Loblaw
Companies
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NEWS RELEASE

Loblaw Reports 2016 Fourth Quarter and Fiscal Year Ended December 31, 2016 Results[(1)]

BRAMPTON, ONTARIO February 23, 2017 Loblaw Companies Limited (TSX: L) ("Loblaw" or the "Company") today announced its unaudited financial results for the fourth quarter ended December 31, 2016 and the release of its 2016 Annual Report ("Annual Report"), which includes the Company's audited consolidated financial statements and Management's Discussion and Analysis ("MD&A") for the fiscal year ended December 31, 2016. The Company's 2016 Annual Report will be available in the Investors section of the Company's website at loblaw.ca and will be filed with SEDAR and available at sedar.com.

"We continued to lower prices, delivering more value to consumers," said Galen G. Weston, Chairman and Chief Executive Officer, Loblaw Companies Limited.

"Our focus on our strategic framework and financial plan delivered solid financial performance in the fourth quarter and demonstrated the strength of our portfolio of businesses amidst a highly competitive food retail environment, and pressures from healthcare reform."

2016 FOURTH QUARTER HIGHLIGHTS

The following highlights include the impacts of the consolidation of franchises, as set out in "Other Retail Business Matters."

- Revenue was $11,130 million, an increase of $265 million, or 2.4%, compared to the fourth quarter of 2015.
- Retail segment sales were $10,845 million, an increase of $239 million, or 2.3%, compared to the fourth quarter of 2015.
  - Food retail (Loblaw) same-store sales growth was 1.1%, excluding gas bar.
  - Drug retail (Shoppers Drug Mart) same-store sales growth was 3.4%, with same-store pharmacy sales increasing by 2.5% and same-store front store sales increasing by 4.1%.
  - Same-store sales growth included the favourable impact of an extra selling day, due to the timing of New Year's day, of approximately 1.0% on Food retail same-store sales and 0.6% on Drug retail same-store sales.
- Operating Income was $449 million, an increase of $133 million, or 42.1%, compared to the fourth quarter of 2015.
- Adjusted EBITDA[(2)] was $956 million, an increase of $75 million, or 8.5%, compared to the fourth quarter of 2015.
- Net earnings available to common shareholders of the Company were $201 million, an increase of $73 million, or 57.0%, compared to the fourth quarter of 2015. Diluted net earnings per common share were $0.50, an increase of $0.19, or 61.3%, compared to the fourth quarter of 2015.
- Adjusted net earnings available to common shareholders of the Company[(2)] were $393 million, an increase of $30 million, or 8.3%, compared to the fourth quarter of 2015. Adjusted diluted net earnings per common share[(2)] were $0.97, an increase of $0.10, or 11.5%, compared to the fourth quarter of 2015.
- The Company repurchased 2.8 million shares for cancellation at a cost of $200 million.
- In 2016, the Company invested $1,224 million in capital expenditures and generated $1,821 million of free cash flow[(2)].

See "News Release Endnotes" at the end of this News Release.

CONSOLIDATED RESULTS OF OPERATIONS

For the periods ended December 31, 2016 and January 2, 2016 (millions of Canadian dollars except where otherwise indicated)	2016 (12 weeks)	2015 (12 weeks)	$ Change	% Change	2016 (52 weeks)	2015[6] (52 weeks)	$ Change	% Change
Revenue	**$ 11,130**	$ 10,865	$ 265	2.4%	**$ 46,385**	$ 45,394	$ 991	2.2%
Operating Income	**449**	316	133	42.1%	**2,092**	1,601	491	30.7%
Adjusted EBITDA[2]	**956**	881	75	8.5%	**3,852**	3,549	303	8.5%
Adjusted EBITDA margin[2]	**8.6%**	8.1%			**8.3%**	7.8%		
Net earnings attributable to shareholders of the Company	**$ 204**	$ 131	$ 73	55.7%	**$ 983**	$ 598	$ 385	64.4%
Net earnings available to common shareholders of the Company[i]	**201**	128	73	57.0%	**971**	591	380	64.3%
Adjusted net earnings available to common shareholders of the Company[2]	**393**	363	30	8.3%	**1,655**	1,422	233	16.4%
Diluted net earnings per common share ($)	**$ 0.50**	$ 0.31	$ 0.19	61.3%	**$ 2.37**	$ 1.42	$ 0.95	66.9%
Adjusted diluted net earnings per common share[2] ($)	**0.97**	0.87	0.10	11.5%	**4.05**	3.42	0.63	18.4%
Diluted weighted average common shares outstanding (millions)	**405.6**	415.2			**409.1**	415.2		

(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.

Net earnings available to common shareholders of the Company in the fourth quarter of 2016 were $201 million ($0.50 per common share), an increase of $73 million ($0.19 per common share) compared to the fourth quarter of 2015. The increase in net earnings available to common shareholders of the Company was driven by improvements in underlying operating performance of $30 million and the net favourable impact of certain adjusting items totaling $43 million as described below:

- improvements in underlying operating performance of $30 million ($0.10 per common share), primarily due to the following:
  - the Retail segment, which (excluding the impact of the consolidation of franchises) included achieving higher sales with stable gross margins and lower selling, general and administrative expenses ("SG&A");
  - the Financial Services segment, primarily driven by growth in the credit card portfolio;
  - the Choice Properties segment, primarily resulting from expansion of the property portfolio through development of properties and an increase in base rent from existing properties; and
  - the favourable impact of a decrease in depreciation and amortization, primarily due to a change in the estimated useful life of certain equipment and fixtures in the second quarter of 2016.
- the net favourable year-over-year impact of certain adjusting items totaling $43 million ($0.09 per common share) including:
  - the impairment of Drug retail ancillary assets held for sale of $82 million ($0.20 per common share) in the prior year;
  - the accelerated finalization of transitioning of certain grocery stores to more cost effective and efficient Labour Agreements of $40 million ($0.10 per common share) incurred in the prior year;
  - the charge related to inventory measurement associated with the conversion of all of its franchised grocery stores to the new IT systems of $24 million ($0.06 per common share) incurred in the prior year; partially offset by
  - an unfavourable impact of asset impairments, net of recoveries, of $90 million ($0.21 per common share); and
  - an unfavourable impact of pension annuities and buy-outs of $10 million ($0.03 per common share).

Adjusted net earnings available to common shareholders of the Company[(2)] in the fourth quarter of 2016 were $393 million ($0.97 per common share), an increase of $30 million ($0.10 per common share) compared to the fourth quarter of 2015, primarily due to the improvements in underlying operating performance, as described above.

REPORTABLE OPERATING SEGMENTS

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

- The Retail segment consists primarily of corporate and franchise-owned retail food and Associate-owned drug stores, and includes in-store pharmacies and other health and beauty products, gas bars and apparel and other general merchandise. 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 Financial Services segment provides credit card services, loyalty programs, insurance brokerage services, personal banking services provided by a major Canadian chartered bank, deposit taking services and telecommunication services; and
- The Choice Properties segment owns, manages and develops retail and commercial properties across Canada. The Choice Properties segment information presented below reflects the accounting policies of Choice Properties, which may differ from those of the consolidated Company. Differences in policies are eliminated in Consolidation and Eliminations.

Retail Segment

For the periods ended December 31, 2016 and January 2, 2016 (millions of Canadian dollars except where otherwise indicated)	**2016 (12 weeks)**	2015 (12 weeks)	$ Change	% Change	**2016 (52 weeks)**	2015 (52 weeks)	$ Change	% Change
Sales	**$ 10,845**	$ 10,606	$ 239	2.3 %	**$ 45,384**	$ 44,469	$ 915	2.1 %
Operating Income	**392**	265	127	47.9 %	**1,902**	1,429	473	33.1 %
Adjusted gross profit[(2)]	**2,945**	2,844	101	3.6 %	**12,262**	11,747	515	4.4 %
Adjusted gross profit %[(2)]	**27.2%**	26.8%			**27.0%**	26.4%		
Adjusted EBITDA[(2)]	**$ 889**	$ 823	$ 66	8.0 %	**$ 3,631**	$ 3,352	$ 279	8.3 %
Adjusted EBITDA margin[(2)]	**8.2%**	7.8%			**8.0%**	7.5%		
Depreciation and amortization	**$ 355**	$ 369	$ (14)	(3.8)%	**$ 1,512**	$ 1,567	$ (55)	(3.5)%

For the periods ended December 31, 2016 and January 2, 2016 (millions of Canadian dollars except where otherwise indicated)	**2016 (12 weeks)**		2015 (12 weeks)		**2016 (52 weeks)**		2015 (52 weeks)	
	Sales	**Same-store sales**	Sales	Same-store sales	**Sales**	**Same-store sales**	Sales	Same-store sales
Food retail	**$ 7,789**	**1.1%**	$ 7,631	2.4%	**$ 33,175**	**1.1%**	$ 32,672	1.9%
Drug retail	**3,056**	**3.4%**	2,975	5.0%	**12,209**	**4.0%**	11,797	4.3%
Pharmacy	**1,361**	**2.5%**	1,315	4.2%	**5,730**	**2.9%**	5,545	3.7%
Front Store	**1,695**	**4.1%**	1,660	5.7%	**6,479**	**5.0%**	6,252	4.7%

Sales, operating income, adjusted gross profit[(2)], adjusted gross profit percentage[(2)], adjusted EBITDA[(2)] and adjusted EBITDA margin[(2)] in the fourth quarter of 2016 included the impacts of the consolidation of franchises, as set out in "Other Retail Business Matters".

Sales Retail segment sales in the fourth quarter of 2016 were $10,845 million, an increase of $239 million compared to the fourth quarter of 2015. Excluding the consolidation of franchises, Retail segment sales increased by $168 million primarily driven by the following factors:

- Food retail same-store sales growth was 1.1% (2015 – 3.1%[(5)]) for the quarter, after excluding gas bar which had no impact in the fourth quarter of 2016. This same-store sales growth includes the impact of retail promotional investments. Including gas bar, Food retail same-store sales growth was 2.4% in 2015. Food retail same-store sales included the favourable impact of an extra selling day in the fourth quarter of 2016, due to the timing of New Year's Day, of approximately 1.0%.

- The Company's Food retail average quarterly internal food price index declined and was slightly lower than (2015 – moderately higher than) the average quarterly national food price deflation of 2.3% (2015 – inflation of 4.1%), 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 3.4% (2015 – 5.0%) and was comprised of pharmacy same-store sales growth of 2.5% (2015 – 4.2%) and front store same-store sales growth of 4.1% (2015 – 5.7%). Drug retail same-store sales included the favourable impact of an extra selling day in the fourth quarter of 2016, due to the timing of New Year's Day, of approximately 0.6%.
- In the last 12 months, Retail net square footage increased by 0.3 million square feet, or 0.4%, primarily driven by new store openings partially offset by the Company's store closure plan announced in 2015 and completed in 2016.

Operating Income Operating Income in the fourth quarter of 2016 was $392 million, an increase of $127 million compared to the fourth quarter of 2015. The increase in operating income was driven by improvements in underlying operating performance of $80 million and the net favourable impact of certain adjusting items totaling $47 million as described below:

- the improvements in underlying operating performance of $80 million were driven by higher sales with stable gross margins, lower SG&A, lower depreciation and amortization and the favourable impact from the consolidation of franchises; and
- the net favourable year-over-year impact of certain adjusting items totaling $47 million, including:
    - the impairment of Drug retail ancillary assets held for sale of $112 million in the prior year;
    - the accelerated finalization of transitioning of certain grocery stores to more cost effective and efficient Labour Agreements of $55 million incurred in the prior year;
    - the charge related to inventory measurement associated with the conversion of all of its franchised grocery stores to the new IT systems of $33 million incurred in the prior year; partially offset by
    - an unfavourable impact of asset impairments, net of recoveries, of $126 million; and
    - an unfavourable impact of pension annuities and buy-outs of $15 million.

Adjusted Gross Profit(2) Adjusted gross profit(2) in the fourth quarter of 2016 was $2,945 million, an increase of $101 million compared to the fourth quarter of 2015. Adjusted gross profit percentage(2) of 27.2% increased by 40 basis points compared to the fourth quarter of 2015. Excluding the consolidation of franchises, the adjusted gross profit percentage(2) was 26.4%, a decrease of 20 basis points compared to the fourth quarter of 2015. The decrease in adjusted gross profit percentage(2) was driven by Food retail promotional investments, partially offset by improvements in Drug retail margins due to strong front store performance, and improvements in shrink driven by improved inventory management.

Adjusted EBITDA(2) Adjusted EBITDA(2) in the fourth quarter of 2016 was $889 million, an increase of $66 million, compared to the fourth quarter of 2015 driven by the increase in adjusted gross profit(2) described above, partially offset by an increase in SG&A of $35 million. SG&A as a percentage of sales was 19.0%, a decrease of 10 basis points compared to the fourth quarter of 2015. Excluding the consolidation of franchises, SG&A decreased $9 million and as a percentage of sales was 18.4%, an improvement of 40 basis points compared to the fourth quarter of 2015, driven by the following factors:

- lower store support costs;
- the positive impact of the Company's store closure plan announced in 2015 and completed in 2016;
- favourable year-over-year foreign exchange impacts; partially offset by
- higher retail store costs as efficiencies achieved in retail stores were more than offset by an increase in financial support to franchises.

Depreciation and Amortization Depreciation and amortization in the fourth quarter of 2016 was $355 million, a decrease of $14 million compared to the fourth quarter of 2015 primarily attributable to a change in the estimated useful life of certain equipment and fixtures in the second quarter of 2016. Included in depreciation and amortization in the fourth quarter of 2016 was the impact of the amortization of intangible assets related to the acquisition of Shoppers Drug Mart Corporation ("Shoppers Drug Mart") of $124 million (2015 – $124 million).

Other Retail Business Matters

Impairment of Ancillary Healthcare Business In the fourth quarter, a Shoppers Drug Mart ancillary healthcare business was triggered for impairment testing due to impacts of Ontario healthcare reform implemented in the long term care industry. The Company recorded a charge of $88 million related to the impairment of fixed assets of $15 million and a customer relationship intangible asset of $73 million.

Consolidation of Franchises The Company has more than 500 franchise food retail stores in its network. As of the end of the fourth quarter of 2016, 200 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 presents the number of franchises consolidated in the fourth quarter of 2016 and year-to-date, and the total impact of the consolidation of franchises included in the consolidated results of the Company:

For the periods ended December 31, 2016 and January 2, 2016 (millions of Canadian dollars unless where otherwise indicated)	**2016** **(12 weeks)**	2015 (12 weeks)	**2016** **(52 weeks)**	2015 (52 weeks)
Number of Consolidated Franchise stores, beginning of period	**165**	43	**85**	—
Add: Net number of Consolidated Franchise stores in the period	**35**	42	**115**	85
Number of Consolidated Franchise stores, end of period	**200**	85	**200**	85
Sales	**$ 99**	$ 28	**$ 363**	$ 56
Adjusted gross profit(2)	**107**	32	**361**	58
Adjusted EBITDA(2)	**27**	(4)	**20**	(12)
Depreciation and amortization	**6**	3	**21**	5
Operating Income	**21**	(7)	**(1)**	(17)
Net earnings (loss) attributable to Non-Controlling Interests	**28**	(4)	**7**	(9)

Operating Income included in the table above does not significantly impact net earnings available to common shareholders of the Company as this amount is largely attributable to Non-Controlling Interests.

The Company expects that the estimated impact in 2017 of new and current consolidated franchises will be revenue of approximately $680 million, adjusted EBITDA(2) of approximately $55 million, depreciation and amortization of approximately $45 million and net earnings attributable to Non-Controlling Interests of approximately $10 million.

Financial Services Segment[3]

For the periods ended December 31, 2016 and January 2, 2016 (millions of Canadian dollars except where otherwise indicated)	**2016 (12 weeks)**	2015 (12 weeks)	$ Change	% Change	**2016 (52 weeks)**	2015 (52 weeks)	$ Change	% Change
Revenue	**$ 261**	$ 240	$ 21	8.8%	**$ 911**	$ 849	$ 62	7.3%
Earnings before income taxes	**39**	33	6	18.2%	**124**	106	18	17.0%

(millions of Canadian dollars except where otherwise indicated)	**As at December 31, 2016**	As at January 2, 2016	$ Change	% Change
Average quarterly net credit card receivables	**$ 2,769**	$ 2,642	$ 127	4.8 %
Credit card receivables	**2,926**	2,790	136	4.9 %
Allowance for credit card receivables	**52**	54	(2)	(3.7)%
Annualized yield on average quarterly gross credit card receivables	**13.5%**	13.6%		
Annualized credit loss rate on average quarterly gross credit card receivables	**4.3%**	4.3%		

Earnings Before Income Taxes Earnings before income taxes in the fourth quarter of 2016 were $39 million, an increase of $6 million compared to the fourth quarter of 2015, primarily driven by:

- higher net interest and net interchange income attributable to growth in the credit card portfolio;
- higher sales attributable to The Mobile Shop; and
- lower credit card losses; partially offset by
- higher costs associated with the Financial Services' loyalty program; and
- higher operating costs as a result of an increase in the active customer base.

Credit Card Receivables As at December 31, 2016, credit card receivables were $2,926 million, an increase of $136 million compared to January 2, 2016. This increase was primarily driven by growth in the active customer base as a result of continued investments in customer acquisition, marketing and product initiatives. As at December 31, 2016, the allowance for credit card receivables was $52 million, a decrease of $2 million compared to January 2, 2016.

Choice Properties Segment(3)

For the periods ended December 31, 2016 and January 2, 2016 (millions of Canadian dollars except where otherwise indicated)	**2016 (12 weeks)**	2015 (12 weeks)	$ Change	% Change	**2016 (52 weeks)**	2015 (52 weeks)	$ Change	% Change
Revenue	**$ 198**	$ 191	$ 7	3.7 %	**$ 784**	$ 743	$ 41	5.5 %
Net interest expense and other financing charges	**(11)**	184	(195)	(106.0)%	**900**	756	144	19.0 %
Net income (loss)(i)	**256**	41	215	524.4 %	**(223)**	(155)	(68)	(43.9)%
Adjusted funds from operations(2)	**82**	82	—	— %	**330**	313	17	5.4 %

(i) Choice Properties qualifies as a "mutual fund trust" under the Income Tax Act (Canada) and therefore net income (loss) is equal to earnings before income taxes.

Net income (loss) Net income in the fourth quarter of 2016 was $256 million, an increase of $215 million compared to the fourth quarter of 2015. The increase was primarily driven by:

- the change in fair value adjustment on Class B Limited Partnership units;
- the change in fair value adjustment on investment properties;
- additional net operating income generated from tenant openings in newly developed leasable space; and
- an increase in base rent from existing properties.

Adjusted Funds from Operations(2) Adjusted funds from operations(2) in the fourth quarter of 2016 were $82 million, flat compared to the fourth quarter of 2015.

Other Matters In the fourth quarter of 2016, Choice Properties Real Estate Investment Trust ("Choice Properties") acquired two investment properties from third-parties for a purchase price of approximately $14 million, excluding acquisition costs, which was fully settled in cash.

Subsequent to the end of 2016, Choice Properties redeemed, at par, the $200 million Series 6 senior unsecured debentures with an original maturity date of April 20, 2017.

DECLARATION OF DIVIDENDS

Subsequent to the end of the fourth quarter of 2016, the Board of Directors declared a quarterly dividend on Common Shares and Second Preferred Shares, Series B.

Common Shares	$0.26 per common share, payable on April 1, 2017 to shareholders of record on March 15, 2017
Second Preferred Shares, Series B	$0.33 per share, payable on March 31, 2017 to shareholders of record on March 15, 2017

OUTLOOK(4)

Loblaw remains focused on its strategic framework, delivering the best in food, best in health and beauty, operational excellence and growth. This framework is supported by our financial plan of maintaining a stable trading environment that targets positive same-store sales and stable gross margin, surfacing efficiencies to deliver operating leverage, and returning capital to shareholders.

In 2017, on a full year comparative basis, despite the current deflationary environment, the Company expects to:

- deliver positive same-store sales and stable gross margin in its Retail segment in a highly competitive grocery market, with continued negative pressure from healthcare reform;
- grow adjusted net earnings;
- invest approximately $1.3 billion in capital expenditures, including $1.0 billion in its Retail segment; and
- return capital to shareholders by allocating a significant portion of free cash flow to share repurchases.

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; and with respect to Choice Properties: adjusted funds from operations. 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.

For details on the nature of items excluded in the calculation of any of the non-GAAP financial measures detailed below see the "Non-GAAP Financial Measures" section of the Company's 2016 Annual Report.

Retail Segment Gross Profit, Retail Segment Adjusted Gross Profit and Retail Segment Adjusted Gross Profit Percentage The following table reconciles revenue and cost of merchandise inventories sold to gross profit by segment and then to adjusted gross profit by segment. 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.

					2016 (12 weeks)					2015 (12 weeks)
For the periods ended December 31, 2016 and January 2, 2016 (millions of Canadian dollars)	**Retail**	**Financial Services[3]**	**Choice Properties[3]**	**Consolidation and Eliminations**	**Total**	Retail	Financial Services[3]	Choice Properties[3]	Consolidation and Eliminations	Total
Revenue	**$ 10,845**	**$ 261**	**$ 198**	**$ (174)**	**$ 11,130**	$ 10,606	$ 240	$ 191	$ (172)	$ 10,865
Cost of Merchandise Inventories Sold	**7,896**	**27**	**—**	**—**	**7,923**	7,812	19	—	—	7,831
Gross Profit	**$ 2,949**	**$ 234**	**$ 198**	**$ (174)**	**$ 3,207**	$ 2,794	$ 221	$ 191	$ (172)	$ 3,034
Add (deduct) impact of the following:										
Charges related to retail locations in Fort McMurray, net of recoveries	**(4)**	**—**	**—**	**—**	**(4)**	—	—	—	—	—
Net impairment (impairment reversals) related to Drug retail ancillary assets	**—**	**—**	**—**	**—**	**—**	46	—	—	—	46
Charge related to inventory measurement and other conversion differences	**—**	**—**	**—**	**—**	**—**	4	—	—	—	4
Adjusted Gross Profit	**$ 2,945**	**$ 234**	**$ 198**	**$ (174)**	**$ 3,203**	$ 2,844	$ 221	$ 191	$ (172)	$ 3,084

For the periods ended December 31, 2016 and January 2, 2016 (millions of Canadian dollars)	2016 (52 weeks) Retail	Financial Services[(3)]	Choice Properties[(3)]	Consolidation and Eliminations	Total	2015 (52 weeks) Retail	Financial Services[(3)]	Choice Properties[(3)]	Consolidation and Eliminations	Total
Revenue	$45,384	$ 911	$ 784	$ (694)	$46,385	$44,469	$ 849	$ 743	$ (667)	$45,394
Cost of Merchandise Inventories Sold	33,130	83	—	—	33,213	32,780	66	—	—	32,846
Gross Profit	$12,254	$ 828	$ 784	$ (694)	$13,172	$11,689	$ 783	$ 743	$ (667)	$12,548
Add (deduct) impact of the following:										
Charges related to retail locations in Fort McMurray, net of recoveries	1	—	—	—	1	—	—	—	—	—
Restructuring and other related costs	3	—	—	—	3	—	—	—	—	—
Net impairment (impairment reversals) related to Drug retail ancillary assets	4	—	—	—	4	46	—	—	—	46
Charge related to inventory measurement and other conversion differences	—	—	—	—	—	4	—	—	—	4
Charge related to apparel inventory	—	—	—	—	—	8	—	—	—	8
Adjusted Gross Profit	$12,262	$ 828	$ 784	$ (694)	$13,180	$11,747	$ 783	$ 743	$ (667)	$12,606

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 GAAP net earnings measures reported in the consolidated statements of earnings for the periods ended December 31, 2016 and January 2, 2016. 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.

					2016 (12 weeks)					2015 (12 weeks)
(millions of Canadian dollars)	**Retail**	**Financial Services[3]**	**Choice Properties[3]**	**Consolidation and Eliminations**	**Consolidated**	Retail	Financial Services[3]	Choice Properties[3]	Consolidation and Eliminations	Consolidated
Net earnings attributable to shareholders of the Company					**$ 204**					$ 131
Add (deduct) impact of the following:										
Non-Controlling Interests					**28**					(4)
Net interest expense and other financing charges					**128**					141
Income taxes					**89**					48
Operating income	**$ 392**	**$ 52**	**$ 245**	**$ (240)**	**$ 449**	$ 265	$ 48	$ 224	$ (221)	$ 316
Add (deduct) impact of the following:										
Amortization of intangible assets acquired with Shoppers Drug Mart	**124**	**—**	**—**	**—**	**124**	124	—	—	—	124
Restructuring and other related costs	**2**	**—**	**—**	**—**	**2**	(7)	—	—	—	(7)
Charges related to retail locations in Fort McMurray, net of recoveries	**(5)**	**—**	**—**	**—**	**(5)**	—	—	—	—	—
Fair value adjustment on fuel and foreign currency contracts	**(6)**	**—**	**—**	**—**	**(6)**	(6)	—	—	—	(6)
Net impairment (impairment reversals) related to Drug retail ancillary assets	**—**	**—**	**—**	**—**	**—**	112	—	—	—	112
Charge related to inventory measurement and other conversion differences	**—**	**—**	**—**	**—**	**—**	33	—	—	—	33
Asset impairments, net of recoveries	**130**	**—**	**—**	**—**	**130**	4	—	—	—	4
Labour agreements	**—**	**—**	**—**	**—**	**—**	55	—	—	—	55
Pension annuities and buy-outs	**21**	**—**	**—**	**—**	**21**	6	—	—	—	6
Modifications to certain franchise fee arrangements	**—**	**—**	**—**	**—**	**—**	(8)	—	—	—	(8)
Adjusting Items	**$ 266**	**$ —**	**$ —**	**$ —**	**$ 266**	$ 313	$ —	$ —	$ —	$ 313
Adjusted operating income	**$ 658**	**$ 52**	**$ 245**	**$ (240)**	**$ 715**	$ 578	$ 48	$ 224	$ (221)	$ 629
Depreciation and amortization	**355**	**4**	**—**	**6**	**365**	369	3	—	4	376
Less: Amortization of intangible assets acquired with Shoppers Drug Mart	**(124)**	**—**	**—**	**—**	**(124)**	(124)	—	—	—	(124)
Adjusted EBITDA	**$ 889**	**$ 56**	**$ 245**	**$ (234)**	**$ 956**	$ 823	$ 51	$ 224	$ (217)	$ 881

(millions of Canadian dollars)	Retail	Financial Services[3]	Choice Properties[3]	Consolidation and Eliminations	Consolidated 2016 (52 weeks)	Retail	Financial Services[3]	Choice Properties[3]	Consolidation and Eliminations	Consolidated 2015[6] (52 weeks)
Net earnings attributable to shareholders of the Company					$ 983					$ 598
Add (deduct) impact of the following:										
Non-Controlling Interests					7					(9)
Net interest expense and other financing charges					653					644
Income taxes					449					368
Operating income	$ 1,902	$ 175	$ 677	$ (662)	$ 2,092	$ 1,429	$ 163	$ 601	$ (592)	$ 1,601
Add (deduct) impact of the following:										
Amortization of intangible assets acquired with Shoppers Drug Mart	535	—	—	—	535	536	—	—	—	536
Restructuring and other related costs	46	—	—	—	46	154	—	—	—	154
Fair value adjustment on fuel and foreign currency contracts	5	—	—	—	5	(21)	—	—	—	(21)
Charges related to retail locations in Fort McMurray, net of recoveries	2	—	—	—	2	—	—	—	—	—
Prior year tax assessment	10	—	—	—	10	—	—	—	—	—
Net impairment (impairment reversals) related to Drug retail ancillary assets	(4)	—	—	—	(4)	112	—	—	—	112
Asset impairments, net of recoveries	135	—	—	—	135	13	—	—	—	13
Pension annuities and buy-outs	23	—	—	—	23	8	—	—	—	8
Charge related to apparel inventory	—	—	—	—	—	8	—	—	—	8
Shoppers Drug Mart acquisition-related cost, net of impact from divestitures	—	—	—	—	—	2	—	—	—	2
Labour agreements	—	—	—	—	—	55	—	—	—	55
Charge related to inventory measurement and other conversion differences	—	—	—	—	—	33	—	—	—	33
Modifications to certain franchise fee arrangements	—	—	—	—	—	(8)	—	—	—	(8)
Adjusting Items	$ 752	$ —	$ —	$ —	$ 752	$ 892	$ —	$ —	$ —	$ 892
Adjusted operating income	$ 2,654	$ 175	$ 677	$ (662)	$ 2,844	$ 2,321	$ 163	$ 601	$ (592)	$ 2,493
Depreciation and amortization	1,512	13	1	17	1,543	1,567	10	1	14	1,592
Less: Amortization of intangible assets acquired with Shoppers Drug Mart	(535)	—	—	—	(535)	(536)	—	—	—	(536)
Adjusted EBITDA	$ 3,631	$ 188	$ 678	$ (645)	$ 3,852	$ 3,352	$ 173	$ 602	$ (578)	$ 3,549

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 in the consolidated statements of earnings for the periods ended December 31, 2016 and January 2, 2016. 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.

(millions of Canadian dollars)	**2016 (12 weeks)**	2015 (12 weeks)	**2016 (52 weeks)**	2015 (52 weeks)
Net interest expense and other financing charges	**$ 128**	$ 141	**$ 653**	$ 644
Add (deduct) impact of the following:				
Fair value adjustment to the Trust Unit Liability	**2**	(7)	**(118)**	(81)
Accelerated amortization of deferred financing costs	**—**	—	**—**	(15)
Adjusted net interest expense and other financing charges	**$ 130**	$ 134	**$ 535**	$ 548

Adjusted Income Taxes and Adjusted Income Tax Rate The Company believes adjusted income taxes is 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 31, 2016 and January 2, 2016 (millions of Canadian dollars except where otherwise indicated)	**2016 (12 weeks)**	2015 (12 weeks)	**2016 (52 weeks)**	2015[6] (52 weeks)
Adjusted operating income[(i)]	**$ 715**	$ 629	**$ 2,844**	$ 2,493
Adjusted net interest expense and other financing charges[(i)]	**130**	134	**535**	548
Adjusted earnings before taxes	**$ 585**	$ 495	**$ 2,309**	$ 1,945
Income taxes	**$ 89**	$ 48	**$ 449**	$ 368
Add (deduct) impact of the following:				
Tax impact of items included in adjusted earnings before taxes[(ii)]	**72**	85	**189**	229
Statutory corporate income tax rate change	**—**	—	**(3)**	(72)
Adjusted income taxes	**$ 161**	$ 133	**$ 635**	$ 525
Effective tax rate	**27.7%**	27.4%	**31.2%**	38.5%
Adjusted income tax rate	**27.5%**	26.9%	**27.5%**	27.0%

(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.

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.

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

The following table reconciles net earnings attributable to shareholders of the Company to net earnings available to common shareholders of the Company and then to adjusted net earnings available to common shareholders of the Company for the periods ended December 31, 2016 and January 2, 2016:

(millions of Canadian dollars except where otherwise indicated)	**2016 (12 weeks)**	2015 (12 weeks)	**2016 (52 weeks)**	2015[6] (52 weeks)
Net earnings attributable to shareholders of the Company	**$ 204**	$ 131	**$ 983**	$ 598
Less: Prescribed dividends on preferred shares in share capital	**(3)**	(3)	**(12)**	(7)
Net earnings available to common shareholders of the Company	**$ 201**	$ 128	**$ 971**	$ 591
Net earnings attributable to shareholders of the Company	**$ 204**	$ 131	**$ 983**	$ 598
Adjusting items (refer to the following table)	**192**	235	**684**	831
Adjusted net earnings attributable to shareholders of the Company	**$ 396**	$ 366	**$ 1,667**	$ 1,429
Less: Prescribed dividends on preferred shares in share capital	**(3)**	(3)	**(12)**	(7)
Adjusted net earnings available to common shareholders of the Company	**$ 393**	$ 363	**$ 1,655**	$ 1,422
Diluted weighted average common shares outstanding (millions)	**405.6**	415.2	**409.1**	415.2

The following table reconciles adjusted net earnings available to common shareholders of the Company and adjusted diluted net earnings per common share to GAAP net earnings available to common shareholders of the Company and diluted net earnings per common share as reported for the periods ended December 31, 2016 and January 2, 2016:

	2016 (12 weeks)		2015 (12 weeks)		**2016 (52 weeks)**		2015(6) (52 weeks)	
(millions of Canadian dollars/Canadian dollars)	**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
As reported	**$ 201**	**$ 0.50**	$ 128	$ 0.31	**$ 971**	**$ 2.37**	$ 591	$ 1.42
Add (deduct) impact of the following:								
Fair value adjustment to the Trust Unit Liability(i)	**(2)**	**—**	7	0.01	**118**	**0.29**	81	0.20
Amortization of intangible assets acquired with Shoppers Drug Mart	**90**	**0.22**	92	0.21	**395**	**0.97**	394	0.95
Restructuring and other related costs	**3**	**0.01**	(5)	(0.01)	**44**	**0.11**	127	0.31
Fair value adjustment on fuel and foreign currency contracts	**(4)**	**(0.01)**	(5)	(0.01)	**4**	**0.01**	(16)	(0.04)
Charges related to retail locations in Fort McMurray, net of recoveries	**(3)**	**(0.01)**	—	—	**2**	**—**	—	—
Net impairment (impairment reversals) related to Drug retail ancillary assets	**—**	**—**	82	0.20	**(3)**	**(0.01)**	82	0.20
Statutory corporate income tax rate change	**—**	**—**	—	—	**3**	**0.01**	72	0.17
Asset impairments, net of recoveries	**93**	**0.22**	3	0.01	**97**	**0.24**	10	0.02
Charge related to apparel inventory	**—**	**—**	—	—	**—**	**—**	6	0.01
Accelerated amortization of deferred financing costs	**—**	**—**	—	—	**—**	**—**	11	0.03
Prior year tax assessment	**—**	**—**	—	—	**7**	**0.02**	—	—
Pension annuities and buy-outs	**15**	**0.04**	5	0.01	**17**	**0.04**	6	0.01
Labour agreements	**—**	**—**	40	0.10	**—**	**—**	40	0.10
Modifications to certain franchise fee arrangements	**—**	**—**	(8)	(0.02)	**—**	**—**	(8)	(0.02)
Shoppers Drug Mart acquisition-related cost, net of impact from divestitures	**—**	**—**	—	—	**—**	**—**	2	—
Charge related to inventory measurement and other conversion differences	**—**	**—**	24	0.06	**—**	**—**	24	0.06
Adjusting items	**$ 192**	**$ 0.47**	$ 235	$ 0.56	**$ 684**	**$ 1.68**	$ 831	$ 2.00
Adjusted	**$ 393**	**$ 0.97**	$ 363	$ 0.87	**$ 1,655**	**$ 4.05**	$ 1,422	$ 3.42

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

Free Cash Flow The following table reconciles free cash flow used in assessing the Company’s financial condition to GAAP measures for the periods ended December 31, 2016 and January 2, 2016. The Company believes that free cash flow is the appropriate measure in assessing the Company’s cash available for additional financing and investing activities.

(millions of Canadian dollars)	**2016 (12 weeks)**	2015 (12 weeks)	**2016 (52 weeks)**	2015 (52 weeks)
Cash flows from operating activities	**$ 861**	$ 564	**$ 3,519**	$ 3,079
Less:				
Capital investments	**470**	433	**1,224**	1,241
Interest paid	**78**	95	**474**	491
Free cash flow	**$ 313**	$ 36	**$ 1,821**	$ 1,347

Choice Properties' Adjusted Funds from Operations The following table reconciles Choice Properties’ adjusted funds from operations to GAAP measures for the periods ended December 31, 2016 and January 2, 2016. The Company believes adjusted funds from operations is useful in measuring economic performance and is indicative of Choice Properties’ ability to pay distributions.

(millions of Canadian dollars)	**2016 (12 weeks)**	2015 (12 weeks)	**2016 (52 weeks)**	2015 (52 weeks)
Net income (loss)	**$ 256**	$ 41	**$ (223)**	$ (155)
Fair value adjustments on Class B Limited Partnership units	**(107)**	96	**530**	411
Fair value adjustments on investment properties	**(102)**	(88)	**(109)**	(72)
Fair value adjustments on unit-based compensation	**(1)**	—	**4**	1
Fair value adjustments of investment property held in equity accounted joint venture	**—**	—	**(14)**	—
Distributions on Class B Limited Partnership units	**56**	52	**219**	203
Internal expenses for leasing	**1**	—	**3**	1
Funds from Operations	**$ 103**	$ 101	**$ 410**	$ 389
Straight-line rental revenue	**(9)**	(10)	**(36)**	(37)
Amortization of finance charges	**1**	—	**1**	(1)
Unit-based compensation expense	**1**	—	**3**	2
Sustaining property and leasing capital expenditures, normalized[(i)]	**(14)**	(9)	**(48)**	(40)
Adjusted Funds from Operations	**$ 82**	$ 82	**$ 330**	$ 313

(i) Seasonality impacts the timing of capital expenditures. The adjusted funds from operations calculation has been adjusted for this factor to make the quarters more comparable.

SELECTED FINANCIAL INFORMATION
The following includes selected quarterly and annual financial information, which is prepared by management in accordance with International Financial Reporting Standards ("IFRS") and is based on the Company's audited annual consolidated financial statements for the year ended December 31, 2016. This financial information does not contain all disclosures required by IFRS, and accordingly, should be read in conjunction with the Company's 2016 Annual Report, which is available in the Investor Centre section of the Company's website at loblaw.ca and on sedar.com.

Consolidated Statements of Earnings

(millions of Canadian dollars except where otherwise indicated)	**December 31, 2016 (12 weeks) (unaudited)**	January 2, 2016 (12 weeks) (unaudited)	**2016 (52 weeks) (audited)**	2015[6] (52 weeks) (audited)
Revenue	**$ 11,130**	$ 10,865	**$ 46,385**	$ 45,394
Cost of Merchandise Inventories Sold	**7,923**	7,831	**33,213**	32,846
Selling, General and Administrative Expenses	**2,758**	2,718	**11,080**	10,947
Operating Income	**$ 449**	$ 316	**$ 2,092**	$ 1,601
Net interest expense and other financing charges	**128**	141	**653**	644
Earnings Before Income Taxes	**$ 321**	$ 175	**$ 1,439**	$ 957
Income taxes	**89**	48	**449**	368
Net Earnings	**$ 232**	$ 127	**$ 990**	$ 589
Attributable to:				
Shareholders of the Company	**$ 204**	$ 131	**$ 983**	$ 598
Non-Controlling Interests	**28**	(4)	**7**	(9)
Net Earnings	**$ 232**	$ 127	**$ 990**	$ 589
Net Earnings per Common Share ($)				
Basic	**$ 0.50**	$ 0.31	**$ 2.40**	$ 1.44
Diluted	**$ 0.50**	$ 0.31	**$ 2.37**	$ 1.42
Weighted Average Common Shares Outstanding (millions)				
Basic	**401.9**	410.7	**405.1**	411.5
Diluted	**405.6**	415.2	**409.1**	415.2

Consolidated Balance Sheets

(millions of Canadian dollars)	As at December 31, 2016	As at January 2, 2016(6)
Assets		
Current Assets		
Cash and cash equivalents	**$ 1,314**	$ 1,018
Short term investments	**241**	64
Accounts receivable	**1,122**	1,325
Credit card receivables	**2,926**	2,790
Inventories	**4,371**	4,322
Prepaid expenses and other assets	**190**	265
Assets held for sale	**40**	71
Total Current Assets	**$ 10,204**	$ 9,855
Fixed Assets	**10,559**	10,480
Investment Properties	**218**	160
Intangible Assets	**8,745**	9,164
Goodwill	**3,895**	3,780
Deferred Income Tax Assets	**130**	132
Franchise Loans Receivable	**233**	329
Other Assets	**452**	457
Total Assets	**$ 34,436**	$ 34,357
Liabilities		
Current Liabilities		
Bank indebtedness	**$ 115**	$ 143
Trade payables and other liabilities	**5,091**	5,106
Provisions	**99**	127
Income taxes payable	**329**	82
Short term debt	**665**	550
Long term debt due within one year	**400**	998
Associate interest	**243**	216
Total Current Liabilities	**$ 6,942**	$ 7,222
Provisions	**120**	131
Long Term Debt	**10,470**	10,013
Trust Unit Liability	**959**	821
Deferred Income Tax Liabilities	**2,190**	2,292
Other Liabilities	**727**	754
Total Liabilities	**$ 21,408**	$ 21,233
Equity		
Share Capital	**$ 7,913**	$ 8,072
Retained Earnings	**4,944**	4,914
Contributed Surplus	**112**	102
Accumulated Other Comprehensive Income	**33**	23
Total Equity Attributable to Shareholders of the Company	**$ 13,002**	$ 13,111
Non-Controlling Interests	**26**	13
Total Equity	**$ 13,028**	$ 13,124
Total Liabilities and Equity	**$ 34,436**	$ 34,357

Consolidated Statements of Cash Flows

(millions of Canadian dollars)	December 31, 2016 (12 weeks)	January 2, 2016 (12 weeks)	2016 (52 weeks)	2015[6] (52 weeks)
Operating Activities				
Net earnings	**$ 232**	$ 127	**$ 990**	$ 589
Add (Deduct):				
Income taxes	**89**	48	**449**	368
Net interest expense and other financing charges	**128**	141	**653**	644
Depreciation and amortization	**365**	376	**1,543**	1,592
Asset impairments, net of recoveries	**130**	26	**139**	73
(Gain) Loss on disposal of assets	**(2)**	2	**—**	(5)
Charge related to inventory measurement and other conversion differences	**—**	4	**—**	4
	$ 942	$ 724	**$ 3,774**	$ 3,265
Change in non-cash working capital	**95**	100	**134**	235
Change in credit card receivables	**(157)**	(127)	**(136)**	(160)
Income taxes paid	**(50)**	(65)	**(329)**	(296)
Interest received	**2**	2	**9**	7
Other	**29**	(70)	**67**	28
Cash Flows from Operating Activities	**$ 861**	$ 564	**$ 3,519**	$ 3,079
Investing Activities				
Fixed asset purchases	**$ (361)**	$ (329)	**$ (896)**	$ (1,008)
Intangible asset additions	**(109)**	(104)	**(328)**	(233)
Acquisition of QHR, net of cash acquired	**(153)**	—	**(153)**	—
Cash assumed on initial consolidation of franchises	**11**	31	**42**	33
Change in short term investments	**(85)**	(18)	**(177)**	(43)
Proceeds from disposal of assets	**9**	2	**62**	36
Change in security deposits	**(2)**	209	**(2)**	5
Other	**14**	36	**15**	(28)
Cash Flows used in Investing Activities	**$ (676)**	$ (173)	**$ (1,437)**	$ (1,238)
Financing Activities				
Change in bank indebtedness	**$ (142)**	$ (100)	**$ (28)**	$ (19)
Change in short term debt	**190**	(30)	**115**	(55)
Long Term Debt				
Issued	**159**	338	**815**	1,186
Retired	**(30)**	(502)	**(1,049)**	(1,783)
Interest paid	**(78)**	(95)	**(474)**	(491)
Dividends paid on common and preferred shares	**(104)**	(105)	**(425)**	(416)
Common Share Capital				
Issued	**4**	15	**42**	63
Purchased and held in trust	**—**	(6)	**(90)**	(63)
Purchased and cancelled	**(200)**	(186)	**(708)**	(280)
Preferred Share Capital Issued	**—**	—	**—**	221
Redemption of Capital Securities	**—**	—	**—**	(225)
Other	**16**	16	**20**	23
Cash Flows used in Financing Activities	**$ (185)**	$ (655)	**$ (1,782)**	$ (1,839)
Effect of foreign currency exchange rate changes on cash and cash equivalents	**$ 2**	$ 7	**$ (4)**	$ 17
Change in cash and cash equivalents	**$ 2**	$ (257)	**$ 296**	$ 19
Cash and cash equivalents, beginning of period	**1,312**	1,275	**1,018**	999
Cash and Cash Equivalents, End of Period	**$ 1,314**	$ 1,018	**$ 1,314**	$ 1,018

SEGMENT INFORMATION

The Company has three reportable operating segments with all material operations carried out in Canada. The Company's chief operating decision maker evaluates segment performance on the basis of adjusted EBITDA(2) and adjusted operating income(2), as reported to internal management, on a periodic basis.

Information for each reportable operating segment is included below:

	December 31, 2016 (12 weeks)					January 2, 2016 (12 weeks)				
(millions of Canadian dollars)	**Retail**	**Financial Services(3)**	**Choice Properties(3)**	**Consolidation and Eliminations(i)**	**Total**	Retail	Financial Services(3)	Choice Properties(3)	Consolidation and Eliminations(i)	Total
Revenue(ii)	**$ 10,845**	**$ 261**	**$ 198**	**$ (174)**	**$ 11,130**	$ 10,606	$ 240	$ 191	$ (172)	$ 10,865
Operating Income	$ 392	$ 52	$ 245	$ (240)	$ 449	$ 265	$ 48	$ 224	$ (221)	$ 316
Net interest expense and other financing charges	76	13	(11)	50	128	82	15	184	(140)	141
Earnings before Income Taxes	**$ 316**	**$ 39**	**$ 256**	**$ (290)**	**$ 321**	$ 183	$ 33	$ 40	$ (81)	$ 175
Operating Income	**$ 392**	**$ 52**	**$ 245**	**$ (240)**	**$ 449**	$ 265	$ 48	$ 224	$ (221)	$ 316
Depreciation and Amortization	355	4	—	6	365	369	3	—	4	376
Adjusting items(iii)	266	—	—	—	266	313	—	—	—	313
Less: amortization of intangible assets acquired with Shoppers Drug Mart	(124)	—	—	—	(124)	(124)	—	—	—	(124)
Adjusted EBITDA(iii)	$ 889	$ 56	$ 245	$ (234)	$ 956	$ 823	$ 51	$ 224	$ (217)	$ 881
Depreciation and Amortization(iv)	231	4	—	6	241	245	3	—	4	252
Adjusted Operating Income	**$ 658**	**$ 52**	**$ 245**	**$ (240)**	**$ 715**	$ 578	$ 48	$ 224	$ (221)	$ 629

(i) Consolidation and Eliminations includes the following items:

- Revenue includes the elimination of $133 million (2015 – $128 million) of rental revenue and $41 million (2015 – $44 million) of cost recovery recognized by Choice Properties, generated from the Retail segment.
- Adjusted operating income includes the elimination of the $133 million (2015 – $128 million) impact of rental revenue described above; the elimination of a $102 million gain (2015 – $88 million gain) recognized by Choice Properties related to the fair value adjustments on investment properties, which are classified as Fixed Assets or Investment Properties by the Company and measured at cost; the recognition of $6 million (2015 – $4 million) of depreciation expense for certain investment properties recorded by Choice Properties; and the elimination of intercompany recoveries of $1 million (2015 – charges of $1 million).
- Net interest expense and other financing charges includes the elimination of $68 million (2015 – $63 million) of interest expense included in Choice Properties related to debt owing to the Company and a $107 million fair value gain (2015 – loss of $96 million) recognized by Choice Properties on Class B Limited Partnership units held by the Company. Net interest and other financing charges also includes Unit distributions to external unitholders of $13 million (2015 – $12 million), which excludes distributions paid to the Company and a $2 million fair value gain (2015 – $7 million loss) on the Company's Trust Unit Liability.

(ii) Included in Financial Services revenue is $97 million (2015 – $94 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 $124 million (2015 – $124 million) of amortization of intangible assets acquired with Shoppers Drug Mart.

(millions of Canadian dollars)	December 31, 2016 (52 weeks) Retail	Financial Services(3)	Choice Properties(3)	Consolidation and Eliminations(i)	Total	January 2, 2016 (52 weeks) Retail	Financial Services(3)	Choice Properties(3)	Consolidation and Eliminations(i)	Total
Revenue(ii)	**$ 45,384**	**$ 911**	**$ 784**	**$ (694)**	**$ 46,385**	$ 44,469	$ 849	$ 743	$ (667)	$ 45,394
Operating Income	$ 1,902	$ 175	$ 677	$ (662)	$ 2,092	$ 1,429	$ 163	$ 601	$ (592)	$ 1,601
Net interest expense and other financing charges	332	51	900	(630)	653	367	57	756	(536)	644
Earnings before Income Taxes	**$ 1,570**	**$ 124**	**$ (223)**	**$ (32)**	**$ 1,439**	$ 1,062	$ 106	$ (155)	$ (56)	$ 957
Operating Income	**$ 1,902**	**$ 175**	**$ 677**	**$ (662)**	**$ 2,092**	$ 1,429	$ 163	$ 601	$ (592)	$ 1,601
Depreciation and Amortization	1,512	13	1	17	1,543	1,567	10	1	14	1,592
Adjusting items(iii)	752	—	—	—	752	892	—	—	—	892
Less: amortization of intangible assets acquired with Shoppers Drug Mart	(535)	—	—	—	(535)	(536)	—	—	—	(536)
Adjusted EBITDA(iii)	$ 3,631	$ 188	$ 678	$ (645)	$ 3,852	$ 3,352	$ 173	$ 602	$ (578)	$ 3,549
Depreciation and Amortization(iv)	977	13	1	17	1,008	1,031	10	1	14	1,056
Adjusted Operating Income	**$ 2,654**	**$ 175**	**$ 677**	**$ (662)**	**$ 2,844**	$ 2,321	$ 163	$ 601	$ (592)	$ 2,493

(i) Consolidation and Eliminations includes the following items:

- Revenue includes the elimination of $520 million (2015 – $502 million) of rental revenue and $174 million (2015 – $165 million) of cost recovery recognized by Choice Properties, generated from the Retail segment.
- Adjusted operating income includes the elimination of the $520 million (2015 – $502 million) impact of rental revenue described above; the elimination of a $109 million gain (2015 – $72 million gain) recognized by Choice Properties related to the fair value adjustments on investment properties, which are classified as Fixed Assets or Investment Properties by the Company and measured at cost; the elimination of a $14 million gain (2015 – nil) recognized by Choice Properties related to the fair value adjustments on investment properties in the joint venture; the recognition of $17 million (2015 – $14 million) of depreciation expense for certain investment properties recorded by Choice Properties; and the elimination of intercompany charges of $2 million (2015 – $4 million).
- Net interest expense and other financing charges includes the elimination of $267 million (2015 – $251 million) of interest expense included in Choice Properties related to debt owing to the Company and a $530 million fair value loss (2015 – loss of $411 million) recognized by Choice Properties on Class B Limited Partnership units held by the Company. Net interest and other financing charges also includes Unit distributions to external unitholders of $49 million (2015 – $45 million), which excludes distributions paid to the Company and a $118 million fair value loss (2015 – loss of $81 million) on the Company's Trust Unit Liability.

(ii) Included in Financial Services revenue is $383 million (2015 – $368 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 $535 million (2015 – $536 million) of amortization of intangible assets acquired with Shoppers Drug Mart.

FORWARD-LOOKING STATEMENTS

This News Release 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 News Release include, but are not limited to, statements with respect to the Company's anticipated future results, events and plans, synergies and other benefits associated with the acquisition of Shoppers Drug Mart, anticipated insurance recoveries, future liquidity, planned capital investments, and the status and impact of information technology ("IT") systems implementation. These specific forward-looking statements are contained throughout this News Release including, without limitation, in the "Outlook" section of this News Release. Forward-looking statements are typically identified by words such as "expect", "anticipate", "believe", "foresee", "could", "estimate", "goal", "intend", "plan", "seek", "strive", "will", "may" and "should" and similar expressions, as they relate to the Company and its management.

Forward-looking statements reflect the Company's current estimates, beliefs and assumptions, which are based on management's perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances. The Company's expectation of operating and financial performance in 2017 is based on certain assumptions including assumptions about anticipated cost savings, operating efficiencies and continued growth from current 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 the Management Discussion and Analysis in the 2016 Annual Report – Financial Review ("2016 Annual Report") and the Company's 2016 Annual Information Form ("AIF") (for the year ended December 31, 2016). Such risks and uncertainties include:

- changes to the regulation of generic prescription drug prices, the reduction of reimbursements under public drug benefit plans and the elimination or reduction of professional allowances paid by drug manufacturers;
- failure to effectively manage the Company's loyalty programs;
- the inability of the Company's IT infrastructure to support the requirements of the Company's business, or the occurrence of any internal or external security breaches, denial of service attacks, viruses, worms and other known or unknown cybersecurity or data breaches;
- failure to realize benefits from investments in the Company's new IT systems;
- failure to effectively respond to consumer trends or heightened competition, whether from current competitors or new entrants to the marketplace;
- public health events including those related to food and drug safety;
- changes to any of the laws, rules, regulations or policies applicable to the Company's business;
- failure to merchandise effectively, to execute the Company's e-commerce initiative or to adapt its business model to the shifts in the retail landscape caused by digital advances;
- failure to realize the anticipated benefits, including revenue growth, anticipated cost savings or operating efficiencies, associated with the Company's investment in major initiatives that support its strategic priorities;
- changes in economic conditions, including economic recession or changes in the rate of inflation or deflation, employment rates and household debt, interest rates, currency exchange rates or derivative and commodity prices;
- failure to achieve desired results in labour negotiations, including the terms of future collective bargaining agreements;
- adverse outcomes of legal and regulatory proceedings and related matters;
- reliance on the performance and retention of third party service providers, including those associated with the Company's supply chain and apparel business, including issues with vendors in both advanced and developing markets; and
- the inability of the Company to manage inventory to minimize the impact of obsolete or excess inventory and to control shrink.

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 2016 AIF (for the year ended December 31, 2016). 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 News Release. 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.

CORPORATE PROFILE

2016 Annual Report

The Company's 2016 Annual Report is available in the "Investors" section of the Company's website at loblaw.ca and on sedar.com.

Investor Relations

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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. 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 at loblaw.ca.

Conference Call and Webcast

Loblaw Companies Limited will host a conference call as well as an audio webcast on February 23, 2017 at 10:00 a.m. (ET).

To access via tele-conference, please dial (416) 642-5209. The playback will be made available approximately two hours after the event at (647) 436-0148, access code: 9000693. To access via audio webcast, please go to the "Investors" section of loblaw.ca. Pre-registration will be available.

Full details about the conference call and webcast are available on the Loblaw Companies Limited website at loblaw.ca.

News Release Endnotes

(1) This News Release contains forward-looking information. See "Forward-Looking Statements" section of this News Release for a discussion of material factors that could cause actual results to differ materially from the forecasts and projections herein and of the material factors and assumptions that were used when making these statements. This News Release should be read in conjunction with Loblaw Companies Limited's filings with securities regulators made from time to time, all of which can be found at sedar.com and at loblaw.ca.

(2) See "Non-GAAP Financial Measures" section of this News Release, which includes the reconciliation of such non-GAAP measures to the most directly comparable GAAP measures.

(3) The results for the Financial Services and Choice Properties segments are for the periods ended December 31, consistent with the segments' fiscal calendars. Adjustments to align Financial Services' and Choice Properties' results to the Company's fiscal calendar are included in Consolidation and Eliminations. See the "Non-GAAP Financial Measures" and the "Segment Information" sections of this News Release.

(4) To be read in conjunction with the "Forward-Looking Statements" section of this News Release.

(5) 2015 comparative Food retail same-store sales growth also excludes the negative impact of a change in distribution model by a tobacco supplier, which had no impact in the current period.

(6) Certain figures have been restated as a result of the IFRS Interpretations Committee's agenda decision on IAS 12, "Income Taxes". See Note 2 in the Company's 2016 consolidated financial statements.