matters” below.

Adjusted net interest expense and other financing charges⁽²⁾ were \$387 million, an increase of \$13 million compared to 2017 driven by higher interest expense in the Financial Services segment, primarily due to an increase in interest rates on borrowings related to credit card receivables and a net increase in Guaranteed Investment Certificates (“GICs”).

Income Taxes

For the years ended December 29, 2018 and December 30, 2017 (millions of Canadian dollars except where otherwise indicated)	2018 (52 weeks)	2017 ⁽⁴⁾⁽⁵⁾ (52 weeks)	\$ Change	% Change
Income taxes	\$ 606	\$ 365	\$ 241	66.0 %
Add (deduct) impact of the following:				
Tax impact of items included in adjusted earnings before taxes	165	214	(49)	(22.9)%
Charge related to Glenhuron	(191)	—	(191)	(100.0)%
Remeasurement of deferred tax balances	—	17	(17)	(100.0)%
Adjusted income taxes ⁽²⁾	\$ 580	\$ 596	\$ (16)	(2.7)%
Effective tax rate	44.6%	21.8%		
Adjusted income tax rate ⁽²⁾	26.8%	26.9%		

The effective tax rate in 2018 was 44.6% compared to 21.8% in 2017. The increase in the effective tax rate was primarily attributable to a charge of \$191 million related to Glenhuron and the impact of the non-deductible interest related to Glenhuron, as described in "Other Business Matters" below, as well as the impact of other non-deductible items. In 2017, there was a recovery due to the impact of the non-taxable portion of the gain on disposition of gas bar operations and a deferred tax recovery of \$17 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.

The adjusted income tax rate⁽²⁾ in 2018 was 26.8% compared to 26.9% in 2017. The decrease in the adjusted income tax rate⁽²⁾ was primarily attributable to a decrease in certain non-deductible items.

Other Business Matters

Process and Efficiency The Company continues to execute on a multi-year plan, initiated in 2018, focused on improving processes and generating efficiencies across its administrative, store, and distribution network infrastructures. Many initiatives are underway to reduce the complexity and cost of business operations, ensuring a low cost operating structure that allows for continued investments in the Company's strategic growth areas. Management anticipates investing capital as well as recording restructuring and other charges related to these initiatives in 2019 and beyond.

Charge related to Glenhuron On September 7, 2018, the Tax Court of Canada ("Tax Court") released its decision relating to Glenhuron, a wholly-owned Barbadian subsidiary of the Company that was wound up in 2013. The Tax Court ruled that certain income earned by Glenhuron should be taxed in Canada based on a technical interpretation of the applicable legislation.

On October 4, 2018, the Company filed a Notice of Appeal with the Federal Court of Appeal. Although the Company believes in the merits of its position, it recorded a charge during the third quarter of 2018 of \$367 million, of which \$176 million was recorded in interest and \$191 million was recorded in income taxes. The Company believes that this provision will be sufficient to cover its ultimate liability if the appeal is unsuccessful.

In the third quarter of 2018, the Company made a cash payment of \$235 million to fund the tax and interest owing in light of the decision of the Tax Court.

5.2 Selected Financial 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 29, 2018, December 30, 2017 and December 31, 2016. The analysis of the data contained in the table focuses on the trends and significant events or items affecting the financial condition and results of the Company's operations over the most recent three years. The reorganization has been presented separately as Discontinued Operations in the Company's current and comparative results. Unless otherwise indicated, all financial information represents the Company's results from Continuing Operations.

For the years ended December 29, 2018 and December 30, 2017 and December 31, 2016 (millions of Canadian dollars except where otherwise indicated)	2018 (52 weeks)	2017 ⁽⁴⁾⁽⁵⁾ (52 weeks)	2016 ⁽⁵⁾ (52 weeks)
Revenue	\$ 46,693	\$ 46,587	\$ 46,295
Operating Income	1,923	2,049	1,675
Adjusted EBITDA ⁽²⁾	3,528	3,521	3,333
Adjusted EBITDA margin ⁽²⁾	7.6%	7.6%	7.2%
Depreciation and amortization	\$ 1,497	\$ 1,454	\$ 1,435
Adjusted net interest expense and other financing charges ⁽²⁾	387	374	380
Adjusted income tax rate ⁽²⁾	26.8%	26.9%	27.4%
Net earnings	\$ 800	\$ 1,541	\$ 990
Continuing Operations	753	1,310	918
Discontinued Operations	47	231	72
Net earnings attributable to the shareholders of the Company from Continuing Operations	719	1,286	911
Net earnings available to common shareholders of the Company⁽ⁱ⁾	754	1,505	971
Continuing Operations	707	1,274	899
Discontinued Operations	47	231	72
Adjusted net earnings available to common shareholders of the Company ⁽²⁾	\$ 1,746	\$ 1,797	\$ 1,655
Continuing Operations	1,539	1,585	1,471
Discontinued Operations	207	212	184
Basic net earnings per common share (\$)	\$ 2.00	\$ 3.82	\$ 2.40
Continuing Operations	\$ 1.88	\$ 3.24	\$ 2.22
Discontinued Operations	\$ 0.12	\$ 0.58	\$ 0.18
Diluted net earnings per common share (\$)	\$ 1.99	\$ 3.79	\$ 2.37
Continuing Operations	\$ 1.87	\$ 3.21	\$ 2.20
Discontinued Operations	\$ 0.12	\$ 0.58	\$ 0.17
Adjusted diluted net earnings per common share ⁽²⁾ (\$)	\$ 4.60	\$ 4.52	\$ 4.05
Continuing Operations	\$ 4.06	\$ 3.99	\$ 3.60
Discontinued Operations	\$ 0.54	\$ 0.53	\$ 0.45
Diluted weighted average common shares (in millions)	379.3	397.3	409.1
Dividends declared per common share (\$)	\$ 1.155	\$ 1.070	\$ 1.030
Dividends declared per Second Preferred Share, Series B (\$)	\$ 1.325	\$ 1.325	\$ 1.325

(i) Net earnings available to common shareholders of the Company are net earnings attributable to shareholders of the Company net of dividends declared on the Company's Second Preferred Shares, Series B.

Revenue Revenue was \$46,693 million in 2018, an increase of \$106 million compared to 2017. Food retail same-store sales growth was 1.1% (2017 – 0.6%) and excluding gas bar operations was 1.1% (2017 – 0.3%). Drug retail same-store sales growth was 2.4% (2017 – 3.0%).

Revenue was \$46,587 million in 2017, an increase of \$292 million compared to 2016. Food retail same-store sales growth was 0.6% (2016 – 1.1%) and excluding gas bar operations was 0.3% (2016 – 1.5%). Drug retail same-store sales growth was 3.0% (2016 – 4.0%).

The Company'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. In 2016 the 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 when deflation in food prices returned to inflation. Through 2018, the Company experienced food price inflation while drug retail prices were negatively impacted by the effects of incremental healthcare reform. Retail segment sales over the past three years were also impacted by the consolidation of franchisees and the disposition of gas bar operations in the third quarter of 2017.

The Company's Financial Services segment sales have continued to grow, mainly driven by growth in the credit card portfolio.

Net Earnings Available to Common Shareholders of the Company from Continuing Operations and Diluted Net Earnings Per Common Share from Continuing Operations Net earnings available to common shareholders of the Company from Continuing Operations and diluted net earnings per common share from Continuing Operations fluctuated over the past three years and were impacted by certain adjusting items set out in Section 17 "Non-GAAP Financial Measures" and the changes in the underlying operating performance of the Company. The fluctuations in net earnings available to common shareholders of the Company from Continuing Operations and diluted net earnings per common share from Continuing Operations were primarily due to:

- changes in underlying operating performance of the Retail segment, including positive same-store sales growth in both Food retail and Drug retail in 2018, 2017 and 2016;
- cost savings and operating efficiencies from process and efficiency initiatives and benefits from strategic initiatives;
- improvements in the performance of the Financial Services segment including the continued investments in strategic initiatives;
- the favourable impact of the repurchase of common shares for cancellation;
- the impact of certain adjusting items, including:
 - the gain on disposition of gas bar operations;
 - the charge related to Glenhuron Bank;
 - asset impairments, net of recoveries;
 - the wind-down of *PC Financial* banking services;
 - the remeasurement of deferred tax balances;
 - the impact of healthcare reform on inventory balances;
 - the Loblaw Card Program;
 - restructuring and other related costs; and
 - the *PC Optimum* Program, including the revaluation of the existing points liability and the impairment of certain IT assets.
- negative year-over-year impact from the disposition of gas bar operations; and
- negative impact from minimum wage increases and incremental healthcare reform.

The consolidation of franchises does not significantly impact net earnings available to common shareholders of the Company as the related earnings are largely attributable to non-controlling interests.

Total Assets and Long Term Financial Liabilities

The Company's consolidated balance sheet as at December 29, 2018 reflects the spin-out of Choice Properties as of November 1, 2018. The consolidated balance sheet amounts for the comparative periods include Choice Properties.

(millions of Canadian dollars)	As at December 29, 2018	As at December 30, 2017	As at December 31, 2016
Total Assets	\$ 30,153	\$ 35,147	\$ 34,436
Total Long Term Debt	\$ 8,026	\$ 11,177	\$ 10,870
Trust Unit Liability	—	972	959
Long term financial liabilities	\$ 8,026	\$ 12,149	\$ 11,829

In 2018, total assets of \$30,153 million decreased by 14% compared to 2017. The decrease was primarily driven by the decrease in fixed assets due to the spin-out of Choice Properties. Long term financial liabilities of \$8,026 million decreased by 34% compared to 2017, primarily driven by the spin-out of Choice Properties.

In 2017, total assets of \$35,147 million increased by 2.1% compared to 2016. The increase was primarily driven by an increase in cash and cash equivalents and short term investments as a result of the sale of gas bar operations. Long term financial liabilities of \$12,149 million increased by 2.7% compared to 2016 primarily driven by the drawings on the Choice Properties' credit facilities and the *Eagle Credit Card Trust*[®] ("*Eagle*") debt issuance partially offset by the repayment of the Choice Properties Series 6 senior unsecured debentures.

Prior to the spin-out, the Trust Unit Liability was recognized at fair value on the consolidated balance sheets and fluctuated due to issuances of additional units and changes in the fair value of Choice Properties' Trust Units ("Units"). As at December 30, 2017, 72,800,965 Units were held by unitholders other than the Company (December 31, 2016 – 71,068,828) and the Company held an 82.4% (December 31, 2016 – 82.7%) effective ownership interest in Choice Properties.

6. Reportable Operating Segments Results of Operations

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

- The Retail segment consists primarily of corporate and franchise-owned retail food and Associate-owned drug stores, and includes in-store pharmacies and other health and beauty products, apparel and other general merchandise and supports the *PC Optimum* program. This segment is comprised of several operating segments that are aggregated primarily due to similarities in the nature of products and services offered for sale in the retail operations and the customer base. The Retail segment is Choice Properties' largest tenant and all transactions, including but not limited to rental payments, with Choice Properties are included in segment results. Prior to July 17, 2017, the Retail segment also included gas bar operations; and
- The Financial Services segment provides credit card services, the *PC Optimum* Program, insurance brokerage services, deposit taking services and telecommunication services. As a result of the wind-down of *PC Financial* banking services, the Financial Services segment no longer offers personal banking services.

6.1 Retail Segment

For the years ended December 29, 2018 and December 30, 2017 (millions of Canadian dollars except where otherwise indicated)	2018 (52 weeks)	2017 (52 weeks)	\$ Change	% Change
Sales	\$ 45,836	\$ 45,867	\$ (31)	(0.1)%
Operating income	1,717	1,843	(126)	(6.8)%
Adjusted gross profit ⁽²⁾	13,459	13,053	406	3.1 %
Adjusted gross profit % ⁽²⁾	29.4%	28.5%		
Adjusted EBITDA ⁽²⁾	\$ 3,332	\$ 3,329	\$ 3	0.1 %
Adjusted EBITDA margin ⁽²⁾	7.3%	7.3%		
Depreciation and amortization	\$ 1,487	\$ 1,444	\$ 43	3.0 %

For the years ended December 29, 2018 and December 30, 2017 (millions of Canadian dollars except where otherwise indicated)	2018 (52 weeks)		2017 (52 weeks)	
	Sales	Same-store sales	Sales	Same-store sales
Food retail	\$ 32,969	1.1%	\$ 33,288	0.6%
Drug retail	12,867	2.4%	12,579	3.0%
Pharmacy	6,030	1.2%	5,959	3.1%
Front Store	6,837	3.5%	6,620	2.9%

Sales, operating income, adjusted gross profit⁽²⁾, adjusted gross profit percentage⁽²⁾, adjusted EBITDA⁽²⁾ and adjusted EBITDA margin⁽²⁾ include the impacts of the consolidation of franchises and disposition of gas bar operations.

Sales Retail segment sales were \$45,836 million in 2018, a decrease of \$31 million, or 0.1%, compared to 2017. Excluding the consolidation of franchises, Retail segment sales decreased by \$369 million or 0.8%, primarily driven by the following factors:

- The impact of the disposition of gas bar operations of \$843 million; partially offset by,
- Food retail same-store sales growth was 1.1% (2017 – 0.3%) for 2017, after excluding gas bar operations. Including gas bar operations, Food retail same-store sales growth was 1.1% (2017 – 0.6%).
 - Sales growth in food was moderate;
 - Sales in pharmacy declined moderately; and
 - The Company's Food retail average annual internal food price index was modestly lower than (2017 – declined and was marginally higher than) the average annual national food price inflation of 0.8% (2017 – 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 the Company's stores.
- Drug retail same-store sales growth was 2.4% (2017 – 3.0%).
 - Pharmacy same-store sales growth was 1.2% (2017 – 3.1%). The number of prescriptions dispensed increased by 3.4% (2017 – 4.3%). On a same-store basis, the number of prescriptions dispensed increased by 3.3% (2017 – 3.8%) and year-over-year, the average prescription value decreased by 2.3% (2017 – decreased by 0.8%). Pharmacy same-store sales growth included the impact of incremental healthcare reform; and
 - Front store same-store sales growth was 3.5% (2017 – 2.9%).

In 2018, 17 food and drug stores were opened, and 22 food and drug stores were closed, resulting in a net increase in Retail square footage of 0.1 million square feet, or 0.1%.

The redemption of Loblaw Cards resulted in the delivery of approximately \$74 million of free products to customers in 2018, which was provided for in the fourth quarter of 2017. The redemptions did not benefit sales or the Company's financial performance and Management does not believe it had a significant impact on Food retail same-store sales.

Operating Income Operating income was \$1,717 million in 2018, a decrease of \$126 million compared to 2017. The decrease in operating income was driven by the decline in underlying operating performance of \$43 million and the unfavourable year-over-year net impact of adjusting items totaling \$83 million, as described below:

- the decline in underlying operating performance of \$43 million, including the unfavourable impact of the disposition of gas bar operations, was driven by an increase in SG&A and an increase in depreciation and amortization, partially offset by an increase in adjusted gross profit⁽²⁾. The decline in underlying operating performance included the favourable contribution from the consolidation of franchises of \$10 million; and
- the unfavourable year-over-year net impact of adjusting items totaling \$83 million, primarily due to the following:
 - the prior year gain on the disposition of gas bars operations of \$501 million; and
 - the year-over-year unfavourable impact of fixed asset and other related impairments, net of recoveries of \$30 million; partially offset by,
 - prior year charges related to the *PC Optimum* Program of \$187 million;
 - the year-over-year favourable impact of restructuring and other related costs of \$167 million; and
 - the year-over-year favourable impact of prior year charges related to the Loblaw Card Program of \$103 million.

Adjusted Gross Profit⁽²⁾ Adjusted gross profit⁽²⁾ was \$13,459 million in 2018, an increase of \$406 million compared to 2017. Adjusted gross profit percentage⁽²⁾ of 29.4% increased by 90 basis points compared to 2017. Excluding the consolidation of franchises, adjusted gross profit⁽²⁾ increased by \$68 million. Adjusted gross profit percentage⁽²⁾, excluding the consolidation of franchises, was 27.7%, an increase of 40 basis points compared to 2017. The increase in adjusted gross profit percentage⁽²⁾ was primarily due to the favourable impact from the 2017 disposition of gas bar operations of approximately 40 basis points. Margins were negatively impacted by healthcare reform and positively impacted by food retail.

Adjusted EBITDA⁽²⁾ Adjusted EBITDA⁽²⁾ was \$3,332 million in 2018, an increase of \$3 million, compared to 2017 and included the favourable impact of the consolidation of franchises of \$26 million as well as the unfavourable impact of the disposition of gas bar operations of approximately \$45 million. The increase in adjusted EBITDA⁽²⁾ of \$3 million was driven by an increase in adjusted gross profit⁽²⁾ as described above, partially offset by an increase in SG&A of \$403 million. SG&A as a percentage of sales was 22.1%, an increase of 90 basis points compared to 2017. Excluding the consolidation of franchises, SG&A increased \$91 million. SG&A as a percentage of sales, excluding the consolidation of franchises, was 20.4%, an increase of 30 basis points compared to 2017, driven by the following factors:

- the unfavourable impact from the 2017 disposition of gas bar operations of approximately 30 basis points;
 - higher store costs driven by minimum wage increases; and
 - the unfavourable year-over-year impact of foreign exchange;
- partially offset by,
- lower store support costs driven by cost savings initiatives.

Adjusted EBITDA⁽²⁾ included a net gain of \$6 million (2017 – \$7 million) related to the sale leaseback of properties to Choice Properties in 2018.

Depreciation and Amortization Depreciation and amortization was \$1,487 million in 2018, an increase of \$43 million compared to 2017, primarily driven by the consolidation of franchises, an increase in IT assets and the change in estimated useful life of certain building components as a result of the spin-out of Choice Properties. Included in depreciation and amortization is the amortization of intangibles assets related to the acquisition of Shoppers Drug Mart of \$521 million (2017 – \$524 million).

Other Retail Business Matters

Consolidation of Franchises The Company has more than 500 franchise food retail stores in its network. As at the end of the fourth quarter of 2018, 400 of these stores were consolidated for accounting purposes under a new, simplified franchise agreement ("Franchise Agreement") implemented in 2015.

The Company will convert franchises to the Franchise Agreement as existing agreements expire, at the end of which all franchises will be consolidated. The following table provides the total impact of the consolidation of franchises included in the consolidated results of the Company.

For the periods ended December 29, 2018 and December 30, 2017 (millions of Canadian dollars unless where otherwise indicated)	2018 (12 weeks)	2017 (12 weeks)	2018 (52 weeks)	2017 (52 weeks)
Number of Consolidated Franchise stores, beginning of period	379	273	310	200
Add: Net number of Consolidated Franchise stores in the period	21	37	90	110
Number of Consolidated Franchise stores, end of period	400	310	400	310
Sales	\$ 264	\$ 186	\$ 1,048	\$ 710
Adjusted gross profit ⁽²⁾	285	202	1,071	733
Adjusted EBITDA ⁽²⁾	35	27	92	66
Depreciation and amortization	15	11	59	43
Operating income	20	16	33	23
Net income attributable to non-controlling interests	19	14	34	24

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

The Company expects that the estimated annual impact in 2019 of new and current consolidated franchises will be revenue of approximately \$1,300 million, adjusted EBITDA⁽²⁾ of approximately \$130 million, depreciation and amortization of approximately \$80 million and net earnings attributable to non-controlling interests of approximately \$40 million.

6.2 Financial Services Segment

For the years ended December 29, 2018 and December 30, 2017 (millions of Canadian dollars except where otherwise indicated)	2018 (52 weeks)	2017 (52 weeks)	\$ Change	% Change
Revenue	\$ 1,082	\$ 953	\$ 129	13.5 %
Earnings before income taxes	137	150	(13)	(8.7)%

(millions of Canadian dollars except where otherwise indicated)	As at December 29, 2018	As at December 30, 2017	\$ Change	% Change
Average quarterly net credit card receivables	\$ 3,073	\$ 2,908	\$ 165	5.7%
Credit card receivables	3,329	3,100	229	7.4%
Allowance for credit card receivables	167	47	120	255.3%
Annualized yield on average quarterly gross credit card receivables	13.1%	13.2%		
Annualized credit loss rate on average quarterly gross credit card receivables	3.1%	3.7%		

Revenue Revenue was \$1,082 million in 2018, an increase of \$129 million, compared to 2017, primarily driven by:

- higher interest and net interchange income attributable to the growth in the credit card portfolio; and
- higher sales attributable to *The Mobile Shop*;

partially offset by,

- lower core banking income attributable to President's Choice Bank's ("PC Bank's") 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. Normal operating income from the same personal banking services ended in April 2018.

Earnings before income taxes earnings before income taxes was \$137 million in 2018, a decrease of \$13 million compared to 2017, primarily driven by:

- higher customer acquisition costs;
- higher operating costs including investments in digital strategy;
- higher interest expenses driven by the growth in the credit card portfolio; and
- increased provision for credit losses as a result of the application of the expected credit loss ("ECL") model under IFRS 9, "Financial Instruments" ("IFRS 9"), as set out in Section 15 "Accounting Standards";

partially offset by,

- revenue growth, as described above.

Credit Card Receivables As at December 29, 2018, credit card receivables were \$3,329 million, an increase of \$229 million compared to December 30, 2017. This increase was primarily driven by growth in the average customer balance and active customer base as a result of continued investments in customer acquisition, marketing and product initiatives. As at December 29, 2018, the allowance for credit card receivables was \$167 million, an increase of \$120 million compared to December 30, 2017 primarily due to the adoption of IFRS 9.

Other Financial Services Business Matters

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 *PC Financial* brand. As a result of this agreement, PC Bank received a payment of approximately \$44 million, net of certain costs incurred, \$20 million of which was recognized in the first half of 2018 and \$24 million which was recognized in 2017.

PC Bank continues to operate the *PC Mastercard*® 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.

7. Liquidity and Capital Resources

The Company's interest in Choice Properties has been presented separately as Discontinued Operations in the Company's current and comparative results. Unless otherwise indicated, all financial information represents the Company's results from Continuing Operations.

7.1 Cash Flows

The following Major Cash Flow Components are presented on a Total Company basis, inclusive of Continuing and Discontinued Operations.

Major Cash Flow Components

For the years ended December 29, 2018 and December 30, 2017 (millions of Canadian dollars except where otherwise indicated)	2018 (52 weeks)	2017 ^{(4)/(5)} (52 weeks)	\$ Change	% Change
Cash and cash equivalents, beginning of period	\$ 1,798	\$ 1,314	\$ 484	36.8 %
Cash flows from (used in):				
Operating activities	\$ 2,501	\$ 3,209	\$ (708)	(22.1)%
Investing activities	(3,296)	(1,034)	(2,262)	(218.8)%
Financing activities	68	(1,685)	1,753	104.0 %
Effect of foreign currency exchange rate changes on cash and cash equivalents	(6)	(6)	—	— %
Change in cash and cash equivalents	\$ (733)	\$ 484	\$ (1,217)	(251.4)%
Cash and cash equivalents, end of period	\$ 1,065	\$ 1,798	\$ (733)	(40.8)%

Cash Flows from Operating Activities Cash flows from operating activities were \$2,501 million in 2018, a decrease of \$708 million compared to 2017. The decrease was primarily due to an unfavourable change in non-cash working capital and a reduction in provision balances, partially offset by higher cash earnings and lower income taxes paid.

Cash Flows used in Investing Activities Cash flows used in investing activities were \$3,296 million in 2018, an increase of \$2,262 million compared to 2017. The increase in cash flows used in investing activities was primarily driven by Choice Properties acquisition of CREIT, an increase in security deposits, held for the redemption of the Company's \$800 million debenture subsequent to the end of 2018, and the proceeds from disposition of gas bar operations received in 2017, partially offset by a decrease in short term investments.

Capital Investments and Store Activity

As at or for the years ended December 29, 2018 and December 30, 2017	2018 (52 weeks)	2017 (52 weeks)	% Change
Capital investments (millions of Canadian dollars)	\$ 1,334	\$ 1,259	6.0 %
Corporate square footage (in millions)	35.6	35.6	— %
Franchise square footage (in millions)	16.3	16.3	— %
Associate-owned drug store square footage (in millions)	18.5	18.4	0.5 %
Total retail square footage (in millions)	70.4	70.3	0.1 %
Number of corporate stores	550	559	(1.6)%
Number of franchise stores	535	534	0.2 %
Number of Associate-owned drug stores	1,337	1,334	0.2 %
Total number of stores	2,422	2,427	(0.2)%
Percentage of corporate real estate owned	9%	72%	
Percentage of franchise real estate owned	5%	48%	
Percentage of Associate-owned drug store real estate owned	1%	1%	
Average store size (square feet)			
Corporate	64,700	63,700	1.6 %
Franchise	30,500	30,500	— %
Associate-owned drug store	13,800	13,800	— %

Cash Flows used in Financing Activities Cash flows from financing activities were \$68 million in 2018, an increase of \$1,753 million compared to 2017. The increase in cash from financing activities was driven by higher net issuances of short term and long term debt, primarily related to Choice Properties acquisition of CREIT, partially offset by higher interest paid, mainly driven by interest related to Glenhuron, and the timing of dividend payments.

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

Free Cash Flow⁽²⁾

The following Free Cash Flow is presented on a Continuing Operations basis.

For the years ended December 29, 2018 and December 30, 2017 (millions of Canadian dollars except where otherwise indicated)	2018 (52 weeks)	2017 ⁽⁴⁾⁽⁵⁾ (52 weeks)	\$ Change	% Change
Cash flows from operating activities	\$ 2,501	\$ 3,209	\$ (708)	(22.1)%
Less: Cash flows from operating activities from Discontinued Operations ⁽ⁱ⁾	252	209	43	20.6 %
Cash flows from operating activities from Continuing Operations ⁽ⁱ⁾	\$ 2,249	\$ 3,000	\$ (751)	(25.0)%
Less:				
Capital investments	1,070	1,026	44	4.3 %
Interest paid	509	323	186	57.6 %
Free cash flow ⁽²⁾ from Continuing Operations	\$ 670	\$ 1,651	\$ (981)	(59.4)%

(i) Cash flows from operating activities from Continuing Operations include distributions received in 2018 and the payment related to the conversion of Class C LP Units in 2018 from Discontinued Operations. Cash flows from Discontinued Operations include the outflow of these items.

Free cash flow⁽²⁾ from Continuing Operations was \$670 million in 2018, a decrease of \$981 million compared to 2017. The decrease in free cash flow⁽²⁾ was primarily driven by lower cash flows from operating activities, due to an unfavourable change in non-cash working capital, and an increase in interest paid.

7.2 Liquidity and Capital Structure

The Company 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 the Company to finance its capital investment program and fund its ongoing business requirements over the next 12 months, including working capital, pension plan funding requirements and financial obligations.

PC Bank expects to obtain long term financing for the growth of its credit card portfolio through the issuance of *Eagle* notes and GICs.

The Company manages its capital structure on a segmented basis to ensure that each of the reportable operating segments is employing a capital structure that is appropriate for the industry in which it operates. The following table presents total debt from Continuing Operations, as monitored by management, by reportable operating segment:

(millions of Canadian dollars)	As at December 29, 2018			As at December 30, 2017		
	Retail	Financial Services	Total	Retail	Financial Services	Total
Bank indebtedness	\$ 56	\$ —	\$ 56	\$ 110	\$ —	\$ 110
Short term debt	—	915	915	—	640	640
Long term debt due within one year ⁽ⁱ⁾	1,373	274	1,647	392	593	985
Long term debt	4,762	1,617	6,379	5,622	1,159	6,781
Certain other liabilities	48	—	48	41	—	41
Total debt	\$ 6,239	\$ 2,806	\$ 9,045	\$ 6,165	\$ 2,392	\$ 8,557

(i) Subsequent to the end of 2018, the Company redeemed, at par, the \$800 million debenture bearing interest at 3.75% with an original maturity date of March 12, 2019.

Retail The Company manages its capital structure with the objective of maintaining Retail segment credit metrics consistent with those of investment grade retailers. The Company monitors the Retail segment's debt to retail adjusted EBITDA⁽²⁾ ratio as a measure of the leverage being employed.

	As at December 29, 2018	As at December 30, 2017 ⁽ⁱ⁾
Retail debt to retail adjusted EBITDA ⁽²⁾	1.9x	1.9x

(i) Restated to remove Discontinued Operations.

The Retail debt to retail adjusted EBITDA⁽²⁾ ratio as at December 29, 2018 was flat compared to December 30, 2017 as an increase in Retail adjusted EBITDA⁽²⁾ was offset by an increase in Retail segment debt.

President's Choice 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 requirements as defined by the Office of the Superintendent of Financial Institutions ("OSFI").

Covenants and Regulatory Requirements The Company is required to comply with certain financial covenants for various debt instruments. As at December 29, 2018 and throughout the year, the Company was in compliance with their respective covenants. As at December 29, 2018 and throughout the year, PC Bank has met all applicable regulatory requirements.

7.3 Components of Total Debt

Debentures The following table summarizes the debentures issued in 2018 related to Continuing Operations.

(millions of Canadian dollars except where otherwise indicated)	Interest Rate	Maturity Date	Principal Amount 2018
Loblaw Companies Limited Notes ⁽ⁱ⁾	3.92%	June 10, 2024	\$ 400
Loblaw Companies Limited Notes ⁽ⁱⁱ⁾	4.49%	December 11, 2028	400
Total Debentures issued			\$ 800

(i) On December 10, 2018, the Company issued debentures of \$400 million bearing interest at a rate of 3.92%, maturing June 10, 2024.

(ii) On December 10, 2018, the Company issued debentures of \$400 million bearing interest at a rate of 4.49%, maturing December 11, 2028.

The following table summarizes the debentures repaid in 2018 related to Continuing Operations:

(millions of Canadian dollars except where otherwise indicated)	Interest Rate	Maturity Date	Principal Amount 2018
Shoppers Drug Mart Notes	2.36%	May 24, 2018	\$ 275
Loblaw Companies Limited Term Loan ⁽ⁱ⁾	Variable	March 28, 2019	48
Loblaw Companies Limited Term Loan ⁽ⁱⁱ⁾	Variable	March 29, 2019	250
Total Debentures and Term Loans repaid			\$ 573

(i) Loblaw unsecured term loan facility bearing interest at variable rates of either Prime plus 0.45% or Bankers' Acceptance rate plus 1.45% were redeemed on August 29, 2018.

(ii) Loblaw unsecured term loan facility bearing interest at variable rates of either Prime plus 0.13% or Bankers' Acceptance rate plus 1.13% were redeemed on August 29, 2018.

There were no debentures issued or repaid in 2017.

Subsequent to the end of 2018, the Company redeemed, at par, the \$800 million debenture bearing interest at 3.75% with an original maturity date of March 12, 2019.

During the second quarter of 2018, the Company repaid the remaining mortgage balance of \$72 million at maturity.

Committed Credit Facilities The Company has a \$1.0 billion committed credit facility with a maturity date of June 10, 2021. These facilities contain certain financial covenants. As at December 29, 2018 and December 30, 2017, there were no amounts drawn under the committed credit facility.

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

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

(millions of Canadian dollars)	As at December 29, 2018	As at December 30, 2017
Securitized to independent securitization trusts:		
Securitized to <i>Eagle Credit Card Trust</i> [®]	\$ 750	\$ 900
Securitized to Other Independent Securitization Trusts	915	640
Total securitized to independent securitization trusts	\$ 1,665	\$ 1,540

During the fourth quarter of 2018, \$400 million 2.91% senior and subordinated term notes issued by *Eagle* matured and were repaid.

In 2018, *Eagle* issued \$250 million of senior and subordinated term notes with a maturity date of July 17, 2023 at a weighted average interest rate of 3.10%. In connection with this issuance, \$250 million of bond forward agreements were settled, resulting in a realized fair value loss of \$1 million, in Other Comprehensive Income, and a net effective interest rate of 3.15% on the *Eagle* notes issued.

Management's Discussion and Analysis

Letters of credit for the benefit of independent securitization trusts with respect to the securitization programs of PC Bank have been issued by major financial institutions. These standby letters of credit can be drawn upon in the event of a major decline in the income flow from or in the value of the securitized credit card receivables. The Company has agreed to reimburse the issuing banks for any amount drawn on the standby letters of credit. The aggregate gross potential liability under these arrangements for the Other Independent Securitization Trusts was \$89 million (December 30, 2017 – \$62 million), which represented approximately 10% (2017 – 10%) of the securitized credit card receivables amount.

Under its securitization programs, PC Bank is required to maintain, at all times, a credit card receivable pool balance equal to a minimum of 107% of the outstanding securitized liability. PC Bank was in compliance with this requirement as at December 29, 2018 and throughout 2018.

The undrawn commitments on facilities available from the Other Independent Securitization Trusts as at December 29, 2018, were \$110 million (December 30, 2017 – \$160 million).

Independent Funding Trusts As at December 29, 2018, the independent funding trusts had drawn \$536 million (December 30, 2017 – \$551 million) from the revolving committed credit facility that is the source of funding to the independent funding trusts. The Company provides credit enhancement in the form of a standby letter of credit for the benefit of the independent funding trusts. As at December 29, 2018, the Company has agreed to provide a credit enhancement of \$64 million (December 30, 2017 – \$64 million) for the benefit of the independent funding trusts representing not less than 10% (2017 – 10%) of the principal amount of loans outstanding.

Guaranteed Investment Certificates The following table summarizes PC Bank's GICs activity, before commissions, in 2018 and 2017:

(millions of Canadian dollars)	2018	2017
Balance, beginning of year	\$ 852	\$ 928
GICs issued	495	76
GICs matured	(206)	(152)
Balance, end of year	\$ 1,141	\$ 852

As at December 29, 2018, \$274 million in GICs were recorded as long term debt due within one year (December 30, 2017 – \$193 million).

Associate Guarantees The Company 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 December 29, 2018, the Company's maximum obligation in respect of such guarantees was \$580 million (December 30, 2017 – \$580 million) with an aggregate amount of \$466 million (December 30, 2017 – \$509 million) in available lines of credit allocated to the Associates by the various banks. As at December 29, 2018, Associates had drawn an aggregate amount of \$56 million (December 30, 2017 – \$110 million) against these available lines of credit. Any amounts drawn by the Associates are included in bank indebtedness on the Company's consolidated balance sheets. As recourse in the event that any payments are made under the guarantees, the Company holds a first-ranking security interest on all assets of Associates, subject to certain prior-ranking statutory claims.

7.4 Financial Condition

Adjusted Return on Equity⁽²⁾ and Adjusted Return on Capital⁽²⁾

	As at December 29, 2018	As at December 30, 2017 ⁽ⁱ⁾
Adjusted return on equity ⁽²⁾	12.6%	12.6%
Adjusted return on capital ⁽²⁾	9.8%	9.8%

(i) Restated to remove Discontinued Operations.

Adjusted return on equity⁽²⁾ as at December 29, 2018 was flat compared to December 30, 2017 as the decline in underlying operating performance was offset by common share repurchases.

Adjusted return on capital⁽²⁾ as at December 29, 2018 was flat compared to December 30, 2017 as the increase in total debt was offset by common share repurchases.

7.5 Credit Ratings

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

Credit Ratings (Canadian Standards)	Dominion Bond Rating Service		Standard & Poor's	
	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

In the third quarter of 2018, subsequent to the announcement of the spin out of Choice Properties, Standard & Poor's and Dominion Bond Rating Service reaffirmed the credit ratings and outlook of the Company.

7.6 Share Capital

First Preferred Shares (authorized – 1.0 million shares) There were no First Preferred Shares outstanding as at December 29, 2018 and December 30, 2017.

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

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

(millions of Canadian dollars except where otherwise indicated)	2018		2017	
	Number of Common Shares	Common Share Capital	Number of Common Shares	Common Share Capital
Issued and outstanding, beginning of period	386,293,941	\$ 7,460	400,829,870	\$ 7,713
Issued for settlement of stock options	2,081,235	98	1,019,610	48
Purchased and cancelled ⁽ⁱ⁾	(16,584,209)	(381)	(15,555,539)	(301)
Issued and outstanding, end of period	371,790,967	\$ 7,177	386,293,941	\$ 7,460
Shares held in trust, beginning of period	(780,938)	\$ (15)	(1,105,620)	\$ (21)
Purchased for future settlement of RSUs and PSUs	(582,500)	(12)	(686,000)	(13)
Released for settlement of RSUs and PSUs	628,711	12	1,010,682	19
Shares held in trust, end of period	(734,727)	\$ (15)	(780,938)	\$ (15)
Issued and outstanding, net of shares held in trust, end of period	371,056,240	\$ 7,162	385,513,003	\$ 7,445
Weighted average outstanding, net of shares held in trust	376,747,429		393,764,159	

(i) Common shares purchased and cancelled as at December 29, 2018 does not include the shares repurchased from the automatic share purchase plan. Common shares purchased and cancelled as at December 30, 2017 includes 22,012 shares held in escrow that were transferred and cancelled in a private transaction and are excluded from the Company's Normal Course Issuer Bid.

Dividends The declaration and payment of dividends on the Company's common shares and the amount thereof are at the discretion of the Board 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 the long term, it is the Company's intention to increase the amount of the dividend while retaining appropriate free cash flow to finance future growth. In the second quarters of 2018 and 2017, the Board raised the quarterly dividend by \$0.025 to \$0.295 and by \$0.01 to \$0.27 per common share, respectively.

Management's Discussion and Analysis

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

	2018 ⁽ⁱ⁾	2017
Dividends declared per share (\$):		
Common Share	\$ 1.155	\$ 1.070
Second Preferred Share, Series B	\$ 1.325	\$ 1.325

(i) The fourth quarter dividends for 2018 of \$0.295 per share declared on common shares were payable on December 30, 2018 and subsequently paid on December 31, 2018. The fourth quarter dividends for 2018 of \$0.33125 per share declared on Second Preferred Shares, Series B were payable and paid on December 31, 2018.

(millions of Canadian dollars)	2018	2017
Dividends declared:		
Common Share	\$ 433	\$ 421
Second Preferred Share, Series B	12	12
Total dividends declared	\$ 445	\$ 433

Subsequent to the end of the year, the Board declared a quarterly dividend of \$0.295 per common share, payable on April 1, 2019 to shareholders of record on March 15, 2019 and a dividend on the Second Preferred Shares, Series B of \$0.33125 per share payable on March 31, 2019 to shareholders of record on March 15, 2019. At the time such dividends are declared, the Company identifies on its website, loblaw.ca, the designation of eligible and ineligible dividends in accordance with the administrative position of the Canada Revenue Agency ("CRA").

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

(millions of Canadian dollars except where otherwise indicated)	2018 (52 weeks)	2017 (52 weeks)
Common shares repurchased under the NCIB for cancellation (number of shares)	16,584,209	15,533,527
Cash consideration paid	\$ 1,082	\$ 1,091
Premium charged to Retained Earnings ⁽ⁱ⁾	886	790
Reduction in Common Share Capital ⁽ⁱⁱ⁾	381	301
Common shares repurchased under the NCIB and held in trust (number of shares)	582,500	686,000
Cash consideration paid	\$ 36	\$ 48
Premium charged to Retained Earnings	24	35
Reduction in Common Share Capital	12	13

(i) Includes \$126 million related to the automatic share purchase plan, as described below.

(ii) Includes \$59 million related to the automatic share purchase plan, as described below.

In the second quarter of 2018, the Company renewed its NCIB to purchase on the Toronto Stock Exchange ("TSX") or through alternative trading systems up to 18,952,573 of the Company's common shares, representing approximately 5% of outstanding common shares. In accordance with the rules of the TSX, the Company may purchase its common shares from time to time at the then market price of such shares. As of December 29, 2018, the Company has purchased 8,477,182 common shares under its current NCIB.

In the fourth quarter of 2018, the Company entered into an automatic share purchase plan ("ASPP") with a broker in order to facilitate the repurchase of the Company's common shares under its current NCIB. Under the Company's ASPP, the Company's broker may purchase common shares at times when the Company ordinarily would not be active in the market. As at December 29, 2018, an obligation to repurchase shares of approximately \$185 million was recognized under the ASPP in trade payable and other liabilities. Subsequent to the end of the year, the Company has completed this ASPP and repurchased 2,927,733 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 other performance guarantees, securitization of PC Bank's credit card receivables and third party financing made available to the Company's franchisees. The gross potential liability related to the Company's letters of credit is approximately \$527 million as at December 29, 2018 (December 30, 2017 – \$763 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 business.

The Company has provided a guarantee on behalf of PC Bank to MasterCard® for accepting PC Bank as a card member and licensee of MasterCard®. As at December 29, 2018, the guarantee on behalf of PC Bank to MasterCard® was USD \$190 million (December 30, 2017 – USD \$190 million).

Glenhuron Bank Limited Surety Bond In connection with the Canada Revenue Agency's reassessment of the Company on certain income earned by Glenhuron, the Company arranged for a surety bond to the Ministry of Finance in order to appeal the reassessments. As a result of the decision of the Tax Court of Canada and incremental payments, the amount of the surety bond has been reduced to \$46 million (2017 – \$149 million).

Cash Collateralization As at December 29, 2018, the Company had agreements to cash collateralize certain of its uncommitted credit facilities up to an amount of \$103 million (December 30, 2017 – \$102 million), of which \$2 million (December 30, 2017 – \$3 million) was deposited with major financial institutions and classified as security deposits, which is included in other assets.

7.8 Contractual Obligations

The following illustrates certain of the Company's significant contractual obligations and discusses other obligations as at December 29, 2018:

Summary of Contractual Obligations

(millions of Canadian dollars)	Payments due by year						Total
	2019	2020	2021	2022	2023	Thereafter	
Total debt (including interest payments ⁽ⁱ⁾)	\$ 2,975	\$ 1,450	\$ 565	\$ 645	\$ 1,414	\$ 5,436	\$ 12,485
Foreign Exchange Forward Contracts	336	—	—	—	—	—	336
Operating leases ⁽ⁱⁱ⁾	1,229	1,195	1,140	1,073	978	4,372	9,987
Contracts for purchases of investment projects ⁽ⁱⁱⁱ⁾	142	83	8	—	—	—	233
Purchase obligations ^(iv)	258	254	259	76	—	12	859
Total contractual obligations	\$ 4,940	\$ 2,982	\$ 1,972	\$ 1,794	\$ 2,392	\$ 9,820	\$ 23,900

(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 structured entities, mortgages and finance lease obligations. Variable interest payments are based on the forward rates as of December 29, 2018.

(ii) Represents the minimum or base rents payable. Amounts are not offset by any expected sub-lease income.

(iii) These obligations include agreements for the purchase of real property and capital commitments for construction, expansion and renovation of buildings. These agreements may contain conditions that may or may not be satisfied. If the conditions are not satisfied, it is possible the Company will no longer have the obligation to proceed with the underlying transactions.

(iv) These obligations include contractual obligations to purchase goods or services of a material amount where the contract prescribes fixed or minimum volumes to be purchased or payments to be made within a fixed period of time for a set or variable price. These are only estimates of anticipated financial commitments under these arrangements and the amount of actual payments will vary. These purchase obligations do not include purchase orders issued or agreements made in the ordinary course of business which are solely for goods which are meant for resale, nor do they include any contracts which may be terminated on relatively short notice or with relatively insignificant cost or liability to the Company.

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

8. Financial Derivative Instruments

The Company uses derivative instruments to offset certain of its financial risks. The Company uses bond forwards and interest rate swaps, to manage its anticipated exposure to fluctuations in interest rates on future debt issuances. The Company also uses futures, options and forward contracts to manage its anticipated exposure to fluctuations in commodity prices and exchange rates in its underlying operations.

The following is a summary of the fair values recognized in the consolidated balance sheets and the net realized and unrealized gains (losses) before income taxes related to the Company's financial derivative instruments designated as cash flow hedges:

	December 29, 2018 (52 weeks)			December 30, 2017 (52 weeks)		
	Net Asset/ (Liability) Fair value	Gain/(loss) recorded in OCI	Gain/(loss) recorded in operating income	Net Asset/ (Liability) Fair value	Gain/(loss) recorded in OCI	Gain/(loss) recorded in operating income
(millions of Canadian dollars)						
Derivatives designated as cash flow hedges						
Foreign Exchange Forwards	\$ 1	\$ 2	\$ —	\$ (1)	\$ (3)	\$ 1
Bond Forwards ⁽ⁱ⁾	(4)	(5)	1	—	6	—
Interest Rate Swaps	(1)	(1)	—	—	—	—
Total derivatives designated as cash flow hedges	\$ (4)	\$ (4)	\$ 1	\$ (1)	\$ 3	\$ 1

(i) As a result of the issuance of *Eagle* notes, bond forward agreements with a notional value of \$250 million were settled in 2018 (2017 - \$200 million).

The following is a summary of the fair values recognized in the consolidated balance sheets and the net realized and unrealized gains (losses) before income taxes related to the Company's financial derivative instruments not designated in a formal hedging relationship:

	December 29, 2018 (52 weeks)			December 30, 2017 (52 weeks)		
	Net Asset/ (Liability) Fair value	Gain/(loss) recorded in OCI	Gain/(loss) recorded in operating income	Net Asset/ (Liability) Fair value	Gain/(loss) recorded in OCI	Gain/(loss) recorded in operating income
(millions of Canadian dollars)						
Derivatives not designated in a formal hedging relationship						
Foreign Exchange and Other Forwards	\$ 11	\$ —	\$ 21	\$ (10)	\$ —	\$ (23)
Other Non-Financial Derivatives	(11)	—	(20)	3	—	—
Total derivatives not designated in a formal hedging relationship	\$ —	\$ —	\$ 1	\$ (7)	\$ —	\$ (23)

9. Quarterly Results of Operations

9.1 Results by Quarter

Under an accounting convention common in the retail industry, the Company follows a 52-week reporting cycle which periodically necessitates a fiscal year of 53 weeks. Fiscal years 2018 and 2017 were 52 weeks. The next 53 week year will occur in 2020. The 52-week reporting cycle is divided into four quarters of 12 weeks each except for the third quarter, which is 16 weeks in duration.

The following is a summary of selected consolidated financial information derived from the Company's unaudited interim period condensed consolidated financial statements for each of the eight most recently completed quarters:

The Company's interest in Choice Properties has been presented separately as Discontinued Operations in the Company's current and comparative results. Unless otherwise indicated, all financial information represents the Company's results from Continuing Operations.

Summary of Consolidated Quarterly Results

(millions of Canadian dollars except where otherwise indicated)	2018					2017 ⁽⁴⁾⁽⁵⁾				
	First Quarter (12 weeks)	Second Quarter (12 weeks)	Third Quarter (16 weeks)	Fourth Quarter (12 weeks)	Total (audited) (52 weeks)	First Quarter (12 weeks)	Second Quarter (12 weeks)	Third Quarter (16 weeks)	Fourth Quarter (12 weeks)	Total (audited) (52 weeks)
Revenue	\$ 10,335	\$ 10,821	\$ 14,319	\$ 11,218	\$ 46,693	\$ 10,379	\$ 11,053	\$ 14,163	\$ 10,992	\$ 46,587
Adjusted EBITDA⁽²⁾	733	840	1,060	895	3,528	735	853	1,051	882	3,521
Net earnings available to common shareholders of the Company	377	50	106	221	754	231	360	883	31	1,505
Continuing Operations	212	293	(26)	228	707	219	312	767	(24)	1,274
Discontinued Operations	165	(243)	132	(7)	47	12	48	116	55	231
Adjusted net earnings available to common shareholders of the Company ⁽²⁾	\$ 361	\$ 421	\$ 562	\$ 402	\$ 1,746	\$ 366	\$ 446	\$ 549	\$ 436	\$ 1,797
Continuing Operations	312	373	466	388	1,539	318	399	470	398	1,585
Discontinued Operations	49	48	96	14	207	48	47	79	38	212
Net earnings per common share:										
Basic (\$)	\$ 0.99	\$ 0.13	\$ 0.28	\$ 0.59	\$ 2.00	\$ 0.58	\$ 0.92	\$ 2.25	\$ 0.08	\$ 3.82
Continuing Operations	\$ 0.55	\$ 0.77	\$ (0.07)	\$ 0.61	\$ 1.88	\$ 0.55	\$ 0.80	\$ 1.95	\$ (0.06)	\$ 3.24
Discontinued Operations	\$ 0.44	\$ (0.64)	\$ 0.35	\$ (0.02)	\$ 0.12	\$ 0.03	\$ 0.12	\$ 0.30	\$ 0.14	\$ 0.58
Diluted (\$)	\$ 0.98	\$ 0.13	\$ 0.28	\$ 0.59	\$ 1.99	\$ 0.57	\$ 0.90	\$ 2.24	\$ 0.08	\$ 3.79
Continuing Operations	\$ 0.55	\$ 0.77	\$ (0.07)	\$ 0.61	\$ 1.87	\$ 0.54	\$ 0.78	\$ 1.94	\$ (0.06)	\$ 3.21
Discontinued Operations	\$ 0.43	\$ (0.64)	\$ 0.35	\$ (0.02)	\$ 0.12	\$ 0.03	\$ 0.12	\$ 0.30	\$ 0.14	\$ 0.58
Adjusted diluted net earnings per common share ⁽²⁾ (\$)	\$ 0.94	\$ 1.11	\$ 1.49	\$ 1.07	\$ 4.60	\$ 0.91	\$ 1.11	\$ 1.39	\$ 1.12	\$ 4.52
Continuing Operations	\$ 0.81	\$ 0.98	\$ 1.24	\$ 1.03	\$ 4.06	\$ 0.79	\$ 1.00	\$ 1.19	\$ 1.02	\$ 3.99
Discontinued Operations	\$ 0.13	\$ 0.13	\$ 0.25	\$ 0.04	\$ 0.54	\$ 0.12	\$ 0.11	\$ 0.20	\$ 0.10	\$ 0.53
Average national food price (deflation) inflation (as measured by CPI)	1.2%	0.1%	0.3%	1.7%	0.8%	(3.9)%	(1.4)%	0.3%	1.0%	(1.0)%
Food retail same-store sales (decline) growth	1.9%	0.8%	0.9%	0.8%	1.1%	(1.2)%	1.2 %	1.4%	0.5%	0.6 %
Drug retail same-store sales growth	3.7%	1.7%	2.5%	1.9%	2.4%	0.9 %	3.7 %	3.3%	3.6%	3.0 %

Revenue Revenue for the last eight quarters was impacted by various factors including the following:

- seasonality, which was greatest in the fourth quarter and least in the first quarter;
- the timing of holidays;
- macro-economic conditions impacting food and drug retail prices;
- the changes in the price of fuel sold at the Company's gas bars;
- the disposition of gas bar operations in the third quarter of 2017;
- consolidation of franchises; and
- changes in net retail square footage. Over the past eight quarters, net retail square footage increased by 0.2 million square feet to 70.4 million square feet.

Net Earnings Available to Common Shareholders of the Company from Continuing Operations and Diluted Net Earnings Per Common Share from Continuing Operations Net earnings available to common shareholders of the Company from continuing operations and diluted net earnings per common share from continuing operations for the last eight quarters were impacted by the following items:

- seasonality, which was greatest in the fourth quarter and least in the first quarter;
- the timing of holidays;
- the disposition of gas bar operations in the third quarter of 2017;
- minimum wage increases and incremental healthcare reform;
- cost savings and operating efficiencies from Process and Efficiency initiatives and benefits from strategic initiatives;
- changes in the underlying operating performance of the Company;
- the favourable impact of the repurchase of common shares for cancellation; and
- the impact of certain adjusting items, as set out in Section 17 "Non-GAAP Financial Measures", including:
 - the gain on disposition of gas bar operations;
 - the charge related to Glenhuron Bank;
 - the *PC Optimum* Program;
 - the Loblaw Card Program;
 - restructuring and other related charges;
 - the wind-down of *PC Financial* banking services;
 - the impact of healthcare reform on inventory balances;
 - the remeasurement of deferred tax balances; and
 - asset impairments, net of recoveries.

The consolidation of franchises does not significantly impact net earnings available to common shareholders of the Company as the related earnings are largely attributable to non-controlling interests.

9.2 Fourth Quarter Results

The Company's interest in Choice Properties has been presented separately as Discontinued Operations in the Company's current and comparative results. Unless otherwise indicated, all financial information represents the Company's results from Continuing Operations.

The following is a summary of selected consolidated unaudited financial information for the fourth quarter of 2018:

For the periods ended December 29, 2018 and December 30, 2017 (millions of Canadian dollars except where otherwise indicated)	2018 (12 weeks)	2017 ⁽⁴⁾⁽⁵⁾ (12 weeks)	\$ Change	% Change
Revenue	\$ 11,218	\$ 10,992	\$ 226	2.1 %
Operating Income	445	57	388	680.7 %
Adjusted EBITDA ⁽²⁾	895	882	13	1.5 %
Adjusted EBITDA margin ⁽²⁾	8.0%	8.0%		
Depreciation and amortization	\$ 356	\$ 342	\$ 14	4.1 %
Net interest expense and other financing charges	95	89	6	6.7 %
Adjusted net interest expense and other financing charges ⁽²⁾	94	89	5	5.6 %
Income taxes	100	(25)	125	500.0 %
Adjusted income taxes ⁽²⁾	155	157	(2)	(1.3)%
Adjusted income tax rate ⁽²⁾	27.4%	27.4%		
Net earnings attributable to shareholders of the Company from Continuing Operations	\$ 231	\$ (21)	\$ 252	1,200.0 %
Net earnings available to common shareholders of the Company	221	31	190	612.9 %
Continuing Operations	228	(24)	252	1,050.0 %
Discontinued Operations	(7)	55	(62)	(112.7)%
Adjusted net earnings available to common shareholders of the Company ⁽²⁾	\$ 402	\$ 436	\$ (34)	(7.8)%
Continuing Operations	388	398	(10)	(2.5)%
Discontinued Operations	14	38	(24)	(63.2)%
Diluted net earnings per common share (\$)	\$ 0.59	\$ 0.08	\$ 0.51	637.5 %
Continuing Operations	\$ 0.61	\$ (0.06)	\$ 0.67	1,116.7 %
Discontinued Operations	\$ (0.02)	\$ 0.14	\$ (0.16)	(114.3)%
Adjusted diluted net earnings per common share ⁽²⁾ (\$)	\$ 1.07	\$ 1.12	\$ (0.05)	(4.5)%
Continuing Operations	\$ 1.03	\$ 1.02	\$ 0.01	1.0 %
Discontinued Operations	\$ 0.04	\$ 0.10	\$ (0.06)	(60.0)%
Diluted weighted average common shares outstanding (in millions)	376.1	390.5		
Cash flows from (used in) ⁽ⁱ⁾ :				
Operating activities	\$ 314	\$ 1,086	\$ (772)	(71.1)%
Investing activities	(796)	(748)	(48)	6.4 %
Financing activities	237	(50)	287	574.0 %
Dividends declared per common share (\$)	\$ 0.30	\$ 0.27	\$ 0.03	11.1 %
Dividends declared per Second Preferred Share, Series B (\$)	\$ 0.33125	\$ 0.33125		

(i) Includes amounts from Continuing and Discontinued Operations.

The Company's year-over-year financial performance were negatively impacted by minimum wage increases and incremental healthcare reform. The disposition of the Company's gas bar operations did not have a year-over-year impact on fourth quarter results.

Net Earnings Available to Common Shareholders of the Company from Continuing Operations and Diluted Net Earnings Per Common Share from Continuing Operations

Net earnings available to common shareholders of the Company from Continuing Operations in the fourth quarter of 2018 were \$228 million (\$0.61 per common share), an increase of \$252 million (\$0.67 per common share) compared to the fourth quarter of 2017. The increase included a decline in underlying operating performance of \$10 million, which was more than offset by the favourable year-over-year net impact of adjusting items totaling \$262 million, as described below:

- decline in underlying operating performance of \$10 million (\$0.03 per common share) primarily due to the following:
 - the Financial Services segment, driven by lower core banking income attributable to the discontinuation of the personal banking services under the *PC Financial* brand, higher operating costs including investments in digital strategy and higher customer acquisition costs, partially offset by higher net interchange income attributable to the growth in the credit card portfolio; partially offset by,
 - the Retail segment (excluding the impact of the consolidation of franchises), driven by a decrease in SG&A, partially offset by an increase in depreciation and amortization and a decrease in adjusted gross profit⁽²⁾.
- the favourable year-over-year net impact of adjusting items totaling \$262 million (\$0.66 per common share) primarily due to the following:
 - prior year charges related to the *PC Optimum* Program of \$137 million (\$0.35 per common share);
 - the year-over-year favourable impact of restructuring and other related costs of \$133 million (\$0.34 per common share); and
 - the year-over-year favourable impact of prior year charges related to the Loblaw Card Program of \$79 million (\$0.20 per common share);
 partially offset by,
 - the year-over-year unfavourable impact of fixed asset and other related impairments, net of recoveries of \$20 million (\$0.06 per common share);
 - the unfavourable impact of the prior year deferred tax liability revaluation of \$17 million (\$0.04 per common share);
 - the unfavourable impact of prior year income earned, net of certain costs incurred, from the wind-down of *PC Financial* banking services of \$13 million (\$0.03 per common share);
 - the unfavourable change in fair value adjustment on fuel and foreign currency contract of \$10 million (\$0.03 per common share); and
 - the unfavourable impact of the prior year recovery related to a prior year land transfer tax assessment of \$7 million (\$0.02 per common share).
- the increase in diluted net earnings from Continuing Operations per common share also included the favourable impact of the repurchase of common shares over the last 12 months (\$0.04 per common share).

Adjusted net earnings available to common shareholders of the Company⁽²⁾ from Continuing Operations in the fourth quarter of 2018 were \$388 million (\$1.03 per common share), a decrease of \$10 million (increase of \$0.01 per common share or 1.0%), compared to the fourth quarter of 2017, primarily due to the decline in underlying operating performance, as described above. Adjusted diluted net earnings per common share⁽²⁾ also included the favourable impact of the repurchase of common shares (\$0.04 per common share).

Discontinued Operations Net earnings available to common shareholders of the Company from Discontinued Operations were negatively impacted year-over-year by the spin-out of Choice Properties on November 1, 2018. The Company's fourth quarter of 2018 financial results from Discontinued Operations include one month of Choice Properties' financial results compared to three months in the fourth quarter of 2017.

Net earnings available to common shareholders of the Company from Discontinued Operations was a loss of \$7 million (\$0.02 per common share) in the fourth quarter of 2018, a decrease of \$62 million (\$0.16 per common share) compared to the fourth quarter of 2017. The decrease included a decline in underlying operating performance of \$24 million (\$0.06 per common share), primarily due to the unfavourable year-over-year impact of the reorganization and the unfavourable year-over-year net impact of adjusting items totaling \$38 million (\$0.10 per common share). The unfavourable year-over-year net impact of adjusting items was driven by the change in fair value adjustment to the Trust Unit Liability of \$39 million (\$0.11 per common share).

Revenue

For the periods ended December 29, 2018 and December 30, 2017 (millions of Canadian dollars except where otherwise indicated)	2018 (12 weeks)	2017 ⁽⁴⁾⁽⁵⁾ (12 weeks)	\$ Change	% Change
Retail	\$ 10,976	\$ 10,795	\$ 181	1.7 %
Financial Services	336	274	62	22.6 %
Consolidation and Eliminations	(94)	(77)	(17)	(22.1)%
Revenue	\$ 11,218	\$ 10,992	\$ 226	2.1 %

Revenue was \$11,218 million in the fourth quarter of 2018, an increase of \$226 million, or 2.1%, compared to the fourth quarter of 2017, primarily driven by an increase in Retail segment sales of \$181 million. Excluding the consolidation of franchises, Retail segment sales increased by \$103 million, or 1.0% due to positive same-store sales growth.

Operating Income Operating income was \$445 million in the fourth quarter of 2018, an increase of \$388 million compared to the fourth quarter of 2017. The increase in operating income included a decline in underlying operating performance of \$2 million and the favourable year-over-year net impact of adjusting items totaling \$390 million, as described below:

- decline in underlying operating performance of \$2 million were primarily due to the Financial Services segment, partially offset by the improvement in underlying operating performance of the Retail segment, including the favourable year-over-year contribution from the consolidation of franchises in the quarter; and
- the favourable year-over-year net impact of adjusting items totaling \$390 million primarily due to the following:
 - prior year charges related to the *PC Optimum* Program of \$187 million;
 - the year-over-year favourable impact of restructuring and other related costs of \$175 million; and
 - the year-over-year favourable impact of prior year charges related to the Loblaw Card Program of \$107 million;
 partially offset by,
 - the year-over-year unfavourable impact of fixed asset and other related impairments, net of recoveries of \$30 million;
 - the unfavourable impact of prior year income earned, net of certain costs incurred, from the wind-down of *PC Financial* banking services of \$17 million;
 - the unfavourable change in fair value adjustment on fuel and foreign currency contracts of \$13 million; and
 - the unfavourable impact of the prior year recovery related to land transfer tax assessment of \$9 million.

Adjusted EBITDA⁽²⁾

For the periods ended December 29, 2018 and December 30, 2017 (millions of Canadian dollars except where otherwise indicated)	2018 (12 weeks)	2017 ⁽⁴⁾⁽⁵⁾ (12 weeks)	\$ Change	% Change
Retail	\$ 855	\$ 829	\$ 26	3.1 %
Financial Services	40	53	(13)	(24.5)%
Adjusted EBITDA ⁽²⁾	\$ 895	\$ 882	\$ 13	1.5 %

Adjusted EBITDA⁽²⁾ was \$895 million in the fourth quarter of 2018, an increase of \$13 million compared to the fourth quarter of 2017. The increase in adjusted EBITDA⁽²⁾ in the fourth quarter of 2018 was primarily due to improvements in the Retail segment, including favourable contribution from the consolidation of franchises of \$8 million. The increase was partially offset by the Financial Services segment.

Depreciation and Amortization Depreciation and amortization was \$356 million in the fourth quarter of 2018, an increase of \$14 million compared to the fourth quarter of 2017, primarily driven by the consolidation of franchises, an increase in IT assets and the change in estimated useful life of certain building components as a result of the spin-out of Choice Properties in the Retail segment. Included in depreciation and amortization is the amortization of intangible assets related to the acquisition of Shoppers Drug Mart of \$120 million (2017 – \$121 million).

Net Interest Expense and Other Financing Charges

For the periods ended December 29, 2018 and December 30, 2017 (millions of Canadian dollars except where otherwise indicated)	2018 (12 weeks)	2017 ⁽⁵⁾ (12 weeks)	\$ Change	% Change
Net interest expense and other financing charges	\$ 95	\$ 89	\$ 6	6.7 %
Add (deduct) impact of the following:				
Spin-out of Choice Properties	(1)	—	(1)	(100.0)%
Adjusted net interest expense and other financing charges ⁽²⁾	\$ 94	\$ 89	\$ 5	5.6 %

Net interest expense and other financing charges and adjusted net interest expense and other financing charges⁽²⁾ were \$95 million in the fourth quarter of 2018, an increase of \$6 million compared to the fourth quarter of 2017. The increase in net interest and other financing charges was primarily driven by interest expense related to the spin-out of Choice Properties, higher interest expense in the Financial Services segment, due to an increase in interest rates on borrowings related to credit card receivables and a net increase in GICs.

Adjusted net interest expense and other financing charges⁽²⁾ were \$94 million in the fourth quarter of 2018, an increase of \$5 million compared to the fourth quarter of 2017. The increase in net interest and other financing charges was primarily driven by higher interest expense in the Financial Services segment, due to an increase in interest rates on borrowings related to credit card receivables and a net increase in GICs.

Income Taxes

For the periods ended December 29, 2018 and December 30, 2017 (millions of Canadian dollars except where otherwise indicated)	2018 (12 weeks)	2017 ⁽⁴⁾⁽⁵⁾ (12 weeks)	\$ Change	% Change
Income taxes	\$ 100	\$ (25)	\$ 125	500.0 %
Add (deduct) impact of the following:				
Tax impact of items included in adjusted earnings before taxes	55	165	(110)	(66.7)%
Remeasurement of deferred tax balances	—	17	(17)	(100.0)%
Adjusted income taxes ⁽²⁾	\$ 155	\$ 157	\$ (2)	(1.3)%
Effective tax rate	28.6%	78.1%		
Adjusted income tax rate ⁽²⁾	27.4%	27.4%		

The effective tax rate in the fourth quarter of 2018 was 28.6% compared to 78.1% in the fourth quarter of 2017. The decrease in the effective tax rate is primarily attributable to the tax recovery in the fourth quarter of 2017, which was primarily due to earnings loss reported by the Company, the tax impact of certain non-taxable items and a deferred tax recovery of \$17 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.

The adjusted income tax rate⁽²⁾ in the fourth quarter of 2018 was 27.4% flat compared to the fourth quarter of 2017.

Cash Flow

The following Cash Flow is presented on a Total Company basis, inclusive of Continuing and Discontinued Operations.

For the periods ended December 29, 2018 and December 30, 2017 (millions of Canadian dollars except where otherwise indicated)	2018 (12 weeks)	2017 ⁽⁵⁾ (12 weeks)	\$ Change	% Change
Cash and cash equivalents, beginning of period	\$ 1,314	\$ 1,510	\$ (196)	(13.0)%
Cash flows from (used in):				
Operating activities	\$ 314	\$ 1,086	\$ (772)	(71.1)%
Investing activities	(796)	(748)	(48)	(6.4)%
Financing activities	237	(50)	287	574.0 %
Effect of foreign currency exchange rate changes on cash and cash equivalents	(4)	—	(4)	(100.0)%
Change in cash and cash equivalents	\$ (249)	\$ 288	\$ (537)	(186.5)%
Cash and cash equivalents, end of period	\$ 1,065	\$ 1,798	\$ (733)	(40.8)%

Cash Flows from Operating Activities Cash flows from operating activities in the fourth quarter of 2018 were \$314 million, a decrease of \$772 million compared to the fourth quarter of 2017, primarily due to an unfavourable change in non-cash working capital and a reduction in provision balances, partially offset by higher cash earnings.

Cash Flows used in Investing Activities Cash flows used in investing activities in the fourth quarter of 2018 were \$796 million, an increase of \$48 million compared to the fourth quarter of 2017. The increase in cash flows used in investing activities was primarily driven by an increase in security deposits, held for the redemption of the Company's \$800 million debenture subsequent to the end of 2018, partially offset by a decrease in short term investments.

Cash Flows from Financing Activities Cash flows from financing activities in the fourth quarter of 2018 were \$237 million, an increase of \$287 million compared to the fourth quarter of 2017. The increase in cash flows from financing activities was primarily driven by higher net issuances of debt.

Capital Investments In the fourth quarter of 2018, the Company invested \$482 million (2016 – \$487 million) in fixed asset purchases and intangible asset additions.

Free Cash Flow⁽²⁾

The following Free Cash Flow is presented on a Continuing Operations basis.

For the periods ended December 29, 2018 and December 30, 2017 (millions of Canadian dollars except where otherwise indicated)	2018 (12 weeks)	2017 ⁽⁴⁾⁽⁵⁾ (12 weeks)	\$ Change	% Change
Cash flows from operating activities	\$ 314	\$ 1,086	\$ (772)	(71.1)%
Less: Cash flows from operating activities from Discontinued Operations ⁽ⁱ⁾	4	81	(77)	(95.1)%
Cash flows from operating activities from Continuing Operations ⁽ⁱ⁾	310	1,005	(695)	(69.2)%
Less:				
Capital investments	414	399	15	3.8 %
Interest paid	58	40	18	45.0 %
Free cash flow from Continuing Operations	\$ (162)	\$ 566	\$ (728)	(128.6)%

(i) Cash flows from operating activities from Continuing Operations include distributions received in 2018 and the payment related to the conversion of Class C LP Units in 2018 from Discontinued Operations. Cash flows from Discontinued Operations include the outflow of these items.

Negative free cash flow⁽²⁾ from Continuing Operations was \$162 million in the fourth quarter of 2018, a decrease of \$728 million compared to the fourth quarter of 2017, primarily driven by lower cash flows from operating activities, due to an unfavourable change in non-cash working capital.

Retail Segment Fourth Quarter Results of Operations

For the periods ended December 29, 2018 and December 30, 2017 (millions of Canadian dollars except where otherwise indicated)	2018 (12 weeks)	2017 (12 weeks)	\$ Change	% Change
Sales	\$ 10,976	\$ 10,795	\$ 181	1.7%
Operating Income	408	(10)	418	4,180.0%
Adjusted gross profit ⁽²⁾	3,254	3,172	82	2.6%
Adjusted gross profit % ⁽²⁾	29.6%	29.4%		
Adjusted EBITDA ⁽²⁾	\$ 855	\$ 829	\$ 26	3.1%
Adjusted EBITDA margin ⁽²⁾	7.8%	7.7%		
Depreciation and amortization	\$ 353	\$ 339	\$ 14	4.1%

For the periods ended December 29, 2018 and December 30, 2017 (millions of Canadian dollars except where otherwise indicated)	2018 (12 weeks)		2017 (12 weeks)	
	Sales	Same-store sales	Sales	Same-store sales
Food retail	\$ 7,750	0.8%	\$ 7,623	0.5%
Drug retail	3,226	1.9%	3,172	3.6%
Pharmacy	1,426	0.6%	1,419	3.9%
Front Store	1,800	2.8%	1,753	3.5%

Sales, operating income, adjusted gross profit⁽²⁾, adjusted gross profit percentage⁽²⁾, adjusted EBITDA⁽²⁾ and adjusted EBITDA margin⁽²⁾ include the impacts of the consolidation of franchises and disposition of gas bar operations.

Sales Retail segment sales in the fourth quarter of 2018 were \$10,976 million, an increase of \$181 million, or 1.7%, compared to the fourth quarter of 2017. Excluding the consolidation of franchises, Retail segment sales increased by \$103 million, or 1.0%, primarily driven by the following factors:

- Food retail same-store sales growth was 0.8% (2017 – 0.5%) for the quarter.
 - Sales growth in food was moderate;
 - Sales in pharmacy were declined significantly; and
 - The Company's Food retail average quarterly internal food price index was moderately lower than (2017 – marginally higher than) the average quarterly national food price inflation of 1.7% (2017 – 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 the Company's stores.
- Drug retail same-store sales growth was 1.9% (2017 – 3.6%).
 - Pharmacy same-store sales growth was 0.6% (2017 – 3.9%). The number of prescriptions dispensed increased by 3.3% (2017 – 4.5%). On a same-store basis, the number of prescriptions dispensed increased by 3.1% (2017 – 4.3%) and year-over-year, the average prescription value decreased by 3.2% (2017 – decreased by 0.1%). Pharmacy same-store sales growth included the impact of incremental healthcare reform; and
 - Front store same-store sales growth of 2.8% (2017 – 3.5%).

In the last 12 months, 17 food and drug stores were opened, and 22 food and drug stores were closed, resulting in a net increase in Retail square footage of 0.1 million square feet, or 0.1%.

The redemption of Loblaw Cards resulted in the delivery of approximately \$4 million of free products to customers in the fourth quarter of 2018, which was provided for in the fourth quarter of 2017. The redemptions did not benefit sales or the Company's financial performance and Management does not believe it had a significant impact on Food retail same-store sales.

Operating Income Operating income in the fourth quarter of 2018 was \$408 million, an increase of \$418 million compared to the fourth quarter of 2017. The increase in operating income included improvements in underlying operating performance of \$11 million and the favourable year-over-year net impact of adjusting items totaling \$407 million, as described below:

- the improvements in underlying operating performance of \$11 million were driven by an increase in adjusted gross profit⁽²⁾, partially offset by an increase in SG&A and depreciation and amortization. The improvements in underlying operating performance included the favourable year-over-year contribution from the consolidation of franchises in the quarter; and
- the favourable year-over-year net impact of adjusting items totaling \$407 million primarily due to the following:
 - prior year charges related to the *PC Optimum* Program of \$187 million;
 - the year-over-year favourable impact of restructuring and other related costs of \$175 million; and
 - the year-over-year favourable impact of prior year charges related to the Loblaw Card Program of \$107 million;partially offset by,
 - the year-over-year unfavourable impact of fixed asset and other related impairments, net of recoveries of \$30 million;
 - the unfavourable change in fair value adjustment on fuel and foreign currency contracts of \$13 million; and
 - the unfavourable impact of the prior year recovery related to land transfer tax assessment of \$9 million.

Adjusted Gross Profit⁽²⁾ Adjusted gross profit⁽²⁾ in the fourth quarter of 2018 was \$3,254 million, an increase of \$82 million compared to the fourth quarter of 2017. Adjusted gross profit percentage⁽²⁾ of 29.6% increased by 20 basis points compared to the fourth quarter of 2017. Excluding the consolidation of franchises, adjusted gross profit⁽²⁾ decreased by \$1 million. Adjusted gross profit percentage⁽²⁾, excluding the consolidation of franchises, was 27.7%, a decrease of 30 basis points compared to the fourth quarter of 2017. Margins were negatively impacted by healthcare reform and positively impacted by food retail.

Adjusted EBITDA⁽²⁾ Adjusted EBITDA⁽²⁾ in the fourth quarter of 2018 was \$855 million, an increase of \$26 million, compared to the fourth quarter of 2017 and included the favourable impact of the consolidation of franchises of \$8 million. The increase in adjusted EBITDA⁽²⁾ of \$26 million was driven by an increase in adjusted gross profit⁽²⁾ as described above, partially offset by an increase in SG&A of \$56 million. SG&A as a percentage of sales was 21.9%, an increase of 20 basis points compared to the fourth quarter of 2017. Excluding the consolidation of franchises, SG&A decreased \$19 million. SG&A as a percentage of sales, excluding the consolidation of franchises, was 20.1%, an improvement of 30 basis points compared to the fourth quarter of 2017 mainly driven by:

- lower store costs driven by process efficiencies and a decrease in advertising costs, partially offset by minimum wage increases; and
- lower store support costs driven by previously announced cost savings initiatives;

partially offset by,

- the unfavourable year-over-year impact of foreign exchange.

Adjusted EBITDA⁽²⁾ included gains of \$8 million (2017 – \$7 million) related to the sale leaseback of properties to Choice Properties in the fourth quarter of 2018.

Depreciation and Amortization Depreciation and amortization in the fourth quarter of 2018 was \$353 million, an increase of \$14 million compared to the fourth quarter of 2017 primarily driven by the consolidation of franchises, an increase in IT assets and the change in estimated useful life of certain building components as a result of the spin-out of Choice Properties. Included in depreciation and amortization is the amortization of intangible assets related to the acquisition of Shoppers Drug Mart of \$120 million (2017 – \$121 million).

Other Retail Business Matters

For details see Section 6.1 “Retail Segment”, of this MD&A.

Financial Services Segment Fourth Quarter Results of Operations

For the periods ended December 29, 2018 and December 30, 2017 (millions of Canadian dollars except where otherwise indicated)	2018 (12 weeks)	2017 (12 weeks)	\$ Change	% Change
Revenue	\$ 336	\$ 274	\$ 62	22.6 %
Earnings before income taxes	18	52	(34)	(65.4)%

(millions of Canadian dollars except where otherwise indicated)	As at December 29, 2018	As at December 30, 2017	\$ Change	% Change
Average quarterly net credit card receivables	\$ 3,073	\$ 2,908	\$ 165	5.7%
Credit card receivables	3,329	3,100	229	7.4%
Allowance for credit card receivables	167	47	120	255.3%
Annualized yield on average quarterly gross credit card receivables	13.1%	13.2%		
Annualized credit loss rate on average quarterly gross credit card receivables	3.1%	3.7%		

Revenue Revenue in the fourth quarter of 2018 was \$336 million, an increase of \$62 million compared to the fourth quarter of 2017, primarily driven by:

- higher sales attributable to *The Mobile Shop*; and
- higher interest and net interchange income attributable to the growth in the credit card portfolio;

partially offset by,

- lower core banking income attributable to PC Bank's 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. Normal operating income from the same personal banking services ended in April 2018.

Earnings before income taxes Earnings before income taxes in the fourth quarter of 2018 were \$18 million, a decrease of \$34 million compared to the fourth quarter of 2017, primarily driven by:

- income earned in the fourth quarter of 2017 of \$17 million, net of certain costs incurred, relating to PC Bank's agreement to end its business relationship with a major Canadian chartered bank, which represented the personal banking services offered under the *PC Financial* brand;
- higher operating costs including investments in digital strategy; and
- higher customer acquisition costs;

partially offset by,

- revenue growth, as described above.

Credit Card Receivables As at December 29, 2018, credit card receivables were \$3,329 million, an increase of \$229 million compared to December 30, 2017. This increase was primarily driven by growth in the average customer balance and active customer base as a result of continued investments in customer acquisition, marketing and product initiatives. As at December 29, 2018, the allowance for credit card receivables was \$167 million, an increase of \$120 million compared to December 30, 2017 primarily due to the adoption of IFRS 9.

Other Financial Services Business Matters

For details see Section 6.2 "Financial Services Segment", 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 Executive Chairman and the Chief Financial Officer ("CFO") 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 29, 2018.

11. Internal Control over Financial Reporting

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

As required by NI 52-109, the Executive Chairman and the CFO 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 29, 2018.

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 control over financial reporting in 2018 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 Enterprise Risk Management ("ERM") program assists all areas of the business in managing risks 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.

Risk appetite and governance The Loblaw 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 framework. The risk appetite framework 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 the Board 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 stakeholder 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 At least semi-annually, management provides an update 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 level is assessed to monitor potential long term risk impacts, which may assist in risk mitigation planning activities.

Any of the key risks has 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

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 29, 2018, which is hereby incorporated by reference:

Healthcare Reform	Distribution and Supply Chain
Cyber Security, Privacy and Data Breaches	Electronic Commerce and Disruptive Technologies
IT Systems Implementations and Data Management	Food, Drug, Product and Services Safety
Governance, Change Management, Process and Efficiency	Legal Proceedings
Competitive Environment and Strategy	Regulatory Compliance

Healthcare Reform The Company 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, including the potential implementation of a national pharmacare system, changes in the models used to fund prescription drugs such as the introduction of a pharmacare system, 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 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 three types of payers: (i) government or public, (ii) private insurers or employers, and (iii) out-of-pocket by the patient or cash. These 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 establishes 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 to private payers sector. Also, private 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 payers. In addition, private 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.

Changes impacting pharmacy reimbursement programs, prescription drug pricing, manufacturer allowance funding and private label prescription drug products, legislative or otherwise, are expected to continue to put downward pressure on prescription drug sales. These changes may have a material adverse effect on the Company's business, sales and profitability. In addition, the Company 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.

Cyber Security, Privacy 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.

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.

Management's Discussion and Analysis

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 in turn could 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.

Governance, Change Management, Process and Efficiency Many initiatives are underway to reduce the complexity and cost of the Company's business operations, ensuring a low cost operating structure that allows for continued investments in the Company's strategic growth areas. These efforts include initiatives focused on improving processes and generating efficiencies across its administrative, store and distribution network infrastructures. 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.

Competitive Environment and Strategy The retail industry in Canada is highly competitive. The Company 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, the Company 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. The Company'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 the Company's loyalty program must be well managed and coordinated to preserve positive customer perception. The Company has made significant investments in support of certain strategic priorities. Failure to achieve these strategic priorities could adversely affect the Company's financial position and its ability to compete with competitors.

The Company'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 the Company is ineffective in responding to consumer trends or in executing its strategic plans, its financial performance could be adversely affected. The failure to effectively respond to customer trends may adversely impact the Company's relationship with its customers. The Company closely monitors its competitors and their strategies, market developments and market share trends. Failure by the Company to sustain its competitive position could adversely affect the Company's financial performance.

Distribution and Supply Chain The Company's ability to satisfy its customers' demands and achieve its cost objectives depends on its ability to maintain key logistic and transport arrangements. The Company's distribution and supply chain could be negatively affected by unforeseen disruptions due to fire, severe weather conditions, natural disasters, or other catastrophic events, labour disagreements, or other shipping problems. The loss of or disruption to these types of arrangements could interrupt product supply, which in turn could adversely affect the assortment and product availability at store level. If not effectively managed or remedied, these events could negatively impact customer experience and the Company's ability to attract and retain customers, and could adversely affect the Company's operations or financial performance.

Electronic Commerce and Disruptive Technologies The Company'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 the Company'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. The Company 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, the Company's ability to grow its e-commerce business could be adversely affected. The Company 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 the Company's operations or financial performance.

Food, Drug, Product and Services Safety 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 could affect the Company's ability to be effective in a recall situation. The Company 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 store level, 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.

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.

On August 26, 2015, the Company was served with a proposed class action, which was commenced in the Ontario Superior Court of Justice ("Superior Court") against the Company and certain subsidiaries, Weston and others in connection with the collapse of the Rana Plaza complex in Dhaka, Bangladesh in 2013. The claim seeks approximately \$2 billion in damages. The Company believes this proceeding is without merit and is vigorously defending it. The Company does not currently have any significant accruals or provisions for this matter recorded in the consolidated financial statements. In July 2017, the Superior Court dismissed the action and the plaintiffs appealed. The decision of the Ontario Court of Appeal, released December 20, 2018, upheld the Superior Court's dismissal of the action. Costs awarded in respect of the original motion was reduced by 30%. The Company anticipates that the plaintiffs will seek leave to appeal to the Supreme Court of Canada.

Shoppers Drug Mart has been served with an Amended Statement of Claim in a class action proceeding that has been filed in the Ontario Superior Court of Justice by two 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 Superior Court certified as a class proceeding portions of the action. The Superior Court imposed a class closing date based on the date of certification. New Associates after July 9, 2013 are not members of the class.

In 2017, the Company and Weston announced actions taken to address their role in an industry-wide price-fixing arrangement involving certain packaged bread products. The arrangement involved the coordination of retail and wholesale prices of certain packaged bread products over a period extending from late 2001 to March 2015. Under the arrangement, the participants regularly increased prices on a coordinated basis. Class action lawsuits have been commenced against the Company and Weston as well as a number of other major grocery retailers and another bread wholesaler. It is too early to predict the outcome of such legal proceedings. Neither the Company nor Weston believes that the ultimate resolution of such legal proceedings will have a material adverse impact on its financial condition or prospects. The Company's cash balances far exceed any realistic damages scenario and therefore it does not anticipate any impacts on its dividend, dividend policy or share buyback plan. The Company has not recorded any amounts related to the potential civil liability associated with the class action lawsuits in 2018 on the basis that a reliable estimate of the liability cannot be determined at this time. The Company will continue to assess whether a provision for civil liability associated with the class action lawsuits can be reliably estimated and will record an amount in the period at the earlier of when a reliable estimate of liability can be determined or the matter is ultimately resolved.

As part of its response to this issue, the Company announced the Loblaw Card Program pursuant to which the Company offered a \$25 Loblaw Card to eligible customers. The Loblaw Card can be used to purchase items sold in Loblaw grocery stores across Canada. The Company recorded a charge of \$107 million associated with the Loblaw Card Program in 2017. In 2018, the Company recorded an additional charge of \$4 million. The Company expects that Loblaw Cards issued to customers will be an offset against civil liability. The charge recorded for the Loblaw Card Program should not be viewed as an estimate of damages.

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

In August 2018, the Province of British Columbia filed a class action against numerous opioid manufacturers and distributors, including the Company and its subsidiaries, Shoppers Drug Mart Inc. and Sanis Health Inc. The claim contains allegations of breach of the Competition Act, fraudulent misrepresentation and deceit and negligence, and seeks damages (unquantified) for the expenses incurred by the province in paying for opioid prescriptions and other healthcare costs related to opioid addiction and abuse in British Columbia.

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 applicable to the Company's business, including tax laws, minimum wage laws, and laws affecting the production, processing, 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 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 Weston announced actions taken to address their role in an industry-wide price-fixing arrangement involving certain packaged bread products. The arrangement involved the coordination of retail and wholesale prices of certain packaged bread products over a period extending from late 2001 to March 2015. Under the arrangement, the participants regularly increased prices on a coordinated basis. Please refer to the "Legal Proceedings" risk on page 44 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.

The Company is subject to externally imposed capital requirements from the 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 regulations could result in regulatory intervention and reputational damages.

12.2 Financial Risks and Risk Management

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 list of the Company's financial risks which are discussed in detail below:

Liquidity	Credit
Commodity Prices	Interest Rate
Currency Exchange Rates	

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 risks if it fails to maintain appropriate levels of cash and short term investments, it is unable to access sources of funding or it fails to appropriately diversify sources of funding. If any of these events were to occur, they could adversely affect the financial performance of the Company.

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

Commodity Prices The Company is exposed to increases in the prices of commodities in operating its stores and distribution networks, as well as to the indirect effect of changing commodity prices on the price of consumer products. Rising commodity prices could adversely affect the financial performance of the Company. To manage a portion of this exposure, the Company uses purchase commitments and derivative instruments in the form of exchange traded futures contracts and forward contracts to minimize cost volatility related to commodities.

Currency Exchange Rates The Company is exposed to foreign currency exchange rate variability, primarily on its USD denominated purchases in trade payables and other liabilities. A depreciating Canadian dollar relative to the USD will have a negative impact on year-over-year changes in reported operating income and net earnings, while an appreciating Canadian dollar relative to the USD will have the opposite impact. The Company is also exposed to fluctuations in the prices of USD denominated purchases as a result of changes in USD exchange rates. To manage a portion of this exposure, the Company uses derivative instruments in the form of futures contracts and forward contracts to minimize cost volatility related to foreign exchange.

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

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

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

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

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. An increase in interest rates could adversely affect the operations or financial performance of the Company. 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 controlling shareholder is Weston, which owns, directly and indirectly, 187,815,136 of the Company's common shares, representing approximately 50.4% of the Company's outstanding common shares. Mr. W. Galen Weston controls Weston, directly and indirectly through private companies that he controls, including Wittington Investments, Limited ("Wittington"), which owns a total of 81,465,025 of Weston's common shares, representing approximately 53.1% of Weston's outstanding common shares. Mr. Weston also beneficially owns 5,096,189 of the Company's common shares, representing approximately 1.4% of the Company's outstanding common shares.

In the fourth quarter of 2018, the Company and its parent Weston completed a reorganization under which the Company distributed its approximate 61.6% effective interest in Choice Properties to Weston on a tax-free basis to the Company and its Canadian shareholders. In connection with the reorganization, the common shareholders of the Company, other than Weston and its subsidiaries, received 0.135 of a common share of Weston for each common share of the Company held, which was equivalent to the market value of their pro rata interest in Choice Properties as at the announcement date of the spin-out, and Weston received the Company's approximate 61.6% effective interest in Choice Properties.

Management's Discussion and Analysis

Following the reorganization, the Company no longer retains its interest in Choice Properties and has ceased to consolidate its equity interest in Choice Properties from its consolidated financial statements. The transaction has no impact on the ongoing operating relationship between the Company and Choice Properties and all current agreements and arrangements, including The Strategic Alliance Agreement and leases, remain in place. The Company continues to be Choice Properties' largest tenant, representing approximately 68% of Choice Properties' annual base rent revenue and 59% of its gross leasable area as at December 29, 2018 (December 30, 2017 – 88% and 88% respectively).

The Company's policy is to conduct all transactions and settle all balances with related parties on market terms and conditions. The Company has reflected all transactions with Choice Properties below from the earliest period presented. Prior to November 1, 2018, these transactions were eliminated on consolidation.

Transactions with Related Parties:

(millions of Canadian dollars)	Transaction Value	
	2018	2017
Included in Cost of Merchandise Inventories Sold		
Inventory purchases from a subsidiary of Weston	\$ 649	\$ 652
Inventory sold to a subsidiary of Weston	2	2
Inventory purchases from a related party ⁽ⁱ⁾	30	28
Operating Income		
Transactions with Weston		
Cost sharing agreements with Parent ⁽ⁱⁱ⁾	\$ 42	\$ 35
Net administrative services provided by Parent ⁽ⁱⁱⁱ⁾	19	23
Lease of office space from a subsidiary of Wittington	4	4
Lease of office space to a subsidiary of Wittington	—	2
Transactions with Choice Properties		
Rental expenses paid to Choice Properties ^(iv)	\$ 742	\$ 718
Property management and other administration fees paid to Choice Properties	1	1
Lease surrender payments	10	6
Service agreement fees received from Choice Properties	(2)	(3)
Net other income received from Choice Properties ^(v)	(6)	(4)
Gain on sale of properties to Choice Properties ^(vi)	(6)	(7)

- (i) Associated British Foods plc is a related party by virtue of Mr. W. Galen Weston being a director of such entity's parent company. Total balance outstanding owing to Associated British Foods plc as at December 29, 2018 was \$3 million (December 30, 2017 – \$6 million).
- (ii) Weston and the Company have each entered into certain contracts with third parties for administrative and corporate services, including telecommunication services and IT related matters on behalf of itself and the related party. Through cost sharing agreements that have been established between the Company and Weston concerning these costs, the Company has agreed to be responsible to Weston for the Company's proportionate share of the total costs incurred.
- (iii) The Company and Weston have entered into an agreement whereby certain administrative services are provided by one party to the other. The services to be provided under this agreement include those related to commodity management, pension and benefits, tax, medical, travel, information systems, risk management, treasury, certain accounting and control functions and legal. Payments are made quarterly based on the actual costs of providing these services. Where services are provided on a joint basis for the benefit of the Company and Weston together, each party pays the appropriate proportion of the costs. Fees paid under this agreement are reviewed each year by the Audit Committee.
- (iv) Rental expenses paid to Choice Properties include base rent of \$543 million (2017 – \$533 million) and operating expenses of \$199 million (2017 – \$185 million).
- (v) Net other income received from Choice Properties include site intensification payments received from Choice Properties of \$6 million (2017 – \$6 million). Included in certain investment properties sold to Choice Properties is excess land with development potential. Choice Properties will compensate the Company, over time, with intensification payments, as Choice Properties pursues development, intensification or redevelopment of such excess lands. The payments the Company receives are calculated in accordance with a payment grid, set out in the Strategic Alliance Agreement, that takes into account the region, market ranking and type of use for the property). The Company did not make any development capital payments to Choice Properties during the year ended December 29, 2018 (2017 – \$2 million).
- (vi) Prior to the spin-out, the Company disposed of one investment property to Choice Properties for a sale price of \$2 million and a loss on sale of \$2 million was recognized and eliminated on consolidation. Since November 1, 2018, the Company disposed three investment properties to Choice Properties for an aggregate purchase price of \$55 million and recognized a gain of \$8 million. These properties were leased back by the Company and were classified as operating leases.

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

(millions of Canadian dollars)	As at December 29, 2018	As at December 30, 2017
Weston ⁽ⁱ⁾	\$ 36	\$ 48
Choice Properties ⁽ⁱⁱ⁾	2	(22)

(i) Balances relate to trade payables and other liabilities due to Weston, net of receivables from Weston.

(ii) Balances relate to distribution and other receivables, net of note and other payables.

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, Weston and its affiliates may enter into agreements to make elections that are permitted or required under applicable income tax legislation with respect to affiliated corporations.

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

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

(millions of Canadian dollars)	2018	2017
Salaries, director fees and other short term employee benefits	\$ 6	\$ 6
Equity-based compensation	10	9
Total compensation	\$ 16	\$ 15

Other Transactions and Agreements with Choice Properties

Strategic Alliance Agreement The Strategic Alliance Agreement established on the IPO of Choice creates a series of rights and obligations between Choice Properties and the Company, intended to establish a preferential and mutually beneficial business and operating relationship. The Agreement expires on July 5, 2023, ten years from the IPO.

Services Agreement The Company provides Choice Properties with administrative and other support services.

Property Management Agreement Choice Properties provides the Company with property management services for properties with third-party tenancies on a fee for service basis for an initial two-year term with automatic one-year renewals.

Sublease Administration Agreement On July 17, 2017, in connection with the Company's sale of substantially all of its gas bar operations, Choice Properties agreed to provide the Company with certain administrative services in respect of the subleases to Brookfield Business Partners L.P. ("Brookfield") on a fee for service basis for an initial five-year term with automatic one-year renewals.

Letters of Credit As at December 29, 2018, letters of credit totaling \$3 million were posted by the Company with the province of Ontario and City of Toronto on behalf of Choice Properties related to deferral of land transfer tax on properties acquired from the Company (December 30, 2017 – \$5 million).

Distributions on Choice Properties LP Units Prior to the spin-out and the acquisition of CREIT by Choice Properties, the Company held all the Exchangeable Units and Class C LP Units issued by Choice Properties. For the year ended December 29, 2018, the Company received distributions totaling \$238 million (2017 – \$278 million) on the Units held.

Trust Unit Distributions For the year ended December 29, 2018, the Company received distributions of \$13 million (2017 – \$16 million) on the Units held.

Acquisitions During 2017, the Company acquired certain gas bar capital assets with a fair value of \$35 million from Choice Properties, for cash, in order to facilitate the sale of substantially all of the Company's gas bar operations to Brookfield. The gas bar capital assets were leased to the Company as part of the respective tenant leases between the Choice Properties and the Company. The tenant leases between Choice Properties and the Company related to these investment properties remained substantially unchanged.

Commitments The following is a summary of the Company's commitments to Choice Properties as of December 29, 2018:

(millions of Canadian dollars)	Payments due by year						As at December 29, 2018
	2019	2020	2021	2022	2023	Thereafter	Total
Operating lease payments	\$ 535	\$ 541	\$ 549	\$ 555	\$ 534	\$ 2,516	\$ 5,230

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 Annual Report, 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.

14.1 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).

14.2 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.

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

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 ("CGUs") for the purposes of testing fixed assets for impairment. Judgment is further required to determine appropriate groupings of CGUs, for the level at which goodwill and intangible assets are tested for impairment. The Company has determined that each retail location is a separate CGU for the purposes of fixed asset impairment testing. For the purpose of goodwill and indefinite life intangible assets impairment testing, CGUs are grouped at the lowest level at which goodwill and indefinite life intangible assets are monitored for internal management purposes. In addition, judgment is used to determine whether a triggering event has occurred requiring an impairment test to be completed.

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

14.4 Impairment of Franchise Loans Receivable and Certain Other Financial Assets

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

Key Sources of Estimation Management determines the initial fair value of its franchise loans and certain other financial assets using discounted cash flow models. The process of assessing the recoverability of these loans and certain other financial assets 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.

14.5 Customer Loyalty Awards Programs

Key Sources of Estimation The Company defers revenue at the time the award is earned by members based on the relative fair value of the award. The relative fair value is determined by allocating consideration between the fair value of the loyalty awards earned by loyalty program members, net of breakage, and the goods and services on which the awards were earned, based on their relative stand-alone selling price. The estimated fair value per point for the *PC Optimum* program is determined based on the program reward schedule and is \$1 for every 1,000 points earned. The breakage rate of the program is an estimate of the amount of points that will never be redeemed. The rate is reviewed on an ongoing basis and is estimated utilizing historical redemption activity and anticipated earn and redeem behaviour of members.

14.6 Impairment of Credit Card Receivables

Judgments Made in Relation to Accounting Policies Applied In each stage of the impairment model, impairment is determined based on the probability of default, loss given default, and expected exposures at default on drawn and undrawn exposures on credit card receivables, discounted using an average portfolio yield rate. The application of the ECL model requires management to apply the following significant judgments, assumptions and estimations:

- Movement of impairment measurement between the three stages of the ECL model, based on the assessment of increase in credit risks on credit card receivables. The assessment of changes in credit risks includes qualitative and quantitative factors of the accounts, such as historical credit loss experience and external credit scores;
- Thresholds for significant increase in credit risks based on changes in probability of default over the expected life of the instrument relative to initial recognition; and
- Forecasts of future economic conditions.

14.7 Fair Value of Investment Properties

Key Sources of Estimation The fair value of investment properties is dependent on available comparable transactions, future cash flows over the holding period, and discount rates and capitalization rates applicable to those assets. The review of anticipated cash flow involves assumptions relating to occupancy, market rental rates, net operating expenses, and residual value. In addition to reviewing anticipated cash flows, management assesses changes in the business climate and other factors, which may affect the ultimate value of the property. These assumptions may not ultimately be achieved.

14.8 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.

14.9 Segment Information

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

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

14.10 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 and legal claims. 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

15.1 Accounting Standards Implemented

On December 31, 2017, the Company implemented IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15") and IFRS 9, "Financial Instruments" ("IFRS 9"), in accordance with International Accounting Standard 8, "Accounting Policies, Changes in Accounting Estimates and Errors" ("IAS 8"). The impacts on implementation of IFRS 15 and IFRS 9 on the Company's consolidated financial statements are described below.

IFRS 15 In 2014, the International Accounting Standards Board ("IASB") issued IFRS 15, "Revenue from Contracts with Customers", replacing IAS 18, "Revenue" ("IAS 18"), 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 is effective for annual periods beginning on or after January 1, 2018.

The Company adopted the standard on December 31, 2017 and applied the requirements of the standard retrospectively with the cumulative effects of initial application recorded in opening retained earnings on January 1, 2017 and with the restatement of comparative periods. IFRS 15 permits the use of exemptions and practical expedients. The Company applied the practical expedient in which contracts that began and were completed within the same annual reporting period before December 30, 2017 or were completed on or before January 1, 2017 do not require restatement.

Under IFRS 15, the Company recognizes revenue when control of the goods or services has been transferred. Revenue is measured at the amount of consideration to which the Company expects to be entitled to, including variable consideration to the extent that it is highly probable that a significant reversal will not occur.

Retail segment revenue includes the 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 amount of consideration to which the Company expects to be entitled to, net of estimated returns, sales incentives and franchise fee reductions. The Company recognizes revenue made through corporate stores, consolidated franchise stores and Associates at the time the point of sale is made or when service is delivered to the customers. The Company recognizes revenue made through non-consolidated franchise stores and independent wholesale customers at the time of delivery of inventory and when administrative and management services are rendered.

On the initial sale of franchising arrangements, the Company offered products and services as part of an arrangement with multiple performance obligations. Prior to the implementation of the Franchise Agreement implemented in 2015, the initial sale to non-consolidated franchise stores were recorded using a relative fair value approach.

For certain sale of goods in which the Company earns commissions, including but not limited to lottery and third party gift cards, the Company records net revenue as an agent on the basis that the Company does not control pricing or bear inventory risk.

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

Choice Properties revenue, included as part of Discontinued Operations, includes rental revenue on base rents earned from tenants under lease agreements, realty tax and operating cost recoveries and other incidental income, including intersegment revenue earned from the Retail segment prior to the reorganization. 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.

The implementation of IFRS 15 did not have a significant impact on the Company's Retail, Financial Services or Choice Properties segment revenue streams, including its franchise arrangements with non-consolidated stores. IFRS 15 impacted the allocation of revenue that is deferred in relation to the Company's customer loyalty award programs. Under IAS 18 and related interpretations, revenue was 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 was allocated to the loyalty awards and deferred until the points were ultimately redeemed. The residual consideration was allocated to the goods and services sold and recognized as revenue. Under IFRS 15, consideration is allocated between the loyalty awards and the goods and services on which the awards were earned, based on their relative stand-alone selling prices. Using this relative fair value approach, the amount allocated to the loyalty points and recorded as deferred revenue will be, on average, lower than the amounts allocated under the residual value method. The majority of the Company's loyalty liability, which is a contract liability, is expected to be redeemed and recognized as revenue within one year of issuance.

In addition, in the fourth quarter of 2017, the Company recorded a charge before income taxes of \$189 million under IAS 18 and related interpretations, related to the revaluation of the existing loyalty liability for outstanding points to reflect a higher anticipated redemption rate under the new *PC Optimum* program. Under IFRS 15, using the relative fair value approach, this revaluation of the loyalty liability decreased by \$24 million, resulting in a charge before income taxes of \$165 million.

The impact of the above changes on retained earnings as at January 1, 2017 and December 30, 2017 is as follows:

Consolidated Balance Sheets

Increase (Decrease) (millions of Canadian dollars)	As at January 1, 2017	As at December 30, 2017
Loyalty liability	\$ (43)	\$ (64)
Income taxes payable	12	11
Deferred income tax liabilities	—	7
Retained earnings	31	46

The impact of this change on 12 weeks and 52 weeks ended December 30, 2017 is as follows:

Consolidated Statements of Earnings

Increase (Decrease) (millions of Canadian dollars)	December 30, 2017 (12 weeks)	December 30, 2017 (52 weeks)
Revenue	\$ (7)	\$ (3)
SG&A	(24)	(24)
Income taxes	5	6

The implementation of IFRS 15 had an impact on basic and diluted net earnings per share of \$0.03 and \$0.04 for 12 weeks and 52 weeks ended December 30, 2017, respectively.

IFRS 9 In 2014, the IASB issued IFRS 9, "Financial Instruments", 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 is effective for annual periods beginning on or after January 1, 2018. The Company implemented the new requirements for classification and measurement, impairment and general hedging on December 31, 2017 by applying the requirements for classification and measurement, including impairment, retrospectively with the cumulative effects of initial application recorded in opening retained earnings as at December 31, 2017 with no restatement of comparative periods. The Company also applied related amendments to IFRS 7, "Financial Instruments: Disclosures". Refer to the Financial Instruments and Derivative Instruments policy for significant accounting policies under IFRS 9.

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. Financial assets are not reclassified subsequent to their initial recognition unless the Company identifies changes in its business model in managing financial assets. The adoption of the new classification requirements under IFRS 9 did not result in significant changes in measurement or the carrying amount of financial assets and liabilities, with the exception of credit card receivables discussed below.

The following table summarizes the classification impacts upon adoption of IFRS 9:

Asset/Liability	Classification under IAS 39	Classification under IFRS 9
Cash and cash equivalents	Fair value through profit and loss ⁽ⁱ⁾	Amortized cost
Short term investments	Fair value through profit and loss ⁽ⁱ⁾	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Credit card receivables	Loans and receivables	Amortized cost
Security deposits	Fair value through profit and loss ⁽ⁱ⁾	Fair value through profit and loss
Franchise loans receivable	Loans and receivables	Amortized cost
Certain other assets ⁽ⁱⁱ⁾	Loans and receivables	Amortized cost / fair value through profit and loss
Certain long term investments	Available-for-sale	Fair value through other comprehensive income
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 ⁽ⁱⁱⁱ⁾	Fair value through profit and loss
Certain other liabilities	Other liabilities	Amortized cost
Derivatives	Fair value through profit and loss ⁽ⁱⁱⁱ⁾	Fair value through profit and loss / fair value through other comprehensive income

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

(ii) Certain other assets include mortgages, notes and loans receivable which are classified as either amortized cost or fair value through profit and loss.

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

Impairment IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking ECL model. The ECL models applied to financial assets require judgment, assumptions and estimations on changes in credit risks, forecasts of future economic conditions and historical information on the credit quality of the financial asset. Consideration of how changes in economic factors affect ECLs will be determined on a probability-weighted basis. The new impairment model is applied, at each balance sheet date, to financial assets measured at amortized cost or those measured at fair value through other comprehensive income, except for investments in equity instruments.

IFRS 9 outlines a three-stage approach to recognizing ECL which is intended to reflect the increase in credit risks of a financial instrument. The Company applies the ECL model to assess for impairment on its financial assets at each balance sheet date. The Company, through PC Bank, recognizes loss allowances based on ECL on credit card receivables, which are measured at amortized cost. Credit card receivables are assessed collectively for impairment, applying the three-stage approach on assessing the impairment on credit card receivables as described below.

- Stage 1 is comprised of all financial instruments that have not had a significant increase in credit risks since initial recognition or that have low credit risk at the reporting date. The Company is 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 had a significant increase in credit risks 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. The Company 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. The Company is required to recognize impairment based on a lifetime ECL for Stage 3 financial instruments.

In each stage of the impairment model, impairment is determined based on the probability of default, loss given default, and expected exposures at default on drawn and undrawn exposures on credit card receivables, discounted using an average portfolio yield rate. The application of the ECL model required PC Bank to apply the following significant judgments, assumptions and estimations:

- Movement of impairment measurement between the three stages of the ECL model, based on the assessment of increase in credit risks on credit card receivables. The assessment of changes in credit risks includes qualitative and quantitative factors of the accounts, such as historical credit loss experience and external credit scores;
- Thresholds for significant increase in credit risks based on changes in probability of default over the expected life of the instrument relative to initial recognition; and
- Forecasts of future economic conditions.

The ECL model had a significant impact on PC Bank's impairment of credit card receivables. The Company revised certain inputs of the ECL model since the implementation of IFRS 9 in the first quarter of 2018 and has retrospectively applied the impact of these revisions with no impact to earnings. As a result of the refinements, the cumulative impact arising from the ECL model on the impairment of credit card receivables as at December 31, 2017 was as follows:

Consolidated Balance Sheets

Increase (Decrease) (millions of Canadian dollars)	As at December 31, 2017
Credit card receivables	\$ (98)
Deferred income tax assets	26
Income taxes payable	4
Deferred income tax liabilities	(4)
Retained earnings	(72)

The Company also applied ECL models to the assessment of impairment on trade receivables and other financial assets of the Company. The Company adopted the practical expedient to determine ECL on trade receivables using a provision matrix based on historical credit loss experiences to estimate lifetime ECL. The ECL models applied to other financial assets also required judgment, assumptions and estimations on changes in credit risks, forecasts of future economic conditions and historical information on the credit quality of the financial asset. The provision matrix and ECL models applied do not have a material impact on trade receivables and other financial assets of the Company.

Impairment losses are recorded in SG&A in the consolidated statement of earnings with the carrying amount of the financial asset or group of financial assets reduced through the use of impairment allowance accounts. In periods subsequent to the impairment where the impairment loss has decreased, and such decrease can be related objectively to conditions and changes in factors occurring after the impairment was initially recognized, the previously recognized impairment loss is reversed through the consolidated statement of earnings. The impairment reversal is limited to the lesser of the decrease in impairment or the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized, after the reversal.

General hedging IFRS 9 requires 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's risk management strategy and hedging activities are disclosed in the notes to the consolidated financial statements.

15.2 Changes to Significant Accounting Policies

Investment Properties Investment properties are properties owned by the Company that are held to either earn rental income, for capital appreciation, or both. The Company's investment properties include single tenant properties held to earn rental income and certain multiple tenant properties.

The Company elected to change the measurement of investment properties from the cost model to the fair value model retrospectively with restatement. Prior to the second quarter of 2018, the Company recognized investment properties at cost less accumulated depreciation and any accumulated impairment losses.

Under the fair value model, investment properties are initially measured at cost and subsequently measured at fair value. Fair value is determined based on available market evidence. If market evidence is not readily available in less active markets, the Company uses alternative valuation methods such as discounted cash flow projections or recent transaction prices. Under the discounted cash flow methodology, discount rates are applied to the projected annual operating cash flows, generally over a minimum term of ten years, including a terminal value of the investment properties based on a capitalization rate applied to the estimated net operating income, a non-GAAP measure, in the terminal year. Gains and losses on fair value are recognized in operating income in the period in which they are incurred. Gains and losses from disposal of investment properties are determined by comparing the fair value of disposal proceeds and the carrying amount and are recognized in operating income.

The Company applied this change in accounting policy retrospectively in the second quarter of 2018. The impacts to the Company's comparative consolidated balance sheets are as follows:

Consolidated Balance Sheets

Increase (Decrease) (millions of Canadian dollars)	As at December 30, 2017	As at January 1, 2017
Investment properties	\$ 41	\$ 41
Deferred income tax liabilities	5	5
Retained earnings	36	36

The change in accounting policy had no impact on net earnings for the comparative periods.

15.3 Future Accounting Standards

The future accounting standard 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 a comprehensive project plan to guide the implementation.

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. Lessees recognize a right-of-use asset representing its control of and right to use the underlying asset and a lease liability representing its obligation to make future lease payments. Lessor accounting remains similar to IAS 17.

Substantially all of the Company's operating leases are real estate leases for retail stores, distribution centers and corporate offices. Other leased assets include passenger vehicles, trucks and IT equipment. The Company also has owned and leased properties which are leased and subleased to third parties, respectively. The subleases are mainly related to non-consolidated franchisees, ancillary tenants and gas bar land.

As a lessee, the Company will recognize right-of-use assets and lease liabilities primarily for its operating leases of real estate properties, vehicles and equipment. The depreciation expense on right-of-use assets and interest expense on lease liabilities will replace rent expense, previously recognized on a straight-line basis under IAS 17 over the term of a lease. No significant impacts are expected for the Company's existing finance leases.

As an intermediate lessor, the Company will reassess the classification of its subleases by reference to the right-of-use assets arising from the head lease and will recognize a corresponding finance lease receivable if the reassessment concludes that the sublease is a finance lease. No significant impacts are expected for leases where the Company is the lessor.

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 fully retrospective approach or a modified retrospective approach on transition to IFRS 16. The Company has adopted the standard on December 30, 2018 using the modified retrospective approach. The modified retrospective approach applies the requirements of the standard retrospectively with the cumulative effects of initial application recorded in opening retained earnings as at December 30, 2018, and no restatement of the comparative period. Under the modified retrospective approach, the Company chose to measure all right-of-use assets retrospectively as if the standard had been applied since lease commencement dates.

IFRS 16 permits the use of recognition exemptions and practical expedients. The Company has applied the following recognition exemptions and practical expedients:

- grandfather the definition of a lease for existing contracts at the date of initial application;
- exclude certain short-term leases from IFRS 16 lease accounting;
- use portfolio application for leases with similar characteristics, such as vehicle and equipment leases;
- apply a single discount rate to a portfolio of leases with reasonably similar characteristics at the date of initial application;
- exclude initial direct costs from the measurement of the right-of-use assets at the date of initial application; and
- use hindsight in determining lease term at the date of initial application.

While the standard was adopted on December 30, 2018, the Company continues to assess the impact of the standard on the Company's business processes, internal controls over financial reporting, data systems, IT, and financing and compensation arrangements. The Company has implemented a lease management system and is in the final stages of refining and validating the inputs and key assumptions used in its calculation of the cumulative effects of initial application to be recorded in opening retained earnings as at December 30, 2018.

Based on the information available as at February 20, 2019, as a result of the initial application of IFRS 16 as at December 30, 2018, Management anticipates recognizing approximately \$7.5 billion to \$8.0 billion of right-of-use assets and \$9.0 billion to \$9.5 billion of lease liabilities, inclusive of current finance leases, on its consolidated balance sheet, and derecognizing approximately \$300 million of deferred rent obligation from its consolidated balance sheet, with the difference, net of the deferred tax impact, recorded in opening retained earnings. Certain other balance sheet accounts will be impacted by amounts required to be reclassified on the adoption of IFRS 16. The standard is not expected to materially impact the Company's year-over-year net earnings in 2019 and has no impact on total cash flows. On a go-forward basis, there will be a decrease in rent expense and an increase in depreciation and amortization and net interest expense and other financing charges for the Company's operating leases. In 2018, the Company recognized approximately \$1.2 billion of rent expense related to its operating leases and other arrangements that will now be accounted for as finance leases under IFRS 16.

The actual impacts of the initial application of IFRS 16 may vary from the estimates provided for the following reasons:

- the Company has not finalized the assessment and testing of applicable internal controls over financial reporting; and
- the new accounting policies and critical accounting estimates and judgments are subject to change until the Company issues its first quarter report to shareholders for the 12 weeks ending March 23, 2019.

16. Outlook⁽³⁾

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 the Company'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.

The Company will remain focused on delivering Process and Efficiency improvements to offset increasing costs and to fund continued incremental investments in its strategic growth areas of Everyday Digital Retail, Connected Healthcare and Payments & Rewards.

In 2019, on a full-year comparative basis, excluding the impact of the spin-out of Choice Properties, we expect to:

- deliver positive same-store sales and stable gross margin in its Retail segment in a highly competitive market;
- deliver positive adjusted net earnings growth;
- invest approximately \$1.1 billion in capital expenditures, net of proceeds from property disposals; and
- return capital to shareholders by allocating a significant portion of free cash flow to share repurchases.

17. Non-GAAP Financial Measures

The Company uses the following non-GAAP financial measures: Retail segment gross profit; Retail segment adjusted gross profit; Retail segment adjusted gross profit percentage; adjusted earnings before income taxes, net interest expense and other financing charges and depreciation and amortization ("adjusted EBITDA"); adjusted EBITDA margin; adjusted operating income; adjusted net interest expense and other financing charges; adjusted income taxes; adjusted income tax rate; adjusted net earnings available to common shareholders; adjusted diluted net earnings per common share, free cash flow; retail debt to retail adjusted EBITDA; adjusted return on equity; and adjusted return on capital. 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 underlying consolidated and segment operating performance, as the excluded items are not necessarily reflective of the Company's underlying operating performance and make comparisons of underlying financial performance between periods difficult. The Company excludes 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 should not be construed as an alternative to other financial measures determined in accordance with GAAP.

The Company's interest in Choice Properties has been presented separately as Discontinued Operations in the Company's current and comparative results. Unless otherwise indicated, all financial information represents the Company's results from Continuing Operations.

Retail Segment Gross Profit, Retail Segment Adjusted Gross Profit and Retail Segment Adjusted Gross Profit Percentage The following tables reconcile adjusted gross profit by segment to gross profit by segment, which is reconciled to revenue and cost of merchandise inventories sold measures as reported in the consolidated statements of earnings for the periods ended as indicated. The Company believes that Retail segment gross profit and Retail segment adjusted gross profit are useful in assessing the Retail segment's underlying operating performance and in making decisions regarding the ongoing operations of the business.

Retail segment adjusted gross profit percentage is calculated as Retail segment adjusted gross profit divided by Retail segment revenue.

For the periods ended December 29, 2018 and December 30, 2017 (millions of Canadian dollars)	2018 (12 weeks)				2017 ⁽⁴⁾ / ⁽⁵⁾ (12 weeks)			
	Retail	Financial Services	Eliminations	Total	Retail	Financial Services	Eliminations	Total
Revenue	\$ 10,976	\$ 336	\$ (94)	\$ 11,218	\$ 10,795	\$ 274	\$ (77)	\$ 10,992
Cost of Merchandise Inventories Sold	7,722	58	—	7,780	7,623	34	—	7,657
Gross Profit	\$ 3,254	\$ 278	\$ (94)	\$ 3,438	\$ 3,172	\$ 240	\$ (77)	\$ 3,335
Adjusted Gross Profit	\$ 3,254	\$ 278	\$ (94)	\$ 3,438	\$ 3,172	\$ 240	\$ (77)	\$ 3,335

For the periods ended December 29, 2018 and December 30, 2017 (millions of Canadian dollars)	2018 (52 weeks)				2017 ⁽⁴⁾ / ⁽⁵⁾ (52 weeks)			
	Retail	Financial Services	Eliminations	Total	Retail	Financial Services	Eliminations	Total
Revenue	\$ 45,836	\$ 1,082	\$ (225)	\$ 46,693	\$ 45,867	\$ 953	\$ (233)	\$ 46,587
Cost of Merchandise Inventories Sold	32,396	141	—	32,537	32,814	99	—	32,913
Gross Profit	\$ 13,440	\$ 941	\$ (225)	\$ 14,156	\$ 13,053	\$ 854	\$ (233)	\$ 13,674
Add impact of the following:								
Impact of healthcare reform on inventory balances	19	—	—	19	—	—	—	—
Adjusted Gross Profit	\$ 13,459	\$ 941	\$ (225)	\$ 14,175	\$ 13,053	\$ 854	\$ (233)	\$ 13,674

Impact of healthcare reform on inventory balances In the first quarter of 2018, the Company recorded an inventory provision for the write-down of inventories below cost to net realizable value, related to its generic drug inventory, as a result of healthcare reform announced in the first quarter of 2018, effective April 1, 2018.

Adjusted Operating Income, Adjusted EBITDA and Adjusted EBITDA Margin The following tables reconcile adjusted operating income and adjusted EBITDA to operating income, which is reconciled to net earnings attributable to shareholders of the Company as reported in the consolidated statements of earnings for the periods ended as indicated. The Company believes that adjusted EBITDA is useful in assessing the performance of its ongoing operations and its ability to generate cash flows to fund its cash requirements, including the Company's capital investment program.

Adjusted EBITDA margin is calculated as adjusted EBITDA divided by revenue.

For the periods ended December 29, 2018 and December 30, 2017 (millions of Canadian dollars)	2018 (12 weeks)			2017 ⁽⁴⁾⁽⁵⁾ (12 weeks)		
	Retail	Financial Services	Consolidated	Retail	Financial Services	Consolidated
Net earnings attributable to shareholders of the Company			\$ 231			\$ (21)
Add (deduct) impact of the following:						
Non-Controlling Interests			19			14
Net interest expense and other financing charges			95			89
Income taxes			100			(25)
Operating income	\$ 408	\$ 37	\$ 445	\$ (10)	\$ 67	\$ 57
Add (deduct) impact of the following:						
Amortization of intangible assets acquired with Shoppers Drug Mart	\$ 120	\$ —	\$ 120	\$ 121	\$ —	\$ 121
Fixed asset and other related impairments, net of recoveries	83	—	83	53	—	53
Fair value adjustment on fuel and foreign currency contracts	8	—	8	(5)	—	(5)
Fair value adjustment on investment properties	5	—	5	—	—	—
Spin-out of Choice Properties	2	—	2	—	—	—
Certain prior period items	—	—	—	(4)	—	(4)
PC Optimum Program	—	—	—	187	—	187
Loblaw Card Program	—	—	—	107	—	107
Prior year land transfer tax recovery	—	—	—	(9)	—	(9)
Wind-down of PC Financial banking services	—	—	—	—	(17)	(17)
Restructuring and other related costs	(4)	—	(4)	171	—	171
Adjusting Items	\$ 214	\$ —	\$ 214	\$ 621	\$ (17)	\$ 604
Adjusted operating income	\$ 622	\$ 37	\$ 659	\$ 611	\$ 50	\$ 661
Depreciation and amortization	353	3	356	339	3	342
Less: Amortization of intangible assets acquired with Shoppers Drug Mart	(120)	—	(120)	(121)	—	(121)
Adjusted EBITDA	\$ 855	\$ 40	\$ 895	\$ 829	\$ 53	\$ 882

Management's Discussion and Analysis

	2018 (52 weeks)			2017 ⁽⁴⁾⁽⁶⁾ (52 weeks)		
	Retail	Financial Services	Consolidated	Retail	Financial Services	Consolidated
For the periods ended December 29, 2018 and December 30, 2017 (millions of Canadian dollars)						
Net earnings attributable to shareholders of the Company			\$ 719			\$ 1,286
Add impact of the following:						
Non-Controlling Interests			34			24
Net interest expense and other financing charges			564			374
Income taxes			606			365
Operating income	\$ 1,717	\$ 206	\$ 1,923	\$ 1,843	\$ 206	\$ 2,049
Add (deduct) impact of the following:						
Amortization of intangible assets acquired with Shoppers Drug Mart	\$ 521	\$ —	\$ 521	\$ 524	\$ —	\$ 524
Fixed asset and other related impairments, net of recoveries	83	—	83	53	—	53
Impact of health care reform on inventory balances	19	—	19	—	—	—
Restructuring and other related costs	10	—	10	177	—	177
Spin-out of Choice Properties	8	—	8	—	—	—
Fair value adjustment on investment properties	6	—	6	—	—	—
Loblaw Card Program	4	—	4	107	—	107
Pension annuities and buy-outs	1	—	1	12	—	12
PC Optimum Program	—	—	—	187	—	187
Certain prior period items	—	—	—	(4)	—	(4)
Prior year land transfer tax recovery	—	—	—	(9)	—	(9)
Gain on disposition of gas bar operations	—	—	—	(501)	—	(501)
Fair value adjustment on fuel and foreign currency contracts	(3)	—	(3)	20	—	20
Wind-down of PC Financial banking services	—	(20)	(20)	—	(24)	(24)
Adjusting Items	\$ 649	\$ (20)	\$ 629	\$ 566	\$ (24)	\$ 542
Adjusted operating income	\$ 2,366	\$ 186	\$ 2,552	\$ 2,409	\$ 182	\$ 2,591
Depreciation and amortization	1,487	10	1,497	1,444	10	1,454
Less: Amortization of intangible assets acquired with Shoppers Drug Mart	(521)	—	(521)	(524)	—	(524)
Adjusted EBITDA	\$ 3,332	\$ 196	\$ 3,528	\$ 3,329	\$ 192	\$ 3,521

In addition to the items described in the Retail segment adjusted gross profit section above, adjusted EBITDA was impacted by the following:

Amortization of intangible assets acquired with Shoppers Drug Mart The acquisition of Shoppers Drug Mart in 2014 included approximately \$6,050 million of definite life intangible assets, which are being amortized over their estimated useful lives. Annual amortization associated with the acquired intangibles will be approximately \$525 million until 2024 and will decrease thereafter.

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.

Restructuring and other related costs The Company continuously evaluates strategic and cost reduction initiatives related to its store infrastructure, distribution networks and administrative infrastructure with the objective of ensuring a low cost operating structure. Restructuring activities related to these initiatives are ongoing.

Spin-out of Choice Properties The Company recorded transaction and other related costs in connection with the spin-out of its interest in Choice Properties.

Fair value adjustment to investment properties The Company elected to change the measurement of investment properties from cost model to fair value model. Prior to the second quarter of 2018, the Company recognized investment properties at cost less accumulated depreciation and any accumulated impairment losses. Under the fair value model, investment properties are initially measured at cost and subsequently measured at fair value. Fair value is determined based on available market evidence. If market evidence is not readily available in less active markets, the Company uses alternative valuation methods such as discounted cash flow projections or recent transaction prices. Gains and losses on fair value are recognized in operating income in the period in which they are incurred. Gains and losses from disposal of investment properties are determined by comparing the fair value of disposal proceeds and the carrying amount and are recognized in operating income.

Loblaw Card Program In the fourth quarter of 2017, the Company and Weston acknowledged their involvement in an industry wide price-fixing arrangement. In connection with the arrangement, the Company offered customers a \$25 Loblaw Card, which can be used to purchase items sold in Loblaw grocery stores across Canada. The Company recorded a charge of \$107 million associated with the Loblaw Card Program in the fourth quarter of 2017. In 2018, the Company recorded an additional charge of \$4 million.

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.

PC Optimum Program In the fourth quarter of 2017, the Company announced plans to bring together the *Shoppers Optimum* and *PC Plus* reward programs to create one program, *PC Optimum*. As a result, the Company recorded a charge of \$165 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.

Certain prior period items In the fourth quarter of 2017, Management identified excess impairment that was recorded against the Company'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 recovery In the fourth quarter of 2017, the Company 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.

Gain on disposition of gas bar operations On July 17, 2017, the Company sold its gas bar operations, for proceeds of approximately \$540 million. The Company 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.

Fair value adjustment on fuel and foreign currency contracts The Company is exposed to commodity price and U.S. dollar exchange rate fluctuations. In accordance with the Company's commodity risk management policy, the Company enters into exchange traded futures contracts and forward contracts to minimize cost volatility relating to fuel prices and the U.S. dollar exchange rate. These derivatives are not acquired for trading or speculative purposes. Pursuant to the Company's derivative instruments accounting policy, changes in the fair value of these instruments, which include realized and unrealized gains and losses, 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.

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 *PC Financial* brand. As a result of this agreement, PC Bank received a payment of approximately \$44 million, net of certain costs incurred, \$20 million of which was recognized in the first half of 2018 and \$24 million which was recognized in 2017.

Adjusted Net Interest Expense and Other Financing Charges The following table reconciles adjusted net interest expense and other financing charges to net interest expense and other financing charges as reported in the consolidated statements of earnings for the periods ended as indicated. The Company believes that adjusted net interest expense and other financing charges is useful in assessing the Company's underlying financial performance and in making decisions regarding the financial operations of the business.

For the periods ended December 29, 2018 and December 30, 2017 (millions of Canadian dollars)	2018 (12 weeks)	2017 ⁽⁵⁾ (12 weeks)	2018 (52 weeks)	2017 ⁽⁵⁾ (52 weeks)
Net interest expense and other financing charges	\$ 95	\$ 89	\$ 564	\$ 374
Add (deduct) impact of the following:				
Charge related to Glenhuron	—	—	(176)	—
Spin-out of Choice Properties	(1)	—	(1)	—
Adjusted net interest expense and other financing charges	\$ 94	\$ 89	\$ 387	\$ 374

Charge related to Glenhuron In the third quarter of 2018, the Company recorded a charge of \$367 million related to the Tax Court of Canada's decision on Glenhuron. Of the total charge, \$176 million was recorded in net interest and other financing charges and \$191 million was recorded in income taxes.

Adjusted Income Taxes and Adjusted Income Tax Rate The following table reconciles adjusted income taxes to income taxes as reported in the consolidated statements of earnings for the periods ended as indicated. The Company believes that adjusted income taxes is useful in assessing the Company's underlying operating performance and in making decisions regarding the ongoing operations of its business.

Adjusted income tax rate is calculated as adjusted income taxes divided by the sum of adjusted operating income less adjusted net interest expense and other financing charges.

For the periods ended December 29, 2018 and December 30, 2017 (millions of Canadian dollars except where otherwise indicated)	2018 (12 weeks)	2017 ⁽⁴⁾⁽⁵⁾ (12 weeks)	2018 (52 weeks)	2017 ⁽⁴⁾⁽⁵⁾ (52 weeks)
Adjusted operating income ⁽ⁱ⁾	\$ 659	\$ 661	\$ 2,552	\$ 2,591
Adjusted net interest expense and other financing charges ⁽ⁱ⁾	94	89	387	374
Adjusted earnings before taxes	\$ 565	\$ 572	\$ 2,165	\$ 2,217
Income taxes	\$ 100	\$ (25)	\$ 606	\$ 365
Add (deduct) impact of the following:				
Tax impact of items included in adjusted earnings before taxes ⁽ⁱⁱ⁾	55	165	165	214
Charge related to Glenhuron	—	—	(191)	—
Remeasurement of deferred tax balances	—	17	—	17
Adjusted income taxes	\$ 155	\$ 157	\$ 580	\$ 596
Effective tax rate	28.6%	78.1%	44.6%	21.8%
Adjusted income tax rate	27.4%	27.4%	26.8%	26.9%

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

(ii) See the adjusted operating income, adjusted EBITDA and adjusted EBITDA margin table and the adjusted net interest expense and other financing charges table above for a complete list of items included in adjusted earnings before taxes.

Charge related to Glenhuron In the third quarter of 2018, the Company recorded a charge of \$367 million related to the Tax Court of Canada's decision on Glenhuron. Of the total charge, \$176 million was recorded in net interest and other financing charges and \$191 million was recorded in income taxes.

Adjusted Net Earnings Available to Common Shareholders and Adjusted Diluted Net Earnings Per Common Share The following table reconciles adjusted net earnings available to common shareholders of the Company and adjusted net earnings attributable to shareholders of the Company to net earnings attributable to shareholders of the Company and then to net earnings available to common shareholders of the Company for the periods ended as indicated. The Company believes that 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.

For the periods ended December 29, 2018 and December 30, 2017 (millions of Canadian dollars except where otherwise indicated)	2018 (12 weeks)	2017 ^{(4)/(5)} (12 weeks)	2018 (52 weeks)	2017 ^{(4)/(5)} (52 weeks)
Net earnings attributable to shareholders of the Company	\$ 224	\$ 34	\$ 766	\$ 1,517
Net earnings from Discontinued Operations	(7)	55	47	231
Net earnings attributable to shareholders of the Company from Continuing Operations	\$ 231	\$ (21)	\$ 719	\$ 1,286
Prescribed dividends on preferred shares in share capital	(3)	(3)	(12)	(12)
Net earnings available to common shareholders of the Company from Continuing Operations	\$ 228	\$ (24)	\$ 707	\$ 1,274
Net earnings attributable to shareholders of the Company from Continuing Operations	\$ 231	\$ (21)	\$ 719	\$ 1,286
Adjusting items (refer to the following table)	160	422	832	311
Adjusted net earnings attributable to shareholders of the Company from Continuing Operations	\$ 391	\$ 401	\$ 1,551	\$ 1,597
Prescribed dividends on preferred shares in share capital	(3)	(3)	(12)	(12)
Adjusted net earnings available to common shareholders of the Company	\$ 388	\$ 398	\$ 1,539	\$ 1,585
Diluted weighted average common shares outstanding (millions)	376.1	390.5	379.3	397.3

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 net earnings available to common shareholders of the Company and diluted net earnings per common share for the periods ended as indicated.

	2018 (12 weeks)		2017 ^{(4)/(5)} (12 weeks)		2018 (52 weeks)		2017 ^{(4)/(5)} (52 weeks)	
	Net Earnings Available to Common Shareholders of the Company	Diluted Net Earnings Per Common Share	Net Earnings Available to Common Shareholders of the Company	Diluted Net Earnings Per Common Share	Net Earnings Available to Common Shareholders of the Company	Diluted Net Earnings Per Common Share	Net Earnings Available to Common Shareholders of the Company	Diluted Net Earnings Per Common Share
For the periods ended December 29, 2018 and December 30, 2017 (millions of Canadian dollars/Canadian dollars)								
Continuing Operations	\$ 228	\$ 0.61	\$ (24)	\$ (0.06)	\$ 707	\$ 1.87	\$ 1,274	\$ 3.21
Discontinued Operations	(7)	(0.02)	55	0.14	47	0.12	231	0.58
As reported	\$ 221	\$ 0.59	\$ 31	\$ 0.08	\$ 754	\$ 1.99	\$ 1,505	\$ 3.79
Continuing Operations	\$ 228	\$ 0.61	\$ (24)	\$ (0.06)	\$ 707	\$ 1.87	\$ 1,274	\$ 3.21
Add (deduct) impact of the following:								
Amortization of intangible assets acquired with Shoppers Drug Mart	\$ 89	\$ 0.23	\$ 89	\$ 0.23	\$ 383	\$ 1.01	\$ 384	\$ 0.97
Fixed asset and other related impairments, net of recoveries	60	0.16	40	0.10	60	0.16	40	0.10
Fair value adjustment on fuel and foreign currency contracts	6	0.02	(4)	(0.01)	(2)	(0.01)	14	0.04
Fair value adjustment on investment properties	4	0.01	—	—	5	0.01	—	—
Spin-out of Choice Properties	3	0.01	—	—	9	0.02	—	—
Charge related to Glenhuron	—	—	—	—	367	0.97	—	—
Loblaw Card Program	—	—	79	0.20	3	0.01	79	0.20
Wind-down of PC Financial banking services	—	—	(13)	(0.03)	(15)	(0.04)	(18)	(0.05)
Gain on disposition of gas bar operations	—	—	—	—	—	—	(432)	(1.09)
Prior year land transfer tax recovery	—	—	(7)	(0.02)	—	—	(7)	(0.02)
Pension annuities and buy-outs	—	—	—	—	1	—	9	0.02
Certain prior period items	—	—	(13)	(0.03)	—	—	(13)	(0.03)
PC Optimum Program	—	—	137	0.35	—	—	137	0.34
Remeasurement of deferred tax balances	—	—	(17)	(0.04)	—	—	(17)	(0.04)
Impact of health care reform on inventory balances	—	—	—	—	14	0.04	—	—
Restructuring and other related costs	(2)	(0.01)	131	0.33	7	0.02	135	0.34
Adjusting items Continuing Operations	\$ 160	\$ 0.42	\$ 422	\$ 1.08	\$ 832	\$ 2.19	\$ 311	\$ 0.78
Adjusted Continuing Operations	\$ 388	\$ 1.03	\$ 398	\$ 1.02	\$ 1,539	\$ 4.06	\$ 1,585	\$ 3.99
Discontinued Operations	\$ (7)	\$ (0.02)	\$ 55	\$ 0.14	\$ 47	\$ 0.12	\$ 231	\$ 0.58
Add (deduct) impact of the following:								
Fair value adjustment on Trust Unit Liability ⁽ⁱ⁾	\$ 27	\$ 0.08	\$ (12)	\$ (0.03)	\$ 33	\$ 0.09	\$ (10)	\$ (0.03)
CREIT acquisition and other related costs	1	—	—	—	119	0.31	—	—
Gain on sale of air rights	—	—	—	—	(11)	(0.03)	—	—
Restructuring and other related costs	(1)	—	(5)	(0.01)	(11)	(0.03)	(9)	(0.02)
Fair value adjustment on investment properties	(6)	(0.02)	—	—	30	0.08	—	—
Adjusting items Discontinued Operations	\$ 21	\$ 0.06	\$ (17)	\$ (0.04)	\$ 160	\$ 0.42	\$ (19)	\$ (0.05)
Adjusted Discontinued Operations	\$ 14	\$ 0.04	\$ 38	\$ 0.10	\$ 207	\$ 0.54	\$ 212	\$ 0.53
Adjusted Total Company	\$ 402	\$ 1.07	\$ 436	\$ 1.12	\$ 1,746	\$ 4.60	\$ 1,797	\$ 4.52

(i) Gains or losses related to the fair value adjustment to the Trust Unit Liability are not subject to tax.

In addition to the items described in the Retail segment adjusted gross profit⁽²⁾ and adjusted EBITDA⁽²⁾ section above, adjusted net earnings available to common shareholders of the Company was impacted by the following:

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

CREIT acquisition and other related costs The Company recorded acquisition and other related costs in connection with Choice Properties' acquisition of CREIT in discontinued operations in the second quarter of 2018.

Gain on sale of air rights In the third quarter of 2018, a joint venture owned by Choice Properties completed the sale of air rights on one of its properties. The Company recorded a gain in discontinued operations of \$11 million in the third quarter related to the sale.

Free Cash Flow The following table reconciles free cash flow to cash flows from operating activities as reported in the consolidated statements of cash flows for the periods ended as indicated. The Company believes that free cash flow is the appropriate measure in assessing the Company's cash available for additional financing and investing activities.

For the periods ended December 29, 2018 and December 30, 2017 (millions of Canadian dollars)	2018 (12 weeks)	2017 ⁽⁴⁾⁽⁵⁾ (12 weeks)	2018 (52 weeks)	2017 ⁽⁴⁾⁽⁵⁾ (52 weeks)
Cash flows from operating activities from Continuing Operations ⁽ⁱ⁾	\$ 310	\$ 1,005	\$ 2,249	\$ 3,000
Cash flows from operating activities from Discontinued Operations ⁽ⁱ⁾	4	81	252	209
Cash flows from operating activities Total Company	\$ 314	\$ 1,086	\$ 2,501	\$ 3,209
Cash flows from operating activities from Continuing Operations ⁽ⁱ⁾	\$ 310	\$ 1,005	\$ 2,249	\$ 3,000
Less:				
Capital investments	414	399	1,070	1,026
Interest paid	58	40	509	323
Free cash flow from Continuing Operations	\$ (162)	\$ 566	\$ 670	\$ 1,651
Cash flows from operating activities from Discontinued Operations ⁽ⁱ⁾	\$ 4	\$ 81	\$ 252	\$ 209
Less:				
Capital investments	68	88	264	233
Interest paid	31	44	292	148
Free cash flow from Discontinued Operations	\$ (95)	\$ (51)	\$ (304)	\$ (172)
Free cash flow from Total Company	(257)	515	366	1,479

(i) Cash flows from operating activities from Continuing Operations include distributions received in 2018 and the payment related to the conversion of Class C LP Units in 2018 from Discontinued Operations. Cash flows from Discontinued Operations include the outflow of these items.

Retail Debt to Retail Adjusted EBITDA, Adjusted Return on Equity and Adjusted Return on Capital The Company uses the following metrics to measure its leverage and profitability. The definitions of these ratios are presented below.

- **Retail Debt to Retail Adjusted EBITDA** Retail segment total debt divided by Retail segment adjusted EBITDA.
- **Adjusted Return on Equity** Adjusted net earnings available to common shareholders of the Company divided by average total equity attributable to common shareholders of the Company.
- **Adjusted Return on Capital** Tax-effected adjusted operating income divided by average capital where capital is defined as total debt, plus equity attributable to shareholders of the Company, less cash and cash equivalents, and short term investments.

18. Additional Information

Additional information about the Company has been filed electronically with various securities regulators in Canada through the System for Electronic Document Analysis and Retrieval (SEDAR) and is available online at sedar.com and with OSFI as the primary regulator for the Company's subsidiary, PC Bank.

February 20, 2019
Toronto, Canada

MD&A Endnotes

- (1) For financial definitions and ratios refer to the Glossary of Terms on page 140 of the Company's 2018 Annual Report.
 - (2) See Section 17 "Non-GAAP Financial Measures", which includes the reconciliation of such non-GAAP measures to the most directly comparable GAAP measures.
 - (3) To be read in conjunction with Section 1 "Forward-Looking Statements".
 - (4) Comparative figures have been restated as a result of the implementation of IFRS 15, "Revenue from Contracts with Customers". See note 2 in the Company's 2018 Annual Report.
 - (5) Comparative figures have been restated to conform with current year presentation.
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Management's Statement of Responsibility for Financial Reporting

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

Management is also responsible for providing reasonable assurance that assets are safeguarded and that relevant and reliable financial information is produced. Management is required to design a system of internal controls and certify as to the design and operating effectiveness of internal control over financial reporting. A dedicated control compliance team reviews and evaluates internal controls, the results of which are shared with management on a quarterly basis.

KPMG LLP, whose report follows, were appointed as independent auditors by a vote of the Company's shareholders to audit the consolidated financial statements.

The Board of Directors, acting through an Audit Committee comprised solely of directors who are independent, is responsible for determining that management fulfills its responsibilities in the preparation of the consolidated financial statements and the financial control of operations. The Audit Committee recommends the independent auditors for appointment by the shareholders. The Audit Committee meets regularly with senior and financial management, internal auditors and the independent auditors to discuss internal controls, auditing activities and financial reporting matters. The independent auditors and internal auditors have unrestricted access to the Audit Committee. These consolidated financial statements and Management's Discussion and Analysis have been approved by the Board of Directors for inclusion in the Annual Report – Financial Review based on the review and recommendation of the Audit Committee.

Toronto, Canada
February 20, 2019

[signed]

Galen G. Weston
Executive Chairman

[signed]

Darren Myers
Chief Financial Officer

Independent Auditors' Report

To the Shareholders of Loblaw Companies Limited

Opinion

We have audited the consolidated financial statements of Loblaw Companies Limited (the "Entity"), which comprise:

- the consolidated balance sheets as at December 29, 2018 and December 30, 2017
- the consolidated statements of earnings for the 52 week years then ended
- the consolidated statements of comprehensive income for the 52 week years then ended
- the consolidated statements of changes in equity for the 52 week years then ended
- the consolidated statements of cash flows for the 52 week years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 29, 2018 and December 30, 2017, and its consolidated financial performance and its consolidated cash flows for the 52 week years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a document entitled "2018 Annual Report - Financial Review".
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "2018 Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis and a document entitled "2018 Annual Report - Financial Review" filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "2018 Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Independent Auditors' Report

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



Toronto, Canada
February 20, 2019

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is Sebastian Distefano.

Consolidated Statements of Earnings

For the years ended December 29, 2018 and December 30, 2017

(millions of Canadian dollars except where otherwise indicated)

	2018	2017 ⁽ⁱ⁾
Revenue	\$ 46,693	\$ 46,587
Cost of Merchandise Inventories Sold	32,537	32,913
Selling, General and Administrative Expenses	12,233	11,625
Operating Income	\$ 1,923	\$ 2,049
Net interest expense and other financing charges (note 7)	564	374
Earnings Before Income Taxes	\$ 1,359	\$ 1,675
Income taxes (note 8)	606	365
Net Earnings from Continuing Operations	\$ 753	\$ 1,310
Net Earnings from Discontinued Operations (note 6)	47	231
Net Earnings	\$ 800	\$ 1,541
Attributable to:		
Shareholders of the Company	\$ 766	\$ 1,517
Non-Controlling Interests	34	24
Net Earnings	\$ 800	\$ 1,541
Net Earnings per Common Share - Basic (\$) (note 9)		
Continuing Operations	\$ 1.88	\$ 3.24
Discontinued Operations	\$ 0.12	\$ 0.58
Net Earnings per Common Share - Diluted (\$) (note 9)		
Continuing Operations	\$ 1.87	\$ 3.21
Discontinued Operations	\$ 0.12	\$ 0.58
Weighted Average Common Shares Outstanding (millions) (note 9)		
Basic	376.7	393.8
Diluted	379.3	397.3

(i) Comparative figures have been restated (notes 2 and 6).

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income

For the years ended December 29, 2018 and December 30, 2017

(millions of Canadian dollars)

	2018	2017 ⁽ⁱ⁾
Net Earnings from Continuing Operations	\$ 753	\$ 1,310
Other comprehensive income (loss), net of taxes		
Items that are or may be subsequently reclassified to profit or loss:		
Foreign currency translation adjustment (loss) gain	\$ (2)	\$ 3
Unrealized (loss) gain on cash flow hedges (note 30)	(3)	2
Items that will not be reclassified to profit or loss:		
Net defined benefit plan actuarial gains (losses) (note 26)	91	(19)
Adjustment to fair value on transfer of investment properties (note 16)	16	—
Other comprehensive income (loss) from continuing operations	\$ 102	\$ (14)
Comprehensive Income from Continuing Operations	\$ 855	\$ 1,296
Net Earnings from Discontinued Operations (note 6)	\$ 47	\$ 231
Other comprehensive income from discontinued operations	5	—
Comprehensive Income from Discontinued Operations	\$ 52	\$ 231
Total Comprehensive Income	\$ 907	\$ 1,527
Attributable to:		
Shareholders of the Company	\$ 873	\$ 1,503
Non-Controlling Interests	34	24
Total Comprehensive Income	\$ 907	\$ 1,527

(i) Comparative figures have been restated (notes 2 and 6).

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Equity

(millions of Canadian dollars except where otherwise indicated)	Common Share Capital	Preferred Share Capital	Total Share Capital	Retained Earnings	Contributed Surplus	Foreign Currency Translation Adjustment	Cash Flow Hedges	Adjustment to fair value on transfer of investment properties	Accumulated Other Comprehensive Income	Non-Controlling Interests	Total Equity
Balance at December 30, 2017	\$7,445	\$ 221	\$7,666	\$5,280	\$ 110	\$ 36	\$ 2	\$ —	\$ 38	\$ 40	\$13,134
Impact of adopting IFRS 9 (note 2)	—	—	—	(72)	—	—	—	—	—	—	(72)
Restated balance as at December 31, 2017	\$7,445	\$ 221	\$7,666	\$5,208	\$ 110	\$ 36	\$ 2	\$ —	\$ 38	\$ 40	\$13,062
Net earnings	\$ —	\$ —	\$ —	\$ 766	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 34	\$ 800
Other comprehensive income (loss)	—	—	—	91	—	(2)	2	16	16	—	107
Total Comprehensive Income (Loss)	\$ —	\$ —	\$ —	\$ 857	\$ —	\$ (2)	\$ 2	\$ 16	\$ 16	\$ 34	\$ 907
Common shares purchased and cancelled (note 24)	(381)	—	(381)	(886)	—	—	—	—	—	—	(1,267)
Net effect of equity-based compensation (notes 24 and 27)	98	—	98	(11)	(3)	—	—	—	—	—	84
Shares purchased and held in trust (note 24)	(12)	—	(12)	(24)	—	—	—	—	—	—	(36)
Shares released from trust (note 27)	12	—	12	25	—	—	—	—	—	—	37
Discontinued operations (note 6)	—	—	—	(144)	8	—	(5)	—	(5)	(9)	(150)
Dividends declared per common share – \$1.155 (note 24)	—	—	—	(433)	—	—	—	—	—	—	(433)
Dividends declared per preferred share – \$1.325 (note 24)	—	—	—	(12)	—	—	—	—	—	—	(12)
Tax impact on conversion of Class C LP Units (note 6)	—	—	—	—	(8)	—	—	—	—	—	(8)
Net distribution to non-controlling interests	—	—	—	—	—	—	—	—	—	(6)	(6)
	\$ (283)	\$ —	\$ (283)	\$ (628)	\$ (3)	\$ (2)	\$ (3)	\$ 16	\$ 11	\$ 19	\$ (884)
Balance at December 29, 2018	\$7,162	\$ 221	\$7,383	\$4,580	\$ 107	\$ 34	\$ (1)	\$ 16	\$ 49	\$ 59	\$12,178

(millions of Canadian dollars except where otherwise indicated)	Common Share Capital	Preferred Share Capital	Total Share Capital	Retained Earnings	Contributed Surplus	Foreign Currency Translation Adjustment	Cash Flow Hedges	Adjustment to fair value on transfer of investment properties	Accumulated Other Comprehensive Income	Non-Controlling Interests	Total Equity
Balance at December 31, 2016	\$ 7,692	\$ 221	\$ 7,913	\$ 4,944	\$ 112	\$ 33	\$ —	\$ —	\$ 33	\$ 26	\$13,028
Impact of adopting IFRS 15 (note 2)	—	—	—	31	—	—	—	—	—	—	31
Impact of change in accounting policy (note 2)	—	—	—	36	—	—	—	—	—	—	36
Restated balance as at January 1, 2017	\$ 7,692	\$ 221	\$ 7,913	\$ 5,011	\$ 112	\$ 33	\$ —	\$ —	\$ 33	\$ 26	\$13,095
Net earnings ⁽ⁱ⁾	\$ —	\$ —	\$ —	\$ 1,517	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 24	\$ 1,541
Other comprehensive income (loss)	—	—	—	(19)	—	3	2	—	5	—	(14)
Total Comprehensive Income (Loss)	\$ —	\$ —	\$ —	\$ 1,498	\$ —	\$ 3	\$ 2	\$ —	\$ 5	\$ 24	\$ 1,527
Common shares purchased and cancelled (note 24)	(301)	—	(301)	(790)	—	—	—	—	—	—	(1,091)
Net effect of equity-based compensation (notes 24 and 27)	48	—	48	—	(2)	—	—	—	—	—	46
Shares purchased and held in trust (note 24)	(13)	—	(13)	(35)	—	—	—	—	—	—	(48)
Shares released from trust (note 27)	19	—	19	29	—	—	—	—	—	—	48
Dividends declared per common share – \$1.070 (note 24)	—	—	—	(421)	—	—	—	—	—	—	(421)
Dividends declared per preferred share – \$1.325 (note 24)	—	—	—	(12)	—	—	—	—	—	—	(12)
Net distribution to non-controlling interests	—	—	—	—	—	—	—	—	—	(10)	(10)
	\$ (247)	\$ —	\$ (247)	\$ 269	\$ (2)	\$ 3	\$ 2	\$ —	\$ 5	\$ 14	\$ 39
Balance at December 30, 2017	\$ 7,445	\$ 221	\$ 7,666	\$ 5,280	\$ 110	\$ 36	\$ 2	\$ —	\$ 38	\$ 40	\$13,134

(i) Comparative figures have been restated (notes 2 and 6).
See accompanying notes to the consolidated financial statements.

Consolidated Balance Sheets

(millions of Canadian dollars)	As at December 29, 2018	As at December 30, 2017 ⁽ⁱ⁾
Assets		
Current Assets		
Cash and cash equivalents (note 10)	\$ 1,065	\$ 1,798
Short term investments (note 10)	94	546
Security deposits (note 10)	800	—
Accounts receivable (note 11)	1,198	1,188
Credit card receivables (note 12)	3,329	3,100
Inventories (note 13)	4,803	4,438
Prepaid expenses and other assets	304	224
Assets held for sale (note 14)	44	33
Total Current Assets	\$ 11,637	\$ 11,327
Fixed Assets (note 15)	5,931	10,669
Equity Accounted Joint Ventures	—	19
Investment Properties (note 16)	234	276
Intangible Assets (note 17)	7,798	8,251
Goodwill (note 18)	3,942	3,922
Deferred Income Tax Assets (note 8)	144	134
Franchise Loans Receivable (note 30)	78	166
Other Assets (note 19)	389	383
Total Assets	\$ 30,153	\$ 35,147
Liabilities		
Current Liabilities		
Bank indebtedness (note 33)	\$ 56	\$ 110
Trade payables and other liabilities	5,302	5,233
Loyalty liability (note 20)	228	349
Provisions (note 21)	165	283
Income taxes payable	131	128
Short term debt (note 12)	915	640
Long term debt due within one year (note 22)	1,647	1,635
Associate interest	260	263
Total Current Liabilities	\$ 8,704	\$ 8,641
Provisions (note 21)	152	169
Long Term Debt (note 22)	6,379	9,542
Trust Unit Liability	—	972
Deferred Income Tax Liabilities (note 8)	1,947	1,989
Other Liabilities (note 23)	793	700
Total Liabilities	\$ 17,975	\$ 22,013
Equity		
Share Capital (note 24)	\$ 7,383	\$ 7,666
Retained Earnings	4,580	5,280
Contributed Surplus (note 27)	107	110
Accumulated Other Comprehensive Income	49	38
Total Equity Attributable to Shareholders of the Company	\$ 12,119	\$ 13,094
Non-Controlling Interests	59	40
Total Equity	\$ 12,178	\$ 13,134
Total Liabilities and Equity	\$ 30,153	\$ 35,147

(i) Certain comparative figures have been restated (note 2).

Contingent Liabilities (note 32).

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended December 29, 2018 and December 30, 2017

(millions of Canadian dollars)

	2018	2017 ⁽ⁱ⁾
Operating Activities		
Net earnings	\$ 800	\$ 1,541
Add (Deduct):		
Income taxes (notes 6 and 8)	664	449
Net interest expense and other financing charges (notes 6 and 7)	880	525
Adjustment to fair value of investment properties	43	—
Depreciation and amortization	1,592	1,568
Asset impairments, net of recoveries	103	97
Gain on disposition of gas bar operations	—	(501)
Change in provisions (notes 6 and 21)	(176)	233
PC Optimum program (note 20)	—	165
	\$ 3,906	\$ 4,077
Change in non-cash working capital	(619)	132
Change in credit card receivables (note 12)	(327)	(174)
Income taxes paid	(511)	(866)
Interest received	31	17
Other	21	23
Cash Flows from Operating Activities	\$ 2,501	\$ 3,209
Investing Activities		
Fixed asset purchases	\$ (1,010)	\$ (979)
Intangible asset additions (note 17)	(324)	(280)
Acquisition of CREIT, net of cash acquired (note 6)	(1,619)	—
Cash assumed on initial consolidation of franchises (note 5)	18	26
Cash disposed of related to Discontinued Operations (note 6)	(52)	—
Change in short term investments (note 10)	452	(305)
Change in security deposits (note 10)	(800)	—
Proceeds from disposal of assets	122	17
Proceeds from disposition of gas bar operations	—	540
Other	(83)	(53)
Cash Flows used in Investing Activities	\$ (3,296)	\$ (1,034)
Financing Activities		
Change in bank indebtedness	\$ (54)	\$ (5)
Change in short term debt (note 12)	275	(25)
Long Term Debt (note 22)		
Issued	4,880	686
Retired	(2,715)	(450)
Interest paid	(801)	(471)
Dividends paid on common and preferred shares	(440)	(327)
Common Share Capital		
Issued (note 27)	78	41
Purchased and held in trust (note 24)	(36)	(48)
Purchased and cancelled (note 24)	(1,082)	(1,091)
Other	(37)	5
Cash Flows from (used in) Financing Activities	\$ 68	\$ (1,685)
Effect of foreign currency exchange rate changes on cash and cash equivalents	\$ (6)	\$ (6)
Change in cash and cash equivalents	\$ (733)	\$ 484
Cash and cash equivalents, beginning of period	1,798	1,314
Cash and Cash Equivalents, End of Period	\$ 1,065	\$ 1,798

(i) Certain comparative figures have been restated (note 2).

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the years ended December 29, 2018 and December 30, 2017 (millions of Canadian dollars except where otherwise indicated)

Note 1. Nature and Description of the Reporting Entity

Loblaw Companies Limited is a Canadian public company incorporated in 1956 and is Canada's food and pharmacy leader, the nation's largest retailer. Loblaw Companies Limited provides Canadians with grocery, pharmacy, health and beauty, apparel, general merchandise, financial services, and wireless mobile products and services. Its registered office is located at 22 St. Clair Avenue East, Toronto, Canada M4T 2S7. Loblaw Companies Limited and its subsidiaries are together referred to, in these consolidated financial statements, as the "Company" or "Loblaw".

The Company's controlling shareholder is George Weston Limited ("Weston"), which owns approximately 50.4% of the Company's outstanding common shares. The Company's ultimate parent is Wittington Investments, Limited ("Wittington"). The remaining common shares are widely held.

On November 1, 2018, the Company and Weston completed a reorganization under which Weston received the Company's approximate 61.6% effective interest in Choice Properties Real Estate Investment Trust ("Choice Properties") ("the reorganization" or "the spin-out"), as described in Note 6, "Discontinued Operations". The Company no longer retains its interest in Choice Properties and ceased to consolidate its equity interest in Choice Properties from the consolidated financial statements. Prior to November 1, 2018, Loblaw Companies Limited was the majority unitholder of Choice Properties.

As at December 29, 2018, the Company has two reportable operating segments: Retail and Financial Services (see note 35).

Note 2. Significant Accounting Policies

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

These consolidated financial statements were authorized for issuance by the Company's Board of Directors ("Board") on February 20, 2019.

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:

- investment properties as described in note 16;
- defined benefit pension plan assets with the obligations related to these pension plans measured at their discounted present value as described in note 26;
- liabilities for cash-settled equity-based compensation arrangements as described in note 27; and
- certain financial instruments as described in note 30.

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

The consolidated financial statements are presented in Canadian dollars.

Fiscal Year The fiscal year of the Company ends on the Saturday closest to December 31. Under an accounting convention common in the retail industry, the Company follows a 52-week reporting cycle, which periodically necessitates a fiscal year of 53 weeks. The years ended December 29, 2018 and December 30, 2017 both contained 52 weeks. The next 53 week year will occur in fiscal 2020.

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

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

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

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

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

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

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

Discontinued Operations A discontinued operation is a component of the Company's business, the operations and cash flows of which can be clearly distinguished from the rest of the Company and which: represents a separate major line of business or geographical area of operations; is part of a single coordinated plan to dispose of a separate major line of business or geographic areas of operations; or is a subsidiary acquired exclusively with a view to resale.

Classification as discontinued operations occurs at the earlier of disposal or when the operation meets the criteria to be classified as held for sale or distribution.

When an operation is classified as a discontinued operation, the comparative statements of earnings and comprehensive income are re-presented as if the operation has been discontinued from the start of the comparative year. The Company's discontinued operations are excluded from the results of continuing operations and are presented as a single amount net of tax as net earnings from discontinued operations in the consolidated statements of earnings. The Company has made the accounting policy choice to present details of cash flows from discontinued operations in the notes to the financial statements.

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

Revenue Recognition The Company recognizes revenue when control of the goods or services has been transferred. Revenue is measured at the amount of consideration to which the Company expects to be entitled to, including variable consideration to the extent that it is highly probable that a significant reversal will not occur.

Retail segment revenue includes the 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 amount of consideration to which the Company expects to be entitled to, net of estimated returns, sales incentives and franchise fee reductions. The Company recognizes revenue made through corporate stores, consolidated franchise stores and Associates at the time the point of sale is made or when service is delivered to the customers. The Company recognizes revenue made through non-consolidated franchise stores and independent wholesale customers at the time of delivery of inventory and when administrative and management services are rendered.

On the initial sale of franchising arrangements, the Company offered products and services as part of an arrangement with multiple performance obligations. Prior to the implementation of the Franchise Agreement implemented in 2015, the initial sale to non-consolidated franchise stores were recorded using a relative fair value approach.

Customer loyalty awards are accounted for as a separate performance obligation of the sales transaction in which they are granted. The Company defers revenue at the time the award is earned by members based on the relative fair value of the award. The relative fair value is determined by allocating consideration between the fair value of the loyalty awards earned by loyalty program members, net of breakage, and the goods and services on which the awards were earned, based on their relative stand-alone selling price.

For certain sale of goods in which the Company earns commissions, including but not limited to lottery and third party gift cards, the Company records net revenue as an agent on the basis that the Company does not control pricing or bear inventory risk.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Company implemented IFRS 9, "Financial Instruments" ("IFRS 9"), replacing International Accounting Standard 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"), on December 31, 2017 by applying the requirements for classification and measurement, including impairment, retrospectively with the cumulative effects of initial application recorded in opening retained earnings as at December 31, 2017 with no restatement of comparative periods. Therefore, the comparative information has not been restated and continues to be reported under IAS 39.

Prior to December 31, 2017, under IAS 39, 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.

As at December 31, 2017 and thereafter, under IFRS 9, the Company applies the "expected credit loss" ("ECL") model to assess for impairment on its credit card receivables at each balance sheet date. Credit card receivables are assessed collectively for impairment by applying the three-stage approach. Refer to the Impairment of Financial Assets policy for details of each stage. The application of the ECL model required PC Bank to apply significant judgments, assumptions and estimations (see note 3 "Impairment of Credit Card Receivables").

Impairment losses are recorded in selling, general and administrative expenses ("SG&A") in the consolidated statement of earnings with the carrying amount of the credit card receivables 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 conditions and changes in factors occurring after the impairment was initially recognized, the previously recognized impairment loss is reversed through the consolidated statement of earnings. The impairment reversal is limited to the lesser of the decrease in impairment or the extent that the carrying amount of the credit card receivables 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(ii) Same basis as owned assets.

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

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

Leases At inception of an arrangement, the Company determines whether the arrangement is or contains a lease. A contract contains a lease if the fulfillment of the arrangement depends upon a specific asset and if the arrangement conveys a right to control the use of the underlying asset. The right to control the use of the underlying asset was met when any of the following conditions are present:

- the Company had the ability or right to operate the asset or direct others to operate the asset while obtaining or controlling more than an insignificant amount of the output of the asset;
- the Company had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output of the asset; and
- facts and circumstances indicated that it is remote that one or more parties other than the purchaser will take more than an insignificant amount of the output or other utility that will be produced or generated by the asset during the term of the arrangement, and the price that the purchaser will pay for the output is neither contractually fixed per unit of output nor equal to the current market price per unit of output as of the time of delivery of the output.

As a lessee, the Company classified leases that substantially transferred all the risk and rewards as a finance lease. Finance lease assets and liabilities are recognized at the lower of the fair value of the leased asset or the present value of the minimum lease payments, discounted at the interest rate implicit in the lease, or if that rate cannot be readily determined, the Company's incremental borrowing rate. Operating leases are not recognized on the balance sheets. Operating lease payments are recognized in SG&A on a straight-line basis over the lease term.

As a lessor, the Company recognizes rental income from operating leases on a straight-line basis over the lease term.

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

Investment property assets are measured using the fair value model. Under the fair value model, investment properties are initially measured at cost and subsequently measured at fair value. Fair value is determined based on available market evidence. If market evidence is not readily available in less active markets, the Company uses alternative valuation methods such as discounted cash flow projections or recent transaction prices. Under the discounted cash flow methodology, discount rates are applied to the projected annual operating cash flows, generally over a minimum term of ten years, including a terminal value of the investment properties based on a capitalization rate applied to the estimated net operating income, a non-GAAP measure, in the terminal year. Gains and losses on fair value are recognized in operating income in the period in which they are incurred. Gains and losses from disposal of investment properties are determined by comparing the fair value of disposal proceeds and the carrying amount and are recognized in operating income.

When a property changes from own use to investment property, the property is remeasured to fair value. Any gain arising from the remeasurement is recognized in profit or loss to the extent that it reverses a previous impairment loss on that property, with any remaining gain recognized in the Company's other comprehensive income. Any loss on remeasurement is recognized in profit or loss. However, to the extent a previous gain on remeasurement is included in the revaluation surplus for that property, the loss is first recognized in the Company's other comprehensive income to reduce the revaluation surplus within equity. Upon sale of an investment property that was previously classified as property, plant and equipment, amounts included in the revaluation reserve is transferred to retained earnings.

Joint Arrangements The Company, through Choice Properties, and prior to the reorganization, owns investments under joint arrangements. Joint arrangements are arrangements of which two or more parties have joint control. Joint control is the contractual sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. Joint arrangements are classified as either joint operations or joint ventures depending on Choice Properties' rights and obligations in the arrangement based on factors such as the structure, legal form and contractual terms of the arrangement.

Joint Ventures A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement.

Choice Properties' investment in a joint venture is recorded using the equity method and is initially recognized in the consolidated balance sheet at cost and adjusted thereafter to recognize Choice Properties' share of the profit or loss and other comprehensive income of the joint venture. The Company's share of the joint venture's profit or loss is recognized in the Company's operating income.

The financial statements of the equity-accounted investment are prepared for the same reporting period as Choice Properties. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company's.

A joint venture is considered to be impaired if there is objective evidence of impairment, as a result of one or more events that occurred after initial recognition of the joint venture, and that event has a negative impact on the future cash flows of the joint venture that can be reliably estimated.

Joint Operations A joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities relating to the arrangement. The financial statements of the joint operations are prepared for the same reporting period as Choice Properties. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company's. The Company recognizes its proportionate share of assets, liabilities, revenues and expenses of the joint operations.

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

Intangible Assets Intangible assets with finite lives are measured at cost less accumulated amortization and any accumulated impairment losses. These intangible assets are amortized on a straight-line basis over their estimated useful lives, ranging from three to 18 years, and are tested for impairment as described in the Impairment of Non-Financial Assets policy. Useful lives, residual values and amortization methods for intangible assets with finite useful lives are reviewed at least annually. Amortization expense for intangible assets is recognized in 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 and investment properties, to determine whether there is any indication of impairment. If any such indication exists, the asset is then tested for impairment by comparing its recoverable amount to its carrying value. Goodwill and indefinite life intangible assets are tested for impairment at least annually.

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

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

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

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

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

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

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

Financial Instruments and Derivative Financial Instruments Financial assets and liabilities are recognized when the Company becomes party to the contractual provisions of the financial instrument. Upon initial recognition, financial instruments, including derivatives and embedded derivatives in certain contracts, are measured at fair value plus or minus transaction costs that are directly attributable to the acquisition or issue of financial instruments that are not classified as fair value through profit or loss.

Classification and Measurement The classification and measurement approach for financial assets reflect the business model in which assets are managed and their cash flow characteristics. Financial assets are classified and measured based on these categories: amortized cost, fair value through other comprehensive income ("FVOCI"), or fair value through profit and loss ("FVTPL"). Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated, but the hybrid financial instrument as a whole is assessed for classification.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as FVTPL:

- The financial asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at FVOCI if it meets both of the following conditions and is not designated as FVTPL:

- The financial asset is held within a business model in which assets are managed to achieve a particular objective by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset shall be measured at FVTPL unless it is measured at amortized cost or at FVOCI.

Financial assets are not reclassified subsequent to their initial recognition unless the Company identifies changes in its business model in managing financial assets.

Financial liabilities are classified and measured based on two categories: amortized cost or FVTPL.

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. The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal payments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

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

Asset/Liability	Classification / Measurement
Cash and cash equivalents	Amortized cost
Short term investments	Amortized cost
Accounts receivable	Amortized cost
Credit card receivables	Amortized cost
Security deposits	Fair value through profit and loss
Franchise loans receivable	Amortized cost
Certain other assets	Amortized cost / fair value through profit and loss
Certain long term investments	Fair value through other comprehensive income
Bank indebtedness	Amortized cost
Trade payables and other liabilities	Amortized cost
Short term debt	Amortized cost
Long term debt	Amortized cost
Trust Unit Liability	Fair value through profit and loss
Certain other liabilities	Amortized cost
Derivatives	Fair value through profit and loss / fair value through other comprehensive income

Financial derivative instruments in the form of forwards and futures, as well as non-financial derivatives in the form of futures contracts, options contracts and forward contracts, are recorded at fair value on the consolidated balance sheet. The Company does not use derivative instruments for speculative purposes. Embedded derivatives are separated from the host contract and accounted for separately on the consolidated balance sheet at fair value if the host contract is not a financial asset. 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. The Company ensures that the hedge accounting relationships are aligned with the Company's risk management objectives and strategy and applies a more qualitative and forward-looking approach to assessing hedge effectiveness. The Company's risk management strategy and hedging activities are disclosed in Note 30 "Financial Instruments" and Note 31 "Financial Risk Management".

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

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

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

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

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

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

Type	Valuation Approach
Cash and cash equivalents, short term investments, security deposits, accounts receivable, credit card receivables, bank indebtedness, trade payables and other liabilities and short term debt	The carrying amount approximates fair value due to the short term maturity of these instruments.
Franchise loans receivable	The carrying amount approximates fair value as fluctuations in the forward interest rates would not have significant impacts on the valuation and the provisions recorded for all impaired receivables.
Derivatives	Specific valuation techniques used to value derivative financial instruments include: <ul style="list-style-type: none"> • Quoted market prices or dealer quotes for similar instruments; and • The fair value of other derivative instruments are determined based on observable market information as well as valuations determined by external valuers with experience in financial markets.
Long term debt, Trust Unit Liability and certain other financial instruments	The fair value is based on the present value of contractual cash flows, discounted at the Company's current incremental borrowing rate for similar types of borrowing arrangements or, where applicable, quoted market prices.

Derecognition 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 The Company implemented IFRS 9 replacing IAS 39 on December 31, 2017 by applying the requirements for classification and measurement, including impairment, retrospectively with the cumulative effects of initial application recorded in opening retained earnings as at December 31, 2017 with no restatement of comparative periods. Therefore, the comparative information has not been restated and continues to be reported under IAS 39.

Prior to December 31, 2017, under IAS 39, an assessment of whether there is objective evidence that a financial asset or a group of financial assets is impaired is performed at each balance sheet date. A financial asset or group of financial assets is considered to be impaired if one or more loss events that have an impact on the estimated future cash flows occur after their initial recognition and the loss can be reliably measured. If such objective evidence has occurred, the loss is based on the difference between the carrying amount of the financial asset, or portfolio of financial assets, and the respective estimated future cash flows discounted at the financial assets' original effective interest rate. Impairment losses are recorded in the consolidated statement of earnings with the carrying amount of the financial asset or group of financial assets reduced through the use of impairment allowance accounts.

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

As at December 31, 2017 and thereafter, under IFRS 9, a forward-looking ECL model is applied, at each balance sheet date, to financial assets measured at amortized cost or those measured at fair value through other comprehensive income, except for investments in equity instruments.

IFRS 9 outlines a three-stage approach to recognizing ECL which is intended to reflect the increase in credit risks of a financial instrument:

- Stage 1 is comprised of all financial instruments that have not had a significant increase in credit risks since initial recognition or that have low credit risk at the reporting date. The Company is 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 had a significant increase in credit risks 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. The Company 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. The Company is required to recognize impairment based on a lifetime ECL for Stage 3 financial instruments.

The ECL models applied to financial assets require judgment, assumptions and estimations on changes in credit risks, forecasts of future economic conditions and historical information on the credit quality of the financial asset. Consideration of how changes in economic factors affect ECLs will be determined on a probability-weighted basis.

Impairment losses are recorded in SG&A in the consolidated statement of earnings with the carrying amount of the financial asset or group of financial assets reduced through the use of impairment allowance accounts. In periods subsequent to the impairment where the impairment loss has decreased, and such decrease can be related objectively to conditions and changes in factors occurring after the impairment was initially recognized, the previously recognized impairment loss is reversed through the consolidated statement of earnings. The impairment reversal is limited to the lesser of the decrease in impairment or the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized, after the reversal.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Unit-Based Compensation Prior to the reorganization, Unit-Settled Restricted Units ("URUs") were accounted for as cash-settled awards. URUs entitle certain employees to receive the value of the URU award in Units at the end of the applicable vesting period, which is generally three to five years in length. The URUs are subject to vesting conditions and disposition restrictions. The fair value of each URU granted is measured based on the market value of a Unit at the balance sheet date, less a discount to account for the disposition restrictions.

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

Accounting Standards Implemented

On December 31, 2017, the Company implemented IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15") and IFRS 9, "Financial Instruments" ("IFRS 9"), in accordance with IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors". The impacts on implementation of IFRS 15 and IFRS 9 on the Company's consolidated financial statements are described below.

IFRS 15 In 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers", replacing IAS 18, "Revenue" ("IAS 18"), 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 is effective for annual periods beginning on or after January 1, 2018.

The Company adopted the standard on December 31, 2017 and applied the requirements of the standard retrospectively with the cumulative effects of initial application recorded in opening retained earnings on January 1, 2017 and with the restatement of comparative periods. IFRS 15 permits the use of exemptions and practical expedients. The Company applied the practical expedient in which contracts that began and were completed within the same annual reporting period before December 30, 2017 or were completed on or before January 1, 2017 do not require restatement. Refer to the Revenue Recognition policy for significant accounting policies under IFRS 15.

The implementation of IFRS 15 did not have a significant impact on the Company's Retail, Financial Services or Choice Properties segment revenue streams, including its franchise arrangements with non-consolidated stores. IFRS 15 impacted the allocation of revenue that is deferred in relation to the Company's customer loyalty award programs. Under IAS 18 and related interpretations, revenue was 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 was allocated to the loyalty awards and deferred until the points were ultimately redeemed. The residual consideration was allocated to the goods and services sold and recognized as revenue. Under IFRS 15, consideration is allocated between the loyalty awards and the goods and services on which the awards were earned, based on their relative stand-alone selling prices. Using this relative fair value approach, the amount allocated to the loyalty points and recorded as deferred revenue will be, on average, lower than the amounts allocated under the residual value method. The majority of the Company's loyalty liability, which is a contract liability, is expected to be redeemed and recognized as revenue within one year of issuance.

In addition, in the fourth quarter of 2017, the Company recorded a charge before income taxes of \$189 million under IAS 18 and related interpretations, related to the revaluation of the existing loyalty liability for outstanding points to reflect a higher anticipated redemption rate under the new *PC Optimum* program. Under IFRS 15, using the relative fair value approach, this revaluation of the loyalty liability decreased by \$24 million, resulting in a charge before income taxes of \$165 million.

The impact of the above changes on retained earnings as at January 1, 2017 and December 30, 2017 is as follows:

Consolidated Balance Sheets

Increase (Decrease) (millions of Canadian dollars)	As at January 1, 2017	As at December 30, 2017
Loyalty liability	\$ (43)	\$ (64)
Income taxes payable	12	11
Deferred income tax liabilities	—	7
Retained earnings	31	46

The impact of this change on 52 weeks ended December 30, 2017 is as follows:

Consolidated Statements of Earnings

Increase (Decrease) (millions of Canadian dollars)	December 30, 2017 (52 weeks)
Revenue	\$ (3)
SG&A	(24)
Income taxes	6

The implementation of IFRS 15 had an impact on basic and diluted net earnings per share of \$0.04 for 52 weeks ended December 30, 2017.

IFRS 9 In 2014, the IASB issued IFRS 9, “Financial Instruments”, replacing IAS 39, “Financial Instruments: Recognition and Measurement”, 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 is effective for annual periods beginning on or after January 1, 2018. The Company implemented the new requirements for classification and measurement, impairment and general hedging on December 31, 2017 by applying the requirements for classification and measurement, including impairment, retrospectively with the cumulative effects of initial application recorded in opening retained earnings as at December 31, 2017 with no restatement of comparative periods. The Company also applied related amendments to IFRS 7, “Financial Instruments: Disclosures”. Refer to the Financial Instruments and Derivative Instruments policy for significant accounting policies under IFRS 9.

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. Financial assets are not reclassified subsequent to their initial recognition unless the Company identifies changes in its business model in managing financial assets. The adoption of the new classification requirements under IFRS 9 did not result in significant changes in measurement or the carrying amount of financial assets and liabilities, with the exception of credit card receivables discussed below.

The following table summarizes the classification impacts upon adoption of IFRS 9:

Asset/Liability	Classification under IAS 39	Classification under IFRS 9
Cash and cash equivalents	Fair value through profit and loss ⁽ⁱ⁾	Amortized cost
Short term investments	Fair value through profit and loss ⁽ⁱ⁾	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Credit card receivables	Loans and receivables	Amortized cost
Security deposits	Fair value through profit and loss ⁽ⁱ⁾	Fair value through profit and loss
Franchise loans receivable	Loans and receivables	Amortized cost
Certain other assets ⁽ⁱⁱ⁾	Loans and receivables	Amortized cost / fair value through profit and loss
Certain long term investments	Available-for-sale	Fair value through other comprehensive income
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 ⁽ⁱⁱⁱ⁾	Fair value through profit and loss
Certain other liabilities	Other liabilities	Amortized cost
Derivatives	Fair value through profit and loss ⁽ⁱⁱⁱ⁾	Fair value through profit and loss / fair value through other comprehensive income

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

(ii) Certain other assets include mortgages, notes and loans receivable which are classified as either amortized cost or fair value through profit and loss.

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

Impairment IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking ECL model. The new impairment model is applied, at each balance sheet date, to financial assets measured at amortized cost or those measured at fair value through other comprehensive income, except for investments in equity instruments.

IFRS 9 outlines a three-stage approach to recognizing ECL which is intended to reflect the increase in credit risks of a financial instrument. Refer to the Impairment of Financial Assets policy for details of each stage.

The ECL model had a significant impact on PC Bank's impairment of credit card receivables. The Company revised certain inputs of the ECL model since the implementation of IFRS 9 in the first quarter of 2018 and has retrospectively applied the impact of these revisions with no impact to earnings. As a result of the refinements, the cumulative impact arising from the ECL model on the impairment of credit card receivables as at December 31, 2017 was as follows:

Consolidated Balance Sheets		As at
Increase (Decrease)		December 31, 2017
(millions of Canadian dollars)		
Credit card receivables		\$ (98)
Deferred income tax assets		26
Income taxes payable		4
Deferred income tax liabilities		(4)
Retained earnings		(72)

The Company also applied ECL models to the assessment of impairment on trade receivables and other financial assets of the Company. The Company adopted the practical expedient to determine ECL on trade receivables using a provision matrix based on historical credit loss experiences to estimate lifetime ECL. The ECL models applied to other financial assets also required judgment, assumptions and estimations on changes in credit risks, forecasts of future economic conditions and historical information on the credit quality of the financial asset. The provision matrix and ECL models applied do not have a material impact on trade receivables and other financial assets of the Company.

General hedging IFRS 9 requires 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's risk management strategy and hedging activities are disclosed in Note 30 "Financial Instruments" and Note 31 "Financial Risk Management".

Changes to Significant Accounting Policies

Certain significant accounting policies are changed or added to reflect impacts to the presentation and measurement of the Company's annual consolidated financial statements.

Investment Properties Investment properties are properties owned by the Company that are held to either earn rental income, for capital appreciation, or both. The Company's investment properties include single tenant properties held to earn rental income and certain multiple tenant properties.

The Company elected to change the measurement of investment properties from the cost model to the fair value model retrospectively with restatement. Refer to the Investment Properties policy for the fair value policy. Prior to the second quarter of 2018, the Company recognized investment properties at cost less accumulated depreciation and any accumulated impairment losses.

The Company applied this change in accounting policy retrospectively in the second quarter of 2018. The impacts to the Company's comparative consolidated balance sheets are as follows:

Consolidated Balance Sheets

Increase (Decrease) (millions of Canadian dollars)	As at December 30, 2017	As at January 1, 2017
Investment properties	\$ 41	\$ 41
Deferred income tax liabilities	5	5
Retained earnings	36	36

Note 3. Critical Accounting Estimates and Judgments

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

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

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

Consolidation

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

Inventories

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

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

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

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

Impairment of Franchise Loans Receivable and Certain Other Financial Assets

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

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

Customer Loyalty Awards Programs

Key Sources of Estimation The Company defers revenue at the time the award is earned by members based on the relative fair value of the award. The relative fair value is determined by allocating consideration between the fair value of the loyalty awards earned by loyalty program members, net of breakage, and the goods and services on which the awards were earned, based on their relative stand-alone selling price. The estimated fair value per point for the *PC Optimum* program is determined based on the program reward schedule and is \$1 for every 1,000 points earned. The breakage rate of the program is an estimate of the amount of points that will never be redeemed. The rate is reviewed on an ongoing basis and is estimated utilizing historical redemption activity and anticipated earn and redeem behaviour of members.

Impairment of Credit Card Receivables

Judgments Made in Relation to Accounting Policies Applied In each stage of the impairment model, impairment is determined based on the probability of default, loss given default, and expected exposures at default on drawn and undrawn exposures on credit card receivables, discounted using an average portfolio yield rate. The application of the ECL model requires management to apply the following significant judgments, assumptions and estimations:

- Movement of impairment measurement between the three stages of the ECL model, based on the assessment of increase in credit risks on credit card receivables. The assessment of changes in credit risks includes qualitative and quantitative factors of the accounts, such as historical credit loss experience and external credit scores;
- Thresholds for significant increase in credit risks based on changes in probability of default over the expected life of the instrument relative to initial recognition; and
- Forecasts of future economic conditions.

Fair Value of Investment Properties

Key Sources of Estimation The fair value of investment properties is dependent on available comparable transactions, future cash flows over the holding period, and discount rates and capitalization rates applicable to those assets. The review of anticipated cash flow involves assumptions relating to occupancy, market rental rates, net operating expenses, and residual value. In addition to reviewing anticipated cash flows, management assesses changes in the business climate and other factors, which may affect the ultimate value of the property. These assumptions may not ultimately be achieved.

Income and Other Taxes

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

Segment Information

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

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

Provisions

Judgments made in Relation to Accounting Policies Applied and Key Sources of Estimation The recording of provisions requires management to make certain judgments regarding whether there is a present legal or constructive obligation as a result of a past event, it is probable that the Company will be required to settle the obligation and if a reliable estimate of the amount of the obligation can be made. The Company has recorded provisions primarily in respect of restructuring, environmental and decommissioning liabilities, onerous lease arrangements and legal claims. 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 standard 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 a comprehensive project plan to guide the implementation.

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. Lessees recognize a right-of-use asset representing its control of and right to use the underlying asset and a lease liability representing its obligation to make future lease payments. Lessor accounting remains similar to IAS 17.

Substantially all of the Company's operating leases are real estate leases for retail stores, distribution centers and corporate offices. Other leased assets include passenger vehicles, trucks and IT equipment. The Company also has owned and leased properties which are leased and subleased to third parties, respectively. The subleases are mainly related to non-consolidated franchisees, ancillary tenants and gas bar land.

As a lessee, the Company will recognize right-of-use assets and lease liabilities primarily for its operating leases of real estate properties, vehicles and equipment. The depreciation expense on right-of-use assets and interest expense on lease liabilities will replace rent expense, previously recognized on a straight-line basis under IAS 17 over the term of a lease. No significant impacts are expected for the Company's existing finance leases.

As an intermediate lessor, the Company will reassess the classification of its subleases by reference to the right-of-use assets arising from the head lease and will recognize a corresponding finance lease receivable if the reassessment concludes that the sublease is a finance lease. No significant impacts are expected for leases where the Company is the lessor.

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 fully retrospective approach or a modified retrospective approach on transition to IFRS 16. The Company has adopted the standard on December 30, 2018 using the modified retrospective approach. The modified retrospective approach applies the requirements of the standard retrospectively with the cumulative effects of initial application recorded in opening retained earnings as at December 30, 2018, and no restatement of the comparative period. Under the modified retrospective approach, the Company chose to measure all right-of-use assets retrospectively as if the standard had been applied since lease commencement dates.

IFRS 16 permits the use of recognition exemptions and practical expedients. The Company has applied the following recognition exemptions and practical expedients:

- grandfather the definition of a lease for existing contracts at the date of initial application;
- exclude certain short-term leases from IFRS 16 lease accounting;
- use portfolio application for leases with similar characteristics, such as vehicle and equipment leases;
- apply a single discount rate to a portfolio of leases with reasonably similar characteristics at the date of initial application;
- exclude initial direct costs from the measurement of the right-of-use assets at the date of initial application; and
- use hindsight in determining lease term at the date of initial application.

While the standard was adopted on December 30, 2018, the Company continues to assess the impact of the standard on the Company's business processes, internal controls over financial reporting, data systems, IT, and financing and compensation arrangements. The Company has implemented a lease management system and is in the final stages of refining and validating the inputs and key assumptions used in its calculation of the cumulative effects of initial application to be recorded in opening retained earnings as at December 30, 2018.

Based on the information available as at February 20, 2019, as a result of the initial application of IFRS 16 as at December 30, 2018, Management anticipates recognizing approximately \$7.5 billion to \$8.0 billion of right-of-use assets and \$9.0 billion to \$9.5 billion of lease liabilities, inclusive of current finance leases, on its consolidated balance sheet, and derecognizing approximately \$300 million of deferred rent obligation from its consolidated balance sheet, with the difference, net of the deferred tax impact, recorded in opening retained earnings. Certain other balance sheet accounts will be impacted by amounts required to be reclassified on the adoption of IFRS 16.

The actual impacts of the initial application of IFRS 16 may vary from the estimates provided for the following reasons:

- the Company has not finalized the assessment and testing of applicable internal controls over financial reporting; and
- the new accounting policies and critical accounting estimates and judgments are subject to change until the Company issues its first quarter report to shareholders for the 12 weeks ending March 23, 2019.

Note 5. Business Acquisitions

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

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

(millions of Canadian dollars)	2018	2017
Net Assets Acquired:		
Cash and cash equivalents	\$ 18	\$ 26
Inventories	66	73
Fixed assets	78	81
Trade payables and other liabilities ⁽ⁱ⁾	(36)	(43)
Other liabilities ⁽ⁱ⁾	(114)	(132)
Non-controlling interests	(12)	(5)
Total Net Assets Acquired	\$ —	\$ —

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

Note 6. Discontinued Operations

During the fourth quarter of 2018, the Company and its parent Weston completed a reorganization under which the Company distributed its approximate 61.6% effective interest in Choice Properties to Weston on a tax-free basis to the Company and its Canadian shareholders. In connection with the reorganization, the common shareholders of the Company, other than Weston and its subsidiaries, received 0.135 of a common share of Weston for each common share of the Company held, which was equivalent to the market value of their pro rata interest in Choice Properties as at the announcement date of the spin-out, and Weston received the Company's approximate 61.6% effective interest in Choice Properties.

Following the reorganization, the Company no longer retained its interest in Choice Properties and ceased to consolidate its equity interest in Choice Properties in its consolidated financial statements. As a result, for the annual periods ended December 29, 2018 and December 30, 2017, the Choice Properties segment, net of eliminations, has been presented as Discontinued Operations. The operations of Choice Properties were not previously classified as discontinued operations or as assets held for sale. The classification as Discontinued Operations occurred at October 31, 2018, which is the date of the reorganization. Accordingly, the comparative consolidated statement of earnings and comprehensive income were re-presented separately between Continuing and Discontinued Operations. Unless otherwise specified, all other notes to the consolidated financial statements include amounts from both Continuing and Discontinued Operations.

The transaction has no impact on the ongoing operating relationship between the Company and Choice Properties and the Strategic Alliance Agreement and leases, remain in place. The Company continues to be Choice Properties' largest tenant (see note 34).

All transactions between the Retail and the Choice Properties segments prior to the reorganization were fully eliminated in the consolidated financial statements. The Company has presented the results of Continuing Operations to reflect the on-going presentation of transactions between the Retail segment and Choice Properties, including rent paid and lease surrender payments to Choice Properties, gains related to the sale leaseback of properties to Choice Properties and site intensification payments received from Choice Properties. The elimination of intercompany transactions prior to the spin-out have been reflected in Discontinued Operations.

The results of Discontinued Operations presented in the consolidated statements of earnings is as follows:

(millions of Canadian dollars)	October 31, 2018	2017
Revenue ⁽ⁱ⁾	\$ 933	\$ 830
Selling, General and Administrative Expenses	512	364
Operating Income	\$ 421	\$ 466
Net interest expense and other financing charges ⁽ⁱⁱ⁾	316	151
Earnings before Income Taxes	\$ 105	\$ 315
Income taxes	58	84
Earnings from Discontinued Operations	\$ 47	\$ 231

(i) Revenue includes \$445 million (2017 – \$533 million) of rental revenue, \$164 million (2017 – \$185 million) of cost recovery, and \$10 million (2017 – \$6 million) of lease surrender, recognized by Choice Properties generated from the Company. Costs recoveries related to Common Area Maintenance and properties are presented as an expense in SG&A.

(ii) Net interest expense and other financing charges primarily includes interest expense on long term debt, distributions to external unit holders of \$113 million (2017 – \$54 million) and a loss of \$33 million (2017 – gain of \$10 million) related to the fair value adjustment to the Trust Unit Liability.

The assets and liabilities disposed of in connection with Discontinued Operations are as follows:

(millions of Canadian dollars)	October 31, 2018
Cash and cash equivalents and short term investments	\$ 52
Accounts receivable	66
Prepaid expenses and other assets	90
Fixed assets	4,770
Equity accounted joint ventures	740
Investment properties	4,819
Intangible assets	30
Goodwill	342
Deferred income tax assets	3
Other assets	330
	\$ 11,242

(millions of Canadian dollars)	October 31, 2018
Trade payables and other liabilities	\$ 370
Income taxes payable	19
Long term debt	7,222
Trust unit liability	3,071
Deferred income tax liabilities	414
Other liabilities	6
	\$ 11,102

In addition to the assets and liabilities disposed of, the Company recognized an onerous contract liability of \$10 million.

The assets and liabilities disposed of in connection with discontinued operations include the assets and liabilities of Canadian Real Estate Investment Trust ("CREIT") which were acquired by Choice Properties on May 4, 2018.

The Company's 2017 balance sheet included total assets and total liabilities of approximately \$4.8 billion and \$4.5 billion, respectively related to Choice Properties. Included in total assets were \$4,645 million of fixed assets and included in liabilities was \$3,411 million of long term debt and \$972 million related to the Trust Unit Liability.

Choice Properties' Acquisition of CREIT

On May 4, 2018, Choice Properties acquired all the assets and assumed all the liabilities, including outstanding debt, of CREIT for total consideration of \$3,708 million. The consideration was comprised of \$1,652 million of cash and the issuance of 182,836,481 new Trust Units.

Also, concurrent with the closing of the acquisition, the Company, Choice Properties' controlling unitholder, converted all of its outstanding Class C LP Units with the face value of \$925 million into Class B LP Units of Choice Properties Limited Partnership. Choice Properties issued to the Company 70,881,226 Class B LP Units upon the conversion and the shortfall in value of approximately \$99 million was paid in cash. In connection with this conversion, the Company recognized capital gains income tax expense of \$8 million in contributed surplus.

Notes to the Consolidated Financial Statements

The purchase equation is based on management's best estimate of fair value. The actual amount allocated to certain identifiable net assets could vary as the purchase equation is finalized. The purchase price allocation at the acquisition date is as follows:

(millions of Canadian dollars)	As at May 4, 2018
Net Assets Acquired:	
Cash and cash equivalents	\$ 32
Accounts receivable and other assets	50
Mortgages, loans and notes receivable ⁽ⁱ⁾	196
Equity accounted joint ventures	683
Investment properties	4,730
Intangible assets	30
Goodwill	342
Trade payables and other liabilities	(172)
Long term debt	(1,841)
Deferred income tax liabilities	(342)
Total Net Assets Acquired	\$ 3,708

(i) Included in Other Assets on consolidated balance sheets.

The assets and liabilities disposed of also include the goodwill associated with the acquisition of CREIT, of \$342 million, which was generated on consolidation of Choice Properties and is attributable to deferred income tax liabilities recorded on temporary differences arising between the fair value of the investment properties acquired and their respective income tax bases for the Company's effective ownership interest in Choice Properties.

The net change in cash flows related to Discontinued Operations is as follows:

(millions of Canadian dollars)	2018 ⁽ⁱ⁾	2017
Cash flows from operations	\$ 581	\$ 501
Cash flows from (used in) investing	(1,884)	(255)
Cash flows from (used in) financing	1,678	46
Cash flows from discontinued operations	\$ 375	\$ 292

(i) Reflects the cash flows of Discontinued Operations up to the date of the reorganization, November 1, 2018.

Significant long term debt transactions of Choice Properties are described below:

Debentures The following table summarizes the debentures of Choice Properties issued or assumed in 2018. There were no debentures issued in 2017.

(millions of Canadian dollars except where otherwise indicated)	Interest Rate	Maturity Date	Principal Amount 2018
Choice Properties senior unsecured debentures			
– Series I ⁽ⁱ⁾	3.01%	March 21, 2022	\$ 300
– Series J ⁽ⁱ⁾	3.55%	January 10, 2025	350
– Series K ⁽ⁱⁱ⁾	3.56%	September 9, 2024	550
– Series L ⁽ⁱⁱ⁾	4.18%	March 8, 2028	750
– Series A-C ⁽ⁱⁱⁱ⁾	3.68%	July 24, 2018	125
– Series B-C ⁽ⁱⁱⁱ⁾	4.32%	January 15, 2021	100
– Series C-C ⁽ⁱⁱⁱ⁾	2.56%	November 30, 2019	100
– Series D-C ⁽ⁱⁱⁱ⁾	2.95%	January 18, 2023	125
Total Debentures issued			\$ 2,400

- (i) Offerings were made under the Choice Properties' Short Form Base Shelf Prospectus filed in 2018. 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.
- (ii) The net proceeds from the issuance of Series K and L were held in escrow as a part of the financing for the acquisition of CREIT. During the second quarter of 2018, the Company completed the acquisition of CREIT and the proceeds were released from escrow.
- (iii) Assumed by the Company in connection with the acquisition of CREIT.

The following table summarizes the debentures repaid in 2018 and 2017:

(millions of Canadian dollars except where otherwise indicated)	Interest Rate	Maturity Date	Principal Amount 2018	Principal Amount 2017
Choice Properties senior unsecured debentures – Series A-C	3.68%	July 24, 2018	\$ 125	\$ —
Choice Properties senior unsecured debentures – Series A	3.55%	July 5, 2018 ⁽ⁱ⁾	400	—
Choice Properties senior unsecured debentures – Series 6	3.00%	April 20, 2017 ⁽ⁱⁱ⁾	—	200
Total Debentures, Unsecured Term Loan Facilities, and Medium Term Notes repaid			\$ 525	\$ 200

- (i) Choice Properties Series A unsecured debentures were redeemed on February 12, 2018.
- (ii) Choice Properties Series 6 unsecured debentures were redeemed on January 23, 2017.

Committed Credit Facilities The components of Choice Properties committed lines of credit were as follows:

(millions of Canadian dollars)	Maturity Date	As at October 31, 2018		As at December 30, 2017	
		Available Credit	Drawn	Available Credit	Drawn
Choice Properties Committed Bi-lateral Credit Facility ⁽ⁱ⁾	December 21, 2018	\$ —	\$ —	\$ 250	\$ 250
Choice Properties Committed Syndicated Credit Facility ⁽ⁱ⁾	July 5, 2022	—	—	500	311
Choice Properties Committed Syndicated Credit Facility ⁽ⁱⁱ⁾	May 4, 2023	1,500	375	—	—
Total Committed Lines of Credit		\$ 1,500	\$ 375	\$ 750	\$ 561

- (i) In the first half of 2018, Choice Properties repaid and cancelled the \$250 million Committed Bi-lateral Credit Facility and the \$500 million Committed Syndicated Credit Facility.
- (ii) During the second quarter of 2018, Choice properties entered into a new syndicated \$1,500 million senior unsecured committed revolving credit facility maturing May 4, 2023. The credit facility bears interest at variable rates of either: Prime plus 0.45% or Bankers' Acceptance rate plus 1.45%. The pricing of this credit facility is contingent on Choice Properties credit ratings from Dominion Bond Rating Service and Standard & Poor's remaining at "BBB".

Choice Properties has certain key financial covenants in its Debentures and the Choice Properties Credit Facilities, which include debt service ratios and leverage ratios, as defined in the respective agreements. These ratios are measured by Choice Properties on an on-going basis to ensure compliance with the agreements. Throughout the year and up to the date of the completion of reorganization on November 1, 2018, Choice Properties was in compliance with each of the key financial covenants under these agreements.

Note 7. Net Interest Expense and Other Financing Charges

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

(millions of Canadian dollars)	2018	2017
Interest expense and other financing charges:		
Long term debt	\$ 333	\$ 336
Borrowings related to credit card receivables	41	30
Post-employment and other long term employee benefits (note 26)	11	9
Independent funding trusts	19	16
Bank indebtedness	8	6
Capitalized interest	(1)	—
	\$ 411	\$ 397
Interest income:		
Accretion income	\$ (5)	\$ (10)
Short term interest income	(18)	(13)
	\$ (23)	\$ (23)
Charge related to Glenhuron Bank Limited (note 8)	\$ 176	\$ —
Net interest expense and other financing charges from Continuing Operations	\$ 564	\$ 374

Note 8. Income Taxes

The components of income taxes from Continuing Operations were as follows:

(millions of Canadian dollars)	2018	2017
Current income taxes:		
Current period	\$ 493	\$ 573
Charge related to Glenhuron Bank Limited	191	—
Adjustment in respect of prior periods	(86)	7
	\$ 598	\$ 580
Deferred income taxes:		
Origination and reversal of temporary differences	\$ (83)	\$ (194)
Effect of change in income tax rates	—	(15)
Adjustment in respect of prior periods	91	(6)
	\$ 8	\$ (215)
Income taxes from Continuing Operations	\$ 606	\$ 365

On September 7, 2018, the Tax Court of Canada (“Tax Court”) released its decision relating to Glenhuron Bank Limited (“Glenhuron”), a wholly-owned Barbadian subsidiary of the Company that was wound up in 2013. The Tax Court ruled that certain income earned by Glenhuron should be taxed in Canada based on a technical interpretation of the applicable legislation.

On October 4, 2018, the Company filed a Notice of Appeal with the Federal Court of Appeal. Although the Company believes in the merits of its position, it recorded a charge during the third quarter of 2018 of \$367 million, of which \$176 million was recorded in interest and \$191 million was recorded in income taxes. The Company believes that this provision will be sufficient to cover its ultimate liability if the appeal is unsuccessful.

In the third quarter of 2018, the Company made a cash payment of \$235 million to fund the tax and interest owing in light of the decision of the Tax Court.

In the first quarter of 2018, voting control of the Company was acquired by a related group, which included Weston and Wittington, which resulted in certain adjustments in respect to prior periods for tax purposes during the first quarter of 2018.

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

(millions of Canadian dollars)	2018	2017
Net defined benefit plan actuarial (losses) gains (note 26)	\$ 33	\$ (7)
Adjustment to fair value on transfer of investment properties	5	—
Total income tax (recoveries) expense recognized in Other Comprehensive Income	38	(7)

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

	2018	2017
Weighted average basic Canadian federal and provincial statutory income tax rate	26.6 %	26.7 %
Net increase (decrease) resulting from:		
Effect of tax rate in foreign jurisdictions	(0.9)%	— %
Charge related to Glenhuron	14.0 %	— %
Non-deductible and non-taxable items	4.1 %	(4.5)%
Impact of income tax rate changes on deferred income tax balances	— %	(0.9)%
Adjustments in respect of prior periods	0.8 %	0.5 %
Effective income tax rate applicable to earnings before income taxes	44.6 %	21.8 %

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

(millions of Canadian dollars)	2018	2017
Deductible temporary differences	\$ 17	\$ 27
Income tax losses	153	142
Unrecognized deferred tax assets	\$ 170	\$ 169

The income tax losses expire in the years 2028 to 2038. The deductible temporary differences do not expire under current income tax legislation. Deferred income tax assets were not recognized in respect of these items because it is not probable that future taxable income will be available to the Company to utilize the benefits.

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

(millions of Canadian dollars)	As at December 29, 2018	As at December 30, 2017
Trade payables and other liabilities	\$ 53	\$ 57
Other liabilities	355	370
Fixed assets	(554)	(512)
Goodwill and intangible assets	(1,786)	(1,908)
Other assets	49	53
Non-capital loss carryforwards (expiring 2033 to 2038)	41	29
Capital loss carryforwards	—	21
Other	39	35
Net deferred income tax liabilities	\$ (1,803)	\$ (1,855)
Recorded on the consolidated balance sheets as follows:		
Deferred income tax assets	\$ 144	\$ 134
Deferred income tax liabilities	(1,947)	(1,989)
Net deferred income tax liabilities	\$ (1,803)	\$ (1,855)

Note 9. Basic and Diluted Net Earnings per Common Share

(millions of Canadian dollars except where otherwise indicated)	2018	2017
Net earnings attributable to shareholders of the Company	\$ 766	\$ 1,517
Discontinued Operations (note 6)	(47)	(231)
Net earnings from continuing operations attributable to shareholders of the Company	\$ 719	\$ 1,286
Dividends on Preferred Shares in Equity (note 24)	(12)	(12)
Net earnings from continuing operations available to common shareholders	\$ 707	\$ 1,274
Weighted average common shares outstanding (in millions) (note 24)	376.7	393.8
Dilutive effect of equity-based compensation (in millions)	1.8	2.9
Dilutive effect of certain other liabilities (in millions)	0.8	0.6
Diluted weighted average common shares outstanding (in millions)	379.3	397.3
Net earnings per common share - Basic (\$)		
Continuing Operations	\$ 1.88	\$ 3.24
Discontinued Operations	\$ 0.12	\$ 0.58
Net earnings per common share - Diluted (\$)		
Continuing Operations	\$ 1.87	\$ 3.21
Discontinued Operations	\$ 0.12	\$ 0.58

In 2018, 4,541,548 (2017 – 2,559,716) potentially dilutive instruments were excluded from the computation of diluted net earnings per common share from continuing operations as they were anti-dilutive.

Note 10. Cash and Cash Equivalents, Short Term Investments and Security Deposits

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

Cash and Cash Equivalents

(millions of Canadian dollars)	As at December 29, 2018	As at December 30, 2017
Cash	\$ 539	\$ 516
Cash equivalents:		
Government treasury bills	323	232
Bankers' acceptances	117	649
Corporate commercial paper	86	401
Total cash and cash equivalents	\$ 1,065	\$ 1,798

Short Term Investments

(millions of Canadian dollars)	As at December 29, 2018	As at December 30, 2017
Government treasury bills	\$ 26	\$ 40
Bankers' acceptances	50	295
Corporate commercial paper	17	209
Other	1	2
Total short term investments	\$ 94	\$ 546

Security Deposits

Security deposits relate to funds held by the Company for repayment of the \$800 million debenture, which was subsequently repaid on December 31, 2018 (note 22).

Note 11. Accounts Receivable

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

(millions of Canadian dollars)	As at December 29, 2018				As at December 30, 2017			
	0-90 days	91-180 days	> 180 days	Total	0-90 days	91-180 days	> 180 days	Total
Accounts receivable	\$ 1,077	\$ 53	\$ 68	\$ 1,198	\$ 1,091	\$ 42	\$ 55	\$ 1,188

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

(millions of Canadian dollars)	2018	2017
Allowances, beginning of year	\$ (52)	\$ (71)
Net write-off	22	19
Allowances, end of year	\$ (30)	\$ (52)

Credit risk associated with accounts receivable is discussed in note 31.

Note 12. Credit Card Receivables

The components of credit card receivables were as follows:

(millions of Canadian dollars)	As at December 29, 2018	As at December 30, 2017
Gross credit card receivables	\$ 3,496	\$ 3,147
Allowance for credit card receivables	(167)	(47)
Credit card receivables	\$ 3,329	\$ 3,100
Securitized to independent securitization trusts:		
Securitized to <i>Eagle Credit Card Trust</i> ® (note 22)	\$ 750	\$ 900
Securitized to Other Independent Securitization Trusts	915	640
Total securitized to independent securitization trusts	\$ 1,665	\$ 1,540

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

The Company has arranged letters of credit on behalf of PC Bank for the benefit of the independent securitization trusts (see note 33).

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 2018, with their respective maturity dates extended to 2020 and with all other terms and conditions remaining substantially the same.

The undrawn commitments on facilities available from the Other Independent Securitization Trusts as at December 29, 2018 were \$110 million (December 30, 2017 – \$160 million).

Under its securitization programs, PC Bank is required to maintain, at all times, a credit card receivable pool balance equal to a minimum of 107% of the outstanding securitized liability. PC Bank was in compliance with this requirement as at December 29, 2018 and throughout 2018.

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

(millions of Canadian dollars)	As at December 29, 2018				As at December 30, 2017			
	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	\$ 3,280	\$ 187	\$ 29	\$ 3,496	\$ 2,951	\$ 169	\$ 27	\$ 3,147

The following is a continuity of the Company's allowance for credit card receivables:

	As at December 29, 2018				
	Stage 1	Stage 2	Stage 3	Total	
Balance, beginning of the year per IAS 39	\$ —	\$ —	\$ —	\$ —	47
IFRS 9 Adjustment ⁽ⁱ⁾	—	—	—	—	98
Balance, beginning of the year per IFRS 9	\$ 51	\$ 71	\$ 23	\$ —	145
Increase / (Decrease) during the period:					
Transfers ⁽ⁱⁱ⁾					
To Stage 1	26	(26)	—	—	—
To Stage 2	(4)	6	(2)	—	—
To Stage 3	(1)	(14)	15	—	—
New loans originated ⁽ⁱⁱⁱ⁾	9	14	3	—	26
Net remeasurements ^(iv)	(19)	29	80	—	90
Write-offs	—	—	(120)	—	(120)
Recoveries	—	—	26	—	26
Balance, end of year	\$ 62	\$ 80	\$ 25	\$ —	167

(i) Allowance at the beginning of 2018 includes the impact of the implementation of IFRS 9 (note 2).

(ii) Transfers reflect allowance movements between stages for loans that were recognized as of the beginning of the year.

(iii) New loans originated reflect the stage of loan, and the related loan balance, as of the end of the year.

(iv) New remeasurement of loss allowance includes impact from changes in loan balances and credit quality during the year.

Credit card receivables are assessed collectively for impairment by applying the three-stage approach (see note 2).

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 13. Inventories

For inventories recorded as at December 29, 2018, the Company recorded an inventory provision of \$37 million (December 30, 2017 – \$39 million) for the write-down of inventories below cost to net realizable value. The write-down was included in cost of merchandise inventories sold. There were no reversals of previously recorded write-downs of inventories during 2018 and 2017.

Note 14. Assets Held for Sale and Disposition

The Company classifies certain assets, primarily land and buildings, that it intends to dispose of in the next 12 months, as assets held for sale. These assets were previously used in the Company's retail business segment. In 2018 the Company recorded a nominal loss (2017 – \$1 million gain) from the sale of these assets. Impairment charges of \$3 million were recognized on these properties during 2018 (2017 – \$2 million).

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

Note 15. Fixed Assets

The following are continuities of the cost and the accumulated depreciation of fixed assets for the years ended December 29, 2018 and December 30, 2017:

		2018						
(millions of Canadian dollars)	Land	Buildings and Building Improvements	Equipment and Fixtures	Leasehold Improvements	Finance Leases - Land, Buildings, Equipment and Fixtures	Assets Under Construction	Total	
Cost								
Balance, beginning of year	\$ 1,975	\$ 8,151	\$ 7,090	\$ 2,054	\$ 936	\$ 518	\$ 20,724	
Additions ⁽ⁱ⁾	22	66	289	117	20	506	1,020	
Business acquisitions (note 5)	—	—	78	—	—	—	78	
Disposals	(27)	(53)	(66)	(14)	(6)	—	(166)	
Discontinued Operations (note 6)	(1,732)	(5,009)	(6)	(12)	—	(92)	(6,851)	
Net transfer to assets held for sale	(15)	(15)	—	—	—	—	(30)	
Net transfer to investment properties (note 16)	(43)	(23)	—	(3)	—	—	(69)	
Transfer from assets under construction	50	210	250	18	—	(528)	—	
Balance, end of year	\$ 230	\$ 3,327	\$ 7,635	\$ 2,160	\$ 950	\$ 404	\$ 14,706	
Accumulated depreciation								
Balance, beginning of year	\$ 2	\$ 3,159	\$ 5,333	\$ 1,062	\$ 491	\$ 8	\$ 10,055	
Depreciation	—	196	419	153	45	—	813	
Impairment losses	—	78	26	19	3	(5)	121	
Reversal of impairment losses	(1)	(24)	(3)	(11)	—	—	(39)	
Disposals	(1)	(18)	(45)	(20)	—	—	(84)	
Discontinued Operations (note 6)	(1)	(2,072)	(4)	(3)	—	(1)	(2,081)	
Net transfer to assets held for sale	—	(1)	—	—	—	—	(1)	
Net transfer to investment properties (note 16)	—	(6)	—	(3)	—	—	(9)	
Balance, end of year	\$ (1)	\$ 1,312	\$ 5,726	\$ 1,197	\$ 539	\$ 2	\$ 8,775	
Carrying amount as at:								
December 29, 2018	\$ 231	\$ 2,015	\$ 1,909	\$ 963	\$ 411	\$ 402	\$ 5,931	

(i) Additions include \$31 million of asset retirement obligations.

(millions of Canadian dollars)	Land	Buildings and Building Improvements	Equipment and Fixtures	Leasehold Improvements	Finance Leases - Land, Buildings, Equipment and Fixtures	Assets Under Construction	Total
Cost							
Balance, beginning of year	\$ 1,912	\$ 7,921	\$ 6,634	\$ 1,950	\$ 919	\$ 530	\$ 19,866
Additions	21	50	226	96	15	557	965
Business acquisitions (note 5)	—	—	81	1	—	—	82
Disposals	(2)	(1)	(35)	(14)	—	—	(52)
Net transfer to assets held for sale	—	(93)	(49)	(3)	—	—	(145)
Net transfer from investment properties (note 16)	1	5	—	—	2	—	8
Transfer from assets under construction	43	269	233	24	—	(569)	—
Balance, end of year	\$ 1,975	\$ 8,151	\$ 7,090	\$ 2,054	\$ 936	\$ 518	\$ 20,724
Accumulated depreciation							
Balance, beginning of year	\$ —	\$ 2,970	\$ 5,024	\$ 896	\$ 409	\$ 8	\$ 9,307
Depreciation	—	204	373	161	64	—	802
Impairment losses	1	17	18	21	18	—	75
Reversal of impairment losses	—	(8)	(2)	(2)	—	—	(12)
Disposals	—	(1)	(34)	(13)	—	—	(48)
Net transfer to assets held for sale	—	(25)	(46)	(1)	—	—	(72)
Net transfer from investment properties (note 16)	1	2	—	—	—	—	3
Balance, end of year	\$ 2	\$ 3,159	\$ 5,333	\$ 1,062	\$ 491	\$ 8	\$ 10,055
Carrying amount as at:							
December 30, 2017	\$ 1,973	\$ 4,992	\$ 1,757	\$ 992	\$ 445	\$ 510	\$ 10,669

Assets Held under Finance Leases The Company leases various land and buildings, and equipment and fixtures under a number of finance lease arrangements. As at December 29, 2018, the net carrying amount of leased land and buildings was \$385 million (December 30, 2017 – \$424 million), and the net carrying amount of leased equipment and fixtures was \$17 million (December 30, 2017 – \$21 million).

Assets under Construction The cost of additions to properties under construction for the year ended December 29, 2018 was \$506 million (December 30, 2017 – \$557 million). Included in this amount are capitalized borrowing costs of \$4 million (2017 – \$2 million), with a weighted average capitalization rate of 4.0% (2017 – 3.5%).

Security and Assets Pledged As at December 29, 2018, no fixed assets were encumbered by mortgages. As at December 30, 2017, fixed assets with a carrying amount of \$187 million were encumbered by mortgages of \$81 million.

Fixed Asset Commitments As at December 29, 2018, the Company had entered into commitments of \$233 million (December 30, 2017 – \$143 million) for the construction, expansion and renovation of buildings and the purchase of real property.

Impairment Losses and Reversals For the year ended December 29, 2018, the Company recorded \$114 million (2017 – \$60 million) of impairment losses on fixed assets in respect of 42 CGUs (2017 – 21 CGUs) in the retail operating segment. The recoverable amount was based on the greater of the CGU's fair value less costs to sell and its value in use. Approximately 5% (2017 – 29%) of impaired CGUs had carrying values which were \$9 million (2017 – \$11 million) greater than their fair value less costs to sell. The remaining 95% (2017 – 71%) of impaired CGUs had carrying values which were \$105 million (2017 – \$48 million) greater than their value in use.

For the year ended December 29, 2018, the Company recorded \$39 million (2017 – \$12 million) of impairment reversals on fixed assets in respect of 25 CGUs (2017 – seven CGUs) in the retail operating segment. Impairment reversals are recorded where the recoverable amount of the retail location exceeds its carrying amount. No (2017 – 57%) CGUs with impairment reversals had fair value less costs to sell greater than their carrying values (2017 – \$6 million). All (2017 – 43%) of CGUs with impairment reversals had value in use which were \$39 million (2017 – \$5 million) greater than carrying values.

When determining the value in use of a retail location, the Company develops a discounted cash flow model for each CGU. The duration of the cash flow projections for individual CGUs varies based on the remaining useful life of the significant assets within the CGU. Sales forecasts for cash flows are based on actual operating results, operating budgets, and long term growth rates that were consistent with industry averages, all of which are consistent with strategic plans presented to the Company's Board. The estimate of the value in use of the relevant CGUs was determined using a pre-tax discount rate of 8.0% to 8.5% at December 29, 2018 (December 30, 2017 – 8.0% to 8.5%).

Additional impairment losses of \$7 million (2017 – \$5 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 2017, the Company recorded \$7 million of impairment losses on its fixed assets relating to the announced closures of approximately 22 unprofitable retail locations across a range of banners and formats and \$3 million related to other restructuring plans.

Note 16. Investment Properties

The following are continuities of investment properties for the years ended December 29, 2018 and December 30, 2017:

(millions of Canadian dollars)	2018	2017 ⁽ⁱ⁾
Balance, beginning of year	\$ 276	\$ 261
Adjustment to fair value of investment properties	(47)	(2)
Additions	41	32
Business acquisitions (note 6)	4,730	—
Disposals	(23)	(7)
Discontinued Operations (note 6)	(4,819)	—
Impairment losses	(6)	(1)
Net transfer from (to) fixed assets ⁽ⁱⁱ⁾ (note 15)	81	(5)
Net transfer (to) from assets held for sale	(5)	1
Other	6	(3)
Balance, end of year	\$ 234	\$ 276

(i) Certain comparative figures have been restated (note 2).

(ii) Includes fair value gain of \$21 million related to transfer of fixed assets to investment properties.

During 2018, the Company recognized in operating income \$2 million (2017 – \$2 million) of rental income and incurred direct operating costs of \$1 million (2017 – \$2 million) related to its investment properties. In addition, the Company recognized direct operating costs of \$3 million (2017 – \$2 million) related to its investment properties for which no rental income was earned.

The valuations of investment properties using the income approach include assumptions as to market rental rates for properties of similar size and condition located within the same geographical areas, recoverable operating costs for leases with tenants, non-recoverable operating costs, vacancy periods, tenant inducements and capitalization rates for the purposes of determining the estimated net proceeds from the sale of the property. At December 29, 2018, the pre-tax discount rates used in the valuations for investment properties ranged from 8.25% to 8.75% (December 30, 2017 – 7.50% to 9.50%) and the terminal capitalization rates ranged from 6.25% to 9.00% (December 30, 2017 – 6.75% to 8.75%).

Note 17. Intangible Assets

The following are continuities of the cost and the accumulated amortization of intangible assets for the years ended December 29, 2018 and December 30, 2017:

2018						
(millions of Canadian dollars)	Indefinite Life Intangible Assets	Definite Life Internally Generated Intangible Assets	Software	Other Definite Life Intangible Assets	Total	
Cost						
Balance, beginning of year	\$ 3,485	\$ 20	\$ 2,434	\$ 6,011	\$ 11,950	
Additions	4	—	312	8	324	
Business acquisitions	30	—	—	25	55	
Disposals	—	—	(5)	(2)	(7)	
Discontinued Operations (note 6)	(30)	—	—	—	(30)	
Balance, end of year	\$ 3,489	\$ 20	\$ 2,741	\$ 6,042	\$ 12,292	
Accumulated amortization						
Balance, beginning of year	\$ —	\$ 20	\$ 1,574	\$ 2,105	\$ 3,699	
Amortization	—	—	264	524	788	
Disposal	—	—	(4)	(1)	(5)	
Impairment losses	—	—	11	1	12	
Balance, end of year	\$ —	\$ 20	\$ 1,845	\$ 2,629	\$ 4,494	
Carrying amount as at:						
December 29, 2018	\$ 3,489	\$ —	\$ 896	\$ 3,413	\$ 7,798	
2017						
(millions of Canadian dollars)	Indefinite Life Intangible Assets	Definite Life Internally Generated Intangible Assets	Software	Other Definite Life Intangible Assets	Total	
Cost						
Balance, beginning of year	\$ 3,475	\$ 20	\$ 2,172	\$ 5,976	\$ 11,643	
Additions	10	—	262	8	280	
Business acquisitions	—	—	—	27	27	
Balance, end of year	\$ 3,485	\$ 20	\$ 2,434	\$ 6,011	\$ 11,950	
Accumulated amortization						
Balance, beginning of year	\$ —	\$ 20	\$ 1,300	\$ 1,578	\$ 2,898	
Amortization	—	—	245	525	770	
Impairment losses	—	—	29	2	31	
Balance, end of year	\$ —	\$ 20	\$ 1,574	\$ 2,105	\$ 3,699	
Carrying amount as at:						
December 30, 2017	\$ 3,485	\$ —	\$ 860	\$ 3,906	\$ 8,251	

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

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

Key Assumptions The key assumptions used to calculate the fair value less costs to sell are those regarding discount rates, growth rates and expected changes in margins. These assumptions are consistent with the assumptions used to calculate fair value less costs to sell for goodwill (see note 18).

Software Software is comprised of software purchases and development costs. There were no capitalized borrowing costs included in 2018 (2017 – nil). In 2017, the Company recorded impairment losses of \$29 million, which included \$22 million related to the impairment of certain IT assets that support the existing loyalty programs as a result of the customer loyalty awards program.

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

Note 18. Goodwill

The following is a continuity of the cost and the accumulated impairment of goodwill for the years ended December 29, 2018 and December 30, 2017:

(millions of Canadian dollars)	2018	2017
Cost		
Balance, beginning of year	\$ 4,916	\$ 4,889
Business acquisitions ⁽ⁱ⁾	362	27
Discontinued Operations (note 6)	(342)	—
Balance, end of year	\$ 4,936	\$ 4,916
Accumulated amortization and impairment losses		
Balance, beginning of year	\$ 994	\$ 994
Impairment losses	—	—
Balance, end of year	\$ 994	\$ 994
Carrying amount as at the end of the year	\$ 3,942	\$ 3,922

(i) Includes goodwill of \$342 million associated with the acquisition of CREIT (note 6).

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

(millions of Canadian dollars)	As at December 29, 2018	As at December 30, 2017
Shoppers Drug Mart	\$ 2,972	\$ 2,952
Market	375	375
Discount	459	459
T&T Supermarket Inc.	129	129
All other	7	7
Carrying amount of goodwill	\$ 3,942	\$ 3,922

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% to 9.3% (December 30, 2017 – 7.0%) and is based on a risk-free rate, an equity risk premium adjusted for betas of comparable publicly traded companies, an unsystematic risk premium, an after-tax cost of debt based on corporate bond yields and the capital structure of comparable public traded companies.

Cash flow projections have been discounted using a rate derived from the Company's after-tax weighted average cost of capital. At December 29, 2018, the after-tax discount rate used in the recoverable amount calculations was 7.0% to 9.3% (December 30, 2017 – 7.0%). The pre-tax discount rate was 9.5% to 12.7% (December 30, 2017 – 9.6%).

The Company included a minimum of three years of cash flows in its discounted cash flow model. The cash flow forecasts were extrapolated beyond the three year period using an estimated long term growth rate of 2.0% (December 30, 2017 – 2.0%). The budgeted EBITDA growth was based on the Company's three year strategic plan approved by the Board.

Note 19. Other Assets

The components of other assets were as follows:

(millions of Canadian dollars)	As at December 29, 2018	As at December 30, 2017
Sundry investments and other receivables	\$ 31	\$ 56
Accrued benefit plan asset (note 26)	225	147
Mortgages, loans and notes receivable	—	29
Other	133	177
Total Other Assets	\$ 389	\$ 409
Current portion of mortgages, loans and notes receivable ⁽ⁱ⁾	—	26
Other Assets	\$ 389	\$ 383

(i) Current portion of mortgages, loans and notes receivable are included in prepaid expenses and other assets in the consolidated balance sheets.

Note 20. Customer Loyalty Awards Program Liability

The carrying amount of the liability associated with the Company's customer loyalty awards programs ("loyalty liability") was as follows:

(millions of Canadian dollars)	As at December 29, 2018	As at December 30, 2017
Loyalty liability	\$ 228	\$ 349

The majority of the Company's loyalty liability, which is a contract liability, is expected to be redeemed and recognized as revenue within one year of issuance.

In 2018, the Company launched the *PC Optimum* program, which combined the *Shoppers Optimum* and *PC Plus* rewards programs into one program. As a result, the Company recorded a charge of \$165 million in 2017, related to the revaluation of the existing *Shoppers Optimum* liability for outstanding points to reflect a higher anticipated redemption rate under the new program.

Note 21. Provisions

Provisions consist primarily of amounts recorded in respect of restructuring, self-insurance, environmental and decommissioning liabilities, onerous lease arrangements, legal claims and the Loblaw Card Program. The following is a continuity of provisions for the years ended December 29, 2018 and December 30, 2017:

(millions of Canadian dollars)	2018	2017
Provisions, beginning of year	\$ 452	\$ 219
Additions	114	354
Payments	(217)	(93)
Reversals	(32)	(28)
Provisions, end of year	\$ 317	\$ 452

(millions of Canadian dollars)	As at December 29, 2018	As at December 30, 2017
Recorded on the consolidated balance sheets as follows:		
Current portion of provisions	\$ 165	\$ 283
Non-current portion of provisions	152	169
Total provisions	\$ 317	\$ 452

Competition Bureau Investigation In 2017, the Company and Weston announced actions taken to address their involvement in an industry wide price-fixing arrangement. In connection with the arrangement, the Company offered customers a \$25 Loblaw Card, which can be used to purchase items sold in Loblaw grocery stores across Canada. The Company recorded a charge of \$107 million associated with the Loblaw Card Program in 2017. In 2018, the Company recorded an additional charge of \$4 million. The Company expects that Loblaw Cards issued to customers will be an offset against civil liability. The charge recorded for the Loblaw Card Program should not be viewed as an estimate of damages (see note 32).

Restructuring and other related costs In 2017, the Company eliminated approximately 500 corporate and store-support positions and finalized a plan that resulted in the closure of 22 unprofitable retail locations across a range of banners and formats. The Company recorded a charge of \$123 million associated with this restructuring in the fourth quarter of 2017, which included \$109 million for severance and lease related costs, \$7 million for asset impairments and \$7 million related to other costs.

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

Note 22. Long Term Debt

The components of long term debt were as follows:

(millions of Canadian dollars)	As at December 29, 2018	As at December 30, 2017
Unsecured Term Loan Facility		
0.13% + Prime, or 1.13% + Bankers' Acceptance, due 2019	\$ —	\$ 250
0.45% + Prime, or 1.45% + Bankers' Acceptance, due 2019	—	48
Debentures		
Loblaw Companies Limited Notes		
3.75%, due 2019	800	800
5.22%, due 2020	350	350
4.86%, due 2023	800	800
3.92%, due 2024	400	—
6.65%, due 2027	100	100
6.45%, due 2028	200	200
4.49%, due 2028	400	—
6.50%, due 2029	175	175
11.40%, due 2031		
Principal	151	151
Effect of coupon repurchase	(4)	(19)
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
Choice Properties Senior Unsecured Debentures		
Series A 3.55%, due 2018	—	400
Series B 4.90%, due 2023	—	200
Series C 3.50%, due 2021	—	250
Series D 4.29%, due 2024	—	200
Series E 2.30%, due 2020	—	250
Series F 4.06%, due 2025	—	200
Series G 3.20%, due 2023	—	250
Series H 5.27%, due 2046	—	100
Series 7 3.00%, due 2019	—	200
Series 8 3.60%, due 2020	—	300
Series 9 3.60%, due 2021	—	200
Series 10 3.60%, due 2022	—	300
Long Term Debt Secured by Mortgage		
2.47% – 5.49%, due 2018 – 2029 (note 15)	—	81
Guaranteed Investment Certificates		
0.85% – 3.78%, due 2019 – 2023	1,141	852
Independent Securitization Trust		
2.91%, due 2018	—	400
2.23%, due 2020	250	250
2.71%, due 2022	250	250
3.10%, due 2023	250	—
Independent Funding Trusts	536	551
Finance Lease Obligations	535	568
Choice Properties Credit Facilities	—	561
Transaction costs and other	(13)	(21)
Total long term debt	\$ 8,026	\$ 11,177
Less amount due within one year	1,647	1,635
Long Term Debt	\$ 6,379	\$ 9,542

Notes to the Consolidated Financial Statements

Significant long term debt transactions are described below.

Debentures The following table summarizes the debentures issued in 2018.

(millions of Canadian dollars except where otherwise indicated)	Interest Rate	Maturity Date	Principal Amount 2018
Loblaw Companies Limited Notes ⁽ⁱ⁾	3.92%	June 10, 2024	\$ 400
Loblaw Companies Limited Notes ⁽ⁱⁱ⁾	4.49%	December 11, 2028	400
Total Debentures issued			\$ 800

(i) On December 10, 2018, the Company issued debentures of \$400 million bearing interest at a rate of 3.92%, maturing June 10, 2024.

(ii) On December 10, 2018, the Company issued debentures of \$400 million bearing interest at a rate of 4.49%, maturing December 11, 2028.

The following table summarizes the debentures and term loans repaid in 2018:

(millions of Canadian dollars except where otherwise indicated)	Interest Rate	Maturity Date	Principal Amount 2018
Shoppers Drug Mart Notes	2.36%	May 24, 2018	\$ 275
Loblaw Companies Limited Term Loan ⁽ⁱ⁾	Variable	March 28, 2019	48
Loblaw Companies Limited Term Loan ⁽ⁱⁱ⁾	Variable	March 29, 2019	250
Total Debentures and Term Loans repaid			\$ 573

(i) Loblaw unsecured term loan facility bearing interest at variable rates of either Prime plus 0.45% or Bankers' Acceptance rate plus 1.45% were redeemed on August 29, 2018.

(ii) Loblaw unsecured term loan facility bearing interest at variable rates of either Prime plus 0.13% or Bankers' Acceptance rate plus 1.13% were redeemed on August 29, 2018.

There were no debentures issued or repaid in 2017.

Subsequent to the end of 2018, the Company redeemed, at par, the \$800 million debenture bearing interest at 3.75% with an original maturity date of March 12, 2019 (note 10). As a result of this repayment the Company has recorded an early repayment premium charge of \$3 million in net interest expense and other financial charges.

During the second quarter of 2018, the Company repaid the remaining mortgage balance of \$72 million at maturity.

Guaranteed Investment Certificates The following table summarizes PC Bank's Guaranteed Investment Certificates ("GICs") activity, before commissions, in 2018 and 2017:

(millions of Canadian dollars)	2018	2017
Balance, beginning of year	\$ 852	\$ 928
GICs issued	495	76
GICs matured	(206)	(152)
Balance, end of year	\$ 1,141	\$ 852

Independent Securitization Trust The notes issued by *Eagle* are debentures, which are collateralized by PC Bank's credit card receivables (see note 12). The Company has arranged letters of credit for the benefit of the *Eagle* notes issued prior to 2015 and outstanding as at December 29, 2018 (see note 33).

In 2018, *Eagle* issued \$250 million of senior and subordinated term notes with a maturity date of July 17, 2023 at a weighted average interest rate of 3.10%. In connection with this issuance, \$250 million of bond forward agreements were settled, resulting in a realized fair value loss of \$1 million, in Other Comprehensive Income, and a net effective interest rate of 3.15% on the *Eagle* notes issued.

In the fourth quarter of 2018, \$400 million 2.91% of senior and subordinated term notes issued by *Eagle* matured and were repaid.

Independent Funding Trusts As at December 29, 2018, the independent funding trusts had drawn \$536 million (December 30, 2017 – \$551 million) from the revolving committed credit facility that is the source of funding to the independent funding trusts.

Committed Credit Facilities The Company has a \$1.0 billion committed credit facility with a maturity date of June 10, 2021. These facilities contain certain financial covenants (see note 25). As at December 29, 2018 and December 30, 2017, there were no amounts drawn under the committed credit facility.

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

(millions of Canadian dollars)	As at December 29, 2018	As at December 30, 2017
Loblaw Companies Limited Notes	\$ 800	\$ —
Choice Properties Notes	—	400
Shoppers Drug Mart Notes	—	275
Guaranteed Investment Certificates	274	193
Independent Securitization Trust	—	400
Independent Funding Trust	536	—
Finance Lease Obligations	37	44
Long term debt secured by mortgage	—	73
Choice Properties Credit Facility	—	250
Long term debt due within one year	\$ 1,647	\$ 1,635

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

(millions of Canadian dollars)	As at December 29, 2018
2019	\$ 1,647
2020	1,127
2021	269
2022	360
2023	1,153
Thereafter	3,483
Total Long Term Debt (excludes transaction costs)	\$ 8,039

See note 30 for the fair value of long term debt.

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

(millions of Canadian dollars)	2018	2017
Total Long Term Debt, beginning of period	\$ 11,177	\$ 10,870
Business acquisitions (note 6)	\$ 1,841	\$ —
Long Term Debt issuances ⁽ⁱ⁾⁽ⁱⁱ⁾	4,880	\$ 686
Long Term Debt repayments ⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾	(2,715)	(450)
Discontinued Operations (note 6)	(7,222)	—
Total cash flow from Long Term Debt Financing Activities	\$ (3,216)	\$ 236
Finance Lease additions, net of disposals	\$ 14	\$ 16
Other non-cash changes	51	55
Total non-cash Long Term Debt activities	\$ 65	\$ 71
Total Long Term Debt, end of period	\$ 8,026	\$ 11,177

(i) Includes net issuances from the Independent Funding Trust, which are revolving debt instruments.

(ii) Includes net issuances or repayments from the Choice Properties' credit facilities depending on the activity in the period.

(iii) Includes repayments on Finance Lease Obligations of \$83 million (2017 – \$94 million).

Note 23. Other Liabilities

The components of other liabilities were as follows:

(millions of Canadian dollars)	As at December 29, 2018	As at December 30, 2017
Net defined benefit plan obligation (note 26)	\$ 294	\$ 325
Other long term employee benefit obligation	109	108
Deferred lease obligation	315	140
Fair value of acquired leases	54	65
Equity-based compensation liability (note 27)	2	4
Other	19	58
Other liabilities	\$ 793	\$ 700

Note 24. Share Capital

First Preferred Shares (authorized – 1.0 million shares) There were no First Preferred Shares outstanding as at December 29, 2018 and December 30, 2017.

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

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

	December 29, 2018 (52 weeks)		December 30, 2017 (52 weeks)	
	Number of Common Shares	Common Share Capital	Number of Common Shares	Common Share Capital
(millions of Canadian dollars except where otherwise indicated)				
Issued and outstanding, beginning of period	386,293,941	\$ 7,460	400,829,870	\$ 7,713
Issued for settlement of stock options	2,081,235	98	1,019,610	48
Purchased and cancelled ⁽ⁱ⁾	(16,584,209)	(381)	(15,555,539)	(301)
Issued and outstanding, end of period	371,790,967	\$ 7,177	386,293,941	\$ 7,460
Shares held in trust, beginning of period	(780,938)	\$ (15)	(1,105,620)	\$ (21)
Purchased for future settlement of RSUs and PSUs	(582,500)	(12)	(686,000)	(13)
Released for settlement of RSUs and PSUs (note 27)	628,711	12	1,010,682	19
Shares held in trust, end of period	(734,727)	\$ (15)	(780,938)	\$ (15)
Issued and outstanding, net of shares held in trust, end of period	371,056,240	\$ 7,162	385,513,003	\$ 7,445
Weighted average outstanding, net of shares held in trust (note 9)	376,747,429		393,764,159	

- (i) Common shares purchased and cancelled as at December 29, 2018 does not include the shares repurchased from the automatic share purchase plan. Common shares purchased and cancelled as at December 30, 2017 includes 22,012 shares held in escrow that were transferred and cancelled in a private transaction and are excluded from the Company's Normal Course Issuer Bid.

Dividends The declaration and payment of dividends on the Company's common shares and the amount thereof are at the discretion of the Board, which takes into account the Company's financial results, capital requirements, available cash flow, future prospects of the Company's business and other factors considered relevant from time to time. Over the long term, it is the Company's intention to increase the amount of the dividend while retaining appropriate free cash flow to finance future growth. In the second quarters of 2018 and 2017, the Board raised the quarterly dividend by \$0.025 to \$0.295 and by \$0.01 to \$0.27 per common share, respectively.

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

	2018 ⁽ⁱ⁾	2017
Dividends declared per share (\$):		
Common Share	\$ 1.155	\$ 1.070
Second Preferred Share, Series B	\$ 1.325	\$ 1.325

- (i) The fourth quarter dividends for 2018 of \$0.295 per share declared on common shares were payable on December 30, 2018 and subsequently paid on December 31, 2018. The fourth quarter dividends for 2018 of \$0.33125 per share declared on Second Preferred Shares, Series B were payable and paid on December 31, 2018.

(millions of Canadian dollars)	2018	2017
Dividends declared:		
Common Share	\$ 433	\$ 421
Second Preferred Share, Series B (note 9)	12	12
Total dividends declared	\$ 445	\$ 433

Subsequent to the end of the year, the Board declared a quarterly dividend of \$0.295 per common share, payable on April 1, 2019 to shareholders of record on March 15, 2019 and a dividend on the Second Preferred Shares, Series B of \$0.33125 per share payable on March 31, 2019 to shareholders of record on March 15, 2019.

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

(millions of Canadian dollars except where otherwise indicated)	2018	2017
Common shares repurchased under the NCIB for cancellation (number of shares)	16,584,209	15,533,527
Cash consideration paid	\$ 1,082	\$ 1,091
Premium charged to Retained Earnings ⁽ⁱ⁾	886	790
Reduction in Common Share Capital ⁽ⁱⁱ⁾	381	301
Common shares repurchased under the NCIB and held in trust (number of shares)	582,500	686,000
Cash consideration paid	\$ 36	\$ 48
Premium charged to Retained Earnings	24	35
Reduction in Common Share Capital	12	13

- (i) Includes \$126 million related to the automatic share purchase plan, as described below.

- (ii) Includes \$59 million related to the automatic share purchase plan, as described below.

In the second quarter of 2018, the Company renewed its NCIB to purchase on the TSX or through alternative trading systems up to 18,952,573 of the Company's common shares, representing approximately 5% of outstanding common shares. In accordance with the rules of the TSX, the Company may purchase its common shares from time to time at the then market price of such shares. As of December 29, 2018, the Company has purchased 8,477,182 common shares under its current NCIB.

In the fourth quarter of 2018, the Company entered into an automatic share purchase plan ("ASPP") with a broker in order to facilitate the repurchase of the Company's common shares under its current NCIB. Under the Company's ASPP, the Company's broker may purchase common shares at times when the Company ordinarily would not be active in the market. As at December 29, 2018, an obligation to repurchase shares of approximately \$185 million was recognized under the ASPP in trade payable and other liabilities. Subsequent to the end of the year, the Company has completed this ASPP and repurchased 2,927,733 shares.

Note 25. Capital Management

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

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

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

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

(millions of Canadian dollars)	As at December 29, 2018	As at December 30, 2017
Bank indebtedness	\$ 56	\$ 110
Short term debt	915	640
Long term debt due within one year	1,647	1,635
Long term debt	6,379	9,542
Certain other liabilities	48	41
Total debt	\$ 9,045	\$ 11,968
Equity attributable to shareholders of the Company	12,119	13,094
Total capital under management	\$ 21,164	\$ 25,062

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

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

Covenants and Regulatory Requirements The Company is subject to certain key financial and non-financial covenants under its existing Credit Facility, unsecured term loan facilities, certain debentures and letters of credit. These covenants, which include interest coverage and leverage ratios, as defined in the respective agreements, are measured by the Company on a quarterly basis to ensure compliance with these agreements. As at December 29, 2018 and throughout the year, the Company was in compliance with each of the covenants under these agreements.

The Company is subject to externally imposed capital requirements from the Office of the Superintendent of Financial Institutions ("OSFI"), the primary regulator of PC Bank. PC Bank's capital management objectives are to maintain a consistently strong capital position while considering the economic risks generated by its credit card receivables portfolio and to meet all regulatory capital requirements as defined by OSFI. PC Bank uses Basel III as its regulatory capital management framework, which includes a common equity Tier 1 capital ratio of 4.5%, a Tier 1 capital ratio of 6.0% and a total capital ratio of 8.0%. In addition to the regulatory capital ratios requirement, PC Bank is subject to the Basel III Leverage ratio. PC Bank is also subject to the OSFI's Guideline on Liquidity Adequacy Requirements ("LARs"). The LARs guideline establishes standards based on the Basel III framework, including a Liquidity Coverage Ratio ("LCR") standard. As at the end of 2018 and throughout the year, PC Bank has met all applicable regulatory requirements.

Note 26. Post-Employment and Other Long Term Employee Benefits

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

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

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

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

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

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

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

The Company expects to make contributions in 2019 to its defined benefit and defined contribution plans and the MEPPs in which it participates as well as benefit payments to the beneficiaries of the supplemental unfunded defined benefit pension plans, other defined benefit plans and other long term employee benefit plans.

Other Long Term Employee Benefits

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

Defined Benefit Pension Plans and Other Defined Benefit Plans

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

	2018		2017	
	Defined Benefit Pension Plans	Other Defined Benefit Plans	Defined Benefit Pension Plans	Other Defined Benefit Plans
(millions of Canadian dollars)				
Present value of funded obligations	\$ (1,471)	\$ —	\$ (1,780)	\$ —
Present value of unfunded obligations	(134)	(148)	(145)	(154)
Total present value of defined benefit obligation	\$ (1,605)	\$ (148)	\$ (1,925)	\$ (154)
Fair value of plan assets	1,694	—	1,916	—
Total funded status of surpluses (obligations)	\$ 89	\$ (148)	\$ (9)	\$ (154)
Assets not recognized due to asset ceiling	(10)	—	(15)	—
Total net defined benefit plan surpluses (obligations)	\$ 79	\$ (148)	\$ (24)	\$ (154)
Recorded on the consolidated balance sheets as follows:				
Other Assets (note 19)	\$ 225	\$ —	\$ 147	\$ —
Other Liabilities (note 23)	\$ (146)	\$ (148)	\$ (171)	\$ (154)

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

	2018			2017		
	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total
(millions of Canadian dollars)						
Changes in the fair value of plan assets						
Fair value, beginning of year	\$ 1,916	\$ —	\$ 1,916	\$ 1,947	\$ —	\$ 1,947
Employer contributions	43	—	43	55	—	55
Employee contributions	4	—	4	3	—	3
Benefits paid	(62)	—	(62)	(75)	—	(75)
Interest income	66	—	66	77	—	77
Actuarial (loss) gains in other comprehensive income	(41)	—	(41)	142	—	142
Settlements ⁽ⁱ⁾	(228)	—	(228)	(229)	—	(229)
Other	(4)	—	(4)	(4)	—	(4)
Fair value, end of year	\$ 1,694	\$ —	\$ 1,694	\$ 1,916	\$ —	\$ 1,916
Changes in the present value of the defined benefit plan obligations						
Balance, beginning of year	\$ 1,925	\$ 154	\$ 2,079	\$ 1,904	\$ 171	\$ 2,075
Current service cost	58	5	63	57	6	63
Interest cost	69	5	74	77	6	83
Benefits paid	(72)	(8)	(80)	(82)	(6)	(88)
Employee contributions	2	—	2	3	—	3
Actuarial (gains) losses in other comprehensive (loss) income	(150)	(8)	(158)	183	(23)	160
Settlements ⁽ⁱ⁾	(227)	—	(227)	(217)	—	(217)
Balance, end of year	\$ 1,605	\$ 148	\$ 1,753	\$ 1,925	\$ 154	\$ 2,079

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

In 2018 and 2017, the Company completed several annuity purchases 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 \$228 million (2017 – \$229 million) from the impacted plans' assets to settle \$227 million (2017 – \$217 million) of pension obligations and recorded settlement charges of \$1 million (2017 – \$12 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.

Subsequent to the year ended 2018, the Company completed several annuity purchases and paid \$187 million from the impacted plans' assets to settle \$177 million on pension obligations and management expects to record settlement charges of \$10 million in SG&A.

For 2018, the actual return on plan assets was \$25 million (2017 – \$219 million).

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

- Active plan participants 57% (2017 – 55%);
- Deferred plan participants 9% (2017 – 10%); and
- Retirees 34% (2017 – 35%).

During 2019, the Company expects to contribute approximately \$74 million (2018 – contributed \$44 million) to its registered defined benefit pension plans. The actual amount paid may vary from the estimate based on actuarial valuations being completed, investment performance, volatility in discount rates, regulatory requirements and other factors.

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

	2018			2017		
	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total
(millions of Canadian dollars)						
Current service cost	\$ 58	\$ 5	\$ 63	\$ 57	\$ 6	\$ 63
Interest cost on net defined benefit plan obligations	3	5	8	—	6	6
Settlement charges ⁽ⁱ⁾	1	—	1	12	—	12
Other	4	—	4	4	—	4
Net post-employment defined benefit cost	\$ 66	\$ 10	\$ 76	\$ 73	\$ 12	\$ 85

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

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

	2018			2017		
	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total
(millions of Canadian dollars)						
Return on plan assets, excluding amounts included in net interest expense and other financing charges	\$ 41	\$ —	\$ 41	\$ (142)	\$ —	\$ (142)
Experience adjustments	4	2	6	19	(28)	(9)
Actuarial (gains) losses from change in financial assumptions	(154)	(10)	(164)	164	5	169
Change in liability arising from asset ceiling	(7)	—	(7)	8	—	8
Total net actuarial (gains) losses recognized in other comprehensive income (loss) before income taxes	\$ (116)	\$ (8)	\$ (124)	\$ 49	\$ (23)	\$ 26
Income tax expenses (recoveries) on actuarial (gains) losses (note 8)	31	2	33	(13)	6	(7)
Actuarial (gains) losses net of income tax (recoveries) expenses	\$ (85)	\$ (6)	\$ (91)	\$ 36	\$ (17)	\$ 19

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

	2018			2017		
	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total
(millions of Canadian dollars)						
Cumulative amount, beginning of year	\$ 19	\$ (79)	\$ (60)	\$ (30)	\$ (56)	\$ (86)
Net actuarial (gains) losses recognized in the year before income taxes	(116)	(8)	(124)	49	(23)	26
Cumulative amount, end of year	\$ (97)	\$ (87)	\$ (184)	\$ 19	\$ (79)	\$ (60)

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

(millions of Canadian dollars, except where otherwise indicated)	2018		2017	
Equity securities				
Canadian - pooled funds	\$ 49	3%	\$ 79	4%
Foreign - pooled funds	446	26%	713	37%
Total Equity Securities	\$ 495	29%	\$ 792	41%
Debt securities				
Fixed income securities:				
- government	\$ 439	26%	\$ 439	23%
- corporate	155	9%	131	7%
Fixed income pooled funds ⁽ⁱ⁾ :				
- government	277	16%	404	21%
- corporate	10	1%	10	1%
Total Debt Securities	\$ 881	52%	\$ 984	52%
Other investments	121	7%	117	6%
Cash and cash equivalents	197	12%	23	1%
Total	\$ 1,694	100%	\$ 1,916	100%

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

As at December 29, 2018 and December 30, 2017, the defined benefit pension plans did not directly include any of the Company's securities.

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

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

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

	2018		2017	
	Defined Benefit Pension Plans	Other Defined Benefit Plans	Defined Benefit Pension Plans	Other Defined Benefit Plans
Defined Benefit Plan Obligations				
Discount rate	4.00%	4.00%	3.50%	3.50%
Rate of compensation increase	3.00%	n/a	3.00%	n/a
Mortality table ⁽ⁱ⁾	CPM-RPP2014 Pub/ Priv Generational	CPM-RPP2014 Pub/ Priv Generational	CPM-RPP2014 Pub/ Priv Generational	CPM-RPP2014 Pub/ Priv Generational
Net Defined Benefit Plan Cost				
Discount rate	3.50%	3.50%	4.00%	3.75%
Rate of compensation increase	3.00%	n/a	3.00%	n/a
Mortality table ⁽ⁱ⁾	CPM-RPP2014 Pub/ Priv Generational	CPM-RPP2014 Pub/ Priv Generational	CPM-RPP2014 Pub/ Priv Generational	CPM-RPP2014 Pub/ Priv Generational

n/a – not applicable

(i) Public or private sector mortality table is used depending on the prominent demographics of each plan.

The weighted average duration of the defined benefit obligation as at December 29, 2018 is 17.8 years (December 30, 2017 – 17.7 years).

The growth rate of health care costs, primarily drug and other medical costs, for the other defined benefit plan obligations as at the end of the year was estimated at 4.50% and is expected to remain at 4.50% at the end of 2019 and thereafter.

Sensitivity of Key Actuarial Assumptions The following table outlines the key assumptions for 2018 (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 of Canadian dollars except where otherwise indicated)	Defined Benefit Pension Plans		Other Defined Benefit Plans	
	Defined Benefit Plan Obligations	Net Defined Benefit Plan Cost ⁽ⁱ⁾	Defined Benefit Plan Obligations	Net Defined Benefit Plan Cost ⁽ⁱ⁾
Discount rate	4.00%	3.50%	4.00%	3.50%
Impact of:				
1% increase	\$ (268)	\$ (28)	\$ (18)	\$ —
1% decrease	\$ 323	\$ 27	\$ 22	\$ —
Expected growth rate of health care costs			4.50%	4.50%
Impact of:				
1% increase	n/a	n/a	\$ 16	\$ 1
1% decrease	n/a	n/a	\$ (13)	\$ (1)

n/a – not applicable

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

Multi-Employer Pension Plans

During 2018, the Company recognized an expense of \$66 million (2017 – \$66 million) in operating income, which represents the contributions made in connection with MEPPs. During 2019, the Company expects to continue to make contributions into these MEPPs.

The Company, together with its franchises, is the largest participating employer in the Canadian Commercial Workers Industry Pension Plan (“CCWIPP”), with approximately 54,000 (2017 – 54,000) employees as members. Included in the 2018 expense described above are contributions of \$65 million (2017 – \$65 million) to CCWIPP.

Post-Employment and Other Long Term Employee Benefit Costs

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

(millions of Canadian dollars)	2018	2017
Net post-employment defined benefit cost ⁽ⁱ⁾	\$ 76	\$ 85
Defined contribution costs ⁽ⁱⁱ⁾	25	22
Multi-employer pension plan costs ⁽ⁱⁱⁱ⁾	66	66
Total net post-employment benefit costs	\$ 167	\$ 173
Other long term employee benefit costs ^(iv)	28	28
Net post-employment and other long term employee benefit costs	\$ 195	\$ 201
Recorded on the consolidated statement of earnings as follows:		
Selling, general and administrative expenses (note 28)	\$ 184	\$ 192
Net interest expense and other financing charges (note 7)	11	9
Net post-employment and other long term employee benefit costs	\$ 195	\$ 201

(i) Includes settlement charges of \$1 million (2017 – \$12 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 (2017 – \$3 million) of net interest expense and other financing charges.

Note 27. Equity-Based Compensation

The Company’s equity-based compensation expense, which includes Loblaw Stock Option, RSU, PSU, DSU and EDSU plans was \$49 million during 2018 (2017 – \$53 million). The expense was recognized in operating income.

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

(millions of Canadian dollars)	As at December 29, 2018	As at December 30, 2017
Trade payables and other liabilities	\$ —	\$ 11
Other liabilities (note 23)	2	4
Contributed surplus	107	110

During 2018, the Company cancelled stock options and granted new stock options at an adjusted share price to “make-whole” stock option holders for the decline in the Company’s share price as a result of the spin-out of the Company’s equity interest in Choice Properties. In addition, the Company issued additional RSUs, PSUs, DSUs, and EDSUs to “make-whole” unit holders as a result of the spin-out. These “make-whole” arrangements were not considered modifications to the Company’s equity-based compensation plans and as a result had no impact on the Company’s financial statements.

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

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

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

	2018		2017	
	Options (number of shares)	Weighted Average Exercise Price / Share	Options (number of shares)	Weighted Average Exercise Price / Share
Outstanding options, beginning of year	7,487,774	\$ 53.77	7,322,358	\$ 48.93
Granted	9,672,806	\$ 53.26	1,584,407	\$ 70.02
Exercised	(2,081,235)	\$ 38.87	(1,019,610)	\$ 39.98
Forfeited/cancelled	(7,569,714)	\$ 59.36	(399,381)	\$ 64.74
Outstanding options, end of year	7,509,631	\$ 51.60	7,487,774	\$ 53.77
Options exercisable, end of year	3,033,156	\$ 45.14	3,847,491	\$ 43.57

During 2018, the Company cancelled all 6,725,773 stock options and granted 8,013,333 stock options at an adjusted share price to "make-whole" stock option holders for the decline in the Company's share price as a result of the spin-out of the Company's equity interest in Choice Properties.

Range of Exercise Prices	2018 Outstanding Options			2018 Exercisable Options	
	Number of Options Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price/Share	Number of Exercisable Options	Weighted Average Exercise Price/Share
\$27.37 – \$54.30	2,968,083	2.1	\$ 42.74	2,253,523	\$ 40.56
\$54.31 – \$57.83	1,954,149	6.1	\$ 55.79	28,111	\$ 57.06
\$57.84 – \$65.46	2,587,399	4.7	\$ 58.59	751,522	\$ 58.42
	7,509,631		\$ 51.60	3,033,156	\$ 45.14

During 2018, the Company issued common shares on the exercise of stock options with a weighted average market share price of \$65.45 (2017 – \$70.98). The Company received cash consideration of \$78 million (2017 – \$41 million) related to the exercise of these options.

The fair value of stock options granted during 2018 was \$15 million (2017 – \$15 million). The assumptions used to measure the fair value of options granted during 2018 and 2017 under the Black-Scholes valuation model at date of grant were as follows:

	2018	2017
Expected dividend yield	1.8%	1.5%
Expected share price volatility	15.2% – 21.0%	16.0% – 18.2%
Risk-free interest rate	1.9% – 2.3%	0.9% – 1.7%
Expected life of options	3.9 – 6.3 years	3.8 – 6.3 years

Estimated forfeiture rates are incorporated into the measurement of stock option plan expense. The forfeiture rate applied as at December 29, 2018 was 9.0% (December 30, 2017 – 10.0%).

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

(Number of awards)	2018	2017
RSUs, beginning of year	824,705	858,106
Granted	528,614	337,846
Reinvested	7,954	4,418
Settled	(277,698)	(323,894)
Forfeited	(59,300)	(51,771)
RSUs, end of year	1,024,275	824,705

The fair value of RSUs granted during 2018 was \$24 million (2017 – \$24 million).

During 2018, as a result of the spin-out of Choice Properties the Company granted additional 164,322 RSUs to “make-whole” RSU unitholders for the decline in the Company's share price as a result of the spin-out of the Company's equity interest in Choice Properties.

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

(Number of awards)	2018	2017
PSUs, beginning of year	631,528	965,863
Granted	434,692	404,150
Reinvested	5,409	3,152
Settled	(355,618)	(687,007)
Forfeited	(41,066)	(54,630)
PSUs, end of year	674,945	631,528

The fair value of PSUs granted during 2018 was \$15 million (2017 – \$16 million).

During 2018, as a result of Choice Properties spin-out the Company granted additional 114,778 PSUs to “make-whole” PSU unitholders for the decline in the Company's share price as a result of the spin-out of the Company's equity interest in Choice Properties.

Settlement of Awards from Shares Held in Trust During 2018, the Company settled RSUs and PSUs totaling 633,316 (2017 – 1,010,901), of which 628,711 (2017 – 1,010,682) were settled through the trusts established for settlement of each of the RSU and PSU plans (see note 24). The settlements resulted in a \$12 million (2017 – \$19 million) increase to share capital and a net increase of \$25 million (2017 – \$29 million) to retained earnings.

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

(Number of awards)	2018	2017
DSUs outstanding, beginning of year	220,672	188,202
Granted	78,860	29,289
Reinvested	2,917	3,181
Settled	(6,120)	—
DSUs outstanding, end of year	296,329	220,672

The fair value of DSUs granted during 2018 was \$2 million (2017 – \$2 million).

During 2018, as a result of the spin-out of Choice Properties the Company granted additional 47,027 DSUs to “make-whole” DSU unitholders for the decline in the Company's share price as a result of the spin-out of the Company's equity interest in Choice Properties.

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

(Number of awards)	2018	2017
EDSUs outstanding, beginning of year	47,294	35,559
Granted	11,402	16,558
Reinvested	578	686
Settled	(13,801)	(5,509)
EDSUs outstanding, end of year	45,473	47,294

The fair value of EDSUs granted during 2018 was nominal (2017 – \$1 million).

During 2018, as a result of the spin-out of Choice Properties the Company granted additional 7,868 EDSUs to “make-whole” EDSU unitholders for the decline in the Company's share price as a result of the spin-out of the Company's equity interest in Choice Properties.

Note 28. Employee Costs

Included in operating income are the following employee costs:

(millions of Canadian dollars)	2018	2017
Wages, salaries and other short term employment benefits	\$ 5,748	\$ 5,385
Post-employment benefits (note 26)	159	167
Other long term employee benefits (note 26)	25	25
Equity-based compensation	47	51
Capitalized to fixed assets	(54)	(46)
Total employee costs	\$ 5,925	\$ 5,582

Note 29. Leases

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

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

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

(millions of Canadian dollars)	Payments due by year						As at December 29, 2018	As at December 30, 2017 ⁽ⁱ⁾
	2019	2020	2021	2022	2023	Thereafter	Total	Total
Operating lease payments	\$ 1,229	\$ 1,195	\$ 1,140	\$ 1,073	\$ 978	\$ 4,372	\$ 9,987	\$ 4,698
Sub-lease income	(67)	(42)	(34)	(31)	(29)	(93)	(296)	(273)
Net operating lease payments	\$ 1,162	\$ 1,153	\$ 1,106	\$ 1,042	\$ 949	\$ 4,279	\$ 9,691	\$ 4,425

(i) Comparative figures have not been restated to conform with current year presentation and thus exclude lease commitments with Choice Properties.

During 2018, the Company recorded \$1,234 million (2017 – \$1,214 million) as an expense included in the statement of earnings in respect of operating leases. In addition, contingent rent recognized as an expense in respect of operating leases totaled \$2 million (2017 – \$1 million) and sub-lease income earned totaled \$60 million (2017 – \$107 million), which is recognized in operating income. Contingent rent recognized as income in respect of sub-leased operating leases in 2018 was \$3 million (2017 – \$3 million).

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

(millions of Canadian dollars)	Payments to be received by year						As at December 29, 2018	As at December 30, 2017 ⁽ⁱ⁾
	2019	2020	2021	2022	2023	Thereafter	Total	Total
Net operating lease income	\$ 6	\$ 6	\$ 6	\$ 6	\$ 5	\$ 12	\$ 41	\$ 680

(i) Comparative figure has not been restated to conform with current year presentation.

As at December 29, 2018, the Company leased certain owned land and buildings with a cost of \$340 million (December 30, 2017 – \$2,974 million) and related accumulated depreciation of \$65 million (December 30, 2017 – \$796 million). For the year ended December 29, 2018, rental income was \$198 million (2017 – \$76 million) and contingent rent was \$1 million (2017 – \$2 million), both of which were recognized in operating income.

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

(millions of Canadian dollars)	Payments due by year						As at December 29, 2018	As at December 30, 2017
	2019	2020	2021	2022	2023	Thereafter	Total	Total
Finance lease payments	\$ 77	\$ 71	\$ 65	\$ 64	\$ 62	\$ 594	\$ 933	\$ 914
Less future finance charges	(39)	(33)	(31)	(29)	(27)	(239)	(398)	(346)
Present value of minimum lease payments	\$ 38	\$ 38	\$ 34	\$ 35	\$ 35	\$ 355	\$ 535	\$ 568

During 2018, contingent rent recognized by the Company as an expense in respect of finance leases was \$2 million (2017 – \$1 million).

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

(millions of Canadian dollars)	Payments to be received by year						As at December 29, 2018	As at December 30, 2017
	2019	2020	2021	2022	2023	Thereafter	Total	Total
Sub-lease income	\$ 5	\$ 4	\$ 2	\$ 2	\$ 2	\$ 16	\$ 31	\$ 59

During 2018, the sub-lease income earned under finance leases was \$5 million (2017 – \$15 million).

Note 30. Financial Instruments

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

The Company measures financial assets and financial liabilities under fair value hierarchy (see note 2).

(millions of Canadian dollars)	As at December 29, 2018				As at December 30, 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets								
Amortized cost:								
Franchise loans receivable	\$ —	\$ —	\$ 78	\$ 78	\$ —	\$ —	\$ 166	\$ 166
Certain other assets ⁽ⁱ⁾	—	—	16	16	—	3	23	26
Fair value through other comprehensive income:								
Certain long term investments ⁽ⁱ⁾	50	—	—	50	20	—	—	20
Derivatives included in prepaid expenses and other assets	—	1	—	1	—	—	—	—
Fair value through profit and loss:								
Derivatives included in prepaid expenses and other assets	2	11	—	13	6	—	2	8
Financial liabilities								
Amortized cost:								
Long term debt	—	8,653	—	8,653	—	12,103	—	12,103
Certain other liabilities ⁽ⁱ⁾	—	—	13	13	—	—	18	18
Fair value through other comprehensive income:								
Derivatives included in trade payables and other liabilities	—	5	—	5	—	1	—	1
Fair value through profit and loss:								
Trust Unit Liability	—	—	—	—	972	—	—	972
Derivatives included in trade payables and other liabilities	11	—	3	14	—	10	—	10

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

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

During 2018, the Company recognized a gain of \$6 million (2017 – loss of \$6 million) in operating income on financial instruments designated as amortized cost. In addition, during 2018, a net loss of \$3 million (2017 – net loss of \$9 million) was recorded in earnings before income taxes related to financial instruments required to be classified as fair value through profit or loss.

Franchise Loans Receivable and Franchise Investments The value of Loblaw franchise loans receivable of \$78 million (December 30, 2017 – \$166 million) was recorded in the consolidated balance sheet. In 2018, the Company recorded a gain of \$3 million (2017 – \$8 million gain) in operating income related to these loans receivable.

The value of Loblaw franchise investments of \$14 million (December 30, 2017 – \$20 million) was recorded in other assets. During 2018, the Company recorded a gain of \$2 million (2017 – \$2 million gain) in operating income related to these investments.

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

During 2018, a loss of \$5 million (2017 – gain of \$4 million) was recorded in operating income related to these derivatives. In addition, a corresponding liability of \$3 million was included in trade payables and other liabilities as at December 29, 2018 (December 30, 2017 – \$2 million asset included in prepaid expenses and other assets). As at December 29, 2018, a 1% increase (decrease) in foreign currency exchange rates would result in a \$1 million gain (loss) in fair value.

Securities Investments PC Bank holds investments which are considered part of the liquid securities required to be held to meet its LCR. As at December 29, 2018, the fair value of available for sale investments of \$50 million (December 30, 2017 – \$20 million) was included in other assets. During 2018, PC Bank recorded a nominal unrealized fair value gain (2017 – nominal loss) in other comprehensive income related to these investments.

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

	December 29, 2018		
(millions of Canadian dollars)	Net Asset/ (Liability) Fair value	Gain/(loss) recorded in OCI	Gain/(loss) recorded in operating income
Derivatives designated as cash flow hedges			
Foreign Exchange Forwards	\$ 1	\$ 2	\$ —
Bond Forwards ⁽ⁱ⁾	(4)	(5)	1
Interest Rate Swaps	(1)	(1)	—
Total derivatives designated as cash flow hedges	\$ (4)	\$ (4)	\$ 1
Derivatives not designated in a formal hedging relationship			
Foreign Exchange and Other Forwards	\$ 11	\$ —	\$ 21
Other Non-Financial Derivatives	(11)	—	(20)
Total derivatives not designated in a formal hedging relationship	\$ —	\$ —	\$ 1
Total derivatives	\$ (4)	\$ (4)	\$ 2

(i) As a result of the issuance of Eagle notes, bond forward agreements with a notional value of \$250 million were settled in 2018, resulting in a realized fair value loss of \$1 million recorded in OCI (see note 22).

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

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

(ii) Bond forward agreements with a notional value of \$200 million were settled in 2017, resulting in realized fair value gain of \$6 million recorded in OCI.

Note 31. Financial Risk Management

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

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

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

The following are the undiscounted contractual maturities of significant financial liabilities as at December 29, 2018:

	2019	2020	2021	2022	2023	Thereafter	Total ⁽ⁱ⁾
Derivative Financial Liabilities							
Foreign exchange forward contracts	\$ 336	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 336
Non-Derivative Financial Liabilities							
Bank Indebtedness	56	—	—	—	—	—	56
Short term debt ⁽ⁱⁱ⁾	915	—	—	—	—	—	915
Long term debt including interest payments ⁽ⁱⁱⁱ⁾	2,002	1,447	562	645	1,414	5,436	11,506
Other liabilities	2	3	3	—	—	—	8
	\$ 3,311	\$ 1,450	\$ 565	\$ 645	\$ 1,414	\$ 5,436	\$ 12,821

(i) The Company also excluded trade payables and other liabilities, which are due within the next 12 months.

(ii) These are obligations owed to independent securitization trusts which are collateralized by the Company's credit card receivables (see note 12).

(iii) Fixed interest payments are based on the maturing face values and annual interest for each instrument, including GICs, long term independent securitization trusts and an independent funding trust, as well as annual payment obligations for structured entities, mortgages and finance lease obligations. Variable interest payments are based on the forward rates as of December 29, 2018.

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

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

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

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

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

Interest 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. An increase in interest rates could adversely affect the operations or financial performance of the Company. The Company manages interest rate risk by monitoring the respective mix of fixed and floating rate debt and by taking action as necessary to maintain an appropriate balance considering current market conditions, with the objective of maintaining the majority of its debt at fixed interest rates. The Company estimates that a 1% increase (decrease) in short term interest rates, with all other variables held constant, would result in an increase (decrease) of \$3 million to net interest expense and other financing charges.

Currency Exchange Rates The Company is exposed to foreign currency exchange rate variability, primarily on its USD denominated purchases in trade payables and other liabilities. A depreciating Canadian dollar relative to the USD will have a negative impact on year-over-year changes in reported operating income and net earnings, while an appreciating Canadian dollar relative to the USD will have the opposite impact. The Company is also exposed to fluctuations in the prices of USD denominated purchases as a result of changes in USD exchange rates. To manage a portion of this exposure, the Company uses derivative instruments in the form of futures contracts and forward contracts to minimize cost volatility related to foreign exchange.

Commodity Prices The Company is exposed to increases in the prices of commodities in operating its stores and distribution networks, as well as to the indirect effect of changing commodity prices on the price of consumer products. Rising commodity prices could adversely affect the financial performance of the Company. To manage a portion of this exposure, the Company uses purchase commitments and derivative instruments in the form of exchange traded futures contracts and forward contracts to minimize cost volatility related to commodities. The Company estimates that based on the outstanding derivative contracts held by the Company as at December 29, 2018, a 10% decrease in relevant energy prices, with all other variables held constant, would result in a loss of \$5 million on earnings before income taxes.

Note 32. 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 which events could lead to reassessments.

There are a number of uncertainties involved in such matters, individually or in aggregate, and as such, there is a possibility that the ultimate resolution of these matters may result in a material adverse effect on the Company's reputation, operations, financial condition or performance in future periods. It is not currently possible to predict the outcome of the Company's legal actions and proceedings with certainty. Management regularly assesses its position on the adequacy of accruals or provisions related to such matters 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 ("Superior Court") against the Company and certain subsidiaries, Weston and others in connection with the collapse of the Rana Plaza complex in Dhaka, Bangladesh in 2013. The claim seeks approximately \$2 billion in damages. The Company believes this proceeding is without merit and is vigorously defending it. The Company does not currently have any significant accruals or provisions for this matter recorded in the consolidated financial statements. In July 2017, the Superior Court dismissed the action and the plaintiffs appealed. The decision of the Ontario Court of Appeal, released December 20, 2018, upheld the Superior Court's dismissal of the action. Costs awarded in respect of the original motion was reduced by 30%. The Company anticipates that the plaintiffs will seek leave to appeal to the Supreme Court of Canada.

Shoppers Drug Mart has been served with an Amended Statement of Claim in a class action proceeding that has been filed in the Ontario Superior Court of Justice by two 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 Superior Court certified as a class proceeding portions of the action. The Superior Court imposed a class closing date based on the date of certification. New Associates after July 9, 2013 are not members of the class. The Company believes this claim is without merit and is vigorously defending it. The Company does not currently have any significant accruals or provisions for this matter recorded in the consolidated financial statements.

In 2017, the Company and Weston announced actions taken to address their role in an industry-wide price-fixing arrangement involving certain packaged bread products. The arrangement involved the coordination of retail and wholesale prices of certain packaged bread products over a period extending from late 2001 to March 2015. Under the arrangement, the participants regularly increased prices on a coordinated basis. Class action lawsuits have been commenced against the Company and Weston as well as a number of other major grocery retailers and another bread wholesaler. It is too early to predict the outcome of such legal proceedings. Neither the Company nor Weston believes that the ultimate resolution of such legal proceedings will have a material adverse impact on its financial condition or prospects. The Company's cash balances far exceed any realistic damages scenario and therefore it does not anticipate any impacts on its dividend, dividend policy or share buyback plan. The Company has not recorded any amounts related to the potential civil liability associated with the class action lawsuits in 2018 on the basis that a reliable estimate of the liability cannot be determined at this time. The Company will continue to assess whether a provision for civil liability associated with the class action lawsuits can be reliably estimated and will record an amount in the period at the earlier of when a reliable estimate of liability can be determined or the matter is ultimately resolved.

As part of its response to this issue, the Company announced the Loblaw Card Program pursuant to which the Company offered a \$25 Loblaw Card to eligible customers. The Loblaw Card can be used to purchase items sold in Loblaw grocery stores across Canada. The Company recorded a charge of \$107 million associated with the Loblaw Card Program in 2017. In 2018, the Company recorded an additional charge of \$4 million. The Company expects that Loblaw Cards issued to customers will be an offset against civil liability. The charge recorded for the Loblaw Card Program should not be viewed as an estimate of damages.

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

In August 2018, the Province of British Columbia filed a class action against numerous opioid manufacturers and distributors, including the Company and its subsidiaries, Shoppers Drug Mart Inc. and Sanis Health Inc. The claim contains allegations of breach of the Competition Act, fraudulent misrepresentation and deceit and negligence, and seeks damages (unquantified) for the expenses incurred by the province in paying for opioid prescriptions and other healthcare costs related to opioid addiction and abuse in British Columbia. 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.

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 33. 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 \$317 million as at December 29, 2018 (December 30, 2017 – \$342 million). In addition, the Company has provided to third parties the following significant guarantees:

Associate Guarantees The Company has arranged for its Associates to obtain financing to facilitate their inventory purchases and fund their working capital requirements by providing guarantees to various Canadian chartered banks that support Associate loans. As at December 29, 2018, the Company's maximum obligation in respect of such guarantees was \$580 million (December 30, 2017 – \$580 million) with an aggregate amount of \$466 million (December 30, 2017 – \$509 million) in available lines of credit allocated to the Associates by the various banks. As at December 29, 2018, Associates had drawn an aggregate amount of \$56 million (December 30, 2017 – \$110 million) against these available lines of credit. Any amounts drawn by the Associates are included in bank indebtedness on the Company's consolidated balance sheets. As recourse in the event that any payments are made under the guarantees, the Company holds a first-ranking security interest on all assets of Associates, subject to certain prior-ranking statutory claims.

Independent Funding Trusts The full balance relating to the debt of the independent funding trusts has been consolidated on the balance sheet of the Company (see note 22). As at December 29, 2018 the Company has agreed to provide a credit enhancement of \$64 million (December 30, 2017 – \$64 million) in the form of a standby letter of credit for the benefit of the independent funding trusts representing not less than 10% (2017 – 10%) of the principal amount of loans outstanding. This credit enhancement allows the independent funding trusts to provide financing to the Company's franchisees. As well, each franchisee provides security to the independent funding trusts for its obligations by way of a general security agreement. In the event that a franchisee defaults on its loan and the Company has not, within a specified time period, assumed the loan, or the default is not otherwise remedied, the independent funding trusts would assign the loan to the Company and draw upon this standby letter of credit. This standby letter of credit has never been drawn upon. The Company has agreed to reimburse the issuing bank for any amount drawn on the standby letter of credit.

Lease Obligations In connection with historical dispositions of certain of its assets, the Company has assigned leases to third parties. The Company remains contingently liable for these lease obligations in the event any of the assignees are in default of their lease obligations. The minimum rent, which does not include other lease related expenses such as property tax and common area maintenance charges, is in aggregate, approximately \$12 million (December 30, 2017 – \$15 million). Additionally, the Company has guaranteed lease obligations of a third party distributor in the amount of \$3 million (December 30, 2017 – \$3 million).

Glenhuron Bank Limited Surety Bond In connection with the Canada Revenue Agency's reassessment of the Company on certain income earned by Glenhuron (see note 8), the Company arranged for a surety bond to the Ministry of Finance in order to appeal the reassessments. As a result of the decision of the Tax Court of Canada and incremental payments, the amount of the surety bond has been reduced to \$46 million (2017 – \$149 million).

Cash Collateralization As at December 29, 2018, the Company had agreements to cash collateralize certain of its uncommitted credit facilities up to an amount of \$103 million (December 30, 2017 – \$102 million), of which \$2 million (December 30, 2017 – \$3 million) was deposited with major financial institutions and classified as security deposits, which is included in other assets.

Financial Services The Company has provided a guarantee on behalf of PC Bank to MasterCard® International Incorporated ("MasterCard®") for accepting PC Bank as a card member and licensee of MasterCard®. As at December 29, 2018, the guarantee on behalf of PC Bank to MasterCard® was USD \$190 million (December 30, 2017 – USD \$190 million).

The Company had in place an irrevocable standby letter of credit from a major Canadian chartered bank on behalf of one of its wholly-owned subsidiaries in the amount of \$11 million (December 30, 2017 – \$76 million).

Letters of credit for the benefit of independent securitization trusts with respect to the securitization programs of PC Bank have been issued by major financial institutions. These standby letters of credit can be drawn upon in the event of a major decline in the income flow from or in the value of the securitized credit card receivables. The Company has agreed to reimburse the issuing banks for any amount drawn on the standby letters of credit. The aggregate gross potential liability under these arrangements for the Other Independent Securitization Trusts was \$89 million (December 30, 2017 – \$62 million), which represented approximately 10% (2017 – 10%) of the securitized credit card receivables amount (see note 12).

Note 34. Related Party Transactions

The Company's controlling shareholder is Weston, which owns, directly and indirectly, 187,815,136 of the Company's common shares, representing approximately 50.4% of the Company's outstanding common shares. Mr. W. Galen Weston controls Weston, directly and indirectly through private companies that he controls, including Wittington, which owns a total of 81,465,025 of Weston's common shares, representing approximately 53.1% of Weston's outstanding common shares. Mr. Weston also beneficially owns 5,096,189 of the Company's common shares, representing approximately 1.4% of the Company's outstanding common shares.

In the fourth quarter of 2018, the Company and its parent Weston completed a reorganization under which the Company distributed its approximate 61.6% effective interest in Choice Properties to Weston on a tax-free basis to the Company and its Canadian shareholders. In connection with the reorganization, the common shareholders of the Company, other than Weston and its subsidiaries, received 0.135 of a common share of Weston for each common share of the Company held, which was equivalent to the market value of their pro rata interest in Choice Properties as at the announcement date of the spin-out, and Weston received the Company's approximate 61.6% effective interest in Choice Properties (see note 6).

Following the reorganization, the Company no longer retains its interest in Choice Properties and has ceased to consolidate its equity interest in Choice Properties from its consolidated financial statements. The transaction has no impact on the ongoing operating relationship between the Company and Choice Properties and all current agreements and arrangements, including The Strategic Alliance Agreement and leases, remain in place. The Company continues to be Choice Properties' largest tenant, representing approximately 68% of Choice Properties' annual base rent revenue and 59% of its gross leasable area as at December 29, 2018 (December 30, 2017 – 88% and 88% respectively).

The Company's policy is to conduct all transactions and settle all balances with related parties on market terms and conditions. The Company has reflected all transactions with Choice Properties below from the earliest period presented. Prior to November 1, 2018, these transactions were eliminated on consolidation.

Transactions with Related Parties:

(millions of Canadian dollars)	Transaction Value	
	2018	2017
Included in Cost of Merchandise Inventories Sold		
Inventory purchases from a subsidiary of Weston	\$ 649	\$ 652
Inventory sold to a subsidiary of Weston	2	2
Inventory purchases from a related party ⁽ⁱ⁾	30	28
Operating Income		
Transactions with Weston		
Cost sharing agreements with Parent ⁽ⁱⁱ⁾	\$ 42	\$ 35
Net administrative services provided by Parent ⁽ⁱⁱⁱ⁾	19	23
Lease of office space from a subsidiary of Wittington	4	4
Lease of office space to a subsidiary of Wittington	—	2
Transactions with Choice Properties		
Rental expenses paid to Choice Properties ^(iv)	\$ 742	\$ 718
Property management and other administration fees paid to Choice Properties	1	1
Lease surrender payments	10	6
Service agreement fees received from Choice Properties	(2)	(3)
Net other income received from Choice Properties ^(v)	(6)	(4)
Gain on sale of properties to Choice Properties ^(vi)	(6)	(7)

- (i) Associated British Foods plc is a related party by virtue of Mr. W. Galen Weston being a director of such entity's parent company. Total balance outstanding owing to Associated British Foods plc as at December 29, 2018 was \$3 million (December 30, 2017 – \$6 million).
- (ii) Weston and the Company have each entered into certain contracts with third parties for administrative and corporate services, including telecommunication services and IT related matters on behalf of itself and the related party. Through cost sharing agreements that have been established between the Company and Weston concerning these costs, the Company has agreed to be responsible to Weston for the Company's proportionate share of the total costs incurred.
- (iii) The Company and Weston have entered into an agreement whereby certain administrative services are provided by one party to the other. The services to be provided under this agreement include those related to commodity management, pension and benefits, tax, medical, travel, information systems, risk management, treasury, certain accounting and control functions and legal. Payments are made quarterly based on the actual costs of providing these services. Where services are provided on a joint basis for the benefit of the Company and Weston together, each party pays the appropriate proportion of the costs. Fees paid under this agreement are reviewed each year by the Audit Committee.
- (iv) Rental expenses paid to Choice Properties include base rent of \$543 million (2017 – \$533 million) and operating expenses of \$199 million (2017 – \$185 million).
- (v) Net other income received from Choice Properties include site intensification payments received from Choice Properties of \$6 million (2017 – \$6 million). Included in certain investment properties sold to Choice Properties is excess land with development potential. Choice Properties will compensate the Company, over time, with intensification payments, as Choice Properties pursues development, intensification or redevelopment of such excess lands. The payments the Company receives are calculated in accordance with a payment grid, set out in the Strategic Alliance Agreement, that takes into account the region, market ranking and type of use for the property). The Company did not make any development capital payments to Choice Properties during the year ended December 29, 2018 (2017 – \$2 million).
- (vi) Prior to the spin-out, the Company disposed of one investment property to Choice Properties for a sale price of \$2 million and a loss on sale of \$2 million was recognized and eliminated on consolidation. Since November 1, 2018, the Company disposed three investment properties to Choice Properties for an aggregate purchase price of \$55 million and recognized a gain of \$8 million. These properties were leased back by the Company and were classified as operating leases.

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

(millions of Canadian dollars)	As at December 29, 2018	As at December 30, 2017
	Weston ⁽ⁱ⁾	\$ 36
Choice Properties ⁽ⁱⁱ⁾	2	(22)

- (i) Balances relate to trade payables and other liabilities due to Weston, net of receivables from Weston.
- (ii) Balances relate to distribution and other receivables, net of note and other payables.

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, Weston and its affiliates may enter into agreements to make elections that are permitted or required under applicable income tax legislation with respect to affiliated corporations.

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

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

(millions of Canadian dollars)	2018	2017
Salaries, director fees and other short term employee benefits	\$ 6	\$ 6
Equity-based compensation	10	9
Total compensation	\$ 16	\$ 15

Other Transactions and Agreements with Choice Properties

Strategic Alliance Agreement The Strategic Alliance Agreement established on the IPO of Choice creates a series of rights and obligations between Choice Properties and the Company, intended to establish a preferential and mutually beneficial business and operating relationship. The Agreement expires on July 5, 2023, ten years from the IPO.

Services Agreement The Company provides Choice Properties with administrative and other support services.

Property Management Agreement Choice Properties provides the Company with property management services for properties with third-party tenancies on a fee for service basis for an initial two-year term with automatic one-year renewals.

Sublease Administration Agreement On July 17, 2017, in connection with the Company's sale of substantially all of its gas bar operations, Choice Properties agreed to provide the Company with certain administrative services in respect of the subleases to Brookfield on a fee for service basis for an initial five-year term with automatic one-year renewals.

Letters of Credit As at December 29, 2018, letters of credit totaling \$3 million were posted by the Company with the province of Ontario and City of Toronto on behalf of Choice Properties related to deferral of land transfer tax on properties acquired from the Company (December 30, 2017 – \$5 million).

Distributions on Choice Properties LP Units Prior to the spin-out and the acquisition of CREIT by Choice Properties, the Company held all the Exchangeable Units and Class C LP Units issued by Choice Properties. For the year ended December 29, 2018, the Company received distributions totaling \$238 million (2017 – \$278 million) on the Units held.

Trust Unit Distributions For the year ended December 29, 2018, the Company received distributions of \$13 million (2017 – \$16 million) on the Units held.

Acquisitions During 2017, the Company acquired certain gas bar capital assets with a fair value of \$35 million from Choice Properties, for cash, in order to facilitate the sale of substantially all of the Company's gas bar operations to Brookfield. The gas bar capital assets were leased to the Company as part of the respective tenant leases between the Choice Properties and the Company. The tenant leases between Choice Properties and the Company related to these investment properties remained substantially unchanged.

Commitments The following is a summary of the Company's commitments to Choice Properties as of December 29, 2018:

(millions of Canadian dollars)	Payments due by year						As at December 29, 2018
	2019	2020	2021	2022	2023	Thereafter	Total
Operating lease payments	\$ 535	\$ 541	\$ 549	\$ 555	\$ 534	\$ 2,516	\$ 5,230

Note 35. Segment Information

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

- The Retail segment consists primarily of corporate and franchise-owned retail food and Associate-owned drug stores, and includes in-store pharmacies and other health and beauty products, apparel and other general merchandise and supports the *PC Optimum* program. This segment is comprised of several operating segments that are aggregated primarily due to similarities in the nature of products and services offered for sale in the retail operations and the customer base. The Retail segment is Choice Properties' largest tenant and all transactions, including but not limited to rental payments, with Choice Properties are included in segment results. Prior to July 17, 2017, the Retail segment also included gas bar operations; and
- The Financial Services segment provides credit card services, the *PC Optimum* Program, insurance brokerage services, deposit taking services and telecommunication services. As a result of the wind-down of *PC Financial* banking services, the Financial Services segment no longer offers personal banking services.

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

Post spin-out of Choice Properties, the chief operating decision maker evaluates Retail segment performance on a Continuing Operations basis. The Company has restated the financial results of the Retail segment on a Continuing Operations basis, to include amounts paid between the Company and Choice Properties in the current and comparative period. The Company's current and comparative period Retail segment results include rent paid to Choice Properties, gains related to the sale leaseback of properties to Choice Properties and site intensification payments received from Choice Properties. In addition, the Retail segment no longer includes depreciation and amortization on properties owned by Choice Properties previously treated as own use fixed assets.

Information for each reportable operating segment is included below:

(millions of Canadian dollars)	December 29, 2018 (52 weeks)				December 30, 2017 ⁽³⁾⁽⁴⁾ (52 weeks)			
	Retail	Financial Services	Eliminations ⁽ⁱ⁾	Total	Retail	Financial Services	Eliminations ⁽ⁱ⁾	Total
Revenue⁽ⁱⁱ⁾	\$ 45,836	\$ 1,082	\$ (225)	\$ 46,693	\$ 45,867	\$ 953	\$ (233)	\$ 46,587
Operating Income	\$ 1,717	\$ 206	\$ —	\$ 1,923	\$ 1,843	\$ 206	\$ —	\$ 2,049
Net interest expense and other financing charges	495	69	—	564	318	56	—	374
Earnings before Income Taxes	\$ 1,222	\$ 137	\$ —	\$ 1,359	\$ 1,525	\$ 150	\$ —	\$ 1,675
Operating Income	\$ 1,717	\$ 206	\$ —	\$ 1,923	\$ 1,843	\$ 206	\$ —	\$ 2,049
Depreciation and Amortization	1,487	10	—	1,497	1,444	10	—	1,454
Adjusting items ⁽ⁱⁱⁱ⁾	649	(20)	—	629	566	(24)	—	542
Less: amortization of intangible assets acquired with Shoppers Drug Mart	(521)	—	—	(521)	(524)	—	—	(524)
Adjusted EBITDA ⁽ⁱⁱⁱ⁾	\$ 3,332	\$ 196	\$ —	\$ 3,528	\$ 3,329	\$ 192	\$ —	\$ 3,521
Depreciation and Amortization ^(iv)	966	10	—	976	920	10	—	930
Adjusted Operating Income	\$ 2,366	\$ 186	\$ —	\$ 2,552	\$ 2,409	\$ 182	\$ —	\$ 2,591

(i) Eliminations includes the reclassification of revenue related to *PC MasterCard*[®] loyalty awards in the Financial Services segment.

(ii) Included in Financial Services revenue is \$426 million (2017 – \$393 million) of interest income.

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

(iv) Depreciation and amortization for the calculation of adjusted EBITDA⁽²⁾ excludes \$521 million (2017 – \$524 million) of amortization of intangible assets acquired with Shoppers Drug Mart.

The Company's revenue, by type of goods or services, is reconciled to the Company's segment revenue:

(millions of Canadian dollars)	2018 (52 weeks)	2017 ⁽⁵⁾ (52 weeks)
Food retail	\$ 32,969	\$ 33,288
Drug retail		
Pharmacy	\$ 6,030	\$ 5,959
Front Store	6,837	6,620
	\$ 12,867	\$ 12,579
Retail Total	\$ 45,836	\$ 45,867
Financial Services	1,082	953
Eliminations ⁽ⁱ⁾	(225)	(233)
Total	\$ 46,693	\$ 46,587

(i) Eliminations includes the reclassification of revenue related to PC MasterCard® loyalty awards in the Financial Services segment.

(millions of Canadian dollars)	As at December 29, 2018	As at December 30, 2017
Total Assets		
Retail	\$ 25,796	\$ 30,233
Financial Services	4,357	3,837
Choice Properties ⁽ⁱ⁾	—	9,924
Consolidation and Eliminations ⁽ⁱ⁾	—	(8,847)
Total	\$ 30,153	\$ 35,147

(i) Choice Properties and Consolidation and Eliminations are presented consistent with prior year segment reporting and include amounts related to properties treated as own use prior to the spin-out.

(millions of Canadian dollars)	2018	2017
Additions to Fixed Assets and Intangible Assets		
Retail	\$ 1,013	\$ 985
Financial Services	57	41
Discontinued Operations	264	233
Total	\$ 1,334	\$ 1,259

Three Year Summary⁽¹⁾

The Company's interest in Choice Properties has been presented separately as Discontinued Operations in the Company's current and comparative results. Unless otherwise indicated, all financial information represents the Company's results from Continuing Operations.

For the years ended December 29, 2018 and December 30, 2017 and December 31, 2016
(millions of Canadian dollars except where otherwise indicated)

	2018	2017 ⁽³⁾⁽⁴⁾	2016 ⁽⁴⁾
Consolidated Results of Operations			
Revenue	\$ 46,693	\$ 46,587	\$ 46,295
Revenue growth	0.2%	0.6%	2.0%
Operating Income	\$ 1,923	\$ 2,049	\$ 1,675
Adjusted EBITDA ⁽²⁾	3,528	3,521	3,333
Adjusted EBITDA margin ⁽²⁾	7.6%	7.6%	7.2%
Net interest expense and other financing charges	\$ 564	\$ 374	\$ 380
Adjusted net interest expense and other financing charges ⁽²⁾	387	374	380
Net earnings	800	1,541	990
Continuing Operations	753	1,310	918
Discontinued Operations	47	231	72
Net earnings attributable to shareholders of the Company from continuing operations	719	1,286	911
Net earnings available to common shareholders of the Company	754	1,505	971
Continuing Operations	707	1,274	899
Discontinued Operations	47	231	72
Adjusted net earnings available to common shareholders of the Company ⁽²⁾	1,746	1,797	1,655
Continuing Operations	1,539	1,585	1,471
Discontinued Operations	207	212	184
Consolidated Per Common Share (\$)			
Diluted net earnings	\$ 1.99	\$ 3.79	\$ 2.37
Continuing Operations	\$ 1.87	\$ 3.21	\$ 2.20
Discontinued Operations	\$ 0.12	\$ 0.58	\$ 0.17
Adjusted diluted net earnings ⁽²⁾	\$ 4.60	\$ 4.52	\$ 4.05
Continuing Operations	\$ 4.06	\$ 3.99	\$ 3.60
Discontinued Operations	\$ 0.54	\$ 0.53	\$ 0.45
Dividends			
Dividends declared per common share (\$)	\$ 1.155	\$ 1.070	\$ 1.030
Consolidated Financial Position and Cash Flows			
Cash and cash equivalents and short term investments ⁽ⁱ⁾	\$ 1,159	\$ 2,344	\$ 1,555
Cash flows from operating activities ⁽ⁱ⁾	2,501	3,209	3,519
Capital investments ⁽ⁱ⁾	1,334	1,259	1,224
Free cash flow ⁽²⁾⁽ⁱ⁾	670	1,651	1,821
Financial Measures			
Retail debt to retail adjusted EBITDA ⁽²⁾⁽ⁱⁱ⁾	1.9x	1.9x	1.7x
Adjusted return on equity ⁽²⁾⁽ⁱⁱ⁾	12.6%	12.6%	12.9%
Adjusted return on capital ⁽²⁾⁽ⁱⁱ⁾	9.8%	9.8%	8.8%

Three Year Summary⁽¹⁾

For the years ended December 29, 2018 and December 30, 2017 and December 31, 2016
(millions of Canadian dollars except where otherwise indicated)

	2018	2017 ⁽³⁾⁽⁴⁾	2016 ⁽⁴⁾
Retail Results of Operations			
Sales	\$ 45,836	\$ 45,867	\$ 45,384
Operating Income	1,717	1,843	1,500
Adjusted gross profit ⁽²⁾	13,459	13,053	12,262
Adjusted gross profit % ⁽²⁾	29.4%	28.5%	27.0%
Adjusted EBITDA ⁽²⁾	\$ 3,332	\$ 3,329	\$ 3,145
Adjusted EBITDA margin ⁽²⁾	7.3%	7.3%	6.9%
Depreciation and amortization	\$ 1,487	\$ 1,444	\$ 1,422
Retail Operating Statistics			
Food retail same-store sales growth	1.1%	0.6%	1.1%
Drug retail same-store sales growth	2.4%	3.0%	4.0%
Drug retail same-store pharmacy sales growth	1.2%	3.1%	2.9%
Drug retail same-store front store sales growth	3.5%	2.9%	5.0%
Total retail square footage (in millions)	70.4	70.3	70.2
Number of corporate stores	550	559	565
Number of franchise stores	535	534	533
Number of Associate-owned drug stores	1,337	1,334	1,326
Financial Services Results of Operations			
Revenue	\$ 1,082	\$ 953	\$ 911
Earnings before income taxes	137	150	124
Financial Services Operating Measures and Statistics			
Average quarterly net credit card receivables	\$ 3,073	\$ 2,908	\$ 2,769
Credit card receivables	3,329	3,100	2,926
Allowance for credit card receivables	167	47	52
Annualized yield on average quarterly gross credit card receivables	13.1%	13.2%	13.5%
Annualized credit loss rate on average quarterly gross credit card receivables	3.1%	3.7%	4.3%

(i) Comparative figures are inclusive of Discontinued Operations.

(ii) 2016 comparative figures are inclusive of Discontinued Operations.

Financial Results and Financial Summary Endnotes

(1) For financial definitions and ratios refer to the Glossary of Terms on page 140 of the Company's 2018 Annual Report.

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

(3) Comparative figures have been restated as a result of the implementation of IFRS 15, "Revenue from Contracts with Customers". See note 2 in the Company's 2018 Annual Report.

(4) Comparative figures have been restated to conform with current year presentation.

Glossary of Terms

Term	Definition
Adjusted diluted net earnings per common share	Adjusted net earnings available to common shareholders including the effects of all dilutive instruments divided by the diluted weighted average number of common shares outstanding during the period (see Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis).
Adjusted EBITDA	Adjusted operating income before depreciation and amortization (see Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis).
Adjusted EBITDA margin	Adjusted EBITDA divided by sales (see Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis).
Adjusted income tax	Income taxes adjusted for the tax impact of items included in adjusted operating income less adjusted net interest and other financing charges (see Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis).
Adjusted income tax rate	Adjusted income taxes divided by adjusted operating income less adjusted net interest and other financing charges (see Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis).
Adjusted net earnings attributable to shareholders of the Company	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 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis).
Adjusted net earnings available to common shareholders of the Company	Adjusted net earnings attributable to shareholders of the Company less preferred dividends (see Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis).
Adjusted net interest expense and other financing charges	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 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis).
Adjusted operating income	Operating income adjusted for items that are not necessarily reflective of the Company's underlying operating performance (see Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis).
Adjusted return on capital	Tax-effected adjusted operating income divided by average capital (see Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis).
Adjusted return on equity	Adjusted net earnings available to common shareholders of the Company divided by average total equity attributable to common shareholders of the Company (see Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis).
Annualized credit loss rate on average quarterly gross credit card receivables	Total credit card losses year-to-date divided by the number of days year-to-date times 365 divided by average quarterly gross credit card receivables.
Annualized yield on average quarterly gross credit card receivables	Interest earned on credit card receivables year-to-date divided by the number of days year-to-date times 365 divided by average quarterly gross credit card receivables.
Basic net earnings per common share	Net earnings available to common shareholders divided by the weighted average number of common shares of the Company outstanding during the period.
Capital under management	Total debt plus total equity attributable to shareholders of the Company.
Capital Investments	Fixed asset purchases and intangible asset additions.
Control brand	A brand and associated trademark that is owned by the Company for use in connection with its own products and services.
Conversion	A store that changes from one Company banner to another Company banner.
Diluted net earnings per common share	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.
Diluted weighted average common shares outstanding	Weighted average number of common shares outstanding including the effects of all dilutive instruments.
Free Cash Flow	Cash flows from operating activities less intangible asset additions, fixed asset purchases and interest paid (see Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis).
Net earnings attributable to shareholders of the Company	Net earnings less non-controlling interests.
Net earnings available to common shareholders of the Company	Net earnings attributable to shareholders of the Company less preferred dividends.
Operating income	Net earnings before net interest expense and other financing charges and income taxes.
Renovation	A capital investment in a store resulting in no significant change to the store square footage.
Retail debt to retail adjusted EBITDA	Retail segment total debt (see Section 7.2 "Liquidity and Capital Structure" of the Company's Management Discussion and Analysis) divided by Retail segment adjusted EBITDA.
Retail segment adjusted gross profit	Retail segment gross profit, adjusted for items that are not necessarily reflective of the Company's underlying operating performance (see Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis).
Retail segment adjusted gross profit percentage	Retail segment adjusted gross profit divided by Retail segment sales.
Retail segment gross profit	Retail segment sales less cost of merchandise inventories sold.
Same-store sales	Retail segment 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.
Total equity attributable to common shareholders of the Company	Total equity less preferred shares outstanding and non-controlling interests.
Total equity attributable to shareholders of the Company	Total equity less non-controlling interests.
Total retail square footage	Total retail square footage includes corporate, franchised stores and associate-owned drug stores.
Weighted average common shares outstanding	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.

Corporate Profile

National Head Office and Store Support Centre

Loblaw Companies Limited
1 President's Choice Circle
Brampton, Canada L6Y 5S5
Tel: (905) 459-2500
Fax: (905) 861-2206
Website: loblaw.ca

Stock Exchange Listing and Symbol

The Company's common shares and second preferred shares are listed on the Toronto Stock Exchange and trade under the symbols "L" and "L.PR.B.", respectively.

Common Shares

At year-end 2018, W. Galen Weston, directly and indirectly, including through his controlling interest in Weston, owns approximately 50.4% of the Company's common shares.

At year-end 2018, there were 372,877,667 common shares issued and outstanding.

The average daily trading volume of the Company's common shares for 2018 was 560,168.

Preferred Shares

At year-end 2018, there were 9,000,000 second preferred shares, Series B issued and outstanding.

The average daily trading volume of the Company's second preferred shares, Series B for 2018 was 4,816.

Trademarks

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

Common Dividend Policy

The Company's dividend policy states: the declaration and payment of dividends and the amount thereof on the Company's common shares 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.

Common Dividend Dates

The declaration and payment of quarterly dividends are made subject to approval by the Board of Directors. The anticipated record and payments dates for 2019 are:

Record Date	Payment Date
March 15	April 1
June 15	July 1
September 15	October 1
December 15	December 30

Normal Course Issuer Bid

The Company has a Normal Course Issuer Bid on the Toronto Stock Exchange.

Value of Common Shares

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

Investor Relations

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

Registrar and Transfer Agent

Computershare Investor Services Inc.
100 University Avenue
Toronto, Canada M5J 2Y1

Toll free: 1-800-564-6253 (Canada and U.S.)

Fax (416) 263-9394

Toll free fax: 1-888-453-0330

International direct dial: (514) 982-7555

To change your address, eliminate multiple mailings, or for other shareholder account inquiries, please contact Computershare Investor Services Inc.

Additional financial information has been filed electronically with various securities regulators in Canada through the System for Electronic Document Analysis and Retrieval (SEDAR) and with the Office of the Superintendent of Financial Institutions (OSFI) as the primary regulator for the Company's subsidiary, President's Choice Bank.

Independent Auditors

KPMG LLP
Chartered Professional Accountants
Toronto, Canada

Annual General Meeting

The 2019 Annual Meeting of Shareholders of Loblaw Companies Limited will be held on Thursday, May 2, 2019 at 11:00 a.m. (EDT), at the Toronto Centre for the Arts - Lyric Theatre, 5040 Yonge St., Toronto, Ontario, Canada, M2N 6R8.

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

Preferred Shares, Series B Dividend Dates

The declaration and payment of quarterly dividends are made subject to approval by the Board of Directors. The anticipated payment dates for 2019 are:

Record Date	Payment Date
March 15	March 31
June 15	June 30
September 15	September 30
December 15	December 31

Loblaw Companies Limited

LOBLAW.CA

SHOPPERSDRUGMART.CA

PHARMAPRIX.CA

PCFINANCIAL.CA

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WELLWISE.CA