

# The Board of Directors (the “Board”) and management of Loblaw Companies Limited (the “Company”) believe that sound corporate governance practices will contribute to effective management.

The Company seeks to attain high standards of corporate governance and when appropriate adopts “best practices” in developing its approach to corporate governance. The Company’s approach to corporate governance is consistent with National Policy 58-201 – Corporate Governance Guidelines (the “Guidelines”). The Governance, Employee Development, Nominating and Compensation Committee (“Governance Committee”) regularly reviews its corporate governance practices and considers any changes necessary to maintain the Company’s high standards of corporate governance.

### Director Independence

The Board is comprised of a majority of independent directors. The Governance Committee has reviewed each director’s factual circumstances and relationships with the Company to determine whether he or she is independent within the meaning of the Guidelines. The Guidelines provide that a director is independent if he or she has no material relationship with the Company or its affiliates that would reasonably be expected to interfere with the director’s independent judgment.

### Board Leadership

Mr. Galen G. Weston is Executive Chairman of the Company and Mr. Allan L. Leighton is Deputy Chairman. Mr. Weston has a significant common interest with other shareholders with respect to value creation, the well-being of the Company, and the performance of its publicly listed securities. The Board has established a position description for each of the Executive Chairman and the Deputy Chairman. The Board has also appointed an independent director, Anthony S. Fell, to serve as lead director. The lead director provides leadership to the Board and particularly to the independent directors. He ensures that the Board operates independently of management and that directors have an independent leadership contact. As part of his responsibilities, the lead director meets periodically with the other directors to obtain insight as to areas where the Board and its Committees can operate more effectively and to ensure the Board is able to discharge its responsibilities independently of management. The Board has developed a position description for the lead director.

### Board Responsibilities and Duties

The Board, directly and through its Committees, supervises the management of the business and affairs of the Company with the goal of enhancing long term shareholder value. The Board reviews the Company’s direction, assigns responsibility to management for achievement of that direction, develops and approves major policy decisions, delegates to management the authority and responsibility in day-to-day affairs and reviews management’s performance and effectiveness. The Board’s expectations of management are communicated to management directly and through Committees of the Board.

The Board approves the Company’s corporate goals and objectives, operating budgets and strategies, which take into account the opportunities and risks of the business. Members of the Board attend an annual all-day strategy session with management to discuss and review the Company’s strategic plans and opportunities. In addition, management’s strengths and weaknesses are discussed. Through the Audit Committee, the Board oversees the Company’s risk management framework and assesses and evaluates the integrity of the Company’s internal controls and management information systems. Through the Governance Committee, the Board oversees succession planning and compensation for senior management as well as Board nominees.

Individual directors may, with the approval of the lead director, retain an outside advisor at the expense of the Company.

The Board requires that management seek directors’ review and approval of:

- strategic corporate direction and corporate performance objectives;
- multi-year and annual business, capital and operating plans and budgets;
- material capital expenditures, acquisitions, divestitures and restructurings; and
- investment outside of the ordinary course of business.

These matters are in addition to those matters which are required by law to receive Board consideration and approval.

The Board regularly receives reports on the operating results of the Company, as well as timely reports on various matters, including insurance, pensions, corporate governance, health and safety and treasury matters.

### Ethical Business Conduct

The Company’s Code of Business Conduct (the “Code”), sets out the Company’s long-standing commitment of requiring adherence to high standards of ethical conduct and business practices. The Code is reviewed annually to ensure it is current and reflects best practices in the area of ethical business conduct. Directors, officers and employees of the Company are required to comply with the Code and must acknowledge their commitment to abide by the Code on a periodic basis. The Code is available on the Company’s website, [www.loblaw.ca](http://www.loblaw.ca).

The Code also deals with conflicts of interest. Should an officer, director or employee have a conflict of interest with respect to any matter, that individual is required to bring the conflict to the attention of the Ethics and Conduct Committee and, if a director has a conflict with respect to any matter, he or she may not participate in any discussion or vote on the conflict matter. The Code also addresses such issues as the protection of confidential information and the protection and proper use of the Company’s assets.

The Company has established an Ethics and Conduct Committee which reviews all material breaches of the Code. The Ethics and Conduct Committee also oversees implementation of the Code, educating employees regarding the Code and reviews the Code annually to determine if it requires revision.

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

The Company has adopted a Vendor Code of Conduct that sets out the Company's expectations of its vendor community with respect to ethical conduct and social responsibilities. The Vendor Code deals with such matters as labour practices, respect for the environment and compliance with various laws.

#### **Audit Committee**

All members of the Audit Committee must be independent and financially literate as required under applicable rules. The Audit Committee is also responsible for supporting the Board in overseeing the integrity of the Company's financial reporting and internal controls over financial reporting, disclosure controls, internal audit function and its compliance with legal and regulatory requirements. The Audit Committee's responsibilities include:

- recommending the appointment of the external auditor;
- reviewing the arrangements for and scope of the audit by the external auditor;
- reviewing the independence of the external auditor;
- reviewing and approving the Company's hiring policies regarding partners and professional employees of the present and former external auditor of the Company;
- considering and evaluating with management the adequacy and effectiveness of internal controls over financial reporting and disclosure controls and procedures and reviewing any proposed corrective actions;
- reviewing and monitoring the Company's policies relating to ethics and conflicts of interest;
- overseeing procedures for the receipt, retention and follow-up of complaints regarding the Company's accounting, internal controls and auditing matters and the confidential anonymous submission by employees of concerns regarding such matters;
- reviewing and monitoring the internal audit function of the Company;
- reviewing the integrity of the Company's management and information systems;
- reviewing and approving the audit fees paid to the external auditor and pre-approval of non-audit related fees to the external auditor;
- discussing and reviewing with management and the external auditor the Company's annual and interim consolidated financial statements, key reporting matters and Management's Discussion and Analysis and Annual Information Form;
- reviewing disclosure containing financial information based on the Company's financial statements; and
- reviewing with management the principal risks of the Company's business and the systems and processes implemented to manage these risks.

#### **Governance, Employee Development, Nominating and Compensation Committee**

The Governance Committee is responsible for overseeing the compensation of directors and executive officers. The Governance Committee is also responsible for developing and maintaining governance practices consistent with high standards of corporate governance. As part of its mandate, the

#### **Other Corporate Governance Matters**

*Disclosure Policy* The Board has reviewed and adopted a corporate Disclosure Policy to deal with the timely dissemination of all material information. A copy of the Disclosure Policy is available on the Company's website, [www.loblaw.ca](http://www.loblaw.ca). The Disclosure Policy, which is reviewed annually, establishes consistent guidance for determining what information is material and how it is to be disclosed to avoid selective disclosure and to ensure wide dissemination. The Board, directly and through its Committees, reviews and approves the contents of major disclosure documents, including unaudited interim and audited annual consolidated financial statements, Management's Discussion and Analysis, the Annual Information Form, and the Proxy Circular. The Company seeks to communicate to its shareholders through these documents as well as by means of news releases, its website and investor relations meetings.

#### **Board Committees**

There are five committees of the Board: Audit; Governance, Employee Development, Nominating and Compensation; Pension and Benefits; Environmental, Health and Safety and Executive.

The Audit Committee is comprised solely of independent directors. All Committees are comprised solely of non-management directors, in each case, with a majority of members being independent directors except for the Executive Committee. The Board believes that the composition of its committees other than the Executive Committee allows them to operate independently from management such that shareholders' interests are protected.

Each Committee has a formal mandate and a position description for the Chair established by the Board. Both the mandate and position description are reviewed annually. Copies of the Committees' mandates are available on the Company's website, [www.loblaw.ca](http://www.loblaw.ca). The following is a brief summary of some of the responsibilities of each Committee.

Governance Committee identifies and recommends candidates for nomination to the Board as directors, monitors the orientation program for new directors and maintains a process for assessing the performance of the Board and its Committees as well as the performance of individual directors and discharging the Board's responsibilities relating to compensation and succession planning for the Company's senior employees. The Governance Committee's specific responsibilities include:

- identifying candidates for membership on the Board and evaluating the independence of the directors;
- assisting in directors' orientation and assessing their performance on an ongoing basis;
- shaping the Company's approach to corporate governance and recommending to the Board corporate governance principles to be followed by the Company;
- discharging the Board's responsibilities relating to compensation and succession planning for the Company's senior employees; and
- determining the process for the compensation of directors and executive officers.

The Board appointed the Chairman of the Governance Committee, who is an independent director, to serve as lead director.

#### **Pension and Benefits Committee**

The Pension and Benefits Committee is responsible for:

- reviewing the performance of the Company's and its subsidiaries' pension plans and pension funds;
- reviewing and recommending managers for the fund's portfolio;
- reviewing the performance of pension fund managers;
- reviewing and approving the assumptions used, the funded status and amendments to the Company's and its subsidiaries' pension plans; and
- receiving reports regarding level, types and costs of the Company's employee benefit plans.

#### **Environmental, Health and Safety Committee**

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

#### **Executive Committee**

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

*Disclosure Committee* A Disclosure Committee comprised of senior management of the Company oversees the Company's disclosure process as outlined in the Disclosure Policy. The Disclosure Committee's mandate includes ensuring that effective disclosure controls and procedures are in place to allow the Company to satisfy all of its continuous disclosure obligations including certification requirements. The Disclosure Committee is also responsible for ensuring that the policies and procedures contained in the Company's Disclosure Policy are in compliance with regulatory requirements.