FINAL TRANSCRIPT

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L.TO - Loblaw Companies and George Weston Limited Joint Conference Call to Discuss Impact of Transition to IFRS

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PRESENTATION

Kim Lee - *Loblaw Companies - Vice President of IR*

Good afternoon and welcome to the George Weston Limited and Loblaw Companies Limited IFRS conference call. My name is Kim Lee, I am the Vice President of Investor Relations at Loblaw Companies. This call is also being webcast simultaneously on our website, at loblaw.ca and weston.ca, where you will also find the presentation materials, that we will refer to during this call. Before we begin, I want to remind you that the discussion will include forward-looking statements, such as both Company's beliefs and expectations regarding certain aspects of financial performance in 2011 and future years. These statements are based on certain assumptions, and reflect management's current expectations, and they are subject to a number of risks and uncertainties, that could cause actual results or events to differ materially from current expectations.

These risks and uncertainties are discussed in the Company's materials filed with the Canadian securities regulators from time to time, including the Company's annual reports. Any forward-looking statements speak only as of the date they are made. The Company's disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required by law.

Certain non-GAAP financial measures may be discussed or referred to today. Please refer to George Weston and Loblaw's fourth quarter releases, annual reports, and other materials filed with the Canadian securities regulators from time to time, for a reconciliation of each of these measures to the most directly comparable GAAP financial measures. An archive of this conference call will be available on our websites.

I'll now turn the call over to Sarah Davis, Chief Financial Officer, Loblaw Companies.

Sarah Davis - *Loblaw Companies Limited - EVP, Finance*

Good afternoon, everyone. In the room, I am joined by members of the Loblaw and Weston financial reporting teams. From Loblaw, we have Litsa Popowich, Bryan Lillycrop, Adam Kozak, and of course, Kim Lee. From Weston, we have Geoff Wilson, Lina Taglieri, Kevin Munn, and Allison Doner. If you could flip to page three of your package, what we're going to go through, is flip through the pages, and then we'll take questions at the end.

So, on page three, what we're looking at here, we just want to highlight as these are preliminary, unaudited IFRS transitional adjustments. These materials are intended to provide information on the significant changes to Loblaw and George Weston, that will arise from the transition to IFRS from Canadian Generally Accepted Accounting Principles, that we refer to as C GAAP. The significant impacts presented are preliminary, they're unaudited, and reflect certain policy choices, elections, and exemptions, and are based on IFRS, effective as of January 2 of 2011.

It is possible that the numbers could change. Our first set of audited financial statements won't be until the end of 2011, so the first quarter of 2012, will be the first time, we have audited statements. But we decided it was good to give a sense of the numbers to all of you, so that you'd understand them, before having full audited statements. So, just on the last point is, that the International Accounting Standards Boards continues to develop and issue proposed amendments to current standards and interpretations, and as such, the impact of first time adoption may change prior to the Company's first set of statements.

You can flip to page 4. Just going to tell you a little high level on IFRS versus Canadian GAAP. So, some standards in IFRS differ considerably from Canadian GAAP. For Loblaw, these certain standards include the fixed asset impairment, securitization, the consolidation model. There's no concept of VIEs, or variable interest entities, and there is additional financial instruments. Other standards are very similar to Canadian GAAP, those would include revenue recognition, some inventory, capitalization, deferred charges, goodwill, and a bunch of others.

Applying IFRS requires further professional judgment, as there are additional accounting policy choices, and less interpretive guidance. It's much more just judgments, than say the US GAAP, which is more rules-based. And, within IFRS, there are more potential differences and application and interpretation. The other thing you will notice, when you see some of our statements, is that IFRS requires extensive disclosures and reconciliations on a first time adoption, and enhanced disclosure for certain standards going forward. You will you notice that the statements are going to be much more voluminous than what you've seen in the past, and for all of 2011, we will provide a Canadian GAAP to IFRS reconciliation in the quarter, so.

And with that, I'm actually going now to turn it over to Adam Kosak and Kevin Munn, who are going to take you through some of the significant changes.

Adam Kozak - *Loblaw Companies*

Thank you, Sarah. Excuse me. On slide 11 in the deck, we've provided you with a holistic summary of the standards we're going to do a deep dive today. I just want to reiterate Sarah's statement, that these figures are preliminary and unaudited, and they're also presented net of income taxes. IFRS requires implementation on a retrospective basis. What that means is, when you go and implement IFRS, you have to do so, as if it existed since the beginning of time.

IFRS 1 is a special standard that governs the implementation of IFRS, and it actually allows certain elections and exemptions that companies can choose, to ease the burden of implementation. On slide 5, we've noted the three most significant elections that the Company intends to take, and I am going to take you through the rationale, and what the impact of each is. The first standard that we're going to elect on is, IS 23 borrowing costs. IFRS is much more detailed, with respect to how and when you capitalize interest, to your tangible and intangible assets.

What this means, that the Company would have to go and reconstruct all of it's borrowing costs that are currently capitalized on it's balance sheet under IFRS. IFRS 1 offers an election that says, you can apply IS 23 borrowing costs, prospectively going forward, thereby eliminating all previously capitalized borrowing costs. The Company intends to take this election, and will take a charge to opening equity of approximately CAD199 million, eliminating all previously capitalized borrowing costs to it's fixed assets.

The next election is, with respect to IS 19, employee benefits. IFRS permits the recognition of all previously unamortized actuarial gains and losses on defined benefit plans through opening retained earnings. Loblaw, both Loblaw and Weston, intend to take this benefit -- this election, and the impact of it will be walked through when we do the deep dive on IS 19.

IFRS also permits the prospective application of the Business Combination Standard, thereby not requiring the Company to restate historical business combinations. The Company intends to apply this standard prospectively, beginning in 2010, and not restate any prior business combinations.

Kevin Munn - *George Weston Limited*

Thanks, Adam. So, having gone through IFRS 1 elections, I'm going to turn to the, the rest of the significant impacts of adoption, and just kind of walk through each of the significant standards that have an impact on us. Again, what's included in the slides and what we talk about, is not an exhaustive description of all the differences in Canadian GAAP and IFRS. We're just going to focus on the main drivers.

So, beginning with IS 16, that's property plant and equipment, the main driver of this adjustment is the derecognition of capital assets. So, in IFRS it's a lot more specific, that if you replace a portion of an asset, you have to derecognize the corresponding net book value when do you that. So, if for example, if we're replacing a roof or portion of a roof, so we're taking 50% of the roof and redoing it, we need to write-off the corresponding portion of the old roof, the net book value, through the P&L. So, when you apply this retroactively, we went back and looked at our historical fixed asset additions, were there replacements or not, and where there were replacements, it resulted in a write-off of fixed assets. So, we have an impact to equity net of tax of CAD58 million.

Going forward, the impact on depreciation itself isn't as significant as the writedown of a lower cost base, but not a significant impact going forward. What you will see is, as there are replacements, and if there are derecognition and losses, when things are replaced prior to end of useful life, you may see some bumpiness in depreciation expense on a quarter-to-quarter basis.

The next standard is leases, IS 17. The main driver of this impact has to do with the allocation of how you look at for, operating versus capital lease, on leases that comprise both land and building. So, under Canadian GAAP, if we had a lease that had both of these things, we would -- we'd look at it as a whole, as to whether it's operating or capital lease. Under IFRS, you're required to split the two components apart, and look at the building and land separately.

This results in a number of cases, where the building portion of it is really a capital lease, or a finance lease they call it under IFRS. So, as a result, we have more leases coming on balance sheet.

The second driver under leases, is just the nature of the guidance on how to do that test. So, under a Canadian GAAP, there's a lot of bright lines that talk about, if a leases for more than 75% of the useful life of the asset, for example. Under IFRS, the principles are very much the same, but it doesn't have those same bright lines. So, a retrospective application means you have to look a little bit deeper at some of the leases that were maybe close to that line, and dig into the substance, and in a few cases, it resulted in additional leases coming on balance sheet. So, on transition, we have a gross up in our assets and our liabilities, and a CAD27 million decrease in equity.

On a go-forward basis, what you'll see is that your EBITDA will be lifted slightly, because the rent expense that we were charging on those operating leases has gone away. On the other side though, the depreciation and interest will both increase, as a result of the asset and liability being on balance sheet.

So, turning the page to slide 7, looking at employee benefits, this is one of the bigger impact standards. The vast majority of this amount, is with respect to the IFRS 1 election, that Adam spoke about already. So, the, all of the cumulative unamortized actuarial gains and losses sitting that are sitting on our balance sheet, are wiped out on transition. In addition to that, there's a number of other smaller differences, along to do with just the timing of recognition of certain expenses, with respect to past service costs.

Also, the measurement dates, so as where under Canadian GAAP, we use a measurement date for our defined benefit plans of September 30, and roll forward. Under IFRS, we need to use December 31, as your measurement date. So, the extent that you have a change in the discount rate in that time or whatnot, you could come up with a different result.

So, all in, when you take all of those impacts together, on transition we have a CAD305 million decrease in equity net of taxes again, and that's a reduction (inaudible) and increase in liabilities. On a go-forward basis, there's two things that are going to impact the P&L, and they're both kind of related to policy choices.

So, the first one is, how you treat actuarial gains and losses. Under Canadian GAAP, we use the corridor method, where we defer all those amortized gains and losses on balance sheet, and then amortize them over a period of time. Under IFRS, the policy choice that we're taking, is to recognize any actuarial gains and losses immediately, but in other comprehensive income, instead of the P&L. So, we'll no longer have that amortization of the losses coming through the P&L, which will be a lift to our EBITDA, and to our net earnings.

The other policy choice, is purely presentation choice. It doesn't impact net earnings at all, but under IFRS you're given the choice to present the interest and the expected return on plan asset components of your pension costs on the interest line, instead of through operating income, which we currently do under Canadian GAAP. So, as a result, there's going to be a flip, your EBITDA is going to increase, and your interest is going to increase as well, no net impact on the bottom line.

Adam Kozak - *Loblaw Companies*

Thanks, Kevin. The major difference in consolidation for Loblaw has to do with the fact that IFRS does not have a variable interest entity model. It focuses on the ability to control an entity, and obtain benefits from that entity. What that means is, that on transition, Loblaw will no longer consolidate it's VIE entities, but it will consolidate Eagle Credit Card Trust through PC Bank, and Franchise Trust II, the independent funding trust through which our franchisees obtain certain loans.

What that means is on transition, assets and liabilities will increase, and equity will decrease. Going forward, it's expected that earnings will increase, as a result of the deconsolidation of VIE stores, but that will be offset by increased interest expense, particularly associated with the interest of Eagle Credit Card Trust and Franchise Trust II.

For fixed asset impairments, IFRS requires a lower level of testing, than we do today under Canadian GAAP. What that means for Loblaw, is that fixed assets will be tested for impairment at the store level. In addition, under Canadian GAAP, we were allowed to do a two-step test, which first allowed us to examine the cash flows on an undiscounted basis, and only when an impairment was tripped there, did you go to a discounted cash flow model. IFRS explicitly says, you have to go to a discounted cash flow model, which results in a more likely impairment when compared to Canadian GAAP.

IFRS also allows for the reversals of impairment, which is something that didn't exist under Canadian GAAP. So, on transition, management examined all of the fixed assets of the Company, and will record an impact of equity of approximately CAD187 million. Going forward, we may see volatility in the P&L, because impairments may be reversed if the circumstances around the original impairment no longer exist, and we may be subject to incremental impairment throughout 2010 and 2011, and as we move forward.

As a result of the deconsolidation of the VIEs, the Company was required to examine it's franchise relationships at inception, so at the date each franchise was sold. We were required to value the components of each franchise, and specifically with respect to certain loans and receivables, it was determined that the fair value was lower than the carrying value. In addition, the requirements to get sale accounting on certain credit card securitizations will not be met under IFRS, so all other securitizations not covered by Eagle Credit Card Trust will remain on balance sheet at PC Bank.

On transition, we were also required to test all financial assets for impairment. So, where we end up on transition is a gross up of assets and liabilities, predominantly driven by the credit card securitizations maintaining on balance sheet, and a decrease of equity of approximately CAD331 million, associated with the fair value of our franchise relationship, and the impairment test of all of our financial assets. Again, going forward, the P&L will be subject to certain volatility, depending on the performance of our financial assets and the requirement to test those for impairment.

On slide 9, we summarize some of the less significant or immaterial impacts on transition to IFRS. Cash settled stock-based compensation will be required to be fair valued, using an option pricing model such as Black-Scholes under IFRS. The Company completed it's fair value exercise, and will record a charge to opening equity of CAD6 million. Going forward, cash settled stock office plans will have to be fair valued at each reporting period. Depending on the assumptions used within that model, we may see some volatility in the P&L.

The accounting for customer points and loyalty is much more prescriptive, and rules-based under IFRS. First of all, we're -- we are required to fair value our points liability. On transition, the fair value exercise was completed, and the Company will recognize a charge to equity of CAD14 million. Going forward, customer points and loyalty programs are required to be recorded as a component of the initial sales transaction.

What that means is, when an initial sale is made and points are granted, a portion of that sales transaction will be deferred on the balance sheet. That deferral will be released into revenue, when those points are redeemed. It's anticipated that the impact on net earnings for Loblaw going forward, will not be significant.

The last standard that we're going to go through is provisions. IFRS has a concept that doesn't exist under Canadian GAAP, known as onerous contract. And that is when the obligation of a contract, that's unavoidable, the benefits from that contract are not greater than it, so the contract is out of the money. On transition, the Company will record incremental liabilities of approximately CAD18 million associated with onerous leases that it has, the leases where the head lease is -- the head lease cost is greater than any sublease costs that we're obtaining from it. Going forward, it is anticipated that we'll recognize liability sooner under IFRS, pursuant to the provisions standard.

Moving to slide 10, so, as a result of the securitizations coming on balance sheet for PC Bank, under IFRS we will meet the thresholds for reportable segments. So, going forward in 2011, Loblaw Companies will have two reportable segments, grocery retailing, and financial products and services. Starting in the first quarter of 2011, we'll see additional information in the notes to the financial statements pertaining to those two reportable segments, specifically around revenues, operating income, and depreciation and amortization.

I will now put it back to Sarah.

Sarah Davis - *Loblaw Companies Limited - EVP, Finance*

Okay. If you'd like to flip to page 11, what this shows is a summary of all the numbers that Adam and Kevin went through. So, if we go through the shareholders equity piece, we've got Canadian GAAP equity at January 3 of 2010, so our opening balance sheet of CAD6.273 billion. And then, if we go through some of the reductions that we talked about just in a summary form.

So, the first one of reduction to shareholders equity as related to borrowing costs. So, this is the write-off of the capitalized interest that we elected to take on -- with IFRS 1.

Property plant and equipment, this is the derecognition, which we're taking for CAD58 million. The leases, is the new capital leases that are coming on balance sheet. Employee future benefits, relates to both the pension and benefits election of the losses, and the change in the measurement date for CAD305 million. Consolidations, is a couple of things, it's VIEs that are out, and we've got Franchise Trust and Eagle Trust coming on. The impairment of assets, is just that we're doing at the store level, as opposed to at a market level.

Revenue and financial instruments, basically related to the value of our franchisees, and credit card receivables as well coming on there. Share based payments, it's the fair value on the -- using the Black-Scholes, so minor impact there of CAD6 million. Customer loyalty programs, moving from cost to fair value, and provisions, which relates to the more onerous contacts of CAD18 million. So, all of that, is in it's summary, a subtotal of adjustments of CAD1.2 billion, and then just a change in minority interest, which is a flip, between equity and liabilities.

So, if you look at it from an asset or liabilities side, I'll just go through a few of the key ones. So, from an asset perspective the borrowing cost is, obviously a reduction of our fixed assets, as well as the property plant and equipment. The leases is a gross up for the new assets, as well as the liabilities. The pensions are coming out of assets and liabilities, and then we've got the consolidations, which has a net of CAD758 million increase on assets. This is a net of the VIEs which are am coming out, but Franchise Trust and Eagle Trust coming on to the balance sheet.

The impairment of assets is a reduction of fixed assets. And then, you've got the revenue and financial instruments, which is the credit card, the remaining credit card receivables, the securitizations coming on balance sheet, as well as the fair value of our franchisees being impacted there, and the others are minor changes. So, those are the key impacts of our balance sheet.

And with that I will switch to page 12, where we'll look at our net earnings. So, what we have here, is we have each of the quarterly impacts. We have Canadian GAAP, and just the key line items here in our quarterly report . When we come out, we'll have a bit more detail than this, but under Canadian GAAP, and then the change to IFRS. I will focus on the total year.

And what you see here, particularly interesting for us, is that EBITDA does exactly the same under Canadian GAAP and IFRS for the full-year. We spent two years on this project, and ended up with the same EBITDA. So, that was not necessarily great news for the team. But there's a lot of ins and outs within that, so I'll start with revenues. So, revenue is going from CAD30.997 billion to CAD38.27 billion, but within that number, there is a few things happening.

So, VIEs are coming out. So, our variable interest entities would reduce our revenue, but we now have PC financial revenue in. So, under Canadian GAAP, we just netted it, into other income, whereas because we have reportable segments, we'll have the revenue associated with PC financial in there. And the customer loyalty, as a result of having the change in customer loyalty, it will be down, as well.

When you look at -- I'll just go right to net earnings. From a net earnings perspective, it is lower, from CAD681 million to CAD634 million, and there is many small adjustments. The larger ones, include the fair value of our franchisees that we talked about, the borrowing costs increasing, because we can't capitalize the interest in the same way that we could under Canadian GAAP on our existing assets. And then, the fixed asset impairment is higher under the IFRS.

From an EBITDA perspective, it does end up being the same number. It's coincially -- coincidental, that it is. And then one question that we did have was, how is it that your operating income is actually increasing, but your net earnings is coming down? And so one of those, the key things there is that our depreciation is lower, but our interest is much higher, because we've got all the financings, now on balance sheet. So, we've got FT2, Eagle Trust, and all the securitization, so you will see a significant increase in our interest expense, and our depreciation will be slightly lower, as a result of some of the write-offs of fixed assets associated with that.

But what you do notice, is there is some volatility in the quarters. So, in, for example, the Q1, from an EBITDA perspective, it is higher under IFRS, and second quarter, it's pretty close to being the same, third quarter, it's slightly lower, fourth quarter, it's lower. That would be related to the impairment. So, there is some fluctuation that we will see.

I think Adam had talked about how under IFRS, you do have to -- if there's a trigger you have to bring -- you have to do your impairment -- you have to reverse your impairments that you take. So, there will be things, we also have to fair value our franchisees, and if there's a trigger, we'll have look at that on a quarterly basis. So, there is a little more noise coming through the P&L, that we'll have to talk to in every quarter. And those are the big pieces.

If I flip to page 13, this is really just because, we always do a -- EBITDA being a non-GAAP measure. We always do the reconciliation. There's nothing different here, and there's no differences.

So, I will just flip to page 14, where we'll go through what's not changing for Loblaw. So, certainly, none of our short-term and long-term strategic plans will change, as a result of IFRS. We're obviously still focused on executing our renewal plan. The capital management and funding strategies, are all the same, so economically nothing has changed for the business, it's just the change, in the way the statements look.

And just to reiterate, we're going to release our first quarter unaudited IFRS financial statements on May 4 of 2011. And we will have a lot of reconciliations in that, for people to understand what's happened.

And with that, I am going to turn it over to Geoff, who'll take you through some of the impacts on George Weston.

Geoff Wilson - *George Weston Limited*

Okay. Thank you, Sarah.

Maybe before I get started, clearly, Weston Consolidated is predominately Loblaw's, so what the team just took you through from Loblaw is the majority of the impact for GWL Consolidated. And what I would also like to do is, is to compliment the team here, who albeit this looks like a lot of adjustments, but the work that's gone into getting us to where we are now is unbelievable. So, my -- all our thanks, to all of the teams, and a lot of other people who helped the people in this room, to get us to where we are. They deserve a lot of credit, and the amount of time and effort from our standpoint, let alone the auditors and everybody else helping us out, has been unbelievable, and a real credit to all of the work that's been done. So, thank you.

So, as I said, the majority of the impact for Weston is relating to Loblaw. There are some changes, and I will quickly go through them. On -- for the equity on transition, there is about a CAD91 million decrease relating to Weston Foods, the majority of which is approximately CAD84 million relating to employee future benefits, the same explanation that Adam gave on the Weston Food side, for Weston Foods. On a consolidated basis, it's CAD1.3 billion. For net earnings, it's a relatively small increase of CAD3 million for 2010, relating to Weston Foods. And overall, a decrease for earnings for the year of CAD26 million on a consolidated basis, so relatively small.

The drivers of the impacts, are the presentation of minority interest, as Sarah mentioned, relative to their minority interest. For us, it's of course, a little bit bigger, and it is just an allocation -- a locational difference between equity now versus balance sheet under GAAP. We have CAD103 million movement to equity, versus accumulated other comprehensive income, relating to our cumulative translation losses.

And we have a small decrease of CAD1 million on business combinations, relating to transaction costs, which are no longer to be included in the number, and now they are taken out. And that's from relation to Ace and Keystone, the two acquisitions that we made last year. As you can see, relatively small balance sheet, our equity impact here, and I don't intend to go into it in any detail, other than to say, as you can see, the vast majority of the amounts relate to Loblaw, very little on Weston.

If you go over now to page 18, the only thing I want to point out here, is that a slight increase in operating income, and one, a little anomaly. You have your basic net earnings per share is -- there's a small decrease in net earnings per common share, a little bit more on a diluted basis, and that is due to the lower -- a lower amount, due to the treatment of the Company's equity derivatives for stock-based compensation. So, it 's just a technical rule, and that's why the bigger difference on the diluted basis under IFRS.

If you go to 19, again, we did the reconciliation for George Weston. And the bottom line is, it's up a bit. There will be a full reconciliation, as the team mentioned in the Q1 [2001] reporting, and I don't propose to go into any other detail at this time.

And that's the Weston differences, so a bit of a snooze on Weston. But again, a lot of work has gone into this, and hopefully, over time, we'll all get used to all of these new numbers, and the way we're accounting for it. But, a lot of similar things, as the team mentioned, a few nuances going forward, but hopefully you've been able to get the brunt of the changes.

And with that, we'll open up to any questions in the room, and then, we'll go to any questions that people might have on the phone.

QUESTIONS AND ANSWERS

Kim Lee - *Loblaw Companies - Vice President of IR*

Thanks, Geoff. That concludes our formal presentation. We'll now open the floor for questions from our sale side analysts here in the room with us. If you have a question, please raise your hand, and I will announce your name and Company. And then you may proceed.

Kathleen Wong from Veritas.

Kathleen Wong - *Veritas - Analyst*

I have a question on the leasing adjustments under the IFRS. Typically, I understand that the rating agency would capitalize 100% of the operating lease payment in the year. And then they would adjust that, and increase the leverage based on that capitalized amount. And they would also increase the EBITDA, by the amount of the rent expense to bring it to adjusted EBITDA, and then calculate the adjusted debt to EBITDA. So how would the rating agency going to look at the IFRS adjustment?

Sarah Davis - *Loblaw Companies Limited - EVP, Finance*

Okay. I can take that question. So basically, we don't know exactly. We haven't met with the debt rating agencies yet, but we are at the end of March. So we will have that meeting with the debt ratings that have a better understanding of what they'll do. What's happening here is, we will have under Canadian GAAP, we have capital leases and operating leases, and under IFRS, we will have the same. We just have some capital -- we'll just have more capital leases. We'll still have the operating leases, so the total number of leases, they don't change between Canadian GAAP and IFRS. We will -- it's just a mix.

We'll have a few more that are deemed to be capital. So what will happen is at the debt rating they will have the capitalized lease which is will already be on balance sheet, the operating leases, they will do the same thing, as they did before. It will just be a smaller amount, because there will be fewer operating leases. So when they do the adjustment, it will be for a small be in of operating leases. So everything else being equal, they should end up in the same place, because some of them have already - the capitalized leases will already be on balance sheet. And then, they'll make an adjustment for the operating leases. So I think for them, economically it shouldn't change, but as I said, until I meet with them, I don't know that for sure, but that would be my understanding of how they do it.

Kathleen Wong - *Veritas - Analyst*

Thank you.

Kim Lee - *Loblaw Companies - Vice President of IR*

Peter Sklar from BMO Capital Markets.

Peter Sklar - *BMO Capital Markets - Analyst*

There is one aspect of the IFRS accounting, that I am somewhat confused on. And you referred to it as determining the fair value of the franchisees, and I am just wondering if you can explain in layman's language, what that accounting is all about? It went a little bit too quickly for me in the presentation.

Sarah Davis - *Loblaw Companies Limited - EVP, Finance*

It is actually really complicated. So basically what it does, in the relationship with a franchisee, there is lots of components. There is the, any, the assets and all of that associated, then we have the preferred shares that we have with them. And basically under Canadian GAAP, you have the option of not counting them, or consolidating them if it was deemed that you had essential control over them. And that would be a VIE, a variable interest entity.

And if you were providing support to that franchisee, you would end up -- it would end up as a VIE in general cases. And what they do under IFRS, is you have to fair value each of the components. And so basically you would fair value, any of the loss -- any of the preferred shares that you have with them, and you would also fair value any funding that you give to them, and all the components. And it's based on the date of inception, so not how they are today. And you have to go back to the beginning of that relationship, and fair value them at that time. I don't know, Adam, if there is anything you want to add to that.

Adam Kosak - *Loblaw Companies - Director of Accounting Standards*

The only thing that I will reiterate that Sarah said, is the fair value is done at inception, and there are various components, delivered and undelivered, as part of a franchise agreement. We deliver fixed assets and inventory to the franchise, but we also provide certain funding. Each of those components needs to be fair valued at inception, based on an initial cash flow that that franchisee can or cannot generate. Then that fair value is compared to the carrying value of those instruments.

Peter Sklar - *BMO Capital Markets - Analyst*

So I am little confused. What's the net effect? There is no variable interest entities any more, so they come off the balance sheet. And then under this new accounting, you're bringing these items individually on the balance sheet, so the net effect, you're getting more on the balance sheet than less?

Adam Kosak - *Loblaw Companies - Director of Accounting Standards*

So we will have increased financial assets, as a result of the deconsolidation of VIEs.

Litsa Popowich - *Loblaw Companies - Controller*

(Inaudible).

Adam Kosak - *Loblaw Companies - Director of Accounting Standards*

I apologize. I will just add to Sarah-- what Litsa said. When we deconsolidate the VIEs, we will have additional loans and receivables and instruments based on our franchise relationship. Now our franchise relationship is proprietary so it may be different from our competitors. So I can't comment on how this impact will be with the other consumer business companies. And then each of those components will now better now carry that -- have a carrying value will have to be fair valued. We determined that in certain instances, the fair value of these instruments is lower than their carrying value at inception, and we've had to write them down. So that's the impact that you see. The impact that you see in the standard is net, so what we see is a write up, a fair value test, and then a write-down.

Peter Sklar - *BMO Capital Markets - Analyst*

Okay. And I had a second question, if I may. This new segment that will be introduced now at Loblaws, the financial product segment, could you just mentally outline what the balance sheet is going to look like?

Sarah Davis - *Loblaw Companies Limited - EVP, Finance*

We won't do a full balance sheet. The only pieces we'll show is a total assets, related to the PC Financial. So it will be -- it will be based on PC Financial, the management reporting the way that we management report PC Financial, which will be different than the way we actually file under [OCI], which is strictly the bank portion, because that's what's required under OCI. So what we'll have under PC Financial, will include the revenue associated with the credit card receivables. It will include PC insurance. It will include the mobility piece of that, and it will include -- what are the other pieces? Those are the main essentials.

There is a bit of travel insurance, things like that, it will be those. Ones that will be the revenue, as well as the operating income, and then from an asset perspective, it will be the credit card receivables, would be the big, giant piece. That's what's causing it to become a segment, it's the size of the credit card receivables which are coming on balance sheet. So about a CAD1.6 billion net, that will be coming in, and they have about CAD2 billion. Some is already on balance sheet, but the remaining CAD1.6 billion will come in, and that will be the big asset. Basically, at PC Financial, does not very much else from a balance sheet perspective, and then on the other side you have the liability associated with it.

Peter Sklar - *BMO Capital Markets - Analyst*

What are the liabilities?

Sarah Davis - *Loblaw Companies Limited - EVP, Finance*

The liabilities would just be related to the credit card receivables. It 's really just a -- one line item balance sheet. There is not too much else.

Peter Sklar - *BMO Capital Markets - Analyst*

Okay, thank you.

Kim Lee - *Loblaw Companies - Vice President of IR*

Our next question is from Winston Lee at Credit Suisse.

Winston Lee - *Credit Suisse - Analyst*

Thanks. So just looking at the earnings, the G&A is going down, the interest is going down (Inaudible) can you just give us some idea what to think in 2011, just relative to just taking increment kind of factor in through each 2011? Can you help us understand what magnitude of interest expense ,we'll see as an increase because of the policy change and decrease because of it?

Sarah Davis - *Loblaw Companies Limited - EVP, Finance*

Well, I think the interest income is around CAD90 million increase, in that range anyway. And the depreciation decrease is around the CAD20 million range. So those would be the main pieces for 2010, and I think for 2011, that's -- I would just add it to those are probably reasonable to add them to 2011,as well from you're if you're doing your modeling.

Winston Lee - *Credit Suisse - Analyst*

So (Inaudible).

Sarah Davis - *Loblaw Companies Limited - EVP, Finance*

Yes.

Winston Lee - *Credit Suisse - Analyst*

Thank you.

Kim Lee - *Loblaw Companies - Vice President of IR*

I have a follow-up question from Kathleen Wong from Veritas.

Kathleen Wong - *Veritas - Analyst*

I understand that Loblaw owns about 74% of it's real estate. Just wondering any of those lands and building would be classified as investment properties?

Sarah Davis - *Loblaw Companies Limited - EVP, Finance*

Okay. So we will have some investment properties, and it is different accounting, related to investment properties. So there will be a new line item that will be pulled out of fixed assets, and called investment properties. It is not a big number for us, because most of our properties that we own have a store on them, so even if it is a store with a plaza, we would -- the entire property is deemed to be an operating asset, so it would stay in fixed assets.

So the only assets that we will have that are determined to be investment properties are those where we don't have a store, and that -- it's a small number. I think it is something like CAD100 million on a big asset base, so it won't be a big amount. And what we will do with those is we're going to have them on at book value, but we do under IFRS have to disclose the fair value, so for those we will disclose it but it won't be the giant portfolio that I think a lot of people who are hoping that we might be doing.

Kathleen Wong - *Veritas - Analyst*

And if I may one more question. On the slide 12, I guess you talk about the revenue, small revenue decline in 2010, and part of it related to the customer loyalty programme. I am just wondering how much of that, in total CAD170 million, how much is related to the customer loyalty program?

Sarah Davis - *Loblaw Companies Limited - EVP, Finance*

About CAD100 million.

Kim Lee - *Loblaw Companies - Vice President of IR*

Our next question is from Evan Frantzeskos from TD Securities.

Evan Frantzeskos - *TD Securities - Analyst*

Historically, you have given us the operating income and EPS impact of stock-based compensation, as well as other one-time items on a Canadian GAAP basis. Is it possible you can go I have it to us on an IFRS basis for the quarters of 2010?

Sarah Davis - *Loblaw Companies Limited - EVP, Finance*

Yes, we should be able to. I think we can, yes. We will do that when we release in Q1 2010, I mean 2011, we will have the Q1 2010 and 2011 impact.

Kim Lee - *Loblaw Companies - Vice President of IR*

Another question from Winston Lee at Credit Suisse.

Winston Lee - *Credit Suisse - Analyst*

So Q1 2011, we'll see PC Financial broken up (inaudible). Will we also get the comparison?

Sarah Davis - *Loblaw Companies Limited - EVP, Finance*

Yes.

Unidentified Company Representative - *Loblaw Companies*

If there are no more questions from the room, we will take questions from the phone lines. Sarah, can you queue up the phone lines, please?

Operator

(Operator Instructions).

Your first question comes from the line of Trevor Bateman from BMO Capital Markets. Your line is open.

Trevor Bateman - *BMO Capital Markets - Analyst*

Thanks for taking my call. With respect to the IFRS impact on certain Loblaw debt covenants, and the disclosure that in agreement was reached with lenders to defer adjustments to a later date, could you add some color in terms of which debt was affected or is being affected, and what type of adjustments you may anticipate?

Sarah Davis - *Loblaw Companies Limited - EVP, Finance*

Okay. So basically there are two types of debt that we have. One is the US private placement, the note for CAD300 million, and that does have covenants. And the other one would be our credit facility for CAD800 million, which we're not drawn on right now either. So basically what we did, both of those were relatively new facilities, so we knew that we were coming to IFRS, so within the covenants, we did have basically said, well, when we changed IFRS, we're just going to have to renegotiate based on that. And if we can't come to an agreement we'll stick with Canadian GAAP, was basically sort of the wording around it. So we have had conversations with them, but they want to have an understanding of how the numbers look with a couple quarters. So basically, we both agreed that we would defer any changes to the agreements until after they have seen a couple of quarters. So after -- it will probably Q3, sometime in that timeframe, when we'll get agreements done, but we don't anticipate any issue whatsoever on the debt covenant changes.

Trevor Bateman - *BMO Capital Markets - Analyst*

And consequences, what would they be if there was no agreement?

Sarah Davis - *Loblaw Companies Limited - EVP, Finance*

Well, we could always fall back to continuing to giving them Canadian GAAP-based statements, but we don't anticipate that being an issue.

Trevor Bateman - *BMO Capital Markets - Analyst*

Okay. All right. Thank you very much. That's helpful.

Operator

There are no further questions in queue. I'll turn the call back over to the presenters.

Sarah Davis - *Loblaw Companies Limited - EVP, Finance*

Thank you, Sarah. That concludes our call for today. Thank you all for joining us. Have a great day.

Operator

This concludes today's conference call. You may now disconnect.
