2012 Annual Report

George Weston Limited

Weston

Weston

2012 Annual Report

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This Annual Report contains forward-looking information. See Forward-Looking Statements beginning on page 5 of this Annual Report for a discussion of material factors that could cause actual results to differ materially from the conclusions, forecasts and projections herein and of the material factors, estimates, beliefs and assumptions that were applied in presenting the conclusions, forecasts and projections presented herein. This Annual Report must be read in conjunction with George Weston Limited's filings with securities regulators made from time to time, all of which can be found at www.sedar.com.

Financial Highlights[2]

As at or for the years ended December 31 ($ millions except where otherwise indicated)	**2012**	2011
Consolidated Operating Results		
Sales	**$ 32,742**	$ 32,376
Operating income	**1,392**	1,609
Adjusted operating income[1]	**1,563**	1,700
Adjusted EBITDA[1]	**2,399**	2,459
Net interest expense and other financing charges[3]	**417**	366
Net earnings attributable to shareholders of the Company	**486**	635
Net earnings	**726**	919
Consolidated Financial Position and Cash Flows		
Cash and cash equivalents, short term investments and security deposits	**$ 4,075**	$ 4,101
Adjusted debt[1]	**5,584**	5,536
Free cash flow[1]	**946**	1,051
Cash flows from operating activities	**1,852**	1,974
Fixed asset purchases	**1,110**	1,027
Consolidated per Common Share ($)		
Basic net earnings	**$ 3.45**	$ 4.58
Adjusted basic net earnings[1]	**4.46**	4.86
Consolidated Financial Measures and Ratios		
Sales growth	**1.1%**	1.7%
Adjusted operating margin[1]	**4.8%**	5.3%
Adjusted EBITDA margin[1]	**7.3%**	7.6%
Adjusted debt[1] to adjusted EBITDA[1]	**2.3x**	2.3x
Interest coverage[1]	**3.3x**	4.4x
Return on average net assets[1]	**10.7%**	12.8%
Return on average common shareholders' equity attributable to shareholders of the Company	**9.3%**	13.1%
Reportable Operating Segments		
Weston Foods		
Sales	**$ 1,765**	$ 1,772
Operating income	**228**	208
Adjusted operating income[1]	**275**	265
Adjusted operating margin[1]	**15.6%**	15.0%
Return on average net assets[1]	**24.9%**	24.5%
Loblaw		
Sales	**$ 31,604**	$ 31,250
Operating income	**1,188**	1,376
Adjusted operating income[1]	**1,288**	1,435
Adjusted operating margin[1]	**4.1%**	4.6%
Return on average net assets[1]	**9.8%**	11.7%

(1) See non-GAAP financial measures beginning on page 51.
(2) For financial definitions and ratios refer to the Glossary beginning on page 130.
(3) 2012 included a non-cash charge of $35 (2011 – non-cash income of $18) related to the fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares (see note 5 to the consolidated financial statements).

Report to Shareholders[3]

2012 was a year of significant accomplishments for George Weston Limited. Weston Foods delivered satisfactory operating results while Loblaw Companies Limited ("Loblaw") delivered financial performance in line with expectations as it made progress against its priorities.

In 2012, the Company continued to focus on long term value creation for shareholders. This included the $0.02 increase in the quarterly common share dividend and Loblaw's announcement that it intends to create one of Canada's largest real estate investment trusts.

The Company's 2012 adjusted basic net earnings per common share[1] decreased to $4.46 compared to $4.86 in 2011, primarily due to incremental investments by Loblaw in the customer proposition and the information technology ("IT") systems implementation. This decrease was partially offset by an improvement in the operating performance of Weston Foods.

Sales increased 1.1% to $32.7 billion from $32.4 billion in 2011. Adjusted operating income[1] was $1,563 million compared to $1,700 million in 2011. The Company's adjusted operating margin[1] was 4.8% in 2012 compared to 5.3% in 2011.

The Weston Foods operating segment achieved satisfactory results despite soft sales due to a difficult sales environment. Weston Foods sales declined marginally by 0.4% compared to 2011 and was negatively impacted by a decline in volume, including the loss of certain frozen distributed products that Weston Foods distributed on behalf of certain customers. Sales were positively impacted by pricing across key product categories and foreign currency translation. The introduction of new products such as *Country Harvest* Cranberry Muesli and Flax and Quinoa breads, *D'Italiano* Brizzolio rolls, *Gadoua* Pain de Ménage, private label gluten free bread and sweet goods, and the *Flat Oven Bakery* line of international flatbreads contributed positively to sales in 2012.

Weston Foods adjusted operating income[1] in 2012 increased to $275 million from $265 million in 2011. Adjusted operating margin[1] for 2012 was 15.6% compared to 15.0% in 2011. Weston Foods adjusted operating income[1] in 2012 was positively impacted by the benefits realized from productivity improvements and other cost reduction initiatives and higher pricing in key product categories. These benefits were partially offset by lower sales volumes and higher commodity and other input costs.

Loblaw sales increased 1.1% to $31.6 billion compared to $31.3 billion in 2011. The increase in sales was driven by Loblaw's Retail segment and higher revenue from Loblaw's Financial Services segment.

Loblaw adjusted operating income[1] decreased to $1,288 million in 2012 from $1,435 million in 2011. Adjusted operating margin[1] was 4.1% compared to 4.6% in 2011. The decrease in Loblaw's adjusted operating income[1] compared to 2011 was primarily attributable to an increase in labour and other operating costs and the incremental costs related to investments in IT and supply chain[2], partially offset by an improvement in the operating performance of Loblaw's Financial Services segment.

George Weston Limited has strategically well positioned companies with leading market positions in food retail and baking in Canada, as well as a frozen baking manufacturing business in the United States, a North American biscuit manufacturing business and a significant amount of cash.

(1) See non-GAAP financial measures beginning on page 51.
(2) Incremental costs related to investments in IT and supply chain include IT costs, depreciation and amortization and supply chain project costs.
(3) To be read in conjunction with Forward-Looking Statements beginning on page 5.

In 2013, Weston Foods will focus on investing in growth, marketing and innovation and Loblaw will focus on rolling out its new IT system to distribution centres and stores, accelerating the improvements in its customer proposition and effectively managing expenses and operating costs.

On behalf of the Board of Directors and shareholders, I thank our loyal customers for their support and our more than 140,000 employees for their dedication and continued commitment to the Company.

[*signed*]	**[*signed*]**
W. Galen Weston	**Paviter S. Binning**
Executive Chairman	President

Management's Discussion and Analysis

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The following Management's Discussion and Analysis ("MD&A") for George Weston Limited ("GWL") and its subsidiaries (collectively, the "Company") should be read in conjunction with the audited annual consolidated financial statements and the accompanying notes on pages 59 to 125 of this Annual Report. The Company's consolidated financial statements and the accompanying notes for the year ended December 31, 2012 are prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP"). The consolidated financial statements include the accounts of the Company and other entities that the Company controls and are reported in Canadian dollars.

The information in this MD&A is current to February 27, 2013, unless otherwise noted. A Glossary of terms and ratios used throughout this Annual Report can be found beginning on page 130.

1. FORWARD-LOOKING STATEMENTS

This Annual Report, including this MD&A, contains forward-looking statements about the Company's objectives, plans, goals, aspirations, strategies, financial condition, results of operations, cash flows, performance, prospects and opportunities. Specific statements with respect to anticipated future results are included in Section 18, "Outlook" and future plans are included in Section 3, "Vision" and Section 4, "Operating and Financial Strategies". 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 2013 is based on certain assumptions including assumptions about revenue growth, anticipated cost savings and operating efficiencies, no unanticipated changes in the effective income tax rates, no unexpected adverse events or costs related to Loblaw Companies Limited's ("Loblaw") investments in information technology ("IT") and supply chain, and no significant unanticipated increase in the price of commodities and other input costs at Weston Foods that it will not be able to offset. 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 the estimates, beliefs and assumptions expressed or implied in the forward-looking statements, including, but not limited to:

- failure to realize anticipated results, including revenue growth, anticipated cost savings or operating efficiencies from the Company's major initiatives, including those from restructuring;
- failure to realize benefits from investments in the Company's IT systems, including the Company's systems implementation, or unanticipated results from these initiatives;
- the inability of the Company's IT infrastructure to support the requirements of the Company's business;
- unanticipated results associated with the Company's strategic initiatives and the impact of acquisitions or dispositions of businesses on the Company's future revenues and earnings;
- heightened competition, whether from current competitors or new entrants to the marketplace;
- changes in economic conditions including the rate of inflation or deflation, changes in interest and foreign currency exchange rates and changes in derivative and commodity prices;
- public health events;
- risks associated with product defects, food safety and product handling;
- failure to achieve desired results in labour negotiations, including the terms of future collective bargaining agreements which could lead to work stoppages;
- the inability of the Company to manage inventory to minimize the impact of obsolete or excess inventory and to control shrink;

- the impact of potential environmental liabilities;
- failure to respond to changes in consumer tastes and buying patterns;
- reliance on the performance and retention of third-party service providers including those associated with the Company's supply chain and apparel business;
- supply and quality control issues with vendors;
- changes to the regulation of generic prescription drug prices and the reduction of reimbursement under public drug benefit plans and the elimination or reduction of professional allowances paid by drug manufacturers;
- changes in the Company's income, commodity, other tax and regulatory liabilities including changes in tax laws, regulations or future assessments;
- any requirement of the Company to make contributions to its registered funded defined benefit pension plans or the multi-employer pension plans ("MEPP") in which it participates in excess of those currently contemplated;
- the risk that the Company would experience a financial loss if its counterparties fail to meet their obligations in accordance with the terms and conditions of their contracts with the Company;
- the inability of Loblaw to collect on its credit card receivables; and
- failure to execute the initial public offering ("IPO") of Loblaw's proposed Real Estate Investment Trust ("REIT").

This is not an exhaustive list of the factors that may affect the Company's forward-looking statements. Other risks and uncertainties not presently known to the Company or that the Company presently believes are not material could also cause actual results or events to differ materially from those expressed in its forward-looking statements. Additional risks and uncertainties are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including the Enterprise Risks and Risk Management section of this MD&A. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect the Company's expectations only as of the date of this Annual Report. Except as required by law, the Company does not undertake to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

2. OVERVIEW

George Weston Limited is a Canadian public company, founded in 1882, engaged in food processing and distribution. The Company has two reportable operating segments: Loblaw and Weston Foods, and holds cash and short term investments. The Loblaw operating segment, which is operated by Loblaw Companies Limited and its subsidiaries, is Canada's largest food retailer and a leading provider of drugstore, general merchandise and financial products and services. The Weston Foods operating segment is a leading fresh and frozen baking company in Canada and operates a frozen baking manufacturing business in the United States ("U.S.") and a North American biscuit manufacturing business.

3. VISION

The Company's vision is to achieve long term, stable growth in its operating segments through customer focus and innovation. The Company is committed to making prudent capital investments while maintaining a strong balance sheet with the goal of providing sustainable returns to its shareholders over the long term through a combination of common share price appreciation and dividends.

The Company believes that to be successful over the long term, it must deliver on what its customers and consumers want today and in the future. The Company encourages innovation in order to provide consumers with new products and convenient services at competitive prices that meet consumers' everyday household needs.

Looking ahead, the Company plans to achieve these goals by focusing on its long term operating and financial strategies as discussed below.

4. OPERATING AND FINANCIAL STRATEGIES

To be successful in achieving its vision, the Company employs various operating and financial strategies. The Company engages in strategic acquisitions and dispositions when it is in the best long term interests of its shareholders to do so.

Each of the Company's two reportable operating segments has its own risk profile and operating risk management strategies.

Weston Foods' mission is to be a leading North American bakery company by participating across profitable segments of the bakery market, introducing innovative products and maintaining its highly effective cost management culture.

This will be achieved by focusing on innovation, cost management and continuous process improvements while exceeding customer and consumer expectations through superior service and product quality.

Weston Foods' long term operating strategies include:

- maintaining customer alignment;
- focusing on brand development including introducing innovative new products to meet the taste, nutritional and dietary needs of consumers;
- optimizing plant and distribution networks including capital investment to strategically position facilities to support growth and enhance quality, productivity and efficiencies;
- realizing ongoing cost reduction initiatives with the objective of ensuring a low cost operating structure and economies of scale;
- completing strategic acquisitions and developing relationships to broaden market penetration and expand geographic presence; and
- building leadership talent.

Loblaw's mission is to be Canada's best food, health and home retailer by exceeding customer expectations through innovative products at great prices. As one of the country's leading retailers reaching 14 million consumers each week, Loblaw is uniquely positioned to deliver on its purpose – Live Life Well – and to provide Canadians with products, services, value and experience to enrich their lives. Loblaw delivers on this purpose through its strategy to strengthen its competitive position with a winning customer proposition and efficient and cost-effective operations fueled by growth opportunities in emerging and complementary businesses.

Loblaw is committed to providing Canadians with a wide range of products and services to meet the everyday household demands of Canadian consumers. Loblaw is known for the quality, innovation and value of its food offering. It offers one of Canada's strongest control brand programs, including the unique *President's Choice*, *no name* and *Joe Fresh* brands. In addition, Loblaw, through its subsidiaries, makes available to consumers *President's Choice Financial* services and offers the *PC* points loyalty program.

Key focus areas for Loblaw in 2013 include launching the roll-out program to convert its network of distribution centres and stores to the new IT system; accelerating business competitiveness with a more responsive and proactive culture to better serve customers; and managing expenses and operating costs to return efficiencies to customers. Plans for 2013 include:

- integrating supply chain systems at each distribution centre to the new IT system in lock-step with store implementations;
- implementing a staggered roll-out of the new IT system to a significant number of corporate stores;
- exceeding customer expectations and achieving improved customer feedback scores with the right assortment, improved customer in-store experience and competitive prices;
- offering customized assortment, compelling displays and delivering competitive value across banners through ongoing development and implementation of strategic category reviews;
- capitalizing on its established control brands across food and general merchandise;
- expanding the financial services business by creating in-store customer awareness and expanding product offerings;

- managing costs across the business with a focus on improved shrink, inventory turns, labour and administrative expenses to drive efficient operations and provide customers greater value;
- investing to improve standards and in-store experience through renovations and strategically investing in new square footage; and
- completing the creation of a REIT by way of an IPO.

Loblaw achieved many of its goals in 2012 and expects to continue to execute on its plan to strengthen the competitive position of its businesses in 2013.

The Company's financial strategies include:
- maintaining a strong balance sheet;
- minimizing the risks and costs of operating and financing activities; and
- maintaining liquidity and access to capital markets.

The success of these and other plans and strategies discussed in this MD&A may be affected by risks and uncertainties, including those described in Section 13, "Enterprise Risks and Risk Management" of this MD&A.

GWL's Board of Directors ("Board") and senior management meet at least annually to review the Company's business strategy. The business strategy, which generally addresses a three to five year time frame, targets specific issues in response to the Company's performance, such as growth opportunities by acquisitions, anticipating changes in consumer needs and the competitive landscape.

The Company believes that if it successfully implements and executes the business strategy in support of its long term operating and financial strategies, it will be well positioned to fulfill its vision of providing sustainable value to its shareholders over the long term.

5. KEY FINANCIAL PERFORMANCE INDICATORS

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

Key Financial Performance Indicators[2]

As at or for the years ended December 31
($ millions except where otherwise indicated)

		2012		2011
Sales growth		**1.1%**		1.7%
Operating income	**$**	**1,392**	$	1,609
Adjusted operating income[1]	**$**	**1,563**	$	1,700
Adjusted operating margin[1]		**4.8%**		5.3%
Adjusted EBITDA[1]	**$**	**2,399**	$	2,459
Adjusted EBITDA margin[1]		**7.3%**		7.6%
Basic net earnings per common share ($)	**$**	**3.45**	$	4.58
Adjusted basic net earnings per common share[1] ($)	**$**	**4.46**	$	4.86
Cash and cash equivalents, short term investments and security deposits	**$**	**4,075**	$	4,101
Cash flows from operating activities	**$**	**1,852**	$	1,974
Adjusted debt[1] to adjusted EBITDA[1]		**2.3x**		2.3x
Free cash flow[1]	**$**	**946**	$	1,051
Interest coverage[1]		**3.3x**		4.4x
Return on average net assets[1]		**10.7%**		12.8%
Return on average common shareholders' equity attributable to shareholders of the Company		**9.3%**		13.1%

(1) See non-GAAP financial measures beginning on page 51.
(2) For financial definitions and ratios refer to the Glossary beginning on page 130.

Under GAAP, certain expenses and income must be recognized that are not necessarily reflective of the Company's underlying operating performance. Non-GAAP financial measures exclude the impact of certain items and are used internally when analyzing consolidated and segment underlying operating performance. These non-GAAP financial measures are also helpful in assessing underlying operating performance on a consistent basis. See Section 19, "Non-GAAP Financial Measures" of this MD&A for more information on the Company's non-GAAP financial measures.

In addition to key financial performance indicators, other operating performance indicators include but are not limited to: same-store sales growth; operating and administrative cost management; new product development; customer service ratings; production waste; production efficiencies; and market share.

6. OVERALL FINANCIAL PERFORMANCE

6.1 CONSOLIDATED RESULTS OF OPERATIONS

As at or for the years ended December 31 ($ millions except where otherwise indicated)		**2012**		2011
Sales	**$**	**32,742**	$	32,376
Operating income	**$**	**1,392**	$	1,609
Adjusted operating income[1]	**$**	**1,563**	$	1,700
Adjusted operating margin[1]		**4.8%**		5.3%
Adjusted EBITDA[1]	**$**	**2,399**	$	2,459
Adjusted EBITDA margin[1]		**7.3%**		7.6%
Net interest expense and other financing charges	**$**	**417**	$	366
Income taxes	**$**	**249**	$	324
Net earnings attributable to shareholders of the Company	**$**	**486**	$	635
Net earnings	**$**	**726**	$	919
Basic net earnings per common share ($)	**$**	**3.45**	$	4.58
Adjusted basic net earnings per common share[1] ($)	**$**	**4.46**	$	4.86
Adjusted debt[1] to adjusted EBITDA[1]		**2.3x**		2.3x
Free cash flow[1]	**$**	**946**	$	1,051

Adjusted basic net earnings per common share[1] for 2012 decreased to $4.46 compared to $4.86 in 2011. The decrease was primarily attributable to the decline in the operating performance of Loblaw, partially offset by an improvement in the operating performance of Weston Foods. The decline in the operating performance of Loblaw was primarily due to incremental investments in the customer proposition and the IT infrastructure program that operations were not expected to cover, partially offset by improved performance of Loblaw's Financial Services segment.

The Company's basic net earnings per common share were $3.45 compared to $4.58 in 2011, a decrease of $1.13. Adjusted basic net earnings per common share[1] decreased $0.40 and excluded the year-over-year unfavourable net impact of certain items, primarily the impact of certain foreign currency translation, the forward sale agreement for 9.6 million Loblaw common shares, restructuring and other charges, and Weston Foods' accrual of a MEPP mass withdrawal liability as described below, partially offset by the fair value adjustment of commodity derivatives at Weston Foods.

(1) See non-GAAP financial measures beginning on page 51.

During the fourth quarter of 2012, Loblaw announced a plan that reduced the number of head office and administrative positions. Focused primarily on management and office positions, the plan affected approximately 700 positions, and Loblaw incurred a restructuring charge of $61 million associated with these reductions.

Weston Foods participates in various MEPPs, providing pension benefits to union employees pursuant to provisions of collective bargaining agreements. During 2012, Weston Foods withdrew from one of the U.S. MEPPs in which it participated and as a result, paid a withdrawal liability of $34 million. During the fourth quarter of 2012, another participating employer withdrew from the plan and a mass withdrawal was triggered. As a result of the mass withdrawal the Company is subject to an incremental withdrawal liability. Until the current actuarial valuation is made available, the actual amount of the incremental withdrawal liability is unknown. Management's estimate of this liability is approximately $17 million. This liability was recorded in the fourth quarter of 2012 and is presented in current provisions and selling, general and administrative expenses in the Company's consolidated balance sheet and consolidated statement of earnings, respectively.

The Weston Foods operating segment was impacted by the following trends and key factors in 2012:

- economic uncertainty, overall market softness and a highly competitive retail landscape resulted in a general softening in sales volumes. In addition, recovering cost inflation through pricing was challenging due to a very difficult sales environment;
- changing customer eating and buying preferences toward healthier, more nutritious and value-added offerings continued in 2012. Weston Foods responded to these trends with innovative and expanded products across its product portfolio, resulting in new sales growth. These new products included private label gluten free breads and sweet goods, its *Flat Oven Bakery* line of international flatbreads, and its strong portfolio of on-trend offerings under its *Wonder*, *D'Italiano*, *Country Harvest*, *Gadoua*, and *ACE Bakery* brands, including its *Wonder* and *Gadoua MultiGo* lines of breads that are free of artificial additives including preservatives, colours and flavours;
- the continuing shift in consumer food shopping patterns towards alternate format retail channels rather than traditional, conventional supermarket formats resulted in sales growth with these alternate format retailers. Weston Foods continues to focus on ensuring its products are well positioned to take advantage of this continuing trend; and
- the continuing focus on productivity improvements and other cost reduction initiatives which have contributed to growth in adjusted operating income[(1)].

Weston Foods continued to invest in its brands, introduced new products in response to changing consumer eating preferences, and invested capital to support growth and enhance quality and productivity in 2012. These investments, coupled with a continued focus on cost improvement and customer service, resulted in satisfactory financial performance.

During 2012, Loblaw executed its plan to strengthen its competitive position. Targeted investments to improve the customer proposition delivered clear signs of progress, key milestones on IT systems initiatives were met, and planned efficiencies were realized. To further enhance customers' shopping experience, stores were renovated and Loblaw strategically invested in square footage with new stores. A number of important strategic initiatives were also announced during the year. Some of Loblaw's key accomplishments in 2012 include:

- invested in an expanded fresh product assortment and related employee training to support an improved customer experience at competitive prices;
- completed the development and implementation of several comprehensive category reviews across both divisions to improve the competitiveness, profitability and relevance of individual categories;
- improved overall net promoter score, a measure of customer satisfaction, by 3 percentage points, through consistent execution of initiatives to strengthen the customer proposition and competitive position of Loblaw;

(1) See non-GAAP financial measures beginning on page 51.

- rolled-out a national point of sale system in order to standardize the applications and infrastructure across the store network in preparation for conversion to Loblaw's new IT system and other new capabilities across the distribution centre and store network;
- achieved a significant milestone in the implementation of Loblaw's IT system, with the first distribution centre and first store going live on fully integrated systems with little to no impact on customers;
- continued to innovate its control brand products, including a T&T Supermarket Inc. private label pilot in a selection of Loblaw's mainstream stores;
- reset the general merchandise section in 78 stores with differentiated product assortments that are complementary to a weekly food shop and have compelling value price points;
- invested strategically in its store network, renovating and revitalizing 103 stores and opening seven net new stores, expanding Loblaw's retail square footage to 51.5 million square feet;
- grew the *PC Financial Services* business by achieving one million new PC MasterCard® applicants and opening 87 additional Mobile Shop locations;
- purchased prescription files from 106 Zellers stores, contributing to prescription count growth;
- announced a relationship with J.C. Penney Corporation, Inc. ("JC Penney") to introduce *Joe Fresh* women's apparel to almost 700 JC Penney stores in the U.S. starting in March 2013; and
- announced its intention to create a REIT, which will acquire a significant portion of Loblaw's real estate assets and sell units by way of an IPO.

Sales

The Company's 2012 consolidated sales increased 1.1% to $32.7 billion from $32.4 billion in 2011.

Consolidated sales growth for 2012 was impacted by each reportable operating segment as follows:

- Negatively by a nominal amount due to a sales decline of 0.4% at Weston Foods. The loss of certain distributed products that Weston Foods distributed on behalf of certain customers in 2012 negatively impacted sales and volume growth by approximately 1.0% and 0.4%, respectively, while foreign currency translation positively impacted sales by approximately 0.4%. Excluding the impact of distributed product and foreign currency translation, sales increased 0.2% due to the positive impact of pricing across key product categories of 1.8%, partially offset by a decrease in volume of 1.6%.

- Positively by 1.1% due to sales growth of 1.1% at Loblaw. Same-store retail sales decline was 0.2% (2011 – growth of 0.9%). Sales growth in food and gas bar were modest, sales in drugstore were flat, sales in general merchandise, excluding apparel, declined moderately and sales in apparel were flat. Loblaw experienced modest average annual internal food price inflation during 2012 (2011 – moderate inflation), which was lower than the average annual national food price inflation of 2.3% (2011 – 4.2%) as measured by "The Consumer Price Index for Food Purchased from Stores" ("CPI"). During 2012, Loblaw opened 18 corporate and franchise stores and closed 11 corporate and franchise stores, resulting in a net increase of 0.3 million square feet, or 0.6%. Loblaw sales in 2012 were also positively impacted by an increase in its Financial Services segment revenue.

Operating Income

The Company's 2012 consolidated operating income was $1,392 million compared to $1,609 million in 2011, a decrease of $217 million, or 13.5%. Consolidated operating income was negatively impacted by restructuring and other charges, including a charge of $61 million related to the reduction in head office and administrative positions recorded by Loblaw, and a MEPP withdrawal liability of $51 million incurred by Weston Foods. The Company's consolidated adjusted operating income[(1)] was $1,563 million compared to $1,700 million in 2011, a decrease of $137 million or 8.1%. Consolidated adjusted operating margin[(1)] was 4.8% in 2012 compared to 5.3% in 2011.

(1) See non-GAAP financial measures beginning on page 51.

The Company's year-over-year change in consolidated adjusted operating income[(1)] was impacted by each of its reportable operating segments as follows:

- Positively by 0.6% due to an increase of 3.8% in adjusted operating income[(1)] at Weston Foods. Adjusted operating income[(1)] was positively impacted by the benefits realized from productivity improvements and other cost reduction initiatives and higher pricing in key product categories. These benefits were partially offset by lower sales volumes and higher commodity and other input costs.
- Negatively by 8.6% due to a decrease of 10.2% in adjusted operating income[(1)] at Loblaw. The decrease in adjusted operating income[(1)] was mainly attributable to an increase in labour and other operating costs, incremental costs related to investments in IT and supply chain[(2)], fixed asset impairment charges net of recoveries and a slight decline in gross profit, partially offset by higher operating income from its Financial Services segment. Incremental investments in Loblaw's customer proposition that were not covered by operations were comprised of $20 million in price and $15 million in shrink, both of which impacted the slight decline in gross profit, and $20 million in labour. Included in 2011 operating income were start up costs associated with the launch of Loblaw's *Joe Fresh* brand in the United States.

The Company's consolidated adjusted EBITDA margin[(1)] decreased to 7.3% from 7.6% in 2011. The margin was negatively impacted by Loblaw, partially offset by an improvement in adjusted EBITDA margin[(1)] at Weston Foods when compared to 2011.

Net Interest Expense and Other Financing Charges

Net interest expense and other financing charges increased in 2012 by $51 million to $417 million compared to 2011. Net interest and other financing charges are impacted by the fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares. This fair value adjustment had an unfavourable year-over-year impact of $53 million.

Excluding the impact of the fair value adjustment, net interest expense and other financing charges decreased by $2 million compared to 2011.

Income Taxes

The Company's 2012 effective income tax rate decreased to 25.5% from 26.1% in 2011. This decrease was primarily due to reductions in the federal and Ontario statutory income tax rates and a recovery on the revaluation of deferred tax assets on the enactment of the revised Ontario corporate income tax rate, partially offset by the reversal of previously recognized current tax assets, as described below, and non-deductible foreign currency translation losses recorded in 2012 (2011 – non-taxable foreign currency translation gains).

In 2012, the Department of Finance substantively enacted amendments to the Income Tax Act relating to the taxation of Canadian corporations with foreign affiliates. The Company is no longer able to recognize a net tax benefit on realized foreign capital losses recognized by its foreign affiliates to the extent such losses cannot be offset against realized foreign capital gains. In 2012, the Company (excluding Loblaw) expensed $8 million in previously recognized current tax assets relating to these amendments.

(1) See non-GAAP financial measures beginning on page 51.
(2) Incremental costs related to investments in IT and supply chain include IT costs, depreciation and amortization and supply chain project costs.

Net Earnings Attributable to Shareholders of the Company

Net earnings attributable to shareholders of the Company for 2012 were $486 million compared to $635 million and basic net earnings per common share were $3.45 compared to $4.58 in 2011.

Changes in non-controlling interests did not have a significant impact on the growth of the Company's net earnings attributable to shareholders of the Company over the past two years. GWL's ownership of Loblaw was 62.9% as at the end of 2012 (2011 – 63.0%; 2010 – 62.9%). GWL's ownership of Loblaw has been impacted over the past two years by its participation in Loblaw's Dividend Reinvestment Program ("DRIP") and by other changes in Loblaw's common share equity.

During 2011, Loblaw issued 938,984 common shares to GWL under the DRIP. During 2011, the Loblaw Board approved the discontinuance of the DRIP following the dividend payment on April 1, 2011. The DRIP raised approximately $330 million in total Loblaw common share equity since 2009.

6.2 SELECTED ANNUAL INFORMATION

The following is an excerpt of selected consolidated financial information from the Company's consolidated financial statements. The analysis of the data contained in the table focuses on the trends and significant events or items affecting the results of operations and financial condition of the Company over the latest three year period.

For the years ended December 31 ($ millions except where otherwise indicated)	**2012**	2011	2010
Sales	**$ 32,742**	$ 32,376	$ 31,847
Net earnings attributable to shareholders of the Company	**486**	635	452
Net earnings	**726**	919	703
Basic net earnings per common share ($)	**$ 3.45**	$ 4.58	$ 3.16
Diluted net earnings per common share ($)	**$ 3.38**	$ 4.55	$ 2.92
Dividends declared per share type ($):			
Common shares(1)	**$ 1.46**	$ 1.44	$ 9.19
Preferred shares – Series I	**$ 1.45**	$ 1.45	$ 1.45
Preferred shares – Series III	**$ 1.30**	$ 1.30	$ 1.30
Preferred shares – Series IV	**$ 1.30**	$ 1.30	$ 1.30
Preferred shares – Series V	**$ 1.19**	$ 1.19	$ 1.19

(1) 2010 includes a special one-time common share dividend of $7.75 per common share declared in 2010 and paid in January 2011.

($ millions)	**Dec. 31, 2012**	As at Dec. 31, 2011	Dec. 31, 2010
Total assets	**$ 21,804**	$ 21,323	$ 21,696
Total long term debt	**$ 6,933**	$ 6,844	$ 7,316
Capital securities	**$ 223**	$ 222	$ 221

Over the past three years, the Company's consolidated sales have improved despite a challenging economic environment. Weston Foods sales have been impacted by pricing, the acquisitions of Keystone Bakery Holdings LLC ("Keystone") and ACE Bakery Ltd. ("ACE"), foreign currency translation and certain key market trends such as changing consumer eating and buying preferences and the continuing shift in consumer food shopping patterns toward alternate format retail channels. Loblaw's sales were under pressure in a competitively intense retail marketplace with an uncertain economic environment.

In 2012, Weston Foods sales and volumes were negatively impacted by the loss of certain distributed products. Excluding this loss, sales in 2012 were positively impacted by foreign currency translation and pricing across key

product categories, partially offset by a decline in volumes. Weston Foods sales and volumes in 2011 and in the second half of 2010 were positively impacted by the acquisitions of Keystone and ACE. Excluding these acquisitions, 2011 sales were positively impacted by higher pricing across key product categories, partially offset by the negative impact of foreign currency translation and lower sales volumes compared to 2010.

Loblaw's average annual national food price inflation as measured by CPI was 2.3% in 2012 and 4.2% in 2011. In 2012 and 2011, Loblaw's average annual internal retail food price index was lower than CPI. Loblaw experienced modest average annual internal food price inflation in 2012 and moderate inflation in 2011. In 2012, same-store sales decline was 0.2% compared to growth of 0.9% in 2011. During 2012, the number of corporate and franchise stores increased to 1,053 (2011 – 1,046; 2010 – 1,027). Retail square footage in 2012 increased to 51.5 million (2011 – 51.2 million; 2010 – 50.7 million).

Over the last three years, the Company's consolidated operating income was impacted by the following items:

- restructuring and other charges incurred by Weston Foods and Loblaw, including a charge of $61 million related to the reduction in head office and administrative positions recorded by Loblaw;
- fair value adjustment of commodity derivatives at Weston Foods;
- fluctuations in share-based compensation net of equity derivatives of both GWL and Loblaw;
- a charge related to the MEPP withdrawal liability incurred by Weston Foods in 2012;
- a gain related to a Weston Foods post-retirement plan change in 2012;
- insurance proceeds recorded by Weston Foods in 2012 and 2011;
- the effect of certain prior years' commodity tax matters at Loblaw recorded in 2011;
- a gain related to the sale of a portion of a Loblaw property recorded in 2011; and
- the effect of foreign currency translation on a portion of the U.S. dollar denominated cash and short term investments held by Dunedin Holdings GmbH ("Dunedin"), a subsidiary of GWL, and certain of its affiliates.

At Weston Foods, operating income during 2012 and 2011 was positively impacted by the benefits realized from productivity improvements and other cost reduction initiatives and higher pricing in certain product categories. In 2012, these benefits were partially offset by lower sales volumes and higher commodity and other input costs. Operating income in 2011 was also positively impacted by the acquisitions of Keystone and ACE, partially offset by higher commodity and fuel costs and the continued escalation in labour and related benefit costs.

To better position itself in an intensely competitive market place, Loblaw made investments in its customer proposition that were not covered by operations in 2012. These investments were focused on price, assortment and customer service and impacted both gross profit and selling, general and administrative expenses. In both 2012 and 2011, Loblaw's operating income was significantly impacted by incremental supply chain and IT charges related to its infrastructure implementation and charges associated with transitioning certain Ontario conventional stores to the more cost effective and efficient operating terms of collective agreements ratified in 2010. Operating income in 2012 and 2011 was further impacted by year-over-year fluctuations in fixed asset impairment charges and recoveries.

Fluctuations in the Company's consolidated net interest and other financing charges were primarily driven by the fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares, lower average debt levels combined with the issuance of lower interest rate Medium Term Notes ("MTN") and the repayment of higher interest rate MTNs. President's Choice Bank ("PC Bank") also introduced its guaranteed investment certificate ("GIC") program in 2010.

Fluctuations in the Company's income tax expense were primarily driven by non-taxable foreign currency translation gains and non-deductible foreign currency translation losses, reductions in federal and Ontario statutory income tax rates and a decrease in prior year income tax matters. Income tax expense in 2012 was negatively impacted by the reversal of current tax assets due to substantively enacted legislation. Income tax expense in 2010 was negatively impacted by charges related to changes in the federal tax legislation that resulted in the elimination of the Company's ability to deduct costs associated with cash-settled stock options and certain prior year income tax matters.

The Company's total assets in 2012 increased by 2.3% compared to 2011. The increase was primarily due to an increase in fixed assets as a result of Loblaw's capital investment program, including the incremental investment in IT and supply chain and increases in Loblaw's accounts receivable and credit card receivables from Loblaw's Financial Services segment. The increase was partially offset by the appreciation of the Canadian dollar relative to the U.S. dollar, which caused a decrease in the translated amounts of U.S. dollar denominated net assets. The Company's total assets in 2011 decreased by 1.7% compared to 2010. The decrease was primarily due to the payment of the $1.0 billion special one-time share dividend, partially offset by an increase in fixed assets as a result of Loblaw's capital investment program, including incremental investment in IT and supply chain and increases in Loblaw's accounts receivable. The decrease was also partially offset by the depreciation of the Canadian dollar relative to the U.S. dollar, which caused an increase in the translated amounts of U.S. dollar denominated net assets.

The Company's total long term debt in 2012 increased by 1.3% compared to 2011. The increase was primarily due to the increase in PC Bank's GIC program, and increases in debt associated with Loblaw's Independent Funding Trusts and finance lease obligations. The Company's total long term debt in 2011 decreased by 6.5% compared to 2010. The decrease was primarily due to the repayment by Loblaw of its $350 million, 6.50% MTN and its $500 million of *Eagle Credit Card Trust* ("*Eagle*") notes, partially offset by the issuance of GICs.

The Company holds significant cash and short term investments denominated in Canadian and U.S. dollars. Cash flows from operating activities have exceeded the funding requirements for the Company over the past three years.

7. RESULTS OF REPORTABLE OPERATING SEGMENTS

The following discussion provides details of the 2012 results of operations of each of the Company's reportable operating segments.

7.1 WESTON FOODS OPERATING RESULTS

For the years ended December 31 ($ millions except where otherwise indicated)	**2012**	2011
Sales	**$ 1,765**	$ 1,772
Operating income	**$ 228**	$ 208
Adjusted operating income[1]	**$ 275**	$ 265
Adjusted operating margin[1]	**15.6%**	15.0%
Adjusted EBITDA[1]	**$ 334**	$ 325
Adjusted EBITDA margin[1]	**18.9%**	18.3%
Return on average net assets[1]	**24.9%**	24.5%

Sales

Weston Foods sales for 2012 of $1,765 million decreased by 0.4%, and volumes decreased by 2.0%, compared to 2011. The loss of certain frozen distributed products that Weston Foods distributed on behalf of certain customers in 2012 negatively impacted sales growth and volume growth by approximately 1.0% and 0.4%, respectively, while foreign currency translation positively impacted sales by approximately 0.4%. Excluding the impact of distributed product and foreign currency translation, sales increased by 0.2% due to the positive impact of pricing across key product categories of 1.8%, partially offset by a decrease in volume of 1.6%.

(1) See non-GAAP financial measures beginning on page 51.

The following sales analysis excludes the impact of foreign currency translation.

Fresh bakery sales, principally bread, rolls, bagels, tortillas and sweet goods represented approximately 35% of total Weston Foods sales, which were down from approximately 36% in 2011. Fresh bakery sales decreased by approximately 3.3% in 2012 compared to 2011 primarily due to lower sales volumes partially offset by the impact of price increases implemented in the beginning of the second quarter of 2011. Volumes decreased in 2012 compared to 2011 mainly due to a difficult sales environment. The introduction of new products in the last twelve months, such as *Country Harvest* Cranberry Muesli and Flax and Quinoa breads, *D'Italiano* Brizzolio rolls and *Gadoua* Pain de Ménage, contributed positively to branded sales in 2012. In addition, during the fourth quarter of 2012, Weston Foods launched private label gluten free bread and sweet goods and the *Flat Oven Bakery* line of international flatbreads.

Frozen bakery sales, principally bread, rolls, doughnuts, cakes and sweet goods represented approximately 47% of total Weston Foods sales in 2012 and 2011. Frozen bakery sales decreased by approximately 2.3% in 2012 compared to 2011 primarily driven by the loss of certain distributed products. Excluding the effect of the loss of these distributed products, frozen bakery sales decreased approximately 0.3% in 2012 compared to 2011.

Biscuit sales, principally wafers, ice-cream cones, cookies and crackers represented approximately 18% of total Weston Foods sales, which were up from approximately 17% in 2011. Biscuit sales increased by approximately 9.2% in 2012 compared to 2011 due to higher volumes as well as the positive impact of pricing and changes in sales mix. Volumes increased compared to 2011 mainly due to growth in cookie and wafer sales.

Operating Income

Weston Foods operating income for 2012 increased by $20 million, or 9.6%, to $228 million compared to $208 million in 2011. Operating margin for 2012 was 12.9% compared to 11.7% in 2011. The change in the fair value adjustment of commodity derivatives, share-based compensation net of equity derivatives and the accrual of a MEPP withdrawal liability had a year-over-year favourable net impact of $5 million on Weston Foods operating income.

Adjusted operating income(1) increased by $10 million, or 3.8%, to $275 million in 2012 from $265 million in 2011. Adjusted operating margin(1) was 15.6% in 2012 compared to 15.0% in 2011.

Gross margin, excluding the impact of the commodity derivatives fair value adjustment, decreased in 2012 compared to 2011. The commodity derivatives fair value adjustment is described in Section 19, "Non-GAAP Financial Measures" of this MD&A.

Adjusted operating income(1) in 2012 was positively impacted by the benefits realized from productivity improvements and other cost reduction initiatives and higher pricing in key product categories. These benefits were partially offset by lower sales volumes and higher commodity and other input costs.

Weston Foods continuously evaluates strategic and cost reduction initiatives related to its manufacturing assets, distribution networks and administrative infrastructure with the objective of ensuring a low cost operating structure. Restructuring activities related to these initiatives are ongoing and in 2012, charges of $12 million (2011 – $13 million) were recorded in operating income.

Adjusted EBITDA(1) increased by $9 million, or 2.8%, to $334 million in 2012 compared to $325 million in 2011. Adjusted EBITDA margin(1) for 2012 increased to 18.9% from 18.3% in 2011.

(1) See non-GAAP financial measures beginning on page 51.

7.2 LOBLAW OPERATING RESULTS

For the years ended December 31 ($ millions where otherwise indicated)	2012	2011
Sales	**$ 31,604**	$ 31,250
Operating income	**$ 1,188**	$ 1,376
Adjusted operating income[1]	**$ 1,288**	$ 1,435
Adjusted operating margin[1]	**4.1%**	4.6%
Adjusted EBITDA[1]	**$ 2,065**	$ 2,134
Adjusted EBITDA margin[1]	**6.5%**	6.8%
Return on average net assets[1]	**9.8%**	11.7%

Loblaw has two reportable operating segments: Retail and Financial Services. Loblaw is one reportable operating segment of GWL.

In 2012, Loblaw invested to strengthen its customer proposition and at the same time continued with its ongoing IT infrastructure renewal program. With investments in the customer proposition, Loblaw made progress in delivering an improved price position, enhanced assortment and variety, particularly in fresh departments, and better in-store execution and customer service.

Sales
Loblaw sales for 2012 increased by 1.1% to $31.6 billion compared to $31.3 billion in 2011. The increase in retail sales in 2012 of $257 million, or 0.8%, compared to 2011 was impacted by the following factors:

- same-store sales decline was 0.2% (2011 – growth of 0.9%);
- sales growth in food was modest;
- sales in drugstore were flat;
- sales growth in gas bar was modest;
- sales in general merchandise, excluding apparel, declined moderately;
- sales in apparel were flat;
- Loblaw experienced modest average annual internal food price inflation during 2012 (2011 – moderate inflation), which was lower than the average annual national food price inflation of 2.3% (2011 – 4.2%) as measured by CPI. CPI does not necessarily reflect the effect of inflation on the specific mix of goods sold in Loblaw stores; and
- 18 (2011 – 26) corporate and franchise stores were opened and 11 (2011 – seven) corporate and franchise stores were closed, resulting in a net increase of 0.3 million square feet, or 0.6%.

In 2012, Loblaw launched over 650 new control brand products and redesigned and/or improved the packaging of approximately 750 other products. Sales of control brand products in 2012 were $9.4 billion compared to $9.5 billion in 2011.

Loblaw sales for 2012 were also positively impacted by an increase in revenue of $97 million, or 17.7%, from its Financial Services segment when compared to 2011. The increase was primarily driven by higher *PC* Telecom revenues resulting from the launch of the Mobile Shop kiosk business in the fourth quarter of 2011 and higher interest and interchange fee income as a result of increased credit card transaction values and higher credit card receivable balances.

(1) See non-GAAP financial measures beginning on page 51.

Operating Income

Loblaw operating income of $1,188 million for 2012 decreased $188 million, or 13.7%, compared to $1,376 million in 2011, resulting in a decrease in operating margin to 3.8% in 2012 from 4.4% in 2011. Loblaw operating income was negatively impacted by restructuring and other charges, including a charge of $61 million related to the reduction in head office and administrative positions recorded by Loblaw, a gain on sale of a portion of a Loblaw property recorded in 2011 of $14 million and a decline in adjusted operating income(1) of $147 million, or 10.2% as described below.

Loblaw adjusted operating income(1) decreased to $1,288 million in 2012 from $1,435 million in 2011. Adjusted operating margin(1) was 4.1% in 2012 compared to 4.6% in 2011. Retail adjusted operating income(1) declined by $170 million and was partially offset by an increase in Financial Services operating income of $23 million compared to 2011.

Gross profit generated by Loblaw's Retail segment decreased by $1 million in 2012 to $6,819 million compared to $6,820 million and gross profit as a percentage of retail sales was 22.0% compared to 22.2% in 2011. The decline in gross profit percentage was primarily driven by investments in food margins and increased shrink, partially offset by margin improvements in drugstore. The decrease of $1 million was driven by the investments in gross profit percentage, almost completely offset by higher sales. In 2012, gross profit included an estimated $35 million of the incremental investment in Loblaw's customer proposition that was not covered by operations, of which $20 million was in price and $15 million was in shrink related to improved assortment in stores.

The decreases in adjusted operating income(1) and adjusted operating margin(1) compared to 2011 were attributable to an increase in labour and other operating costs, incremental costs of $75 million related to investments in IT and supply chain(2), a charge of $38 million (2011 – $35 million) related to the transition of certain Ontario conventional stores to the more cost effective and efficient operating terms of collective agreements ratified in 2010, a charge of $17 million (2011 – $5 million) for fixed asset impairment losses net of recoveries and the slight decrease in gross profit. The increase in labour costs included an estimated $20 million of the incremental investment in Loblaw's customer proposition related to improved service in stores that was not covered by operations. In 2011, start up costs of $21 million associated with the launch of Loblaw's *Joe Fresh* brand in the U.S. were incurred. The decrease in Loblaw's Retail segment adjusted operating income(1) was partially offset by an increase in the operating income of Loblaw's Financial Services segment. The increase in Loblaw's Financial Services segment operating income was attributable to higher revenue which was partially offset by investments in the launch of *PC* Telecom's Mobile Shop kiosk business, higher *PC* points loyalty costs and a higher allowance for credit card receivables on higher receivables balances.

During 2012, restructuring charges of $61 million associated with the reduction in head office and administrative positions were recorded in operating income and other charges of $11 million (2011 – $23 million) were recorded in operating income related to changes in Loblaw's distribution network. In 2011, other charges also included a charge of $8 million related to an internal realignment of Loblaw's business centered around its two primary store formats, conventional and discount.

Adjusted EBITDA(1) decreased by $69 million, or 3.2%, to $2,065 million in 2012 compared to $2,134 million in 2011. Adjusted EBITDA margin(1) decreased to 6.5% compared to 6.8% in 2011.

(1) See non-GAAP financial measures beginning on page 51.
(2) Incremental costs related to investments in IT and supply chain include IT costs, depreciation and amortization and supply chain project costs.

8. LIQUIDITY AND CAPITAL RESOURCES

8.1 MAJOR CASH FLOW COMPONENTS

For the years ended December 31 ($ millions)		2012		2011
Cash flows from operating activities	**$**	**1,852**	$	1,974
Cash flows used in investing activities	**$**	**(916)**	$	(15)
Cash flows used in financing activities	**$**	**(711)**	$	(2,049)

Cash Flows from Operating Activities
Cash flows from operating activities in 2012 were $1,852 million compared to $1,974 million in 2011. The decrease was due to an increase in credit card receivables and the year-over-year decrease in net earnings before non-cash items, partially offset by changes in non-cash working capital.

Cash Flows used in Investing Activities
Cash flows used in investing activities in 2012 were $916 million compared to $15 million in 2011. The increase was primarily due to an increase in fixed asset purchases, intangible asset additions of approximately $31 million related to Loblaw's purchase of Zellers prescription files and the changes in short term investments and security deposits. In 2011, cash inflows were primarily due to the cash generated from short term investments and security deposits in order to fund the $1.0 billion special one-time common share dividend in January 2011 and the repayment of the *Eagle* notes as discussed in the "Cash Flows used in Financing Activities" section below.

The presentation of the Company's investments as cash equivalents or short term investments is based on the term to maturity of the investments at the time they are acquired.

The Company's capital investment in 2012 was $1.1 billion (2011 – $1.0 billion). Weston Foods' capital investment was $93 million (2011 – $40 million). Loblaw's capital investment was $1.0 billion (2011 – $1.0 billion). Approximately 15% (2011 – 17%) of Loblaw's investment was for new store developments, expansions and land, approximately 31% (2011 – 32%) was for store conversions and renovations, and approximately 54% (2011 – 51%) was for infrastructure investments.

Loblaw expects to invest approximately $1.0 billion in capital expenditures in 2013. Approximately 25% of these funds are expected to be dedicated to investing in the IT infrastructure and supply chain projects, 65% will be spent on retail operations and 10% on other infrastructure.

Loblaw's 2012 corporate and franchise store capital investment program, which included the impact of store openings and closures, resulted in an increase in net retail square footage of 0.6% compared to 2011. During 2012, 18 (2011 – 26) corporate and franchise stores were opened and 11 (2011 – seven) corporate and franchise stores were closed, resulting in a net increase of 0.3 million (2011 – 0.5 million) square feet. In 2012, 181 (2011 – 121) corporate and franchise stores were renovated.

At year end 2012, the Company had committed approximately $76 million (2011 – $55 million) for the construction, expansion and renovation of buildings and the purchase of real property.

Cash Flows used in Financing Activities

Cash flows used in financing activities in 2012 were $711 million compared to $2,049 million in 2011. The decrease was primarily due to the payment of the $1.0 billion special one-time common share dividend in January 2011, GWL's and Loblaw's purchases of common shares for cancellation in the fourth quarter of 2011, partially offset by the cash received from the securitization of $370 million credit card receivables in 2011, and lower net repayments of long term debt in 2012 as detailed below.

During 2012, GWL and Loblaw completed the following financing activities:

- GWL issued $39 million of Series B Debentures;
- GWL issued 41,361 common shares on the exercise of stock options for cash consideration of $2 million;
- GWL purchased for cancellation 9,212 common shares for $1 million;
- Loblaw issued 718,544 common shares on the exercise of stock options for cash consideration of $22 million;
- Loblaw purchased for cancellation 423,705 common shares for $16 million;
- PC Bank issued $76 million of GICs; and
- PC Bank repaid $49 million in GICs.

During 2011, GWL and Loblaw completed the following financing activities:

- GWL issued $350 million of unsecured 3.78% MTN, Series 2-A;
- GWL repaid $300 million of 6.45% MTN;
- GWL issued $39 million of Series B Debentures;
- GWL paid a $1.0 billion special one-time common share dividend;
- GWL issued 17,560 common shares on the exercise of stock options for cash consideration of $1 million;
- GWL purchased for cancellation 902,379 common shares for $61 million;
- Loblaw repaid $350 million 6.50% MTN;
- Loblaw issued 686,794 common shares on the exercise of stock options for cash consideration of $21 million;
- Loblaw purchased for cancellation 1,021,986 common shares for $39 million;
- *Eagle* repaid $500 million of Series 2006-I notes;
- PC Bank securitized $370 million in credit card receivables;
- PC Bank issued $264 million of GICs; and
- PC Bank repaid $6 million in GICs.

Free Cash Flow[1]

In 2012, free cash flow[1] of $946 million decreased by $105 million compared to $1,051 million in 2011. This decrease was driven by an increase in the Company's capital investment program and the change in cash flows from operating activities, excluding the net increase in credit card receivables, as described above.

Defined Benefit Pension Plan Contributions

During 2013, the Company expects to contribute approximately $175 million (2012 – contributed approximately $176 million) to its registered funded defined benefit pension plans. The actual amount paid may vary from the estimate based on actuarial valuations being completed, investment performance, volatility in discount rates, regulatory requirements and other factors. In 2013, the Company also expects to make contributions to its defined contribution plans and the MEPPs in which it participates as well as make benefit payments to the beneficiaries of the supplemental unfunded defined benefit pension plans, other defined benefit plans and other long term employee benefit plans.

(1) See non-GAAP financial measures beginning on page 51.

8.2 SOURCES OF LIQUIDITY

Adjusted Debt[1] to Adjusted EBITDA[1]

	As at	
	Dec. 31, 2012	Dec. 31, 2011
Adjusted debt[1] to Adjusted EBITDA[1]	**2.3x**	2.3x

The Company monitors its adjusted debt[1] to adjusted EBITDA[1] ratio as a measure to ensure it is operating under an efficient capital structure. This ratio remained flat when compared to 2011, driven primarily by a nominal increase in adjusted debt[1], and a nominal decrease in adjusted EBITDA[1]. The increase in adjusted debt[1] when compared to 2011 was primarily due to an increase in Loblaw's finance lease obligations. The decrease in adjusted EBITDA[1] was primarily due to a decrease in Loblaw's adjusted EBITDA[1] partially offset by an increase in Weston Foods adjusted EBITDA[1]. The decrease in Loblaw's adjusted EBITDA[1] was driven by a decline in adjusted operating income[1] from its Retail business compared to 2011, as described in Section 7, "Results of Reportable Operating Segments" of this MD&A.

The Company holds significant cash and cash equivalents and short term investments denominated in Canadian and U.S. dollars. These funds are invested in highly liquid marketable short term investments consisting primarily of bankers' acceptances, government treasury bills, corporate commercial paper, bank term deposits and government agency securities.

The Company (excluding Loblaw) expects that cash and cash equivalents, short term investments and future operating cash flows will enable it to finance its capital investment program and fund its ongoing business requirements, including working capital, pension plan funding and financial obligations over the next 12 months.

During 2011, GWL filed a Short Form Base Shelf Prospectus ("Prospectus") which allows for the issuance of up to $1.5 billion in unsecured debentures and/or preferred shares over a 25-month period and a Prospectus Supplement creating an MTN, Series 2 program pursuant to which it may issue unsecured debentures up to $1.0 billion. During 2011, GWL issued $350 million principal amount of five-year unsecured MTN pursuant to this program. Interest on the notes is payable semi-annually at a fixed rate of 3.78%. The notes are unsecured obligations and are redeemable at the option of GWL. Also, during 2011, GWL's $300 million 6.45% MTN matured and was repaid. GWL may refinance maturing long term debt with MTNs if market conditions are appropriate or it may consider other alternatives. The Company (excluding Loblaw) does not foresee any impediments in obtaining financing to satisfy its long term obligations.

Loblaw expects that cash and cash equivalents, short term investments, future operating cash flows and the amounts available to be drawn against its $800 million committed credit facility will enable Loblaw to finance its capital investment program and fund its ongoing business requirements, including working capital, pension plan funding and financial obligations over the next 12 months. Loblaw has traditionally obtained its long term financing primarily through an MTN program. Loblaw may refinance maturing long term debt if market conditions are appropriate or it may consider other alternatives. In addition, given reasonable access to capital markets, Loblaw does not foresee any material impediments in obtaining financing to satisfy its long term obligations.

During 2012, Loblaw renewed and extended its committed credit facility to March 2017. At year end 2012 and 2011, there were no amounts drawn upon this facility. During 2011, Loblaw amended its agreements for this facility and its U.S. $300 million private placement notes to include certain relevant IFRS adjustments in computing the financial metrics that are used in calculating Loblaw's financial covenants. These amendments largely served to neutralize the impact of IFRS on the covenant calculations as of the date of conversion. At year end 2012, Loblaw was in compliance with all of its covenants.

(1) See non-GAAP financial measures beginning on page 51.

During 2012, Loblaw filed a Prospectus which expires in 2015, allowing for the potential issuance of up to $1.0 billion of unsecured debentures and/or preferred shares subject to the availability of funding in capital markets. Loblaw had filed a similar Prospectus in 2010 that expired in 2012.

During 2012, GWL and Loblaw entered into agreements to cash collateralize certain uncommitted credit facilities up to amounts of $45 million (2011 – $40 million) and $133 million (2011 – $88 million), respectively. As at year end 2012, $142 million (2011 – $125 million) was deposited with major financial institutions and classified as security deposits on the consolidated balance sheets.

During 2012, following Loblaw's announcement of its intention to create a REIT, Dominion Bond Rating Service and Standard & Poor's reaffirmed GWL's and Loblaw's credit ratings and trends and outlooks, respectively. These ratings organizations base their forward-looking credit ratings on both quantitative and qualitative considerations.

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

	Dominion Bond Rating Service		Standard & Poor's	
Credit Ratings (Canadian Standards)	Credit Rating	Trend	Credit Rating	Outlook
Medium term notes	BBB	Stable	BBB	Stable
Preferred shares	Pfd-3	Stable	P-3 (high)	Stable
Other notes and debentures	BBB	Stable	BBB	Stable

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

	Dominion Bond Rating Service		Standard & Poor's	
Credit Ratings (Canadian Standards)	Credit Rating	Trend	Credit Rating	Outlook
Medium term notes	BBB	Stable	BBB	Stable
Preferred shares	Pfd-3	Stable	P-3 (high)	Stable
Other notes and debentures	BBB	Stable	BBB	Stable

Independent Securitization Trusts

Loblaw, through PC Bank, participates in various securitization programs that provide the primary source of funds for the operation of its credit card business. PC Bank sells credit card receivables to these Independent Securitization Trusts, including *Eagle* and Other Independent Securitization Trusts, from time to time depending on PC Bank's financing requirements. During 2012, PC Bank amended and extended the maturity date for two of its independent securitization trust agreements from the third quarter of 2013 to the second quarter of 2015, with all other terms and conditions remaining substantially the same.

Loblaw has arranged letters of credit on behalf of PC Bank, representing 9% (2011 – 9%) of the outstanding securitized liability for the benefit of the Other Independent Securitization Trusts in the amount of $81 million (2011 – $81 million). In the event of a major decline in the income flow from or in the value of the securitized credit card receivables, the Other Independent Securitization Trusts can draw upon these letters of credit to recover up to a maximum of the amount outstanding on the letters of credit. Under its securitization programs, PC Bank is required to maintain at all times a credit card receivable pool balance equal to a minimum of 107% of the outstanding securitized liability and was in compliance with this requirement throughout the year.

Guaranteed Investment Certificates

In addition to participating in various securitization programs to fund its operations, PC Bank obtains short term and long term financing through its GIC program. During 2012, PC Bank sold $76 million (2011 – $264 million) in GICs through independent brokers. In addition, during 2012, $49 million (2011 – $6 million) of GICs matured and were repaid. As at year end 2012, $303 million (2011 – $276 million) was recorded in long term debt of which $36 million (2011 – $46 million) was recorded as long term debt due within one year.

Independent Funding Trusts
Certain independent franchisees of Loblaw obtain financing through a structure involving independent funding trusts, which were created to provide loans to the independent franchisees to facilitate their purchase of inventory and fixed assets, consisting mainly of fixtures and equipment. These independent funding trusts are administered by a major financial institution.

During 2012, Loblaw amended and increased the size of the revolving committed credit facility that is the source of funding to the independent funding trusts from $475 million to $575 million. Other terms and conditions remain substantially the same. This facility bears interest at variable rates and expires in 2014. As at year end 2012, the independent funding trusts had drawn $459 million (2011 – $424 million) from this committed credit facility.

Loblaw provides credit enhancement in the form of a standby letter of credit for the benefit of the independent funding trusts representing not less than 10% (2011 – 10%) of the principal amount of the loans outstanding. As at year end 2012, Loblaw had provided a letter of credit in the amount of $48 million (2011 – $48 million). This credit enhancement allows the independent funding trusts to provide financing to Loblaw's independent franchisees. As well, each independent franchisee provides security to the independent funding trusts for its obligations by way of a general security agreement. In the event that an independent franchisee defaults on its loan and Loblaw has not, within a specified time period, assumed the loan, or the default is not otherwise remedied, the independent funding trusts would assign the loan to Loblaw and draw upon this standby letter of credit. This standby letter of credit has never been drawn upon. Loblaw has agreed to reimburse the issuing bank for any amount drawn on the standby letter of credit.

8.3 CAPITAL STRUCTURE

Outstanding Share Capital and Capital Securities
GWL's outstanding share capital is comprised of common shares and preferred shares. The following table details the authorized and outstanding common shares and preferred shares as at December 31, 2012:

		Authorized	Outstanding
Common shares		Unlimited	128,221,841
Preferred shares	– Series I	10,000,000	9,400,000
	– Series II	10,600,000	
	– Series III	10,000,000	8,000,000
	– Series IV	8,000,000	8,000,000
	– Series V	8,000,000	8,000,000

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

At year end 2012, a total of 1,436,234 GWL stock options were outstanding, representing 1.1% of GWL's issued and outstanding common shares. The number of stock options outstanding was within the Company's guidelines of 5% of the total number of outstanding shares. Each stock option is exercisable into one common share of GWL at the price specified in the terms of the option agreement. Commencing February 22, 2011, GWL amended its stock option plan whereby the right to receive a cash payment in lieu of exercising an option for shares was removed.

Twelve million non-voting Loblaw Second Preferred Shares, Series A, are authorized and 9.0 million were outstanding at year end 2012. These preferred shares are presented as capital securities and are included in long term liabilities on the consolidated balance sheets. Dividends on capital securities are presented in net interest expense and other financing charges on the consolidated statements of earnings.

Dividends

($)		2012	2011
Dividends declared per share ($) –	Common share	$ 1.46	$ 1.44
–	Preferred share:		
	Series I	$ 1.45	1.45
	Series III	$ 1.30	1.30
	Series IV	$ 1.30	1.30
	Series V	$ 1.19	1.19

During 2012, the Company amended its dividend policy to state: the declaration and payment of dividends on the Company's common shares and the amount thereof are at the discretion of the Board which takes into account the Company's financial results, capital requirements, available cash flow, future prospects of the Company's business and other factors considered relevant from time to time. Over the long term, it is the Company's intention to increase the amount of the dividend while retaining appropriate free cash flow to finance future growth. During the fourth quarter of 2012, the Board raised the quarterly common share dividend by $0.02 per share to $0.38 per share.

Subsequent to year end 2012, common share dividends of $0.38 (2011 – $0.36) per share and preferred share dividends of $0.32 (2011 – $0.32) per share for the Series III and Series IV preferred shares and dividends of $0.30 (2011 – $0.30) per share for the Series V preferred shares, payable on April 1, 2013, were declared by the Board. In addition, dividends of $0.36 (2011 – $0.36) per share for the Series I preferred shares, payable on March 15, 2013, were also declared.

At the time such dividends are declared, GWL identifies on its website (www.weston.ca) the designation of eligible and ineligible dividends in accordance with the administrative position of the Canada Revenue Agency ("CRA").

Normal Course Issuer Bid ("NCIB") Programs

In 2012, GWL and Loblaw renewed their NCIB programs to purchase on the Toronto Stock Exchange ("TSX") or enter into equity derivatives to purchase up to 6,409,499 (2011 – 6,454,276) and 14,070,352 (2011 – 14,096,437) of their common shares, respectively, representing approximately 5% of their common shares outstanding. In accordance with the rules and regulations of the TSX, any purchases must be at the then market prices of such shares. During 2012, GWL purchased for cancellation 9,212 (2011 – 902,379) of its common shares for $1 million (2011 – $61 million). During 2012, Loblaw purchased for cancellation 423,705 (2011 – 1,021,986) of its common shares for $16 million (2011 – $39 million). In 2013, GWL and Loblaw each intend to renew their NCIB programs.

8.4 FINANCIAL DERIVATIVE INSTRUMENTS

The Company's financial derivative instruments and the nature of risks that they may be subject to are described in Section 13.2, "Financial Risks and Risk Management" of this MD&A.

Cross Currency Swaps

As at year end 2012, Glenhuron Bank Limited ("Glenhuron"), a wholly owned subsidiary of Loblaw, held outstanding cross currency swaps to exchange U.S. dollars for $1,199 million (2011 – $1,252 million) Canadian dollars. The swaps mature by 2019 and are financial derivatives classified as fair value through profit or loss. Currency adjustments receivable or payable arising from these swaps are settled in cash on maturity. As at year end 2012, a cumulative unrealized foreign currency exchange rate receivable of $93 million (2011 – $89 million) was recorded in other assets and a receivable of $20 million (2011 – $48 million) was recorded in prepaid expenses and other assets. In 2012, a fair value gain of $25 million (2011 – loss of $29 million) was recognized in operating income relating to these cross currency swaps. Offsetting the fair value gain was a loss of $27 million (2011 – gain of $25 million) as a result of translating U.S. $1,113 million (2011 – U.S. $1,073 million) cash and cash equivalents, short term investments and security deposits, which was also recognized in operating income.

In 2008, Loblaw entered into fixed cross currency swaps to exchange $148 million Canadian dollars for U.S. $150 million, which mature in the second quarter of 2013 and entered into additional fixed cross currency swaps to exchange $148 million Canadian dollars for U.S. $150 million, which mature in 2015. A portion of these cross currency swaps was originally designated in a cash flow hedge to manage the foreign exchange variability related to part of Loblaw's fixed-rate U.S. dollar private placement notes. In 2011, the designated swap was no longer classified as a cash flow hedge and as a result, the fair value changes were recorded in operating income. As at year end 2012, a cumulative unrealized foreign currency exchange rate receivable of $5 million (2011 – $14 million) was recorded in other assets and a receivable of $2 million (2011 – nil) was recorded in prepaid expenses and other assets. In 2012, Loblaw recognized an unrealized fair value loss of $7 million (2011 – gain of $2 million) in operating income related to these cross currency swaps. Offsetting the unrealized fair value loss was an unrealized foreign currency translation gain of $6 million (2011 – loss of $6 million), which was also recognized in operating income related to the translation of the U.S. $300 million fixed rate private placement notes.

Interest Rate Swaps

Loblaw maintains a notional $150 million (2011 – $150 million) in interest rate swaps that mature by the third quarter of 2013, on which it pays a fixed rate of 8.38%. As at year end 2012, the fair value of these interest rate swaps of $5 million (2011 – $16 million) was recorded in other liabilities. In 2012, Loblaw recognized a fair value gain of $11 million (2011 – $8 million) in operating income related to these swaps.

Interest rate swaps previously held by Glenhuron converted a notional $200 million of floating rate cash and cash equivalents, short term investments and security deposits to average fixed rate investments at 4.74%. These interest rate swaps matured in 2011. During 2011, Glenhuron recognized a fair value loss of $7 million on these interest rate swaps in operating income.

Equity Derivative Contracts

As at year end 2012, GWL had an equity swap contract to buy 0.8 million (2011 – 0.8 million) GWL common shares at a forward price of $107.26 (2011 – $107.26) per share. As at year end 2012, the unrealized market loss of $29 million (2011 – $31 million) was recorded in trade and other payables. In 2012, GWL recorded a fair value gain of $2 million (2011 – loss of $15 million) in operating income in relation to this equity swap contract.

During 2011, GWL amended its swap agreements to adjust the forward price of its equity swaps by $7.75 from an average forward price of $103.17 to an average forward price of $95.42 as a result of the special one-time common share dividend of $7.75 per common share paid in January 2011. Also during 2011, GWL paid $75 million to terminate one equity swap contract and purchase for cancellation the underlying 886,700 GWL common shares under its NCIB program. Subsequent to the end of 2012, GWL settled its remaining equity swap contract as described in Section 9, "Other Business Matters" of this MD&A.

As at year end 2012, Glenhuron had an equity forward contract to buy 1.1 million (2011 – 1.1 million) Loblaw common shares at an average forward price of $56.59 (2011 – $56.38) including $0.16 of interest expense (2011 – $0.05 interest income) per common share. As at year end 2012, the cumulative accrued interest and unrealized market loss of $16 million (2011 – $20 million) was included in trade and other payables. In 2012, Glenhuron recognized a fair value gain of $5 million (2011 – loss of $2 million) in operating income in relation to this equity forward contract.

During 2011, Glenhuron paid $7 million to terminate equity forwards representing 390,100 Loblaw common shares, which Loblaw purchased for cancellation under its NCIB for $15 million. Subsequent to the end of 2012, Loblaw settled its remaining equity forward contract as described in Section 9, "Other Business Matters" of this MD&A.

In 2001, Weston Holdings Limited ("WHL"), a subsidiary of GWL, entered into an equity forward sale agreement based on 9.6 million Loblaw common shares at an original forward price of $48.50 per Loblaw common share. As at year end 2012, the forward price had increased to $92.26 (2011 – $88.14) per Loblaw common share under the terms of the agreement and the fair value of this forward sale agreement of $483 million (2011 – $478 million) was recorded in other assets. In 2012, a fair value loss of $35 million (2011 – gain of $18 million) was recorded in net interest expense and other financing charges related to this agreement.

8.5 CONTRACTUAL OBLIGATIONS

The following illustrates certain of the Company's significant contractual obligations and discusses other obligations as at year end 2012:

Summary of Contractual Obligations

	Payments due by year						
($ millions)	2013	2014	2015	2016	2017	Thereafter	Total
Long term debt including fixed interest payments[1]	$ 1,014	$ 1,472	$ 808	$ 1,021	$ 301	$ 6,899	$ 11,515
Operating leases[2]	212	195	171	140	115	455	1,288
Contracts for purchase of real property and capital investment projects[3]	73	1	1	1			76
Purchase obligations[4]	244	121	75	26	24		490
Total contractual obligations	$ 1,543	$ 1,789	$ 1,055	$ 1,188	$ 440	$ 7,354	$ 13,369

(1) Based on the maturing face values and annual interest for each instrument, including GICs, long term independent securitization trusts and an independent funding trust, as well as annual payment obligations for Special Purpose Entities, mortgages and finance lease obligations.

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

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

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

As at year end 2012, the Company had additional long term liabilities which included post-employment and other long term employee benefit plan liabilities, deferred vendor allowances, deferred income tax liabilities, certain share-based compensation liabilities and provisions, including insurance liabilities. These long term liabilities have not been included in the table above as the timing and amount of future payments are uncertain.

8.6 OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of business, the Company enters into off-balance sheet arrangements including:

Letters of Credit

Standby and documentary letters of credit are used in connection with certain obligations mainly related to real estate transactions, benefit programs, purchase orders and performance guarantees, securitization of PC Bank's credit card receivables and third-party financing made available to Loblaw's independent franchisees. The aggregate gross potential liability related to the Company's letters of credit, including the standby letters of credit for the benefit of independent funding trusts and independent securitization trusts is discussed in Section 8.2, “Sources of Liquidity”, is approximately $570 million (2011 – $540 million).

Guarantees

In addition to the letters of credit mentioned above, the Company has entered into various guarantee agreements including obligations to indemnify third parties in connection with leases, business dispositions and other transactions in the normal course of the Company's business. Additionally, Loblaw has provided a guarantee on behalf of PC Bank to MasterCard® International Incorporated in the amount of U.S. $230 million (2011 – U.S. $180 million) for accepting PC Bank as a card member and licensee of MasterCard®.

9. OTHER BUSINESS MATTERS

IT and Other Systems Implementation

Loblaw is undertaking a major upgrade of its IT infrastructure that began in 2010. This project constitutes one of the largest technology infrastructure programs ever implemented by Loblaw and is fundamental to its long term growth strategies. During 2012, Loblaw continued to make progress on the implementation of the new IT system and successfully achieved two of its key milestones – implementation at the first distribution centre and first store with little to no impact to Loblaw's customers. In addition, in 2012, as part of the implementation process, Loblaw added all of the supply chain master data to the system. This master data, including delivery schedules, replenishment and costing information, now originates in the new system. In 2013, Loblaw will roll-out the IT system to the remaining distribution centres and a portion of the store network.

Real Estate Investment Trust

In December 2012, Loblaw announced its intention to create a REIT, which will acquire a significant portion of Loblaw's real estate assets and sell units by way of an IPO. The IPO of the REIT is expected to be completed by mid 2013, subject to prevailing market conditions and receipt of required regulatory approvals, including approval to list the units on the TSX.

Restricted Share Unit (“RSU”) and Performance Share Unit (“PSU”) Plans

Subsequent to year end 2012, both GWL and Loblaw's RSU and PSU plans were amended to require settlement in shares rather than in cash. Trusts have been established to facilitate the purchase of shares for future settlement for each of the RSU and PSU plans upon vesting. These trusts will be consolidated by the Company. Subsequent to the end of 2012, GWL paid $29 million to settle its remaining equity swap contract representing 800,000 GWL common shares, which GWL purchased under its NCIB for $57 million. Of the 800,000 common shares purchased, 580,000 common shares were cancelled and the remaining 220,000 common shares were placed into trusts for future settlement of GWL's RSUs and PSUs. Subsequent to the end of 2012, Glenhuron paid $16 million to settle its remaining equity forward contract representing 1,103,500 Loblaw common shares, which Loblaw purchased under its NCIB for $46 million, and placed into trusts for future settlement of Loblaw's RSUs and PSUs.

Pension and Post-Retirement Benefit Plan Changes

Subsequent to year end 2012, the Company announced changes to certain of its defined benefit pension and post-employment benefit plans impacting certain employees retiring after January 1, 2015. These changes are expected to result in a one-time gain of approximately $51 million, which will be recorded in the first quarter of 2013.

10. QUARTERLY RESULTS OF OPERATIONS

The 52-week reporting cycle is divided into four quarters of 12 weeks each except for the third quarter, which is 16 weeks in duration. The following is a summary of selected consolidated financial information derived from the Company's unaudited interim period condensed consolidated financial statements for each of the eight most recently completed quarters.

10.1 QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

($ millions except where otherwise indicated)		First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total (audited)
Sales	**2012**	**$ 7,224**	**$ 7,627**	**$ 10,164**	**$ 7,727**	**$ 32,742**
	2011	$ 7,148	$ 7,531	$ 10,061	$ 7,636	$ 32,376
Net earnings attributable to	**2012**	**$ 124**	**$ 137**	**$ 160**	**$ 65**	**$ 486**
shareholders of the Company	2011	$ 105	$ 157	$ 264	$ 109	$ 635
Net earnings per common share ($)						
Basic	**2012**	**$ 0.89**	**$ 0.99**	**$ 1.14**	**$ 0.43**	**$ 3.45**
	2011	$ 0.74	$ 1.13	$ 1.94	$ 0.77	$ 4.58
Diluted	**2012**	**$ 0.89**	**$ 0.98**	**$ 1.07**	**$ 0.34**	**$ 3.38**
	2011	$ 0.71	$ 1.08	$ 1.93	$ 0.72	$ 4.55

Results by Quarter

Consolidated quarterly sales for the last eight quarters were impacted by the following significant items: foreign currency exchange rates, seasonality and the timing of holidays.

Loblaw's average quarterly internal retail food price inflation for 2012 and 2011 remained lower than the average quarterly national retail food price inflation as measured by CPI. CPI does not necessarily reflect the effect of inflation on the specific mix of goods sold in Loblaw stores.

In the last eight quarters, Loblaw's net retail square footage increased by 0.8 million square feet to 51.5 million square feet.

Weston Foods 2012 quarterly sales were positively impacted by foreign currency translation in the first, second and third quarters, and negatively impacted in the fourth quarter of 2012 when compared to the same periods in 2011. Excluding the impact of foreign currency translation, quarterly sales were negatively impacted by lower volumes in all four quarters, with positive pricing offsetting the lower volumes in the first quarter, and partially offsetting the lower volumes in the second, third and fourth quarters. The loss of distributed product impacted sales in the second, third and fourth quarters, with the majority of these declines occurring in the fourth quarter of 2012.

Over the last eight quarters, the Company's consolidated operating income has improved and was impacted by a number of items as outlined in Section 6.2, "Selected Annual Information" of this MD&A.

At Loblaw, fluctuations in quarterly operating income during 2012 reflect the underlying operations of Loblaw and were impacted by incremental costs related to investments in IT and supply chain, costs related to the transition of certain Ontario conventional stores to the more cost effective and efficient operating terms under collective agreements ratified in 2010, start up costs associated with the launch of the *Joe Fresh* brand in the United States and fixed asset impairment charges net of recoveries. Quarterly operating income is also impacted by seasonality and the timing of holidays.

At Weston Foods, quarterly operating income during 2012 was positively impacted by the benefits realized from productivity improvements and cost reduction initiatives and higher pricing in certain product categories, partially offset by lower sales volumes. In addition, commodity and other input costs were higher in the first half of 2012 and lower in the second half compared to the same periods in 2011.

10.2 FOURTH QUARTER RESULTS (UNAUDITED)

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

Selected Consolidated Information

(unaudited)	Quarters Ended	
($ millions except where otherwise indicated)	**Dec. 31, 2012**	Dec. 31, 2011
Sales	**$ 7,727**	$ 7,636
Operating income	**$ 320**	$ 352
Adjusted operating income[1]	**$ 382**	$ 373
Adjusted operating margin[1]	**4.9%**	4.9%
Adjusted EBITDA[1]	**$ 583**	$ 558
Adjusted EBITDA margin[1]	**7.5%**	7.3%
Net interest expense and other financing charges	**$ 170**	$ 108
Income taxes	**$ 34**	$ 71
Net earnings attributable to shareholders of the Company	**$ 65**	$ 109
Net earnings	**$ 116**	$ 173
Basic net earnings per common share ($)	**$ 0.43**	$ 0.77
Adjusted basic net earnings per common share ($) [1]	**$ 1.02**	$ 1.01
Cash flows from (used in):		
Operating activities	**$ 680**	$ 669
Investing activities	**$ (94)**	$ (469)
Financing activities	**$ (68)**	$ (225)
Free cash flow	**$ 514**	$ 497
Dividends declared per share type ($):		
Common shares	**$ 0.38**	$ 0.36
Preferred shares – Series I	**$ 0.36**	$ 0.36
Preferred shares – Series III	**$ 0.33**	$ 0.33
Preferred shares – Series IV	**$ 0.33**	$ 0.33
Preferred shares – Series V	**$ 0.30**	$ 0.30

Adjusted basic net earnings per common share[1] in the fourth quarter of 2012 increased to $1.02 compared to $1.01 in the same period in 2011, an increase of $0.01 or 1.0%. The increase in the fourth quarter of 2012 was due to an improvement in the operating performance of the Company's two operating segments, Weston Foods and Loblaw, partially offset by a higher effective income tax rate[2] compared to the same period in 2011.

(1) See non-GAAP financial measures beginning on page 51.

(2) Effective income tax rate excludes the tax impact of items excluded from adjusted basic net earnings per common share[1].

The Company's basic net earnings per common share were $0.43 compared to $0.77 in the same period in 2011, a decrease of $0.34. This decrease includes the year-over-year unfavourable net impact of certain items, primarily the impact of the forward sale agreement for 9.6 million Loblaw common shares and restructuring and other charges, partially offset by the impact of certain foreign currency translation which are excluded from adjusted basic net earnings per common share[1]. In the fourth quarter of 2012, restructuring and other charges included a charge of $61 million associated with a plan that reduced approximately 700 head office and administrative positions at Loblaw.

Sales

Sales in the fourth quarter of 2012 were $7.7 billion compared to $7.6 billion for the same period in 2011, an increase of 1.2%.

Consolidated sales for the fourth quarter of 2012 were impacted by each reportable operating segment when compared to the same period in 2011 as follows:

- Negatively by 0.1% due to the sales decline of 2.7% at Weston Foods. The loss of certain frozen distributed products negatively impacted sales growth and volume by approximately 2.3% and 1.0%, respectively, and foreign currency translation negatively impacted sales growth by approximately 1.3%. Excluding these impacts, sales increased 0.9% due to the positive impact of pricing and changes in sales mix across certain product categories of 1.9%, partially offset by a decrease in volume of 1.0%.
- Positively by 1.2% due to the sales growth of 1.2% at Loblaw. Same-store sales were flat (2011 – growth of 2.5%), with an extra day of store operations having a positive impact on 2011 same-store sales estimated to be between 0.8% and 1.0%. Sales growth in both food and drugstore were modest, sales growth in gas bar was moderate, sales in general merchandise, excluding apparel, declined moderately and sales in apparel were flat. Loblaw's average quarterly internal food price index was flat during the fourth quarter of 2012 (2011 – moderate inflation), which was lower than the average quarterly national food price inflation of 1.5% (2011 – 5.2%) as measured by CPI. In the last 12 months, Loblaw opened 18 corporate and franchise stores and closed 11 corporate and franchise stores, resulting in a net increase of 0.3 million square feet, or 0.6%. Loblaw sales in the fourth quarter of 2012 were also positively impacted by an increase in Financial Services segment revenue.

Operating Income

Operating income in the fourth quarter of 2012 was $320 million compared to $352 million in the same period in 2011. Consolidated operating income in the fourth quarter of 2012 was negatively impacted by restructuring and other charges, including a charge of $61 million related to the reduction in head office and administrative positions recorded by Loblaw and a MEPP withdrawal liability of $17 million incurred by Weston Foods, partially offset by the impact of certain foreign currency translation. Adjusted operating income[1] in the fourth quarter of 2012 was $382 million compared to $373 million in the same period in 2011, an increase of $9 million or 2.4%. The Company's adjusted operating margin[1] was 4.9% in the fourth quarters of both 2012 and 2011.

The Company's fourth quarter year-over-year change in consolidated adjusted operating income[1] was impacted by each of its reportable operating segments as follows:

- Positively by 0.3% due to an increase of 1.8% in adjusted operating income[1] at Weston Foods. Adjusted operating income[1] was positively impacted by higher pricing in certain product categories, the benefits realized from productivity improvements and other cost reduction initiatives and lower commodity and other input costs, which were partially offset by lower sales volumes in the fourth quarter of 2012, when compared to the same period in 2011.

(1) See non-GAAP financial measures beginning on page 51.

- Positively by 2.1% due to an increase of 2.5% in adjusted operating income[1] at Loblaw. The increases in adjusted operating income[1] and adjusted operating margin[1] were mainly attributable to the improvement in operating performance of Loblaw's Financial Services segment, partially offset by the decline in operating performance of Loblaw's Retail segment. This decrease was driven by incremental costs related to investments in IT and supply chain[2], foreign exchange losses, higher fixed asset impairment charges net of recoveries and higher labour costs, partially offset by other operating cost efficiencies, lower costs related to the transition of certain Ontario conventional stores to the more cost effective and efficient operating terms of collective agreements ratified in the fourth quarter of 2010 and an increase in gross profit. Increased labour costs included an estimated $5 million of incremental investments in Loblaw's customer proposition that were not covered by operations. Incremental investments in shrink related to improved assortment in stores also partially offset the increase in gross profit by an estimated $10 million. Included in fourth quarter 2011 operating income were start up costs associated with the launch of Loblaw's *Joe Fresh* brand in the United States.

The Company's consolidated adjusted EBITDA margin[1] for the fourth quarter of 2012 increased to 7.5% from 7.3% in the same period in 2011. The margin was positively impacted by both Weston Foods and Loblaw when compared to the same period in 2011.

Net Interest Expense and Other Financing Charges

Net interest expense and other financing charges in the fourth quarter of 2012 increased by $62 million to $170 million compared to the same period in 2011, due to the fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares.

Excluding the impact of this fair value adjustment, net interest expense and other financing charges in the fourth quarter of 2012 was flat when compared to the same period in 2011.

Income Taxes

The fourth quarter 2012 effective income tax rate decreased to 22.7% from 29.1% in the same period in 2011.

The decrease in the effective income tax rate when compared to 2011 was primarily due to further reductions in the federal and Ontario statutory income tax rates, a change in the proportion of taxable income earned across different tax jurisdictions and non-taxable foreign currency translation gains recorded in 2012 (2011 – non-deductible foreign currency translation losses), partially offset by the reversal of previously recognized current tax assets. The Company (excluding Loblaw) expensed current tax assets of $8 million in the fourth quarter of 2012 due to amendments to the Income Tax Act relating to the taxation of Canadian corporations with foreign affiliates.

Net Earnings Attributable to Shareholders of the Company

Net earnings attributable to shareholders of the Company for the fourth quarter of 2012 were $65 million compared to $109 million and basic net earnings per common share were $0.43 compared to $0.77 in the same period in 2011.

(1) See non-GAAP financial measures beginning on page 51.
(2) Incremental costs related to investments in IT and supply chain include IT costs, depreciation and amortization and supply chain project costs.

Reportable Operating Segments

The Company's consolidated sales and operating income were impacted by each of its reportable operating segments as follows:

WESTON FOODS

(unaudited)	Quarters Ended	
($ millions except where otherwise indicated)	**Dec. 31, 2012**	Dec. 31, 2011
Sales	**$ 399**	$ 410
Operating income	**$ 42**	$ 57
Adjusted operating income[(1)]	**$ 57**	$ 56
Adjusted operating margin[(1)]	**14.3%**	13.7%
Adjusted EBITDA[(1)]	**$ 71**	$ 71
Adjusted EBITDA margin[(1)]	**17.8%**	17.3%

For the fourth quarter of 2012, Weston Foods sales of $399 million decreased 2.7% and volumes decreased 2.0% when compared to the same period in 2011. The loss of certain frozen distributed products that Weston Foods distributed on behalf of certain customers in 2012 negatively impacted sales growth and volume by approximately 2.3% and 1.0%, respectively, and foreign currency translation negatively impacted sales growth by approximately 1.3%. Excluding the impact of the loss of certain distributed product and foreign currency translation, sales increased 0.9% due to the positive impact of pricing and changes in sales mix across certain product categories of 1.9%, partially offset by a decrease in volume of 1.0%.

The following sales analysis excludes the impact of foreign currency translation. In the fourth quarter of 2012:

- fresh bakery sales decreased by approximately 2.7% mainly driven by lower sales volumes. The introduction of new products, such as *Country Harvest* Cranberry Muesli and Flax and Quinoa breads, *D'Italiano* Brizzolio rolls and *Gadoua* Pain de Ménage, contributed positively to branded sales. In addition, in the fourth quarter of 2012, Weston Foods launched private label gluten free bread and sweet goods and the *Flat Oven Bakery* line of international flatbreads;
- frozen bakery sales decreased by approximately 3.6% and were negatively impacted by the loss of certain distributed products. Excluding the effects of the loss of these distributed products, frozen bakery sales increased by approximately 0.5%; and
- biscuit sales, principally wafers, ice-cream cones, cookies and crackers, increased by approximately 11.3% mainly due to higher volumes combined with the positive impact of pricing and changes in sales mix. Volumes increased in the fourth quarter of 2012 compared to the same period in 2011 due to growth in cookie sales, partially offset by lower cone sales. Beginning in the fourth quarter of 2012, Weston Foods started manufacturing and selling Mrs. Fields® branded pre-packaged cookies under license, which contributed positively to the sales growth in cookies.

Weston Foods operating income was $42 million in the fourth quarter of 2012 compared to $57 million in the same period in 2011. The decrease was mainly due to the accrual of an incremental MEPP withdrawal liability, the change in the fair value adjustment of commodity derivatives, and the impact of a post-retirement plan change which had a combined year-over-year unfavourable net impact of $22 million, partially offset by an improvement in adjusted operating income[(1)] of $1 million as described below.

Adjusted operating income[(1)] increased by $1 million, or 1.8%, to $57 million in the fourth quarter of 2012 from $56 million in the same period in 2011. Adjusted operating margin[(1)] was 14.3% for the fourth quarter of 2012 compared to 13.7% in the same period in 2011.

(1) See non-GAAP financial measures beginning on page 51.

Gross margin, excluding the impact of the commodity derivatives fair value adjustment, increased in the fourth quarter of 2012 compared to the same period in 2011.

Adjusted operating income[1] in the fourth quarter of 2012 was positively impacted by higher pricing in certain product categories, the benefits realized from productivity improvements and other cost reduction initiatives, and lower commodity and other input costs, which were partially offset by lower sales volumes in the fourth quarter of 2012, when compared to the same period in 2011.

Weston Foods continuously evaluates strategic and cost reduction initiatives related to its manufacturing assets, distribution networks and administrative infrastructure with the objective of ensuring a low cost operating structure. Restructuring activities related to these initiatives are ongoing and in the fourth quarter of 2012, charges of $3 million (2011 – $5 million) were recorded in operating income.

Adjusted EBITDA[1] was $71 million in the fourth quarters of both 2012 and 2011. Adjusted EBITDA margin[1] increased in the fourth quarter of 2012 to 17.8% from 17.3% in the same period in 2011.

LOBLAW

(unaudited)	Quarters Ended	
($ millions except where otherwise indicated)	**Dec. 31, 2012**	Dec. 31, 2011
Sales	**$ 7,465**	$ 7,373
Operating income	**$ 260**	$ 313
Adjusted operating income[1]	**$ 325**	$ 317
Adjusted operating margin[1]	**4.4%**	4.3%
Adjusted EBITDA[1]	**$ 512**	$ 487
Adjusted EBITDA margin[1]	**6.9%**	6.6%

Loblaw sales in the fourth quarter of 2012 increased by 1.2% to $7.5 billion compared to $7.4 billion in the same period in 2011. In the fourth quarter of 2012, the increase in retail sales compared to the same period in 2011 was impacted by the following factors:

- same-store sales were flat (2011 – growth of 2.5%), with an extra day of store operations having a positive impact on 2011 same-store sales estimated to be between 0.8% and 1.0%;
- sales growth in both food and drugstore were modest;
- sales growth in gas bar was moderate;
- sales in general merchandise, excluding apparel, declined moderately;
- sales in apparel were flat;
- Loblaw's average quarterly internal food price index was flat during the fourth quarter of 2012 (2011 – moderate inflation), which was lower than the average quarterly national food price inflation of 1.5% (2011 – 5.2%) as measured by CPI. CPI does not necessarily reflect the effect of inflation on the specific mix of goods sold in Loblaw stores; and
- 18 corporate and franchise stores were opened and 11 corporate and franchise stores were closed in the last 12 months, resulting in a net increase of 0.3 million square feet, or 0.6%.

Loblaw sales in the fourth quarter of 2012 were also positively impacted by an increase in Financial Services segment revenue of $29 million, or 19.7%, compared to the same period in 2011. The increase was driven by higher *PC* Telecom revenues resulting from the 2011 launch of the Mobile Shop kiosk business and higher interest and interchange fee income as a result of higher credit card transaction values and increased credit card receivable balances.

(1) See non-GAAP financial measures beginning on page 51.

Loblaw operating income decreased by $53 million to $260 million in the fourth quarter of 2012 compared to $313 million in the same period in 2011. The decrease was mainly due to restructuring and other charges including $61 million associated with the reduction in head office and administrative positions, partially offset by an improvement in adjusted operating income[(1)] of $8 million as described below.

Loblaw adjusted operating income[(1)] increased by $8 million to $325 million in the fourth quarter of 2012 compared to $317 million in the same period in 2011. Adjusted operating margin[(1)] was 4.4% compared to 4.3% in the same period in 2011. Financial Services segment operating income increased by $16 million, partially offset by an $8 million decline in Retail segment adjusted operating income[(1)].

Gross profit generated by Loblaw's Retail segment increased by $6 million to $1,575 million in the fourth quarter of 2012 compared to $1,569 million in the same period in 2011 and gross profit percentage was 21.6%, a decrease from 21.7% in the same period in 2011. This decline in gross profit percentage was primarily driven by investments in food margins and increased shrink, partially offset by margin improvements in drugstore and general merchandise and decreased transportation costs. The $6 million increase in gross profit was primarily driven by higher sales, partially offset by investments in gross profit percentage. Increased shrink expense included an estimated $10 million of the incremental investment in Loblaw's customer proposition related to improved assortment in stores that was not covered by operations.

The increase in adjusted operating income[(1)] and adjusted operating margin[(1)] in the fourth quarter of 2012 compared to the same period in 2011 were attributable to an increase in Loblaw's Financial Services segment, offset by a decrease in Loblaw's Retail segment. The increase in Loblaw's Financial Services segment was mainly attributable to higher revenue and lower costs related to the renegotiation of vendor contracts, partially offset by investments in the launch of *PC* Telecom's Mobile Shop kiosk business and a higher allowance for credit card receivables on higher receivables balances. The decrease in Loblaw's Retail segment was attributable to charges of $17 million (2011 – $5 million) for fixed asset impairments net of recoveries, incremental costs of $17 million related to investments in IT and supply chain[(2)], foreign exchange losses, and increased labour costs, partially offset by lower costs of $5 million (2011 – $23 million) related to the transition of certain Ontario conventional stores to the more cost effective and efficient operating terms of collective agreements ratified in the fourth quarter of 2010, other operating cost efficiencies and an increase in gross profit. Increased labour costs included an estimated $5 million of the incremental investment in Loblaw's customer proposition related to improved service in the stores that was not covered by operations. In the fourth quarter of 2011, start up costs of $16 million associated with the launch of Loblaw's *Joe Fresh* brand in the U.S. were incurred.

During the fourth quarter of 2012, restructuring charges of $61 million associated with the reduction in head office and administrative positions were recorded in operating income and other charges of $2 million (2011 – nil) were recorded in operating income related to changes in Loblaw's distribution network.

Adjusted EBITDA[(1)] increased $25 million, or 5.1%, to $512 million in the fourth quarter of 2012 compared to $487 million in the same period in 2011. Adjusted EBITDA margin[(1)] increased in the fourth quarter of 2012 to 6.9% compared to 6.6% in the same period in 2011.

Liquidity and Capital Resources

Cash flows from operating activities The Company's fourth quarter 2012 cash flows from operating activities were $680 million compared to $669 million in the same period in 2011. The increase when compared to the same period in 2011 was primarily due to changes in non-cash working capital, partially offset by the year-over-year decrease in net earnings before non-cash items and an increase in credit card receivables.

(1) See non-GAAP financial measures beginning on page 51.
(2) Incremental costs related to investments in IT and supply chain include IT costs, depreciation and amortization and supply chain project costs.

Cash flows used in investing activities The Company's fourth quarter 2012 cash flows used in investing activities were $94 million compared to $469 million in the same period in 2011. The decrease when compared to the same period in 2011 was primarily due to the change in short term investments and security deposits, including $125 million of cash collateralized for letter of credit facilities in 2011, and higher proceeds from fixed assets sales. Capital expenditures for the fourth quarter of 2012 were $398 million (2011 – $362 million).

Cash flows used in financing activities The Company's fourth quarter 2012 cash flows used in financing activities were $68 million compared to $225 million in the same period in 2011. The decrease when compared to the same period in 2011 was primarily due to lower purchases of common shares for cancellation and higher net issuances of long term debt in the fourth quarter of 2012 as detailed below.

During the fourth quarter of 2012, GWL and Loblaw completed the following financing activities:

- GWL issued $10 million of Series B Debentures;
- GWL issued 34,030 common shares on the exercise of stock options for cash consideration of $2 million;
- GWL purchased for cancellation 4,297 common shares for a nominal amount;
- Loblaw issued 474,747 common shares on the exercise of stock options for cash consideration of $15 million;
- Loblaw purchased for cancellation 246,228 common shares for $10 million;
- PC Bank issued $61 million of GICs; and
- PC Bank repaid $2 million in GICs.

During the fourth quarter of 2011, GWL and Loblaw completed the following financing activities:

- GWL issued $350 million of unsecured 3.78% MTN, Series 2-A;
- GWL repaid $300 million of 6.45% MTN;
- GWL issued $10 million of Series B Debentures;
- GWL issued 1,881 common shares on the exercise of stock options for cash consideration of a nominal amount;
- GWL purchased for cancellation 887,515 common shares for $60 million;
- Loblaw issued 54,908 common shares on the exercise of stock options for cash consideration of $2 million;
- Loblaw purchased for cancellation 415,719 common shares for $17 million;
- PC Bank issued $3 million of GICs; and
- PC Bank repaid $2 million in GICs.

Free Cash Flow[(1)]

In the fourth quarter of 2012, free cash flow[(1)] of $514 million increased by $17 million compared to $497 million in 2011. This increase was primarily driven by the change in cash flows from operating activities, excluding the net increase in credit card receivables as described above, partially offset by an increase in the Company's capital investment program.

11. DISCLOSURE CONTROLS AND PROCEDURES

Management is responsible for establishing and maintaining a system of disclosure controls and procedures to provide reasonable assurance that all material information relating to the Company and its subsidiaries is gathered and reported to senior management on a timely basis so that appropriate decisions can be made regarding public disclosure.

As required by National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings" ("NI 51-109"), the Executive Chairman, as Chief Executive Officer, and Chief Financial Officer have caused the effectiveness of the disclosure controls and procedures to be evaluated. Based on that evaluation, they have concluded that the design and operation of the system of disclosure controls and procedures were effective as at December 31, 2012.

(1) See non-GAAP financial measures beginning on page 51.

12. INTERNAL CONTROL OVER FINANCIAL REPORTING

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

As required by NI 52-109, the Executive Chairman, as Chief Executive Officer, and Chief Financial Officer have caused the effectiveness of the internal controls over financial reporting to be evaluated using the framework established in the "Internal Control – Integrated Framework (COSO Framework) published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)". Based on that evaluation, they have concluded that the design and operation of the Company's internal controls over financial reporting were effective as at December 31, 2012.

It should be recognized that due to inherent limitations, any controls, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and may not prevent or detect misstatements. Projections of any evaluations of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Additionally, management is required to use judgment in evaluating controls and procedures.

Changes in Internal Control over Financial Reporting

Loblaw successfully implemented the IT system in the fourth quarter of 2012 at one distribution centre and at one store. These implementations resulted in changes to Loblaw's internal controls over financial reporting during the fourth quarter of 2012 impacting the store, the distribution centre and a significant number of legacy corporate, franchise, and affiliate stores that the distribution centre services. The changes in controls have materially affected Loblaw's internal controls over financial reporting impacting the following key areas: (1) Accounts Payable, (2) Cash Management, (3) Order Processing and Billing, (4) Vendor Income, (5) Costing, (6) Inventory Management and Valuation, and (7) Credit Management. Except for the preceding changes, there were no other changes to the Company's internal controls over financial reporting during the fourth quarter of 2012 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

13. ENTERPRISE RISKS AND RISK MANAGEMENT

The Company is committed to establishing a framework that ensures risk management is an integral part of its activities. To ensure the continued growth and success of the Company, risks are identified and managed through GWL's and Loblaw's Enterprise Risk Management ("ERM") programs. The GWL and Loblaw Boards, respectively, have approved an ERM policy and oversee the ERM program through approval of the Company's risks and risk prioritization. The ERM program assists all areas of the business in managing appropriate levels of risk tolerance by bringing a systematic approach, methodology and tools for evaluating, measuring and monitoring key risks. The results of the ERM program and other business planning processes are used to identify emerging risks to the Company, prioritize risk management activities and develop a risk-based internal audit plan.

Risks are not eliminated through the ERM program. Risks are identified and managed within understood risk tolerances. The ERM program is designed to:

- promote a culture of awareness of risk management and compliance within the Company;
- facilitate corporate governance by providing a consolidated view of risks across the Company and insight into the methodologies for identification, assessment, measurement and monitoring of the risks;
- assist in developing consistent risk management methodologies and tools across the organization; and
- enable the Company to focus on its key risks in the business planning process and reduce harm to financial performance through responsible risk management.

Risk identification and assessments are important elements of the Company's ERM framework. An annual ERM assessment is completed to assist in the update and identification of internal and external risks, which are both strategic and operational in nature. Key risks affecting the Company are prioritized under five categories: financial; operational; regulatory; human capital; and reputational risks. The annual ERM assessment is carried out through interviews, surveys and facilitated workshops with management and the GWL or Loblaw Boards. Risks are assessed and evaluated based on the Company's vulnerability to the risk and the potential impact that the underlying risks would have on the Company's ability to execute its strategies and achieve its objectives. Risk owners are assigned relevant risks and key risk indicators are developed. At least semi-annually, management provides an update to a Committee of the GWL or Loblaw Boards of the status of the top risks based on significant changes from the prior update, anticipated impacts in future quarters and significant changes in key risk indicators. In addition, the long term (three to five year) risk level is assessed to monitor potential long term risk impacts, which may assist in risk mitigation planning activities.

Accountability for oversight of the management of each risk is allocated by the GWL or Loblaw Boards either to the full Boards or to Committees of the Boards.

The operating, financial, regulatory, human capital and reputational risks and risk management strategies are discussed below. Any of these risks has the potential to negatively affect the Company and its financial performance. The Company has risk management strategies, including insurance programs, that are intended to mitigate the potential impact of these risks. However, these strategies do not guarantee that the associated risks will be mitigated or will not materialize or that events or circumstances will not occur that could negatively affect the reputation, operations or financial condition or performance of the Company.

13.1 OPERATING RISKS AND RISK MANAGEMENT

Operating Risks

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

Systems Implementations	Employee Retention and Succession Planning
Execution of Strategic Initiatives	Labour Relations
Information Integrity and Reliability	Regulatory and Tax
Availability, Access and Security of Information Technology	Privacy and Information Security
	Commodity Prices
Change Management and Process Execution	Franchisee and Independent Business Relationships
Food Safety and Public Health	Inventory Management
Competitive Environment	Vendor Management and Third-Party Service Providers
Economic Environment	
Merchandising	Environmental
Distribution and Supply Chain	Trademark and Brand Protection
Disaster Recovery and Business Continuity	Defined Benefit Pension Plans
Real Estate Investment Trust Initial Public Offering	Multi-Employer Pension Plans

Systems Implementations
Loblaw continues to undertake a major upgrade of its IT infrastructure. Completing the IT system deployment will require continued focus and investment. Failure to successfully migrate from legacy systems to the IT system or disruption in Loblaw's current IT systems during the implementation of the new systems, could result in a lack of accurate data to enable management to effectively achieve its strategic plan or manage the day-to-day operations of the business, causing significant disruptions to the business and potential financial losses. Failure to implement appropriate processes to support the IT system could result in inefficiencies and duplication in processes and could negatively affect Loblaw's reputation and the operations, revenues and financial performance of the Company.

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

Information Integrity and Reliability
Management depends on relevant, reliable and accessible information for decision making purposes, including key performance indicators and financial reporting. Lack of relevant, reliable and accessible information that enables management to effectively manage the business could preclude the Company from optimizing its overall performance. Any significant loss of data or failure to maintain reliable data could negatively affect the reputation, operations and financial performance of the Company.

Availability, Access and Security of Information Technology
The Company is reliant on the continuous and uninterrupted operations of information technology systems. Point of sale availability, 24/7 user access, and security of all IT systems are critical elements to the operations of the Company. Any IT failure pertaining to availability, access or system security could result in disruption for the customer, lost revenue and could negatively impact the reputation, operations, and financial performance of the Company.

Change Management and Process Execution
Significant initiatives within the Company, including the execution of Loblaw's IT infrastructure plan, are underway. Ineffective change management could result in disruptions to the operations of the business or affect the ability of the Company to implement and achieve its long term strategic objectives. Failure to properly integrate several large, complex initiatives in a timely manner will adversely impact the operations of the Company. If employees are not able to develop and perform new roles, processes and disciplines, the Company may not achieve the expected cost savings and other benefits of its initiatives. Failure to properly execute the various processes could increase the risk of customer dissatisfaction, which in turn could negatively affect the reputation, operations and financial performance of the Company.

Food Safety and Public Health
The Company is subject to risks associated with food safety and general merchandise product defects. These risks could arise as part of the design, procurement, production, packaging, storage, distribution, preparation and display of products, including the Company's control brand products and contract manufactured products. The Company could be adversely affected in the event of a significant outbreak of food-borne illness or other public health concerns related to food products. The occurrence of such events or incidents could result in harm to the Company's customers, negative publicity or damage to the Company's brands and could lead to unforeseen liabilities from legal claims or otherwise. In addition, failure to trace or locate any contaminated or defective products and ingredients could affect the Company's ability to be effective in a recall situation. Any of these events, as well as the failure to maintain the cleanliness and health standards at Loblaw's store level, could negatively affect the reputation, operations and financial performance of the Company.

Incident management processes are in place to manage such events, should they occur. The existence of these procedures does not mean that the Company will, in all circumstances, be able to mitigate the underlying risks, and any event related to these matters has the potential to negatively affect the reputation, operations and financial performance of the Company.

Competitive Environment
Weston Foods' competitors include multi-national food processing companies, as well as national and smaller-scale bakery operations in Canada and the U.S.

Loblaw's competitors include traditional supermarket operators, as well as mass merchandisers, warehouse clubs, drugstores, limited assortment stores, discount stores, convenience stores and specialty stores. Many of these competitors now offer a selection of food, drugstore and general merchandise. Others remain focused on supermarket-type merchandise. Loblaw is subject to competitive pressures from new entrants into the marketplace and from the expansion or renovation of existing competitors, particularly those expanding into the grocery market.

The Company's inability to effectively predict market activity or compete effectively with its current or future competitors could result in, among other things, reduced market share and lower pricing in response to its competitors' pricing activities. Failure by Weston Foods or Loblaw to sustain their competitive position could negatively affect the financial performance of the Company.

Economic Environment
Economic factors that impact consumer spending patterns could deteriorate or remain unpredictable due to global, national or regional economic volatility. These factors include high levels of unemployment and household debt, increased interest rates, inflation, foreign exchange rates, and commodity prices and access to consumer credit. Any of these factors could negatively affect the Company's revenue and margins. Inflationary trends are unpredictable and changes in the rate of inflation or deflation will affect consumer prices, which in turn could negatively affect the financial performance of the Company.

Merchandising
The Company could have goods and services that customers do not want or need, are not reflective of current trends in customers' tastes, habits, or regional preferences, are priced at a level customers are not willing to pay or are late in reaching the market. Innovation is critical if the Company is to respond to customer demands and stay competitive in the market place. If merchandising efforts are not effective or responsive to customer demand, the operations and financial performance of the Company could be negatively affected.

Distribution and Supply Chain
Failure to continue to invest in and improve the Company's supply chain could adversely affect the Company's capacity to effectively and efficiently attract and retain current and potential customers. Any delay or disruption in the flow of goods to stores could negatively affect the operations and financial performance of the Company.

Disaster Recovery and Business Continuity
The Company's ability to continue critical operations and processes could be negatively impacted by adverse events resulting from various incidents, including severe weather, work stoppages, prolonged IT failure, power failures, border closures, a pandemic or other national or international catastrophe. The Company has an enterprise wide business continuity program which reduces, but does not completely mitigate, the risk of business interruptions, crises or potential disasters, which could negatively affect the reputation, operations and financial performance of the Company.

Real Estate Investment Trust Initial Public Offering
During the fourth quarter of 2012, Loblaw announced its intention to create a REIT to acquire a significant portion of Loblaw's real estate assets and for the REIT to sell trust units to the public by way of an IPO. Loblaw estimates that it will initially sell to the REIT real estate with a current market value exceeding $7 billion and it intends to retain a significant majority interest in the REIT. Loblaw expects the IPO to be completed in mid 2013. However, completion of the IPO and the purchase of certain of Loblaw's real estate assets will be subject to prevailing market conditions and receipt of required regulatory approvals, including approval to list the trust units on the TSX. In addition, the execution and implementation of the REIT's IPO will have a significant impact on Loblaw's management and operations as a result of the time and attention required of management to complete the offering. Failure to properly execute and implement the REIT's IPO could adversely affect the reputation, operations and financial performance of the Company.

Employee Retention and Succession Planning
Effective succession planning for senior management and employee retention are essential to sustaining the growth and success of the Company. In addition, loss of talent to the competition can be a significant risk to the Company's business strategy. If the Company is not effective in establishing appropriate succession planning processes and retention strategies, it could lead to a lack of requisite knowledge, skills and experience on the part of management. This, in turn, could adversely affect the Company's ability to execute its strategies, and negatively affect its reputation, operations and financial performance.

Labour Relations
A majority of the Company's workforce is unionized. Failure to renegotiate collective agreements could result in work stoppages or slowdowns, which could negatively affect the Company's financial performance, depending on their nature and duration. There can be no assurance as to the outcome of these negotiations or the timing of their completion. Although the Company attempts to mitigate work stoppages and disputes through early negotiations, work stoppages or slowdowns remain possible, which could negatively affect the reputation, operations and financial performance of the Company.

Regulatory and Tax
Changes to any of the laws, rules, regulations or policies applicable to the Company's business, including income, commodity and other taxes, and the production, processing, preparation, distribution, packaging and labelling of products, could have an adverse impact on the Company's financial or operational performance. New accounting pronouncements introduced by appropriate authoritative bodies could also impact the Company's financial results. In the course of complying with such changes, the Company could incur significant costs. Changing regulations or enhanced enforcement of existing regulations could restrict the Company's operations or profitability and thereby threaten the Company's competitive position and capacity to efficiently conduct business. Failure by the Company to comply with applicable laws, rules, regulations, orders and policies or comply with orders for records in a timely manner could subject it to civil or regulatory actions or proceedings, including fines, assessments, injunctions, recalls or seizures, which in turn could have an adverse effect on the Company's financial results. PC Bank operates in a highly regulated environment and a failure by it to comply, understand, acknowledge and effectively respond to the regulators could result in monetary penalties, regulatory intervention and reputational damage.

The Company is involved in and potentially subject to tax audits from various governments and regulatory agencies relating to income, capital and commodity taxes on an ongoing basis. As a result, from time to time, taxing authorities may disagree with the positions and conclusions taken by the Company in its tax filings or legislation may be amended, which could lead to assessments and reassessments. These assessments and reassessments may have a material impact on the Company's financial statements in future periods. During 2012, Loblaw received indication from the CRA that it intends to proceed with a reassessment with regard to the tax treatment of Loblaw's wholly owned subsidiary, Glenhuron. At this early stage, it is not possible to quantify the amount of the proposed reassessment. Although Loblaw does not expect the ultimate outcome to be material, such matters cannot be predicted with certainty and could result in a material charge in future periods.

During 2012, the majority of provincial governments announced or enacted amendments to the regulation of generic prescription drug prices paid by provincial governments pursuant to public drug benefit plans. Subsequent to year end 2012, all provinces and territories with the exception of Quebec, announced that reimbursement rates on six common generic prescription drugs would be significantly reduced. All provinces have now announced various forms of amendments to regulation of generic drug pricing. Under these amendments, the prices paid by the provincial drug plans for generic drugs are being reduced. The amendments also reduce out-of-pocket and private employer drug plan payments for generic drugs. The amendments impact pharmacy sales and therefore could have an adverse effect on the financial performance of the Company. Loblaw continues to identify opportunities to mitigate the impact of these amendments, including the introduction of programs to add new services and enhance existing services to attract customers, but despite these efforts, the amendments could have an adverse effect on the financial performance of the Company.

During 2010, GWL received a reassessment from the CRA challenging GWL's characterization of a gain reported in a previous year's tax return filing. Should the CRA be successful in its assertion, the maximum exposure to the Company's net earnings would be approximately $65 million. GWL is vigorously defending its filing position. No amount has been provided for in the Company's financial statements.

Privacy and Information Security

The Company is subject to various laws regarding the protection of personal information of its customers, cardholders and employees and has adopted a Privacy Policy setting out guidelines for the handling of personal information. The Company's information systems contain personal information of customers, cardholders and employees. Any failures or vulnerabilities in these security systems or non-compliance with regulations, including those in relation to personal information belonging to the Company's customers and employees, could negatively affect the reputation, operations and financial performance of the Company.

Commodity Prices

Weston Foods costs are directly impacted by fluctuations in the prices of commodity-linked raw materials such as wheat flours, sugars, vegetable oils, cocoa powders and chocolate. Loblaw is also exposed to fluctuations in the commodity prices as a result of the indirect link between commodities and the cost of consumer products. In addition, both Weston Foods and Loblaw are exposed to increases in the prices of energy in operating, in the case of Weston Foods, its bakeries and distribution networks, and, in the case of Loblaw, its stores and distribution networks. Both Weston Foods and Loblaw use purchase commitments and derivative instruments in the form of futures contracts, option contracts and forward contracts to manage their current and anticipated exposure to fluctuations in commodity prices. Despite these strategies, high commodity prices could negatively affect the financial performance of the Company.

Franchisee and Independent Business Relationships

A significant portion of the Loblaw's revenues and earnings arise from franchisee type relationships. Franchisees and independent operators are independent businesses and, as such, their operations could be negatively affected by factors beyond Loblaw's control, which in turn may negatively affect the reputation, operations and financial performance of the Company. Revenues and earnings could also be negatively affected, and Loblaw's reputation could be harmed, if a significant number of retail franchisees were to experience operational failures, health and safety exposures or were unable to pay Loblaw for products, rent or fees. Loblaw's franchise system is also subject to franchise legislation enacted by a number of provinces. Any new legislation or failure to comply

with existing legislation could negatively affect operations and could add administrative costs and burdens, any of which could affect Loblaw's relationship with its franchisees and independent operators. Loblaw provides various services to the franchisees to assist with management of store operations and dedicated personnel manage Loblaw's obligations to its franchisees. These relationships with franchisees and independent operators could pose significant risks if they are disrupted, which could negatively affect the reputation, operations and financial performance of the Company. Supply chain or system changes by the Company could cause or be perceived to cause disruptions to franchise operations and could result in negative effects on franchisee financial performance. In addition, reputational damage or adverse consequences for Loblaw, including litigation and disruption to revenue from franchise stores, could result.

Inventory Management

Inappropriate inventory management could lead to excess inventory or a shortage of inventory, which may impact customer satisfaction and overall financial performance. Loblaw may experience excess inventory that cannot be sold profitably or which could increase levels of inventory shrink. Loblaw focuses on reducing inventory levels, early identification of inventory at risk and monitors the demand, forecasting and the impact of customer trends. Despite these efforts, Loblaw could experience excess inventory that cannot be sold profitably, which could negatively affect the operations and financial performance of the Company.

As part of its IT system upgrade implementation plan, Loblaw will be converting to a perpetual inventory system. Through the conversion process, Loblaw will determine the value of its retail store inventories using weighted average cost. As a result, valuation differences could arise which could negatively affect the carrying amount of Loblaw's inventory.

Vendor Management and Third-Party Service Providers

Certain aspects of the Company's business rely on third-party providers, including offshore vendors, that provide the Company with goods and services. Although contractual arrangements, sourcing guidelines, supplier audits and Corporate Social Responsibility guidelines are in place, the Company has no direct influence over how the vendors are managed. Negative events affecting any vendors or suppliers or inefficient, ineffective or incomplete vendor management strategies, policies and/or procedures could adversely impact the Company's ability to meet customer needs or control costs and quality, which could in turn negatively affect the reputation, operations and financial performance of the Company.

The Company also uses third-party suppliers, carriers, logistic service providers and operators of warehouses and distribution facilities including the product development, design and sourcing of Loblaw's control private apparel products. Ineffective selection, contract terms or relationship management could impact the Company's ability to source Weston Food's third-party manufactured products or Loblaw's control brand products, to have products available for customers, to market to customers or to operate efficiently and effectively. The Company maintains a strategy of multiple sources for logistics providers so that in the event of a disruption of service from one supplier another supplier can be used. However, disruption in these services is possible, which could interrupt the delivery of merchandise to stores, thereby negatively affecting the operations and financial performance of the Company.

President's Choice Financial banking services are provided by a major Canadian chartered bank. PC Bank uses third-party service providers to process credit card transactions, operate call centres and operationalize certain risk management strategies for the *President's Choice Financial* MasterCard®. PC Bank and Loblaw actively manage and monitor their relationships with all third-party service providers and PC Bank has an outsourcing risk policy and a vendor governance team that provides regular reports on vendor governance and annual vendor risk assessments. Despite these activities, a significant disruption in the services provided by the chartered bank or by third-party service providers would negatively affect the financial performance of PC Bank and the Company.

The Company relies on third parties for investment management, custody and other services for its cash equivalents, short term investments, security deposits and pension assets. Any disruption in the services provided by these suppliers could adversely affect the return on these assets or the liquidity of the Company.

Environmental
The Company maintains a large portfolio of real estate and other facilities and is subject to environmental risks associated with the contamination of such properties and facilities, whether by previous owners or occupants, neighbouring properties or by the Company itself.

The Company has a number of underground storage tanks, the majority of which are used for the retailing of automotive fuel or for its distribution and supply chain transport fleets. Contamination resulting from leaks from these tanks is possible. The Company also operates refrigeration equipment in Weston Foods' production facilities and in Loblaw's stores and distribution centres to preserve perishable products as they pass through the supply chain and ultimately into the hands of the customer. These systems contain refrigerant gases which could be released if the equipment fails or leaks. A release of these gases could have adverse effects on the environment.

The Company is subject to legislation that imposes liabilities on retailers, brand owners and importers for costs associated with recycling and disposal of consumer goods packaging and printed materials distributed to customers. There is a risk that the Company will be subject to increased costs associated with these laws.

The Company has environmental management programs and has established assessment, compliance, monitoring and reporting policies and procedures aimed at ensuring compliance with applicable environmental legislative requirements and protecting the environment. Despite these mitigation activities, the Company could be subject to increased or unexpected costs associated with environmental incidents and the related remediation activities, including litigation and regulatory related costs, all of which could negatively affect the reputation and financial performance of the Company.

Consumer trends are increasingly demanding that retailers sell products with less impact on the environment and that their operations demonstrate environmentally responsible practices. As set out in its annual Corporate Social Responsibility Report, Loblaw sets environmental goals and monitors its progress towards their achievement. If the Company fails to meet consumer demand in this area or otherwise fails to adequately address the environmental impact of its business practices, its reputation and financial performance could be negatively affected.

Trademark and Brand Protection
A decrease in value of the Company's trademarks, banners or control brands, as a result of adverse events, changes to the branding strategies or otherwise, could negatively impact the reputation, operations and financial performance of the Company.

Defined Benefit Pension Plans
The Company manages the assets in its registered funded defined benefit pension plans by engaging professional investment managers who operate under prescribed investment policies and procedures in respect of permitted investments and asset allocations. Future contributions to the Company's registered funded defined benefit pension plans are impacted by a number of variables, including the investment performance of the plans' assets and the discount rate used to value the liabilities of the plans. The Company regularly monitors and assesses plan performance and the impact of changes in participant demographics, changes in capital markets and other economic factors that may impact funding requirements, net defined benefit costs and actuarial assumptions. If capital market returns are below assumed levels, or if the discount rates do not increase, the Company could be required to make contributions to its registered funded defined benefit pension plans in excess of those currently expected, which in turn could negatively affect the financial performance of the Company.

Multi-Employer Pension Plans
In addition to the Company-sponsored pension plans, the Company participates in various MEPPs, providing pension benefits to union employees pursuant to provisions of collective bargaining agreements. Approximately 39% (2011 – 38%) of employees of the Company and of its independent franchisees participate in these plans. The administration of these plans and the investment of their assets are controlled by a board of trustees generally consisting of an equal number of union and employer representatives. In some circumstances, the

Company has a representative on the board of trustees of these MEPPs. The Company's responsibility to make contributions to these plans is limited by the amounts established pursuant to its collective agreements; however, poor performance of these plans could have an adverse impact on the Company's employees and former employees who are members of these plans or could result in changes to the terms and conditions of participation in these plans, which could have a negative impact on the Company's results of operations or financial condition.

Loblaw, together with its independent franchisees, is the largest participating employer in the Canadian Commercial Workers Industry Pension Plan ("CCWIPP"), with approximately 54,000 (2011 – 53,000) employees as members. In 2012, Loblaw contributed $52 million (2011 – $49 million) to CCWIPP. At the end of 2012 and 2011, the CCWIPP actuarial accrued benefit obligations greatly exceeded the value of the assets held in trust. Further benefit reductions would negatively affect the retirement benefits of Loblaw's employees, which in turn could negatively affect their morale and productivity and, in turn, could negatively affect Loblaw's reputation.

13.2 FINANCIAL RISKS AND RISK MANAGEMENT

Financial Risks
The Company is exposed to a number of risks, including those associated with financial instruments, which have the potential to affect its operating and financial performance. The Company uses over-the-counter derivative instruments to offset certain of these risks. Policies and guidelines prohibit the use of any derivative instrument for trading or speculative purposes. The fair value of derivative instruments is subject to changing market conditions which could negatively impact the financial performance of the Company.

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

Foreign Currency Exchange Rates	Common Share Prices
Credit	Liquidity and Capital Availability
Interest Rates	

Foreign Currency Exchange Rates
The Company's consolidated financial statements are expressed in Canadian dollars, however a portion of the Company's (excluding Loblaw's) net assets are denominated in U.S. dollars through both its net investment in foreign operations in the U.S. and its foreign subsidiaries held by Dunedin and certain of its affiliates with a functional currency that is the same as that of the Company. The U.S. dollar denominated net assets are translated into Canadian dollars at the foreign currency exchange rate in effect at the balance sheet date. As a result, the Company is exposed to foreign currency translation gains and losses. Those gains and losses arising from the translation of the U.S. dollar denominated assets of foreign subsidiaries with a functional currency that is the same as that of the Company are included in operating income, while translation gains and losses on the net investment in foreign operations in the U.S. are recorded in accumulated other comprehensive loss. In addition, revenues and expenses of all foreign operations are translated into Canadian dollars at the foreign currency exchange rates that approximate the rates in effect at the dates when such items are recognized. An appreciating Canadian dollar relative to the U.S. dollar will negatively impact year-over-year changes in reported sales, operating income and net earnings, while a depreciating Canadian dollar relative to the U.S. dollar will have the opposite impact.

Loblaw is exposed to foreign currency exchange rate variability, primarily on its U.S. dollar denominated cash and cash equivalents, short term investments and security deposits held by Glenhuron, foreign denominated and foreign currency based purchases in trade and other liabilities, and U.S. dollar private placement notes included in long term debt. Loblaw and Glenhuron have cross currency swaps and foreign currency forward contracts that partially offset their respective exposure to fluctuations in foreign currency exchange rates. Cross currency swaps are transactions in which interest payments and principal amounts in one currency are exchanged against the receipt of interest payments and principal amounts in a second currency. Despite these mitigation strategies, the Company's financial performance could be negatively impacted by foreign currency variability.

Credit
The Company is exposed to credit risk resulting from the possibility that counterparties could default on their financial obligations to the Company. Exposure to credit risk relates to derivative instruments, cash and cash equivalents, short term investments, security deposits, PC Bank's credit card receivables, Loblaw's franchise loans receivable, accounts receivable from Loblaw's franchisees, other receivables from Weston Foods' customers and suppliers and Loblaw's vendors, associated stores and independent accounts, and pension assets held in the Company's defined benefit plans.

The risk related to derivative instruments, cash and cash equivalents, short term investments and security deposits is reduced by policies and guidelines that require that the Company enters into transactions only with counterparties or issuers that have a minimum long term "A-" credit rating from a recognized credit rating agency and place minimum and maximum limits for exposures to specific counterparties and instruments. PC Bank manages its credit card receivable risk by employing stringent credit scoring techniques, actively monitoring the credit card portfolio, and reviewing techniques and technology that can improve the effectiveness of the collection process. In addition, these receivables are dispersed among a large, diversified group of credit card customers. Loblaw's franchise loans receivable, accounts receivable from Loblaw's franchisees, other receivables from Weston Foods' customers and suppliers and Loblaw's vendors, associated stores and independent accounts are actively monitored on an ongoing basis and settled on a frequent basis in accordance with the terms specified in the applicable agreements. Credit risk associated with investments in the Company's defined benefit pension plans is described in the Defined Benefit Pension Plans discussion in Section 13.1, "Operating Risks and Risk Management" of this MD&A.

Despite the mitigation strategies described above, it is possible that the Company's financial performance could be negatively impacted by the failure of a counterparty to fulfill its obligations.

Interest Rates
The Company is exposed to interest rate risk from fluctuations in interest rates on its floating rate debt and financial instruments, net of cash and cash equivalents, short term investments and security deposits. GWL and Loblaw manage interest rate risk by monitoring their respective mix of fixed and floating rate debt, net of cash and cash equivalents, short term investments and security deposits, and by taking action as necessary to maintain an appropriate balance considering current market conditions. Despite these mitigation strategies, changes in interest rates could negatively affect the Company's financial performance.

Common Share Prices
GWL and Loblaw are exposed to common share market price risk as a result of the issuance of stock options to certain employees to the extent that the equivalent shares are repurchased by GWL and Loblaw on exercise, RSUs and PSUs. RSUs and PSUs negatively impact operating income when the common share prices increase and positively impact operating income when the common share prices decline. GWL and Glenhuron are parties to equity derivative contracts, which allow for settlement in cash, common shares or net settlement. These derivatives change in value as the market prices of the GWL and Loblaw common shares change and provide a partial offset to fluctuations in RSU and PSU plan expense or income. Despite this partial offset, increases in the common share prices could negatively affect the Company's financial performance.

Changes in the Loblaw common share price impact the Company's net interest expense and other financing charges. In 2001, WHL entered into an equity forward sale agreement based on 9.6 million Loblaw common shares at an original forward price of $48.50 per Loblaw common share which, under the terms of the agreement, had increased to a forward price of $92.26 (2011 – $88.14) per Loblaw common share as at year end 2012. The forward matures in 2031 and will be settled in cash as follows: WHL will receive the forward price and will pay the market value of the underlying Loblaw common shares at maturity. The obligation of WHL under this forward is secured by the underlying Loblaw common shares. WHL recognizes a non-cash charge or income, which is included in consolidated net interest expense and other financing charges, representing the fair value adjustment of WHL's forward sale agreement for 9.6 million shares. The fair value adjustment in the forward contract is a non-cash item resulting from fluctuations in the market price of the underlying Loblaw shares that WHL owns. WHL does not record any change in the market price associated with the Loblaw common shares it

owns. At maturity, if the forward price is greater (less) than the market price, WHL will receive (pay) cash equal to the difference between the notional value and the market value of the forward contract. Any cash paid under the forward contract could be offset by the sale of Loblaw common shares.

Liquidity and Capital Availability
Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they come due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price. Difficulty accessing capital markets could impair the Company's capacity to grow, execute its business model or generate financial returns.

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

Despite these mitigation strategies, if GWL, Loblaw or PC Bank's financial performance and condition deteriorate or downgrades in GWL's or Loblaw's current credit ratings occur, the ability to obtain funding from external sources could be restricted. In addition, credit and capital markets are subject to inherent risks that could negatively affect GWL's or Loblaw's access and ability to fund their financial or other liabilities.

14. RELATED PARTY TRANSACTIONS

The Company's majority shareholder is Mr. W. Galen Weston, who beneficially owns, directly and indirectly through private companies which he controls, including Wittington Investments, Limited (“Wittington”), a total of 80,724,599 of the Company’s common shares, representing approximately 63% (2011 – 63%) of the Company's 128,221,841 outstanding common shares. The Company's policy is to conduct all transactions and settle all balances with related parties on market terms and conditions.

Transactions between the Company and its consolidated entities have been eliminated on consolidation and are not disclosed below.

In 2012, rental payments to Wittington by the Company amounted to $4 million (2011 – $4 million). As at year end 2012 and 2011, there were no rental payments outstanding.

In 2012, inventory purchases from Associated British Foods plc, a related party by virtue of Mr. W. Galen Weston being a director of such entity's parent company, amounted to $26 million (2011 – $26 million). As at year end 2012, $2 million (2011 – $2 million) was included in trade and other payables relating to these inventory purchases.

Post-Employment Benefit Plans
The Company sponsors a number of post-employment plans, which are related parties. Contributions made by the Company to these plans are discussed in Section 8.1, “Major Cash Flow Components” of this MD&A.

Income Tax Matters
From time to time, the Company and Wittington may enter into agreements to make elections that are permitted or required under applicable income tax legislation with respect to affiliated corporations. These elections and accompanying agreements did not have a material impact on the Company.

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

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

($ millions)	2012	2011
Salaries, director fees and other short term employee benefits	**$ 18**	$ 21
Share-based compensation	**8**	7
Total compensation	**$ 26**	$ 28

15. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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

Inventories
Key sources of estimation Inventories are carried at the lower of cost and net realizable value which requires the Company to utilize estimates related to fluctuations in future retail prices, seasonality and costs necessary to sell the inventory.

Impairment of non-financial assets (goodwill, intangible assets, fixed assets and investment properties)
Judgments made in relation to accounting policies applied Management is required to use judgment in determining the grouping of assets to identify their cash generating units ("CGU") for the purposes of testing fixed assets for impairment. Judgment is further required to determine appropriate groupings of CGUs for the level at which goodwill and intangible assets are tested for impairment. Loblaw has determined that each retail location and each investment property is a separate CGU for purposes of impairment testing. For the purpose of goodwill and intangible assets impairment testing, CGUs are grouped at the lowest level at which goodwill and intangible assets are monitored for internal management purposes. In addition, judgment is used to determine whether a triggering event has occurred requiring an impairment test to be completed.

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

Franchise loan receivable and certain other financial assets
Judgments made in relation to accounting policies applied Management reviews franchise loans receivable, trade receivables and certain other financial assets relating to their franchise business at each balance sheet date utilizing judgment to determine whether a triggering event has occurred requiring an impairment test to be completed.

Key sources of estimation Management determines the initial fair value of its franchise loans and certain other financial assets using discounted cash flow models corroborated by other valuation techniques. The process of determining these fair values requires management to make estimates of a long term nature regarding discount rates, projected revenues and margins, as applicable, derived from past experience, actual operating results, budgets and the Company's five year forecast.

Income and other taxes
Judgments made in relation to accounting policies applied The calculation of current and deferred income taxes requires management to make certain judgments regarding the tax rules in jurisdictions where the Company performs activities. Application of judgments is required regarding classification of transactions and in assessing probable outcomes of claimed deductions including expectations about future operating results, the timing and reversal of temporary differences and possible audits of income tax and other tax filings to the tax authorities.

Post-employment and other long term employee benefits
Key sources of estimation Accounting for the costs of defined benefit pension plans and other applicable post-employment benefits is based on using a number of assumptions including estimates for expected return on plan assets. Expected returns on plan assets is based on current market conditions, the asset mix, the active management of defined benefit pension plan assets and historical returns. Other key assumptions for pension obligations are based in part on actuarial determined data and current market conditions.

Allowance for credit card receivables
Key sources of estimation The allowance is measured based upon statistical analysis that includes estimates for past and current performance, aging, arrears status, the level of allowance already in place, and management's interpretation of economic conditions and other trends specific to our customer base, including but not limited to bankruptcies. Changes in circumstances may cause future assessments of credit risk to be materially different from current assessments, which could require an increase or decrease in the allowance for credit card receivables.

16. ACCOUNTING STANDARDS IMPLEMENTED IN 2012

Financial Instruments – **Disclosures** In 2010, the International Accounting Standards Board ("IASB") issued amendments to IFRS 7, "Financial Instruments: Disclosures", which increase the disclosure requirements for transactions involving transfers of financial assets to help users of the financial statements evaluate the risk exposures related to such transfers and the effect of those risks on an entity's financial position. These amendments are effective and were implemented in the first quarter of 2012.

Deferred Tax – **Recovery of Underlying Assets** In 2010, the IASB issued amendments to IAS 12, "Income Taxes" ("IAS 12"), that introduce an exception to the general measurement requirements of IAS 12 for investment properties measured at fair value. These amendments were effective in the first quarter of 2012. As part of its transition to IFRS, the Company elected to account for its investment properties at cost and as such, the amendments did not have an impact on the Company's results of operations or financial condition.

17. FUTURE ACCOUNTING STANDARDS

Unless otherwise indicated, the Company intends to adopt the following standards in its consolidated financial statements for the annual period beginning on January 1, 2013:

Consolidated Financial Statements

In 2011, the IASB issued IFRS 10, "Consolidated Financial Statements" ("IFRS 10"). This IFRS replaces portions of IAS 27, "Consolidated and Separate Financial Statements" ("IAS 27"), and supersedes SIC-12 "Consolidation-Special Purpose Entities". IFRS 10 defines principles of control and establishes the basis of determining when and how an entity should be included within a set of consolidated financial statements. The standard introduces a single control model that requires an entity to consolidate an investee when it has power, exposure to variability in returns and has the ability to use its power over the investee to affect its returns, regardless of whether voting rights are present. The adoption of IFRS 10 is not expected to have an impact on the Company's consolidated financial statements.

Disclosure of Interests in Other Entities

In 2011, the IASB issued IFRS 12, "Disclosure of Interests in Other Entities" ("IFRS 12"). This IFRS requires extensive disclosures relating to a company's interests in subsidiaries, joint arrangements, associates, and unconsolidated structured entities. IFRS 12 enables users of the consolidated financial statements to evaluate the nature and risks associated with a company's interests in other entities and the effects of those interests on a company's financial performance and position. The adoption of IFRS 12 is not expected to have a significant impact on the Company's consolidated financial statements.

Fair Value Measurement

In 2011, the IASB issued IFRS 13, "Fair Value Measurement" ("IFRS 13"), which establishes a single framework for the fair value measurement and disclosure of financial and non-financial assets and liabilities. The new standard unifies the definition of fair value and also introduces new concepts including 'highest and best use' and 'principle markets' for non-financial assets and liabilities. There are additional disclosure requirements, including increased fair value disclosure for financial instruments for interim financial statements. Although the Company expects additional disclosure, it does not anticipate material measurement impacts on its consolidated financial statements as a result of the adoption of IFRS 13.

Employee Benefits

In 2011, the IASB revised IAS 19, "Employee Benefits" ("IAS 19"). The most significant amendments for the Company will be the requirement to immediately recognize all unvested past service costs and the replacement of interest cost and expected return on plan assets with a net interest amount that is calculated by applying a prescribed discount rate to the net defined benefit liability. Upon implementation of these amendments, the Company will restate its annual 2012 consolidated financial statements. The preliminary expected impact arising from the adoption of the amendments to IAS 19 is summarized as follows:

Consolidated Statement of Earnings

Increase (decrease) ($ millions except where otherwise indicated)		2012
Operating income	$	1
Net interest expense and other financing charges	$	24
Income taxes	$	(5)
Net earnings	$	(18)
Basic net earnings per common share ($)	$	(0.09)

Consolidated Statement of Comprehensive Income

Increase (decrease) ($ millions)		2012
Net earnings	$	(18)
Other comprehensive income	$	18

Consolidated Balance Sheet

Increase (decrease) ($ millions)	As at Dec. 31, 2012
Other liabilities	$ (2)
Equity	$ 2

As a result, in 2013, post-employment and other long term employee benefits expense will be accounted for on a consistent basis year-over-year. The amendments also require enhanced disclosures for defined benefit plans, including additional information on the characteristics and risks of those plans.

Other Standards
In addition to the above standards, the Company will be implementing the following standards and amendments effective January 1, 2013: IFRS 11, "Joint Arrangements"; IAS 28, "Investments in Associates"; and IAS 1, "Presentation of Financial Statements". The Company does not expect a significant impact as a result of these standards and amendments on its consolidated financial statements.

Financial Instruments
In 2011, the IASB issued amendments to IFRS 7, "Financial Instruments: Disclosures" and IAS 32, "Financial Instruments: Presentation", these amendments are required to be applied for periods beginning on or after January 1, 2014. The Company does not expect any significant impacts on its consolidated financial statements as a result of these amendments.

In 2010, the IASB issued a new standard, IFRS 9, "Financial Instruments" ("IFRS 9"), which will ultimately replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). The replacement of IAS 39 is a three-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 is the first phase of the project, which provides guidance on the classification and measurement of financial assets and financial liabilities. This standard becomes effective on January 1, 2015, with early adoption permitted. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

18. OUTLOOK[2]

This outlook reflects the underlying operating performance of the Company's operating segments as discussed below.

For full year 2013, Weston Foods sales growth is expected to be moderate due to a combination of pricing and modest volume growth. Adjusted operating margins[1]are expected to remain in line with 2012 as Weston Foods invests in growth, marketing and innovation. The benefits from these investments are expected to be realized increasingly over the course of the year, commencing in the second quarter of 2013.

In 2012, Loblaw strengthened its customer proposition and made significant progress with its IT infrastructure implementation. These initiatives will continue in 2013, with investments in price, assortment and labour expected to be offset by operating efficiencies. Investment in infrastructure programs will continue as the IT system is rolled out to distribution centres and stores, with associated expenses flat to 2012. Sales growth in 2013 will be moderated by a competitive environment characterized by ongoing square footage expansions, a new competitor's entry into the market and generic drug deflation. As a result, Loblaw expects modest growth in adjusted operating income[1] in 2013, excluding the impact of the $61 million restructuring charge recorded in the fourth quarter of 2012 and the impact of the previously announced plan to launch an IPO of a new REIT.

Over the long term, Loblaw still expects positive same store sales, a decline in IT and supply chain costs, and a moderation of capital expenditures. This should result in growth in adjusted operating income[1], adjusted EBITDA[1] and an increase in free cash flow[1].

(1) See non-GAAP financial measures beginning on page 51.
(2) To be read in conjunction with Forward-Looking Statements beginning page 5.

19. NON-GAAP FINANCIAL MEASURES

The Company uses the following non-GAAP financial measures: adjusted operating income and adjusted operating margin, adjusted EBITDA and adjusted EBITDA margin, adjusted basic net earnings per common share, adjusted debt to adjusted EBITDA, free cash flow, interest coverage and return on average net assets. 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.

Certain expenses and income that must be recognized under GAAP are not necessarily reflective of the Company's underlying operating performance. For this reason, management uses certain non-GAAP financial measures to exclude the impact of these items when analyzing consolidated and segment underlying operating performance. These non-GAAP financial measures are also helpful in assessing underlying operating performance on a consistent basis.

From time to time, the Company may exclude additional items if it believes doing so would result in a more effective analysis of underlying operating performance. The exclusion of certain items does not imply that they are non-recurring. Loblaw does not report its results of operations on an adjusted basis, however the Company excludes the impact of certain Loblaw items, as applicable, when reporting its consolidated and segment results.

These non-GAAP financial measures do not have a standardized meaning prescribed by GAAP and therefore they may not be comparable to similarly titled measures presented by other publicly traded companies, and they should not be construed as an alternative to other financial measures determined in accordance with GAAP.

Adjusted Operating Income and Adjusted EBITDA

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

The following tables reconcile adjusted operating income and adjusted EBITDA to GAAP net earnings attributable to shareholders of the Company reported for the periods ended as indicated.

	Quarters Ended							
				Dec. 31, 2012				Dec. 31, 2011
(unaudited) ($ millions)	**Weston Foods**	**Loblaw**	**Other[1]**	**Consolidated**	Weston Foods	Loblaw	Other[1]	Consolidated
Net earnings attributable to shareholders of the Company				**$ 65**				$ 109
Add impact of the following:								
Non-controlling interests				**51**				64
Income taxes				**34**				71
Net interest expense and other financing charges				**170**				108
Operating income (loss)	**$ 42**	**$ 260**	**$ 18**	**$ 320**	$ 57	$ 313	$ (18)	$ 352
Add (deduct) impact of the following:								
Restructuring and other charges[2]	**3**	**63**		**66**	5			5
Fair value adjustment of commodity derivatives at Weston Foods	**10**			**10**	(1)			(1)
Share-based compensation net of equity derivatives	**(4)**	**2**		**(2)**	(3)	4		1
MEPP withdrawal liability incurred by Weston Foods	**17**			**17**				
Post-retirement plan change at Weston Foods	**(6)**			**(6)**				
Weston Foods insurance proceeds	**(5)**			**(5)**	(2)			(2)
Foreign currency translation (gain) loss			**(18)**	**(18)**			18	18
Adjusted operating income	**$ 57**	**$ 325**	**$**	**$ 382**	$ 56	$ 317	$	$ 373
Depreciation and amortization	**14**	**187**		**201**	15	170		185
Adjusted EBITDA	**$ 71**	**$ 512**	**$**	**$ 583**	$ 71	$ 487	$	$ 558

(1) Operating income in the fourth quarter of 2012 included a gain of $18 million (2011 – loss of $18 million) related to the effect of foreign currency translation on a portion of the U.S. dollar denominated cash and short term investments held by foreign operations.

(2) Restructuring and other charges at Loblaw included a $61 million charge (2011 – nil) associated with the reduction in head office and administrative positions and $2 million (2011 – nil) related to changes in Loblaw's distribution network. Restructuring and other charges included $1 million (2011 – $3 million) of accelerated depreciation incurred by Weston Foods.

(unaudited) ($ millions)	Dec. 31, 2012 **Weston Foods**	**Loblaw**	**Other[(1)]**	**Consolidated**	Dec. 31, 2011 Weston Foods	Loblaw	Other[(1)]	Consolidated
Net earnings attributable to shareholders of the Company				**$ 486**				$ 635
Add impact of the following:								
Non-controlling interests				**240**				284
Income taxes				**249**				324
Net interest expense and other financing charges				**417**				366
Operating income (loss)	**$ 228**	**$ 1,188**	**$ (24)**	**$ 1,392**	$ 208	$ 1,376	$ 25	$ 1,609
Add (deduct) impact of the following:								
Restructuring and other charges[(2)]	**12**	**72**		**84**	13	31		44
Fair value adjustment of commodity derivatives at Weston Foods	**(6)**			**(6)**	31			31
Share-based compensation net of equity derivatives	**1**	**28**		**29**	20	27		47
MEPP withdrawal liability incurred by Weston Foods	**51**			**51**				
Post-retirement plan change at Weston Foods	**(6)**			**(6)**				
Weston Foods insurance proceeds	**(5)**			**(5)**	(7)			(7)
Certain prior years' commodity tax matters at Loblaw						15		15
Gain on sale of a portion of a Loblaw property						(14)		(14)
Foreign currency translation loss (gain)			**24**	**24**			(25)	(25)
Adjusted operating income	**$ 275**	**$ 1,288**	**$**	**$ 1,563**	$ 265	$ 1,435	$	$ 1,700
Depreciation and amortization	**59**	**777**		**836**	60	699		759
Adjusted EBITDA	**$ 334**	**$ 2,065**	**$**	**$ 2,399**	$ 325	$ 2,134	$	$ 2,459

Years Ended

(1) Year-to-date operating income included a loss of $24 million (2011 – gain of $25 million) related to the effect of foreign currency translation on a portion of the U.S. dollar denominated cash and short term investments held by foreign operations.

(2) Year-to-date restructuring and other charges at Loblaw included a $61 million charge (2011 – nil) associated with the reduction in head office and administrative positions and $11 million (2011 – $23 million) related to changes in Loblaw's distribution network. In 2011, other charges also included a charge of $8 million related to an internal realignment of Loblaw's business centered around its two primary store formats, conventional and discount. Restructuring and other charges included $4 million (2011 – $3 million) of accelerated depreciation incurred by Weston Foods.

The year-over-year change in the following items influenced operating income in the fourth quarter of 2012 and year-to-date:

Restructuring and other charges The Company continuously evaluates strategic and cost reduction initiatives related to its store infrastructure, manufacturing assets, distribution networks and administrative infrastructure with the objective of ensuring a low cost operating structure. Restructuring activities related to these initiatives are ongoing. The details of restructuring and other charges are included in Section 7, "Results of Reportable Operating Segments" and Section 10.2, "Fourth Quarter Results" of this MD&A.

Fair value adjustment of commodity derivatives at Weston Foods Weston Foods is exposed to commodity price fluctuations primarily as a result of purchases of certain raw materials, fuels and utilities. In accordance with the Company's commodity risk management policy, Weston Foods enters into commodity derivatives to reduce the impact of price fluctuations in forecasted raw material purchases over a specified period of time. These commodity derivatives are not acquired for trading or speculative purposes. Hedge accounting is not applied to these commodity derivatives and as a result, changes in the fair value, which include realized and unrealized gains and losses related to future purchases of raw materials, are recorded in operating income. In the fourth quarter of 2012 and year-to-date, Weston Foods recorded a charge of $10 million (2011 – income of $1 million) and income of $6 million (2011 – a charge of $31 million), respectively, related to the fair value adjustment of exchange traded commodity derivatives. Despite the impact of accounting for these commodity derivatives on the Company's reported results, the derivatives have the economic impact of largely mitigating the associated risks arising from price fluctuations in the underlying commodities during the period that the commodity derivatives are held.

Share-based compensation net of equity derivatives GWL and Glenhuron have entered into equity derivatives. These derivatives partially hedge the impact of increases in the value of GWL and Loblaw common shares on share-based compensation cost. The amount of net share-based compensation cost recorded in operating income is mainly dependent upon changes in the value of GWL and Loblaw common shares and the number and vesting of RSUs and PSUs relative to the number of common shares underlying the equity derivatives. The Company assesses its stock option plan, RSU plan, PSU plan and equity derivative impacts on a net basis and therefore the impact of stock options is also excluded from operating income when management reviews consolidated and segment operating performance. In the fourth quarter of 2012 and year-to-date, income of $2 million (2011 – a charge of $1 million) and a charge of $29 million (2011 – $47 million), respectively, were recorded related to share-based compensation net of equity derivatives.

Multi-employer pension plan withdrawal liability incurred by Weston Foods During 2012, Weston Foods withdrew from one of the United States MEPPs in which it participated and as a result, paid a withdrawal liability of $34 million. During the fourth quarter of 2012, another participating employer withdrew from the plan and a mass withdrawal was triggered. As a result of the mass withdrawal, the Company is subject to an incremental withdrawal liability. Management's estimate of the incremental withdrawal liability is approximately $17 million which was recorded in the fourth quarter of 2012.

Post-retirement plan change at Weston Foods During the fourth quarter of 2012, Weston Foods negotiated the elimination of certain post-retirement benefits. As a result, a net gain of $6 million was recorded in operating income.

Weston Foods insurance proceeds In the fourth quarter of 2012 and year-to-date, Weston Foods recorded insurance proceeds of $5 million (2011 – net proceeds of $2 million) and proceeds of $5 million (2011 – net proceeds of $7 million), respectively, related to the loss of a Quebec facility in 2010.

Certain prior years' commodity tax matters at Loblaw During the second quarter of 2011, Loblaw recorded a charge of $15 million related to certain prior years' commodity tax matters.

Gain on sale of a portion of a Loblaw property During the third quarter of 2011, Loblaw recorded a gain of $14 million related to the sale of a portion of a property in North Vancouver, British Columbia.

Foreign currency translation gains and losses The Company's consolidated financial statements are expressed in Canadian dollars. A portion of the Company's (excluding Loblaw's) net assets are denominated in U.S. dollars and as a result, the Company is exposed to foreign currency translation gains and losses. The impact of foreign currency translation on a portion of the U.S. dollar denominated net assets, primarily cash and short term investments held by foreign operations is recorded in operating income. In the fourth quarter of 2012, a foreign currency translation gain of $18 million (2011 – loss of $18 million) was recorded in operating income as a result of the depreciation (2011 – appreciation) of the Canadian dollar. Year-to-date, a foreign currency translation loss of $24 million (2011 – gain of $25 million) was recorded in operating income as a result of the appreciation (2011 – depreciation) of the Canadian dollar.

Adjusted Basic Net Earnings per Common Share

The Company believes adjusted basic net earnings per common share is useful in assessing the Company's underlying operating performance and in making decisions regarding the ongoing operations of its business.

The following table reconciles adjusted basic net earnings per common share to GAAP basic net earnings per common share reported for the periods ended as indicated.

(unaudited)	Quarters Ended		Years Ended	
($)	**Dec. 31, 2012**	Dec. 31,2011	**Dec. 31, 2012**	Dec. 31, 2011
Basic net earnings per common share	**$ 0.43**	$ 0.77	**$ 3.45**	$ 4.58
Add (deduct) impact of the following[1]:				
Fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares	**0.44**	0.09	**0.20**	(0.10)
Restructuring and other charges	**0.24**	0.02	**0.33**	0.18
Fair value adjustment of commodity derivatives at Weston Foods	**0.06**	(0.01)	**(0.03)**	0.17
Share-based compensation net of equity derivatives	**(0.03)**	0.01	**0.14**	0.27
MEPP withdrawal liability incurred by Weston Foods	**0.08**		**0.24**	
Post-retirement plan change at Weston Foods	**(0.03)**		**(0.03)**	
Weston Foods insurance proceeds	**(0.03)**	(0.01)	**(0.03)**	(0.04)
Certain prior years' commodity tax matters at Loblaw				0.05
Gain on sale of a portion of a Loblaw property				(0.06)
Foreign currency translation (gain) loss	**(0.14)**	0.14	**0.19**	(0.19)
Adjusted basic net earnings per common share	**$ 1.02**	$ 1.01	**$ 4.46**	$ 4.86

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

In addition to the items described in the “Adjusted Operating Income and Adjusted EBITDA” section above, the year-over-year change in the following items also influenced basic net earnings per common share in the fourth quarter of 2012 and year-to-date:

Fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares The fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares is non-cash and is included in consolidated net interest expense and other financing charges. The adjustment is determined by changes in the value of the underlying Loblaw common shares. At maturity, any cash paid under the forward sale agreement could be offset by the sale of the underlying Loblaw common shares. In the fourth quarter of 2012, a charge of $0.44 (2011 – $0.09) per common share was recorded in net interest expense and other financing charges as a result of the increase in the market price of Loblaw common shares. Year-to-date, a charge of $0.20 (2011 – income of $0.10) per common share was recorded as a result of the increase (2011 – decrease) in the market price of Loblaw common shares.

Adjusted Debt
The Company believes adjusted debt to adjusted EBITDA is useful in assessing its ability to cover its debt repayments with its adjusted EBITDA.

The following table reconciles adjusted debt used in the adjusted debt to adjusted EBITDA ratio to GAAP measures reported as at the years ended as indicated.

(unaudited)	As at	
($ millions)	**Dec. 31, 2012**	Dec. 31, 2011
Bank indebtedness		$ 3
Short term debt	**$ 1,319**	1,280
Long term debt due within one year	**672**	87
Long term debt	**6,261**	6,757
Certain other liabilities	**39**	39
Fair value of financial derivatives related to the above debt	**(440)**	(425)
Total debt	**$ 7,851**	$ 7,741
Less: Independent securitization trusts in short term debt	**905**	905
Independent securitization trusts in long term debt	**600**	600
Independent funding trusts	**459**	424
Guaranteed Investment Certificates	**303**	276
Adjusted debt	**$ 5,584**	$ 5,536

Capital securities are excluded from the calculation of adjusted debt and adjusted net debt.

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

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

(unaudited) ($ millions)	**2012**	2011
Cash flows from operating activities	**$ 1,852**	$ 1,974
Net increase in credit card receivables	**204**	104
Less: Fixed asset purchases	**1,110**	1,027
Free cash flow	**$ 946**	$ 1,051

Interest Coverage
The Company believes interest coverage is useful in assessing the Company's ability to cover its net interest expense with its operating income.

The Company calculates interest coverage as operating income divided by net interest expense and other financing charges adding back interest capitalized to fixed assets.

The following table reconciles interest expense used in the interest coverage ratio to GAAP measures reported for the years ended as indicated.

(unaudited) ($ millions)	**2012**	2011
Net interest expense and other financing charges	**$ 417**	$ 366
Add: Interest capitalized to fixed assets	**1**	1
Interest expense	**$ 418**	$ 367

Net Assets

The Company believes the return on average net assets ratio is useful in assessing the return on operating assets.

The Company calculates return on average net assets as operating income divided by average net assets.

The following table reconciles net assets used in the return on average net assets ratio to GAAP measures reported as at the years ended as indicated.

(unaudited) ($ millions)	Weston Foods	Loblaw	Other[(1)]	Consolidated
				As at Dec. 31, 2012
Total assets	**$ 1,979**	**$ 18,121**	**$ 1,704**	**$ 21,804**
Less: Cash and cash equivalents	**197**	**1,079**	**313**	**1,589**
Short term investments	**31**	**716**	**1,391**	**2,138**
Security deposits	**96**	**252**		**348**
Fair value of the forward sale agreement for 9.6 million Loblaw common shares	**483**			**483**
Trade and other payables	**217**	**3,720**		**3,937**
Net assets	**$ 955**	**$ 12,354**	**$**	**$ 13,309**

(1) Other includes cash and cash equivalents and short term investments held by Dunedin and certain of its affiliates.

(unaudited) ($ millions)	Weston Foods	Loblaw	Other[(1)]	Consolidated
				As at Dec. 31, 2011
Total assets	$ 1,875	$ 17,588	$ 1,860	$ 21,323
Less: Cash and cash equivalents	92	966	314	1,372
Short term investments	62	754	1,546	2,362
Security deposits	101	266		367
Fair value of the forward sale agreement for 9.6 million Loblaw common shares	478			478
Trade and other payables	263	3,677		3,940
Net assets	$ 879	$ 11,925	$	$ 12,804

(1) Other includes cash and cash equivalents and short term investments held by Dunedin and certain of its affiliates.

20. ADDITIONAL INFORMATION

Additional information about the Company, including its Annual Information Form and other disclosure documents, has been filed electronically with the Canadian securities regulatory authorities in Canada through the System for Electronic Document Analysis and Retrieval (SEDAR) and is available online at www.sedar.com.

This Annual Report includes selected information on Loblaw Companies Limited, a 62.9%-owned public reporting subsidiary company with shares trading on the TSX. For information regarding Loblaw, readers should also refer to the materials filed by Loblaw with the Canadian securities regulatory authorities from time to time. These filings are also available on Loblaw's corporate website at www.loblaw.ca.

Toronto, Canada

February 27, 2013

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Management's Statement of Responsibility for Financial Reporting

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

Management is also responsible for providing reasonable assurance that assets are safeguarded and that relevant and reliable financial information is produced. Management is required to design a system of internal controls and is required to certify as to the design and operating effectiveness of internal controls over financial reporting. Internal auditors, who are employees of the Company, review and evaluate internal controls on management's behalf. KPMG LLP, whose report follows, were appointed as independent auditors by a vote of the Company's shareholders to audit the consolidated financial statements.

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

[*signed*]	**[*signed*]**	**[*signed*]**
W. Galen Weston	**Paviter S. Binning**	**Richard Dufresne**
Executive Chairman	President	Executive Vice President, Chief Financial Officer

February 27, 2013
Toronto, Canada

Independent Auditors' Report

To the Shareholders of George Weston Limited:

We have audited the accompanying consolidated financial statements of George Weston Limited, which comprise the consolidated balance sheets as at December 31, 2012 and December 31, 2011, the consolidated statements of earnings, comprehensive income, changes in equity and cash flow for the years then ended and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of George Weston Limited as at December 31, 2012 and December 31, 2011, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Chartered Accountants, Licensed Public Accountants

February 27, 2013
Toronto, Canada

Consolidated Statements of Earnings

For the years ended December 31
(millions of Canadian dollars except where otherwise indicated)

	2012	2011
Revenue	**$ 32,742**	$ 32,376
Operating Expenses		
Cost of inventories sold (note 11)	**24,700**	24,421
Selling, general and administrative expenses (note 29)	**6,650**	6,346
	31,350	30,767
Operating Income	**1,392**	1,609
Net Interest Expense and Other Financing Charges (note 5)	**417**	366
Earnings Before Income Taxes	**975**	1,243
Income Taxes (note 6)	**249**	324
Net Earnings	**726**	919
Attributable to:		
Shareholders of the Company	**486**	635
Non-Controlling Interests	**240**	284
Net Earnings	**$ 726**	$ 919
Net Earnings per Common Share ($) (note 7)		
Basic	**$ 3.45**	$ 4.58
Diluted	**$ 3.38**	$ 4.55

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income

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

	2012	2011
Net earnings	**$ 726**	$ 919
Other comprehensive loss		
Foreign currency translation adjustment (note 29)	**(13)**	12
Net defined benefit plan actuarial losses (note 25)	**(24)**	(238)
Other comprehensive loss	**(37)**	(226)
Comprehensive Income	**689**	693
Attributable to:		
Shareholders of the Company	**457**	486
Non-Controlling Interests	**232**	207
Comprehensive Income	**$ 689**	$ 693

See accompanying notes to the consolidated financial statements.

Consolidated Balance Sheets

As at December 31 (millions of Canadian dollars)	2012	2011
ASSETS		
Current Assets		
Cash and cash equivalents (note 8)	**$ 1,589**	$ 1,372
Short term investments (note 8)	**2,138**	2,362
Accounts receivable (note 9)	**559**	559
Credit card receivables (note 10)	**2,305**	2,101
Inventories (note 11)	**2,132**	2,147
Income taxes recoverable	**37**	37
Prepaid expenses and other assets	**83**	122
Assets held for sale (note 12)	**30**	32
Total Current Assets	**8,873**	8,732
Fixed Assets (note 13)	**9,452**	9,172
Investment Properties (note 14)	**100**	82
Goodwill and Intangible Assets (note 15)	**1,571**	1,555
Deferred Income Taxes (note 6)	**316**	295
Security Deposits (note 8)	**348**	367
Franchise Loans Receivable (note 29)	**363**	331
Other Assets (note 16)	**781**	789
Total Assets	**$ 21,804**	$ 21,323
LIABILITIES		
Current Liabilities		
Bank indebtedness		$ 3
Trade and other payables	**$ 3,937**	3,940
Provisions (note 17)	**123**	67
Short term debt (note 18)	**1,319**	1,280
Long term debt due within one year (note 19)	**672**	87
Total Current Liabilities	**6,051**	5,377
Provisions (note 17)	**94**	94
Long Term Debt (note 19)	**6,261**	6,757
Deferred Income Taxes (note 6)	**160**	160
Other Liabilities (note 20)	**945**	1,033
Capital Securities (note 21)	**223**	222
Total Liabilities	**13,734**	13,643
EQUITY		
Share Capital (note 22)	**953**	950
Contributed Surplus (notes 23 & 26)	**28**	24
Retained Earnings	**4,735**	4,496
Accumulated Other Comprehensive Loss	**(24)**	(11)
Total Equity Attributable to Shareholders of the Company	**5,692**	5,459
Non-Controlling Interests	**2,378**	2,221
Total Equity	**8,070**	7,680
Total Liabilities and Equity	**$ 21,804**	$ 21,323

Leases (note 28). Contingencies (note 31). Financial guarantees (note 32). Subsequent event (note 34).
See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board

[signed]
W. Galen Weston
Director & Executive Chairman

[signed]
A. Charles Baillie
Director

Consolidated Statements of Changes in Equity

(millions of Canadian dollars except where otherwise indicated)	Common Shares	Preferred Shares	Total Share Capital	Contributed Surplus	Retained Earnings	Foreign Currency Translation Adjustment	Cash Flow Hedges	Total Accumulated Other Comprehensive Loss	Non-Controlling Interests	Total Equity
Balance as at Dec. 31, 2011	$ 133	$ 817	**$ 950**	**$ 24**	**$ 4,496**	$ (15)	$ 4	**$ (11)**	**$ 2,221**	**$ 7,680**
Net earnings					**486**				**240**	**726**
Other comprehensive loss(1)					**(16)**	(13)		**(13)**	**(8)**	**(37)**
Comprehensive income (loss)					**470**	(13)		**(13)**	**232**	**689**
Effect of share-based compensation (note 26)	3		**3**						**5**	**8**
Subsidiary capital transactions (notes 23 & 26)				**4**					**9**	**13**
Purchased for cancellation (note 22)					**(1)**					**(1)**
Dividends declared										
Per common share ($) – $1.46					**(187)**				**(89)**	**(276)**
Per preferred share ($)										
– Series I – $1.45					**(13)**					**(13)**
– Series III – $1.30					**(10)**					**(10)**
– Series IV – $1.30					**(10)**					**(10)**
– Series V – $1.19					**(10)**					**(10)**
	3		**3**	**4**	**(231)**				**(75)**	**(299)**
Balance as at Dec. 31, 2012	$ 136	$ 817	**$ 953**	**$ 28**	**$ 4,735**	$ (28)	$ 4	**$ (24)**	**$ 2,378**	**$ 8,070**

(1) Other comprehensive loss includes actuarial losses of $24, $16 of which is presented above in retained earnings and $8 in non-controlling interests.

(millions of Canadian dollars except where otherwise indicated)	Common Shares	Preferred Shares	Total Share Capital	Contributed Surplus	Retained Earnings	Foreign Currency Translation Adjustment	Cash Flow Hedges	Total Accumulated Other Comprehensive (Loss) Income	Non-Controlling Interests	Total Equity
Balance as at Dec. 31, 2010	$ 133	$ 817	**$ 950**	**$ (14)**	**$ 4,311**	$ (27)	$ 4	**$ (23)**	**$ 2,080**	**$ 7,304**
Net earnings					**635**				**284**	**919**
Other comprehensive (loss) income(1)					**(161)**	12		**12**	**(77)**	**(226)**
Comprehensive income					**474**	12		**12**	**207**	**693**
Effect of share-based compensation (note 26)	1		**1**	**43**					**17**	**61**
Subsidiary capital transactions (notes 23 & 26)				**(5)**					**5**	
Purchased for cancellation (note 22)	(1)		**(1)**		**(60)**					**(61)**
Dividends declared										
Per common share ($) – $1.44					**(186)**				**(88)**	**(274)**
Per preferred share ($)										
– Series I – $1.45					**(13)**					**(13)**
– Series III – $1.30					**(10)**					**(10)**
– Series IV – $1.30					**(10)**					**(10)**
– Series V – $1.19					**(10)**					**(10)**
				38	**(289)**				**(66)**	**(317)**
Balance as at Dec. 31, 2011	$ 133	$ 817	**$ 950**	**$ 24**	**$ 4,496**	$ (15)	$ 4	**$ (11)**	**$ 2,221**	**$ 7,680**

(1) Other comprehensive loss includes actuarial losses of $238, $161 of which is presented above in retained earnings and $77 in non-controlling interests.

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flow

For the years ended December 31 (millions of Canadian dollars)	2012	2011
Operating Activities		
Net earnings	**$ 726**	$ 919
Income taxes (note 6)	**249**	324
Net interest expense and other financing charges (note 5)	**417**	366
Depreciation and amortization	**840**	762
Foreign currency translation loss (gain) (note 29)	**24**	(25)
Income taxes paid	**(261)**	(277)
Interest received	**65**	76
Settlement of equity derivative contracts (note 29)		(22)
Change in credit card receivables (note 10)	**(204)**	(104)
Change in non-cash working capital	**43**	(36)
Fixed asset and other related impairments	**19**	7
Gain on disposal of assets	**(14)**	(18)
Other	**(52)**	2
Cash Flows from Operating Activities	**1,852**	1,974
Investing Activities		
Fixed asset purchases (note 13)	**(1,110)**	(1,027)
Change in short term investments	**181**	929
Business acquisition – net of cash acquired		(12)
Proceeds from fixed asset sales	**64**	57
Change in franchise investments and other receivables	**(22)**	(18)
Change in security deposits	**14**	74
Goodwill and intangible asset additions (note 15)	**(43)**	(13)
Other		(5)
Cash Flows used in Investing Activities	**(916)**	(15)
Financing Activities		
Change in bank indebtedness	**(3)**	(8)
Change in short term debt (note 18)	**39**	409
Long term debt – Issued (note 19)	**111**	635
– Retired (note 19)	**(115)**	(1,209)
Share capital – Issued (notes 22 & 26)	**2**	1
– Retired (note 22)	**(1)**	(61)
Subsidiary share capital – Issued (notes 23 & 26)	**22**	21
– Retired (note 23)	**(16)**	(39)
Interest paid	**(456)**	(489)
Dividends – To common shareholders	**(185)**	(1,186)
– To preferred shareholders	**(44)**	(44)
– To minority shareholders	**(65)**	(79)
Cash Flows used in Financing Activities	**(711)**	(2,049)
Effect of foreign currency exchange rate changes on cash and cash equivalents	**(8)**	9
Change in Cash and Cash Equivalents	**217**	(81)
Cash and Cash Equivalents, Beginning of Year	**1,372**	1,453
Cash and Cash Equivalents, End of Year	**$ 1,589**	$ 1,372

See accompanying notes to the consolidated financial statements.

For the years ended December 31, 2012 and December 31, 2011
(millions of Canadian dollars except where otherwise indicated)

Note 1. Nature and Description of the Reporting Entity

George Weston Limited ("GWL") is a Canadian public company incorporated in 1928, engaged in food processing and distribution. Its registered office is located at 22 St. Clair Avenue East, Toronto, Canada M4T 2S7. GWL and its subsidiaries are together referred to in these consolidated financial statements as the "Company". The Company's parent is Wittington Investments, Limited ("Wittington").

The Company has two reportable operating segments, Loblaw Companies Limited ("Loblaw") and Weston Foods, and holds cash and short term investments. The Loblaw operating segment is Canada's largest food retailer and a leading provider of drugstore, general merchandise and financial products and services. The Weston Foods operating segment is a leading fresh and frozen baking company in Canada and operates a frozen baking manufacturing business in the United States ("U.S.") and a North American biscuit manufacturing business.

In December 2012, Loblaw announced its intention to create a Real Estate Investment Trust ("REIT"), which will acquire a significant portion of Loblaw's real estate assets and sell units by way of an Initial Public Offering ("IPO"). The IPO of the REIT is expected to be completed by mid 2013, subject to prevailing market conditions and receipt of required regulatory approvals, including approval to list the units on the Toronto Stock Exchange ("TSX").

Note 2. Significant Accounting Policies

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

These consolidated financial statements were authorized for issuance by the Company's Board of Directors ("Board") on February 27, 2013.

Basis of Preparation The consolidated financial statements were prepared on a historical cost basis, except for certain financial instruments carried at fair value. Liabilities for cash-settled share-based compensation arrangements are measured at fair value (see note 26) and defined benefit plan assets are also recorded at fair value with the obligations related to these pension plans measured at their discounted present value (see note 25).

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

The consolidated financial statements are presented in Canadian dollars.

Basis of Consolidation The consolidated financial statements include the accounts of GWL and other entities that the Company controls in accordance with IAS 27, "Consolidated and Separate Financial Statements" ("IAS 27"). The Company's interest in the voting share capital of its subsidiaries is 100% except for Loblaw, which is 62.9% (December 31, 2011 – 63.0%). GWL's ownership in Loblaw was impacted by changes in Loblaw's common share equity.

Special Purpose Entities ("SPE") are consolidated under Standing Interpretations Committee ("SIC") Interpretation 12, "Consolidation – Special Purpose Entities" ("SIC-12"), if, based on an evaluation of the substance of its relationship with the Company and the SPE's risks and rewards, the Company concludes that it controls the SPE. SPEs controlled by the Company were established under terms that impose strict limitations on the decision-making powers of the SPE's management and that result in the Company receiving the majority of the benefits related to the SPE's operations and net assets, being exposed to the majority of risks incident to the SPE's activities, and retaining the majority of the residual or ownership risks related to the SPEs or their assets.

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

Fiscal Year The Company's year end is December 31. Activities are reported on a fiscal year ending on the Saturday closest to December 31.

As a result, the Company's fiscal year is usually 52 weeks in duration but includes a 53rd week every five to six years. Each of the years ended December 31, 2012 and December 31, 2011 contained 52 weeks. The next 53-week year will occur in fiscal year 2014.

Net Earnings per Common Share ("EPS") Basic EPS is calculated by dividing the net earnings available to common shareholders by the weighted average number of common shares outstanding during the period.

The diluted EPS calculation assumes that the weighted average number of outstanding stock options during the period with an exercise price below the average market price during the period are exercised and the assumed proceeds are used to purchase the Company's common shares at the average market price during the period. Diluted EPS also takes into consideration the dilutive effect of the conversion options on the Loblaw capital securities, the equity derivatives recorded in trade and other payables, and Loblaw's certain other liabilities.

Revenue Recognition Weston Foods recognizes sales upon delivery of its products to customers and acceptance of its products by customers net of provisions for returns, discounts and allowances. Loblaw revenue includes sales, net of estimated returns, to customers through corporate stores operated by Loblaw, sales to and service fees from franchised stores, associated stores, independent account customers, and financial services net of sales incentives offered by Loblaw. Loblaw recognizes revenue at the time the sale is made to its customers and at the time of delivery of inventory to its associated and franchise stores. Interest income on credit card loans, service fees and other revenue related to financial services are recognized on an accrual basis.

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

On the initial sale of a franchising arrangement, Loblaw offers products and services as part of a multiple deliverable arrangement which is recorded using a relative fair value approach.

Income Taxes The asset and liability method of accounting is used for income taxes. Under the asset and liability method, deferred income tax assets and liabilities are recognized for the deferred income tax consequences attributable to temporary differences between the financial statement carrying values of existing assets and liabilities and their respective income tax bases. Current and deferred taxes are charged to or credited in the consolidated statements of earnings, except when it relates to a business combination, or items charged or credited directly to equity or to other comprehensive income (loss). Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax is measured using enacted or substantively enacted income tax rates expected to apply in the years in which those temporary differences are expected to be recovered or settled. A deferred tax asset is recognized for unused tax losses and credits to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis. Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Short Term Investments Short term investments primarily consist of bankers' acceptances, government treasury bills, corporate commercial paper, and government agency securities.

Security Deposits Security deposits consist primarily of cash, government treasury bills and notes, and government agency securities, which are required to be placed with counterparties as collateral to enter into and maintain certain outstanding letters of credit and certain financial derivative contracts. The amount of the required security deposits will fluctuate primarily as a result of the change in market value of the derivatives.

Accounts Receivable Accounts receivable consist mainly of receivables from Loblaw's vendors, independent franchisees, associated stores, independent accounts and receivables from Weston Foods customers and suppliers, and are recorded net of allowances.

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

PC Bank considers evidence of impairment losses on a portfolio basis for which losses cannot be determined on an item-by-item basis. The allowance is based upon a statistical analysis of past and current performance, the level of allowance already in place and management's judgment. The allowance for credit card receivables is deducted from the credit card receivables balance. Interest on the impaired asset continues to be recognized. The net credit loss experience for the year is recognized in operating income.

Periodically, PC Bank transfers credit card receivables by selling them to and repurchasing them from independent securitization trusts. PC Bank is required to absorb a portion of the related credit losses. Accordingly, Loblaw continues to recognize these assets in credit card receivables and the transferred receivables are accounted for as secured financing transactions. The Company consolidates one of the independent securitization trusts, *Eagle Credit Card Trust* ("*Eagle*"), as an SPE. The associated liabilities secured by these assets are included in either short term debt or long term debt, based on their characteristics, and are carried at amortized cost.

Franchise Loans Receivable Franchise loans receivable are comprised of amounts due from independent franchisees for loans issued through an independent funding trust that is consolidated under SIC-12. Each independent franchisee provides security to the independent funding trust for its obligations by way of a general security agreement. In the event that an independent franchisee defaults on its loan and Loblaw has not, within a specified time period, assumed the loan, or the default is not otherwise remedied, the independent funding trust would assign the loan to Loblaw and draw upon a standby letter of credit. Loblaw has agreed to reimburse the issuing bank for any amount drawn on the standby letter of credit.

Inventories The Company values inventories at the lower of cost and net realizable value. Cost includes the costs of purchases net of vendor allowances plus other costs, such as transportation, that are directly incurred to bring inventories to their present location and condition. Loblaw's seasonal general merchandise, Loblaw's inventories at distribution centres and Weston Foods inventories are measured at weighted average cost. Loblaw uses the retail method to measure the cost of the majority of retail store inventories. Loblaw estimates net realizable value as the amount that inventories are expected to be sold taking into consideration fluctuations in retail prices due to seasonality less estimated costs necessary to make the sale. Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage or declining selling prices. When circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in selling prices, the amount of the write-down

previously recorded is reversed. Storage costs, indirect administrative overhead and certain selling costs related to inventories are expensed in the period that these costs are incurred.

Vendor Allowances The Company receives allowances from certain of its vendors whose products it purchases. These allowances are received for a variety of buying and/or merchandising activities, including vendor programs such as volume purchase allowances, purchase discounts, listing fees and exclusivity allowances. Allowances received from a vendor are reduced in the cost of the vendor's products or services and are recognized as a reduction in the cost of merchandise inventories sold and the related inventory when recognized in the consolidated statements of earnings and the consolidated balance sheets, respectively. Certain exceptions apply if the consideration is a payment for assets or services delivered to the vendor or for reimbursement of selling costs incurred to promote the vendor's products. The consideration is then recognized as a reduction of the cost incurred in the consolidated statements of earnings.

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

Depreciation commences when the assets are available for use and is expensed on a straight-line basis through operating income to depreciate the cost of these assets to their estimated residual value over their estimated useful lives. When significant parts of a fixed asset have different useful lives, they are accounted for as separate components of the asset and depreciated over their estimated useful lives. Depreciation methods, useful lives and residual values are reviewed each year end and are adjusted if appropriate. Estimated useful lives of fixed assets, including component parts, are as follows:

- Buildings – 10 to 40 years
- Equipment and fixtures – 2 to 16 years
- Building improvements – up to 10 years

Leasehold improvements are depreciated over the lesser of the lease term, which may include renewal options, and their estimated useful lives to a maximum of 25 years. Fixed assets held under finance leases are depreciated over the lesser of their expected useful lives, the same basis as owned assets, or the term of the lease, unless it is reasonably certain that the Company will obtain ownership by the end of the lease term in which case it would be depreciated over the life of the asset.

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

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

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

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

Borrowing Costs Borrowing costs directly attributable to the acquisition, construction, or production of fixed assets, that necessarily take a substantial period of time to prepare for their intended use and a proportionate share of general borrowings is capitalized to the cost of those fixed assets, until such time as the fixed assets are substantially ready for their intended use based on the quarterly weighted average cost of borrowing.

Goodwill Goodwill arising in a business combination is recognized as an asset at the date that control is acquired. Goodwill is measured as the excess of the fair value of the consideration transferred over the fair value of the identifiable assets acquired less the fair value of the liabilities assumed. Goodwill is tested for impairment at least annually and whenever there is an indication that the asset may be impaired. Refer to the Impairment of Non-Financial Assets significant accounting policy below.

Intangible Assets The Company assesses intangible assets for legal, regulatory, contractual, competitive or other factors to determine if the useful life is definite. Acquired intangible assets that have definite useful lives are measured at cost less accumulated amortization and accumulated impairment losses. Intangible assets with a definite life are amortized on a straight-line basis through operating income over their estimated useful lives, ranging from 3 to 30 years.

Indefinite life intangible assets are measured at cost less any accumulated impairment losses. Indefinite life intangible assets are tested for impairment at least annually and whenever there is an indication that the asset may be impaired. Refer to the Impairment of Non-Financial Assets significant accounting policy below.

Impairment of Non-Financial Assets At each balance sheet date, the Company reviews the carrying amounts of its definite life non-financial assets including fixed assets, investment properties and intangible assets to determine whether there is any indication of impairment. Goodwill and intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. If any indication of impairment exists, the recoverable amount of the cash generating unit ("CGU") or CGU grouping is estimated in order to determine the extent of the impairment loss, if any.

For the purposes of reviewing definite life non-financial assets for impairment, asset groups are reviewed at the lowest level for which identifiable cash inflows are largely independent of cash inflows of other assets or groups of assets. This grouping is referred to as a CGU. Weston Foods' manufacturing assets are grouped together at the level of production categories which are capable of servicing their customers independently of other production categories. Loblaw has determined that each retail location and each investment property is a separate CGU for purposes of impairment testing.

The Company's corporate assets, which include the head office facilities and Loblaw distribution centres, do not generate separate cash inflows. Corporate assets are tested for impairment at the minimum collection of CGUs to which the corporate asset can be allocated reasonably and consistently.

Various impairment indicators relating to expectations of future cash flows are used to determine the need to test a CGU for an impairment loss. Indicators to determine the need to test for an impairment loss on a Loblaw retail location also include performance of a retail location below forecast and expectation of an adverse impact on future performance of a retail location from competitive activities.

The recoverable amount of a CGU is the greater of its value in current use and its fair value less costs to sell.

Loblaw determines the value in use of its retail locations by discounting the expected cash flows that Loblaw management estimates can be generated from continued use of the CGU. The process of determining the cash flows requires Loblaw management to make estimates and assumptions including projected future sales, earnings and capital investment, and discount rates.

Loblaw determines the fair value less costs to sell of its retail locations using various assumptions, including the market rental rates for properties located within the same geographical areas as the properties being valued, highest and best use of the property for the geographical area, recoverable operating costs for leases with tenants, non-recoverable operating costs, discount rates, capitalization rates and terminal capitalization rates for the purposes of determining the estimated net proceeds from the sale of the property.

An impairment loss is recognized if the carrying amount of a CGU exceeds its recoverable amount. Impairment losses are recognized in operating income in the period in which they occur. If an impairment subsequently reverses, the carrying amount of the asset is increased to the extent that the carrying value of the underlying assets does not exceed the carrying amount, net of depreciation, that would have been determined if no

impairment had been recognized. Impairment reversals are recognized in operating income in the period in which they occur.

Goodwill and intangible assets with indefinite lives are assessed for impairment based on the group of CGUs expected to benefit from the synergies of the business combination and the lowest level at which management monitors the goodwill. Any potential impairment is identified by comparing the recoverable amount of the CGU grouping to which the assets are allocated to its carrying value. If the recoverable amount, calculated as the higher of the fair value less costs to sell and the value in use, is less than its carrying amount, an impairment loss is recognized in operating income in the period in which it occurs. Impairment losses on goodwill are not subsequently reversed if conditions change.

Provisions Provisions are recognized when there is a legal or constructive obligation for which it is probable that a transfer of resources will be required to settle the obligation. The amount recognized as a provision is the present value of the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Financial Instruments Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the contractual rights to receive cash flows and benefits from the financial asset expire, or if the Company transfers the control or substantially all the risks and rewards of ownership of the financial asset to another party. Financial liabilities are derecognized when obligations under the contract expire, are discharged or cancelled. Financial instruments upon initial recognition are measured at fair value and classified as either financial assets or financial liabilities as fair value through profit or loss, held-to-maturity investments, loans and receivables or other financial liabilities. Financial instruments are included on the consolidated balance sheets and measured after initial recognition at fair value, except for loans and receivables, held-to-maturity financial assets and other financial liabilities which are measured at amortized cost. Fair values are based on quoted market prices where available from active markets, otherwise fair values are estimated using valuation methodologies, primarily discounted cash flows taking into account external market inputs where possible.

Gains and losses on fair value through profit or loss financial assets and financial liabilities are recognized in net earnings before income taxes in the period in which they are incurred. Settlement date accounting is used to account for the purchase and sale of financial assets. Gains or losses between the trade date and settlement date on fair value through profit or loss financial assets are recorded in net earnings before income taxes and other comprehensive income, respectively. Transaction costs other than those related to financial instruments classified as fair value through profit or loss, which are expensed as incurred, are capitalized to the carrying amount of the instrument and amortized using the effective interest method.

Impairment of Financial Instruments An assessment of whether there is objective evidence that a financial asset or a group of financial assets is impaired is performed at each balance sheet date. A financial asset or group of financial assets is considered to be impaired if one or more loss events that have an impact on the future cash flows of the financial asset or group of assets occur after initial recognition of the financial asset and the loss can be reliably measured. This assessment is performed on an individual financial asset basis or on a portfolio of financial assets basis. If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has occurred, the loss is based on the difference between the carrying amount of the financial asset, or portfolio of financial assets, and the respective estimated future cash flows discounted at the financial instruments' original effective interest rate and is recorded as an allowance for losses. If, in a subsequent period, the impairment loss reverses, the previously recognized impairment is also reversed to the extent of the impairment.

Derivative Instruments Financial derivative instruments in the form of cross currency swaps, interest rate swaps, foreign exchange forwards, and equity swaps and forwards as well as non-financial derivatives in the form of futures contracts, options contracts and forward contracts are recorded at fair value on the consolidated balance sheets. Any embedded derivative instruments that are identified are separated from their host contract and recorded on the consolidated balance sheets at fair value. Fair values are based on quoted market prices where

available from active markets, otherwise fair values are estimated using valuation methodologies, primarily discounted cash flows taking into account external market inputs.

Derivative instruments are recorded in current or non-current assets and liabilities based on their remaining terms to maturity. All changes in fair value of the derivative instruments are recorded in net earnings unless the derivative qualifies and is effective as a hedging instrument in a designated hedging relationship.

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

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

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

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

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

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

Defined Benefit Plans The Company has a number of contributory and non-contributory defined benefit plans providing pension and other benefits to eligible employees. The defined benefit pension plans provide a pension based on length of service and eligible pay. The other defined benefits include health care, life insurance and dental benefits provided to eligible employees who retire at certain ages having met certain service requirements. The Company's net obligation in respect of defined benefits is calculated separately for each plan. Defined benefit plan obligations are actuarially calculated by a qualified actuary at the balance sheet date using the projected unit credit method. The actuarial valuations are determined based on management's best estimate of the discount rate, the expected long term rate of return on plan assets, the rate of compensation increase, retirement rates, termination rates, mortality rates and expected growth rate of health care costs. The discount rate used to value the defined benefit plan obligation for accounting purposes is based on the yield on a portfolio of Corporate AA bonds denominated in the same currency in which the benefits are expected to be paid and with terms to maturity that, on average, match the terms of the defined benefit plan obligations. The expected long term rate of return on plan assets is based on current market conditions, the asset mix, the active management of defined benefit pension plan assets and historical returns. The expected growth rate in health care costs is based on external data and the Company's historical trends for health care costs. Unrecognized past service costs (see below) and the fair value of plan assets are deducted from the defined benefit plan obligations to arrive at the net defined benefit plan obligations. The interest cost on the defined benefit plan obligation and

the expected return on plan assets as determined by the actuarial valuations are recognized in net interest expense and other financing charges.

Past service costs arising from plan amendments are recognized in operating income in the year that they arise to the extent that the associated benefits are fully vested. Unvested past service costs are recognized in operating income on a straight-line basis over the vesting period of the associated benefits.

For plans that resulted in a net defined benefit asset, the recognized asset is limited to the total of any unrecognized past service costs plus the present value of economic benefits available in the form of future refunds from the plan or reductions in future contributions to the plan (the "asset ceiling"). In order to calculate the present value of economic benefits, consideration is given to minimum funding requirements that apply to the plan. If it is anticipated that the Company will not be able to recover the value of the net defined benefit asset, after considering minimum funding requirements for future service, the net defined benefit asset is reduced to the amount of the asset ceiling. The effect of the asset ceiling is recognized in other comprehensive loss.

When the payment in the future of minimum funding requirements related to past service would result in a net defined benefit surplus or an increase in a surplus, the minimum funding requirements are recognized as a liability to the extent that the surplus would not be fully available as a refund or a reduction in future contributions. Remeasurement of this liability is recognized in other comprehensive loss in the period in which the remeasurement occurs.

At each balance sheet date, plan assets are measured at fair value and defined benefit plan obligations are measured using assumptions which approximate their fair values at the reporting date, with the resulting actuarial gains and losses from both of these measurements recognized in other comprehensive loss.

Defined Contribution Plans The Company maintains a number of defined contribution pension plans for employees in which the Company pays fixed contributions for eligible employees into a registered plan and has no further significant obligation to pay any further amounts. The amount of the pension benefit is based on accumulated Company contributions and in most plans, employee contributions and investment gains and losses. The costs of benefits for defined contribution plans are expensed as contributions are due.

Multi-Employer Pension Plans The Company participates in multi-employer pension plans ("MEPP") which are accounted for as defined contribution plans. The Company's responsibility to make contributions to these plans is established pursuant to its collective agreements. The Company does not administer these plans, but rather, the administration and the investment of their assets are controlled by a board of trustees generally consisting of an equal number of union and employer representatives. The contributions made by the Company to MEPPs are expensed as contributions are due.

Other Long Term Employee Benefit Plans The Company offers other long term employee benefits including contributory long term disability benefits and non-contributory continuation of health care and dental benefits to employees who are on long term disability leave. As the amount of the long term disability benefit does not depend on length of service, the obligation is recognized when an event occurs that gives rise to an obligation to make payments. The amount of other long term employee benefits is actuarially calculated by a qualified actuary at the balance sheet date using the projected unit credit method. The discount rate used to value the other long term employee benefit plan obligations is based on the yield on a portfolio of Corporate AA bonds denominated in the same currency in which the benefits are expected to be paid and with terms to maturity that, on average, match the terms of the other long term employee benefit plan obligations. The interest cost on the other long term employee benefit plan obligations and the expected return on plan assets as determined by the actuarial valuations are recognized in net interest expense and other financing charges. At each balance sheet date, plan assets are measured at fair value and other long term employee benefit plan obligations are measured using assumptions which approximate their fair values at the reporting date, with the resulting actuarial gains and losses from both of these measurements recognized immediately in operating income. Past service costs are recognized immediately in operating income in the period in which they arise.

Termination Benefits Termination benefits are recognized as an expense when the Company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Company has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. Benefits payable are discounted to their present value when the effect of the time value of money is material.

Stock Option Plan Stock options issued by the Company are settled in common shares and are accounted for as equity-settled stock options. These stock options vest in tranches over a three to five year period. The fair value of each tranche of options granted to certain employees is measured separately at the grant date using a Black-Scholes option pricing model, and is recognized as an expense in operating income over the vesting period of each tranche, with a corresponding increase in contributed surplus. During the vesting period the amount recognized as an expense is adjusted to reflect revised expectations about the number of options expected to vest, such that the amount ultimately recognized as an expense is based on the number of options that meet the vesting conditions. Upon exercise of vested options, the amount recognized in contributed surplus for the award plus the cash received upon exercise is recognized as an increase in share capital.

Prior to February 22, 2011, stock options could be settled in shares or in the share appreciation value in cash at the option of the employee. These options were accounted for as cash-settled stock options and vested in tranches over a three to five year vesting period; accordingly, each tranche was valued separately using a Black-Scholes option pricing model. The fair value of the amount payable to employees in respect of these plans was remeasured at each balance sheet date, and a compensation expense was recognized in operating income over the vesting period for each tranche with a corresponding change to the liability. Forfeitures were estimated at the grant date and were revised to reflect a change in expected or actual forfeitures.

Restricted Share Unit ("RSU") Plan RSU grants entitle certain employees to a cash payment equal to the weighted average price of a GWL or Loblaw common share on the TSX in the five trading days preceding the end of a performance period, ranging from three to five years, following the date of the award multiplied by the number of units that are vested. The Company recognizes a compensation expense in operating income for each RSU granted equal to the market value of a GWL or Loblaw common share less the net present value of the expected dividend stream at the date on which RSUs are awarded to each participant. The compensation expense is prorated over the performance period reflecting changes in the market value of a GWL or Loblaw common share until the end of the performance period. Forfeitures are estimated at the grant date and are revised to reflect a change in expected or actual forfeitures.

Performance Share Unit ("PSU") Plan PSU grants entitle certain employees to a cash payment equal to the weighted average price of a GWL or Loblaw common share on the TSX in the five trading days preceding the end of a three year performance period multiplied by the number of units that are vested. The number of units that vest is based on the achievement of specified performance measures. The Company recognizes a compensation expense in operating income for each PSU expected to vest equal to the market value of a GWL or Loblaw common share less the net present value of the expected dividend stream at the date on which PSUs are awarded to each participant. The compensation expense is prorated over the performance period reflecting changes in the market value of a GWL or Loblaw common share and the number of PSUs expected to vest until the end of the performance period based on the achievement of the associated performance measures. Forfeitures are estimated at the grant date and are revised to reflect a change in expected or actual forfeitures.

Director Deferred Share Unit ("DSU") Plan Members of GWL's and Loblaw's Boards, who are not management, are required to hold a portion of their retainers and fees in the form of DSUs until they satisfy their required level of equity ownership. Holders of the DSUs earn dividends in the form of additional fractional DSUs during the holding period. The fractional DSUs issued during the holding period are treated as additional awards. The Company recognizes an expense in operating income for each DSU granted equal to the market value of a GWL or Loblaw common share at the date on which DSUs are awarded with a corresponding change to the liability.

After the grant date, the DSU liability is remeasured for subsequent changes in the market value of a GWL or Loblaw common share. The DSUs are settled upon termination of Board service.

Executive Deferred Share Unit ("EDSU") Plan Under this plan, eligible executives may elect to defer up to 100% of the Short Term Incentive Plan ("STIP") earned in any year into the EDSU plan, subject to an overall cap of three times the executive's base salary. Each EDSU entitles the holder to receive the cash equivalent of a GWL or Loblaw common share, payable by December 15 of the year following the year in which the executive's employment ceases for any reason. An election to participate in the plan in any year must be made before the beginning of the year and is irrevocable. The number of EDSUs granted in respect of any year will be determined by dividing the STIP compensation that is subject to the EDSU plan election by the market value of GWL or Loblaw common shares on the date the STIP compensation would otherwise be payable. For this purpose, and for purposes of determining the value of an EDSU upon conversion of the EDSUs into cash, the value of the EDSUs is calculated by using the weighted average of the trading prices of GWL or Loblaw common shares on the TSX for the five trading days prior to the valuation date. After the grant date, any change in fair value is recognized in operating income in the period of the change with a corresponding change to the liability.

Employee Share Ownership Plan ("ESOP") GWL and Loblaw maintain ESOPs for their employees, which allow employees to acquire GWL and Loblaw common shares through regular payroll deductions of up to 5% of their gross regular earnings. GWL and Loblaw contribute an additional 25% of each employee's contribution to their respective plans, which is recognized in operating income as a compensation expense when the contribution is made. The ESOPs are administered through a trust which purchases GWL and Loblaw common shares in the open market on behalf of employees.

Accounting Standards Implemented in 2012

Financial Instruments – Disclosures In 2010, the IASB issued amendments to IFRS 7, "Financial Instruments: Disclosures", which increase the disclosure requirements for transactions involving transfers of financial assets to help users of the financial statements evaluate the risk exposures related to such transfers and the effect of those risks on an entity's financial position. These amendments are effective and were implemented in the first quarter of 2012.

Deferred Tax – Recovery of Underlying Assets In 2010, the IASB issued amendments to IAS 12, "Income Taxes" ("IAS 12"), that introduce an exception to the general measurement requirements of IAS 12 for investment properties measured at fair value. These amendments were effective in the first quarter of 2012. As part of its transition to IFRS, the Company elected to account for its investment properties at cost and as such, the amendments did not have an impact on the Company's results of operations or financial condition.

Note 3. Critical Accounting Estimates and Judgments

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

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

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

The Company's significant accounting policies are disclosed in note 2.

Inventories
Key sources of estimation Inventories are carried at the lower of cost and net realizable value which requires the Company to utilize estimates related to fluctuations in future retail prices, seasonality and costs necessary to sell the inventory.

Impairment of non-financial assets (goodwill, intangible assets, fixed assets and investment properties)
Judgments made in relation to accounting policies applied Management is required to use judgment in determining the grouping of assets to identify their CGUs for the purposes of testing fixed assets for impairment. Judgment is further required to determine appropriate groupings of CGUs for the level at which goodwill and intangible assets are tested for impairment. Loblaw has determined that each retail location and each investment property is a separate CGU for purposes of impairment testing. For the purpose of goodwill and intangible assets impairment testing, CGUs are grouped at the lowest level at which goodwill and intangible assets are monitored for internal management purposes. In addition, judgment is used to determine whether a triggering event has occurred requiring an impairment test to be completed.

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

Franchise loan receivable and certain other financial assets
Judgments made in relation to accounting policies applied Management reviews franchise loans receivable, trade receivables and certain other financial assets relating to their franchise business at each balance sheet date utilizing judgment to determine whether a triggering event has occurred requiring an impairment test to be completed.

Key sources of estimation Management determines the initial fair value of its franchise loans and certain other financial assets using discounted cash flow models corroborated by other valuation techniques. The process of determining these fair values requires management to make estimates of a long term nature regarding discount rates, projected revenues and margins, as applicable, derived from past experience, actual operating results, budgets and the Company's five year forecast.

Income and other taxes
Judgments made in relation to accounting policies applied The calculation of current and deferred income taxes requires management to make certain judgments regarding the tax rules in jurisdictions where the Company performs activities. Application of judgments is required regarding classification of transactions and in assessing probable outcomes of claimed deductions including expectations about future operating results, the timing and reversal of temporary differences and possible audits of income tax and other tax filings to the tax authorities.

Post-employment and other long term employee benefits
Key sources of estimation Accounting for the costs of defined benefit pension plans and other applicable post-employment benefits is based on using a number of assumptions including estimates for expected return on plan assets. Expected returns on plan assets is based on current market conditions, the asset mix, the active management of defined benefit pension plan assets and historical returns. Other key assumptions for pension obligations are based in part on actuarial determined data and current market conditions.

Allowance for credit card receivables

Key sources of estimation The allowance is measured based upon statistical analysis that includes estimates for past and current performance, aging, arrears status, the level of allowance already in place, and management's interpretation of economic conditions and other trends specific to our customer base, including but not limited to bankruptcies. Changes in circumstances may cause future assessments of credit risk to be materially different from current assessments, which could require an increase or decrease in the allowance for credit card receivables.

Note 4. Future Accounting Standards

Unless otherwise indicated, the Company intends to adopt the following standards in its consolidated financial statements for the annual period beginning on January 1, 2013:

Consolidated Financial Statements In 2011, the IASB issued IFRS 10, "Consolidated Financial Statements" ("IFRS 10"). This IFRS replaces portions of IAS 27, and supersedes SIC-12. IFRS 10 defines principles of control and establishes the basis of determining when and how an entity should be included within a set of consolidated financial statements. The standard introduces a single control model that requires an entity to consolidate an investee when it has power, exposure to variability in returns and has the ability to use its power over the investee to affect its returns, regardless of whether voting rights are present. The adoption of IFRS 10 is not expected to have an impact on the Company's consolidated financial statements.

Disclosure of Interests in Other Entities In 2011, the IASB issued IFRS 12, "Disclosure of Interests in Other Entities" ("IFRS 12"). This IFRS requires extensive disclosures relating to a company's interests in subsidiaries, joint arrangements, associates, and unconsolidated structured entities. IFRS 12 enables users of the consolidated financial statements to evaluate the nature and risks associated with a company's interests in other entities and the effects of those interests on a company's financial performance and position. The adoption of IFRS 12 is not expected to have a significant impact on the Company's consolidated financial statements.

Fair Value Measurement In 2011, the IASB issued IFRS 13, "Fair Value Measurement" ("IFRS 13"), which establishes a single framework for the fair value measurement and disclosure of financial and non-financial assets and liabilities. The new standard unifies the definition of fair value and also introduces new concepts including 'highest and best use' and 'principle markets' for non-financial assets and liabilities. There are additional disclosure requirements, including increased fair value disclosure for financial instruments for interim financial statements. Although the Company expects additional disclosure, it does not anticipate material measurement impacts on its consolidated financial statements as a result of the adoption of IFRS 13.

Employee Benefits In 2011, the IASB revised IAS 19, "Employee Benefits" ("IAS 19"). The most significant amendments for the Company will be the requirement to immediately recognize all unvested past service costs and the replacement of interest cost and expected return on plan assets with a net interest amount that is calculated by applying a prescribed discount rate to the net defined benefit liability. Upon implementation of these amendments, the Company will restate its annual 2012 consolidated financial statements. The preliminary expected impact arising from the adoption of the amendments to IAS 19 is summarized as follows:

Consolidated Statement of Earnings

Increase (decrease)		2012
Operating income	$	1
Net interest expense and other financing charges	$	24
Income taxes	$	(5)
Net earnings	$	(18)

Consolidated Statement of Comprehensive Income

Increase (decrease)		2012
Net earnings	$	(18)
Other comprehensive income	$	18

Consolidated Balance Sheet

Increase (decrease)		As at Dec. 31, 2012
Other liabilities	$	(2)
Equity	$	2

As a result, in 2013, post-employment and other long term employee benefits expense will be accounted for on a consistent basis year-over-year. The amendments also require enhanced disclosures for defined benefit plans, including additional information on the characteristics and risks of those plans.

Other Standards In addition to the above standards, the Company will be implementing the following standards and amendments effective January 1, 2013: IFRS 11, "Joint Arrangements"; IAS 28, "Investments in Associates"; and IAS 1, "Presentation of Financial Statements". The Company does not expect a significant impact as a result of these standards and amendments on its consolidated financial statements.

Financial Instruments In 2011, the IASB issued amendments to IFRS 7, "Financial Instruments: Disclosures" and IAS 32, "Financial Instruments: Presentation", these amendments are required to be applied for periods beginning on or after January 1, 2014. The Company does not expect any significant impacts on its consolidated financial statements as a result of these amendments.

In 2010, the IASB issued a new standard, IFRS 9, "Financial Instruments" ("IFRS 9"), which will ultimately replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). The replacement of IAS 39 is a three-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 is the first phase of the project, which provides guidance on the classification and measurement of financial assets and financial liabilities. This standard becomes effective on January 1, 2015, with early adoption permitted. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

Note 5. Net Interest Expense and Other Financing Charges

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

	2012	2011
Long term debt	**$ 367**	$ 368
Defined benefit and other long term employee benefit plan obligations (note 25)	**102**	108
Borrowings related to credit card receivables	**37**	41
Independent funding trusts	**15**	16
Financial derivative instruments	**2**	
Other financing charges[1]	**12**	
Dividends on capital securities (note 21)	**14**	14
Capitalized interest (capitalization rate 6.4% (2011 – 6.4%))	**(1)**	(1)
	548	546
Interest income:		
Expected return on pension plan assets (note 25)	**(94)**	(97)
Other financing income[1]		(40)
Accretion income	**(18)**	(20)
Financial derivative instruments		(5)
Security deposits	**(2)**	(1)
Short term interest income	**(17)**	(17)
	(131)	(180)
Net interest expense and other financing charges	**$ 417**	$ 366

(1) Other financing charges (income) for 2012 included a non-cash charge of $35 (2011 – non-cash income of $18) related to the fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares (see note 29). The fair value adjustment of the forward sale agreement is non-cash and results from changes in the value of the underlying Loblaw shares. At maturity, any cash paid under the forward sale agreement could be offset by the sale of the underlying Loblaw common shares. Also included in other financing charges (income) is forward accretion income of $40 (2011 – $39) and the forward fee of $17 (2011 – $17) associated with the forward sale agreement.

Note 6. Income Taxes

The components of income taxes were as follows:

	2012	2011
Current income taxes		
Current period	**$ 285**	$ 238
Adjustment in respect of prior periods	**(23)**	(12)
Deferred income taxes		
Origination and reversal of temporary differences	**(21)**	88
Adjustment in respect of prior periods	**8**	10
Income taxes	**$ 249**	$ 324

Income tax recoveries recognized in other comprehensive loss were as follows:

	2012	2011
Defined benefit plan actuarial losses (note 25)	**$ (8)**	$ (83)
Other comprehensive loss	**$ (8)**	$ (83)

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

	2012	2011
Weighted average basic Canadian federal and provincial statutory income tax rate	**25.9%**	27.7%
Net (decrease) increase resulting from:		
Earnings in jurisdictions taxed at rates different from the Canadian statutory income tax rates	**(0.9)**	(0.1)
Unrecognized benefit of foreign currency translation losses and the utilization of realized foreign currency losses	**1.2**	(0.9)
Non-taxable and non-deductible amounts (including capital gains/losses and cash-settled stock options)	**0.8**	0.1
Impact of statutory income tax rate changes on deferred income tax balances	**(0.4)**	
Impact of resolution of certain income tax matters from a previous year and other	**(1.1)**	(0.7)
Effective income tax rate applicable to earnings before income taxes	**25.5%**	26.1%

In 2012, the Department of Finance substantively enacted amendments to the Income Tax Act relating to the taxation of Canadian corporations with foreign affiliates. The Company is no longer able to recognize a net tax benefit on realized foreign capital losses recognized by its foreign affiliates to the extent such losses cannot be offset against realized foreign capital gains. In 2012, the Company (excluding Loblaw) expensed $8 in previously recognized current tax assets relating to these amendments.

Deferred income tax assets as at December 31, 2012 and December 31, 2011 which were not recognized on the consolidated balance sheets were as follows:

	2012	2011
Deductible temporary differences	**$ 28**	$ 22
Income tax losses and credits	**49**	32
Unrecognized deferred income tax assets	**$ 77**	$ 54

The income tax losses and credits expire in the years 2013 to 2032. The deductible temporary differences do not expire under current income tax legislation. Deferred income tax assets were not recognized in respect of these items because it is not probable that future taxable income will be available to the Company to utilize the benefits.

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

	As at			
	Dec. 31, 2012		Dec. 31, 2011	
Trade and other payables	**$**	**73**	$	76
Other liabilities		**365**		338
Fixed assets		**(343)**		(238)
Goodwill and intangible assets		**(13)**		(16)
Other assets		**(131)**		(136)
Losses carried forward (expiring 2028 to 2032)		**184**		90
Other		**21**		21
Net deferred income tax assets	**$**	**156**	$	135
Recorded on the consolidated balance sheets as follows:				
Deferred income tax assets	**$**	**316**	$	295
Deferred income tax liabilities		**(160)**		(160)
Net deferred income tax assets	**$**	**156**	$	135

Note 7. Basic and Diluted Net Earnings per Common Share

	2012		2011	
Net earnings attributable to shareholders of the Company	**$**	**486**	$	635
Prescribed dividends on preferred shares in share capital		**(44)**		(44)
Net earnings available to common shareholders	**$**	**442**	$	591
Impact of GWL equity swaps		**(2)**		
Reduction in net earnings due to dilution at Loblaw		**(5)**		(4)
Net earnings available to common shareholders for diluted earnings per share		**435**		587
Weighted average common shares outstanding (in millions)		**128.2**		129.0
Dilutive effect of share-based compensation[(1)] (in millions)				0.1
Dilutive effect of GWL equity swaps[(1)] (in millions)		**0.6**		
Diluted weighted average common shares outstanding (in millions)		**128.8**		129.1
Basic net earnings per common share ($)	**$**	**3.45**	$	4.58
Diluted net earnings per common share ($)	**$**	**3.38**	$	4.55

(1) Excluded from the computation of diluted EPS were 1,184,840 (2011 – 1,915,191) potentially dilutive instruments, as they were anti-dilutive.

Notes to the Consolidated Financial Statements

Note 8. Cash and Cash Equivalents, Short Term Investments and Security Deposits

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

Cash and Cash Equivalents	As at	
	Dec. 31, 2012	Dec. 31, 2011
Cash	**$ 250**	$ 259
Cash equivalents:		
Bankers' acceptances	**361**	287
Government treasury bills	**444**	248
Bank term deposits		220
Corporate commercial paper	**425**	247
Government agency securities	**11**	4
Other	**98**	107
Cash and cash equivalents	**$ 1,589**	$ 1,372

Short Term Investments	As at	
	Dec. 31, 2012	Dec. 31, 2011
Bankers' acceptances	**$ 289**	$ 239
Government treasury bills	**835**	921
Corporate commercial paper	**316**	615
Government agency securities	**667**	586
Other	**31**	1
Short term investments	**$ 2,138**	$ 2,362

Security Deposits	As at	
	Dec. 31, 2012	Dec. 31, 2011
Cash	**$ 135**	$ 125
Government treasury bills and notes	**169**	159
Government agency securities	**44**	83
Security deposits	**$ 348**	$ 367

During 2012, GWL and Loblaw entered into agreements to cash collateralize certain uncommitted credit facilities up to amounts of $45 (2011 – $40) and $133 (2011 – $88), respectively. As at year end 2012, $142 (2011 – $125) was deposited with major financial institutions and classified as security deposits on the consolidated balance sheets.

Note 9. Accounts Receivable

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

	As at							
	Dec. 31, 2012				Dec. 31, 2011			
	Current	**> 30 days**	**> 60 days**	**Total**	Current	> 30 days	> 60 days	Total
Accounts receivable	**$ 493**	**$ 52**	**$ 14**	**$ 559**	$ 454	$ 46	$ 59	$ 559

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

	2012	2011
Allowance, beginning of year	**$ (119)**	$ (112)
Net reversals (additions)	**3**	(7)
Allowance, end of year	**$ (116)**	$ (119)

Accounts receivable of $29 that were past due as at year end 2012 (2011 – $25) were not classified as impaired as their past due status was reasonably expected to be remedied.

Note 10. Credit Card Receivables

The components of credit card receivables were as follows:

	As at	
	Dec. 31, 2012	Dec. 31, 2011
Gross credit card receivables	**$ 2,348**	$ 2,138
Allowance for credit card receivables	**(43)**	(37)
Credit card receivables	**$ 2,305**	$ 2,101
Securitized to Independent Securitization Trusts		
Securitized to *Eagle Credit Card Trust*(1)	**$ 600**	$ 600
Securitized to Other Independent Securitization Trusts(2)	**$ 905**	$ 905

(1) The Company consolidates *Eagle* as a SPE as defined in SIC-12. The associated liability of *Eagle* was recorded in long term debt and long term debt due within one year.
(2) The associated liabilities of Other Independent Securitization Trusts were recorded in short term debt.

Loblaw, through PC Bank, participates in various securitization programs that provide the primary source of funds for the operation of its credit card business. PC Bank sells credit card receivables to these Independent Securitization Trusts, including *Eagle* and Other Independent Securitization Trusts, from time to time depending on PC Bank's financing requirements.

The credit card receivables associated with the Other Independent Securitization Trusts are not derecognized by Loblaw since PC Bank is required to absorb a portion of the related credit card losses. As a result, Loblaw has not transferred substantially all of the risks and rewards relating to these assets and continues to recognize these assets in credit card receivables. The associated liabilities are secured by the credit card receivables and are accounted for as financing transactions. The associated liabilities are included in short term debt based on their characteristics and are carried at amortized cost (see note 18).

Loblaw has arranged letters of credit on behalf of PC Bank, representing 9% (2011 – 9%) of the outstanding securitized liability for the benefit of the Other Independent Securitization Trusts in the amount of $81 (2011 – $81). In the event of a major decline in the income flow from or in the value of the securitized credit card receivables, the Other Independent Securitization Trusts can draw upon these letters of credit to recover up to a maximum of the amount outstanding on the letters of credit. Under its securitization programs, PC Bank is required to maintain at all times a credit card receivable pool balance equal to a minimum of 107% of the outstanding securitized liability and was in compliance with this requirement throughout the year.

The following are continuities of Loblaw's allowances for credit card receivables:

	2012	2011
Allowance, beginning of year	**$ (37)**	$ (34)
Provision for losses	**(98)**	(87)
Recoveries	**(12)**	(14)
Write-offs	**104**	98
Allowance, end of year	**$ (43)**	$ (37)

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

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

	As at							
				Dec. 31, 2012				Dec. 31, 2011
	Current	**1-90 days past due**	**> 90 days past due**	**Total**	Current	1-90 days past due	> 90 days past due	Total
Gross credit card receivables	**$ 2,213**	**$ 113**	**$ 22**	**$ 2,348**	$ 2,024	$ 93	$ 21	$ 2,138

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

Note 11. Inventories

The components of inventories were as follows:

	As at	
	Dec. 31, 2012	Dec. 31, 2011
Raw materials and supplies	**$ 50**	$ 46
Finished goods	**2,082**	2,101
Inventories	**$ 2,132**	$ 2,147

For inventories recorded as at year end 2012, Loblaw recorded $14 (2011 – $20) for the write-down of inventories below cost to net realizable value. The write-down was included in cost of inventories sold in the consolidated statements of earnings. There were no reversals of previously recorded write-downs of inventories during 2012 and 2011.

Cost of inventories sold in 2012 included income of $6 (2011 – a charge of $31) related to the fair value adjustment of commodity derivatives at Weston Foods.

Note 12. Assets Held for Sale

Loblaw holds land and buildings that it intends to dispose of in the next 12 months as assets held for sale. These assets were previously used in Loblaw's Retail segment. During 2012, impairment and other charges of $1 (2011 – $3) were recognized on these properties. Also during 2012, Loblaw recorded a gain of $4 (2011 – $19) from the sale of these assets.

Note 13. Fixed Assets

The following is a continuity of the cost and accumulated depreciation of fixed assets for the year ended December 31, 2012:

	Land	Buildings	Equipment and fixtures	Buildings and leasehold improvements	Finance leases - land, buildings, equipment and fixtures	Assets under construction	Total
Cost, beginning of year	$ 1,686	$ 6,549	$ 6,157	$ 736	$ 511	$ 666	$ 16,305
Additions		23	36	22	73	1,032	1,186
Disposals	(8)	(21)	(104)	(9)	(28)		(170)
Transfer to assets held for sale	(9)	(25)					(34)
Transfer (to) from investment properties	(3)	1			(1)		(3)
Transfer from assets under construction	12	271	633	55		(971)	
Foreign exchange		(3)	(7)				(10)
Cost, end of year	$ 1,678	$ 6,795	$ 6,715	$ 804	$ 555	$ 727	$ 17,274
Accumulated depreciation and impairment losses, beginning of year	$ 9	$ 2,236	$ 4,236	$ 400	$ 245	$ 7	$ 7,133
Depreciation		186	536	47	43		812
Impairment losses	2	32	7	4	4		49
Reversal of impairment losses	(3)	(25)					(28)
Disposals		(9)	(85)	(9)	(24)		(127)
Transfer to assets held for sale		(15)					(15)
Transfer (to) from investment properties	(1)	4			1		4
Foreign exchange		(1)	(5)				(6)
Accumulated depreciation and impairment losses, end of year	$ 7	$ 2,408	$ 4,689	$ 442	$ 269	$ 7	$ 7,822
Carrying amount as at:							
December 31, 2012	$ 1,671	$ 4,387	$ 2,026	$ 362	$ 286	$ 720	$ 9,452

Notes to the Consolidated Financial Statements

The following is a continuity of the cost and accumulated depreciation of fixed assets for the year ended December 31, 2011:

	Land	Buildings	Equipment and fixtures	Buildings and leasehold improvements	Finance leases - land, buildings, equipment and fixtures	Assets under construction	Total
Cost, beginning of year	$ 1,563	$ 6,056	$ 5,532	$ 621	$ 436	$ 1,087	$ 15,295
Additions		5	46	16	76	957	1,100
Disposals		(6)	(91)	(7)			(104)
Transfer from (to) assets held for sale	5	(9)					(4)
Transfer to investment properties	(1)	(3)			(1)		(5)
Transfer from assets under construction	117	501	654	106		(1,378)	
Business acquisitions	2	3	9				14
Foreign exchange		2	7				9
Cost, end of year	$ 1,686	$ 6,549	$ 6,157	$ 736	$ 511	$ 666	$ 16,305
Accumulated depreciation and impairment losses, beginning of year	$ 6	$ 2,053	$ 3,844	$ 357	$ 205	$ 7	$ 6,472
Depreciation		188	476	39	37		740
Impairment losses	3	23	5	7	3		41
Reversal of impairment losses	(3)	(30)	(1)				(34)
Disposals		(6)	(74)	(6)			(86)
Transfer from (to) assets held for sale	2	(3)					(1)
Transfer to investment properties		(2)					(2)
Transfer to (from) assets under construction	1	13	(17)	3			
Foreign exchange			3				3
Accumulated depreciation and impairment losses, end of year	$ 9	$ 2,236	$ 4,236	$ 400	$ 245	$ 7	$ 7,133
Carrying amount as at:							
December 31, 2011	$ 1,677	$ 4,313	$ 1,921	$ 336	$ 266	$ 659	$ 9,172

Assets Held under Finance Leases The Company leases various land and buildings and equipment and fixtures under a number of finance lease arrangements. As at year end 2012, the net carrying amount of leased land and buildings was $259 (2011 – $223) and the net carrying amount of leased equipment and fixtures was $27 (2011 – $43).

Assets under Construction The cost of additions to properties under construction for 2012 was $1,032 (2011 – $957). Included in this amount were capitalized borrowing costs of $1 (2011 – $1), with a weighted average capitalization rate of 6.4% (2011 – 6.4%).

Security and Assets Pledged As at year end 2012, Loblaw had fixed assets with a carrying amount of $191 (2011 – $194) which were encumbered by mortgages of $93 (2011 – $96).

Fixed Asset Commitments As at year end 2012, the Company had entered into commitments of $76 (2011 – $55) for the construction, expansion and renovation of buildings and the purchase of real property.

Impairment Losses In 2012, Loblaw recorded $49 (2011 – $39) of impairment losses on fixed assets in respect of 17 CGUs (2011 – 21 CGUs) in its Retail segment. Impairment losses are recorded where the carrying amount of the retail location exceeds its recoverable amount. The recoverable amount was based on the greater of the CGU's fair value less costs to sell and its value in use. Approximately 35% (2011 – 52%) of impaired CGUs had carrying values which were $26 (2011 – $24) greater than their fair value less costs to sell. The remaining 65% (2011 – 48%) of impaired CGUs had carrying values which were $23 (2011 – $15) greater than their value in use.

In 2012, Loblaw recorded $28 (2011 – $34) of impairment reversals on fixed assets in respect of 11 CGUs (2011 – 17 CGUs) in its Retail segment. Impairment reversals are recorded where the recoverable amount of the retail location exceeds its carrying amount. Approximately 55% (2011 – 71%) of CGUs with impairment reversals had fair value less costs to sell which were $15 (2011 – $24) greater than their carrying values. The remaining 45% (2011 – 29%) of CGUs with impairment reversals had value in use which were $13 (2011 – $10) greater than carrying values.

When determining the value in use of a retail location, Loblaw develops a discounted cash flow model for each CGU. The duration of the cash flow projections for individual CGUs varies based on the remaining useful life of the significant asset within the CGU. Sales forecasts for cash flows are based on actual operating results, operating budgets, and long term growth rates that were consistent with industry averages, all of which is consistent with strategic plans presented to Loblaw's Board. The estimate of the value in use of the relevant CGUs was determined using a pre-tax discount rate of 8.0% to 8.5% at the end of 2012 (2011 – 8.75% to 9.25%).

In 2012, Weston Foods recorded accelerated depreciation of $4 (2011 – $3) related to restructuring activities and a fixed asset impairment charge of nil (2011 – $2).

Note 14. Investment Properties

The following is a continuity of investment properties:

	2012	2011
Cost, beginning of year	**$ 158**	$ 151
Disposals		(1)
Transfer from fixed assets	**3**	5
Transfer from assets held for sale	**8**	3
Cost, end of year	**$ 169**	$ 158
Accumulated depreciation and impairment losses, beginning of year	**$ 76**	$ 77
Depreciation	**2**	1
Impairment losses	**1**	2
Reversal of impairment losses	**(4)**	(6)
Transfer (to) from fixed assets	**(4)**	2
Transfer to assets held for sale	**(2)**	
Accumulated depreciation, end of year	**$ 69**	$ 76

	As at	
	Dec. 31, 2012	Dec. 31, 2011
Carrying amount	**$ 100**	$ 82
Fair value	**$ 125**	$ 109

During 2012, Loblaw recognized in operating income $5 (2011 – $5) of rental income and incurred direct operating costs of $3 (2011 – $3) related to its investment properties. In addition, Loblaw recognized direct operating costs of $1 (2011 – $1) related to its investment properties for which no rental income was earned.

An external, independent valuation company, having appropriate recognized professional qualifications and recent experience in the location and category of property being valued, provided appraisals for certain of Loblaw's investment properties. For the other investment properties, Loblaw determined the fair value by relying on comparable market information and the independent manager of Loblaw's investment properties.

Where available, the fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly.

Where market values are not available, valuations are prepared using the income approach by considering the estimated cash flows expected from renting out the property based on existing lease terms and where appropriate, the ability to renegotiate the lease terms once the initial term or option term(s) expire plus the net proceeds from a sale of the property at the end of the investment horizon.

The valuations of investment properties using the income approach include assumptions as to market rental rates for properties of similar size and condition located within the same geographical areas, recoverable operating costs for leases with tenants, non-recoverable operating costs, vacancy periods, tenant inducements and capitalization rates for the purposes of determining the estimated net proceeds from the sale of the property. As at year end 2012, the pre-tax discount rates used in the valuations for investment properties ranged from 6.0% to 9.75% (2011 – 6.0% to 10.0%) and the terminal capitalization rates ranged from 5.75% to 8.75% (2011 – 5.75% to 9.25%).

In 2012, Loblaw recorded impairment losses on investment properties of $1 (2011 – $2) and recorded reversals of impairment losses on investment properties of $4 (2011 – $6) in operating income. The main factor contributing to the impairment of investment properties was external economic factors.

Note 15. Goodwill and Intangible Assets

The following is a continuity of the cost and accumulated amortization of goodwill and intangible assets for the year ended December 31, 2012:

	Indefinite Life Intangible Assets and Goodwill		Definite Life Intangible Assets			
	Goodwill	**Trademarks and brand names**	**Internally generated intangible assets**	**Trademarks and brand names**	**Other intangible assets**	**Total**
Cost, beginning of year	$ 2,425	$ 51	$ 20	$ 23	$ 146	$ 2,665
Additions		11			32	43
Write-off cost of fully amortized assets					(4)	(4)
Reclassification	(5)				5	
Impact of foreign currency translation	(3)				(3)	(6)
Cost, end of year	$ 2,417	$ 62	$ 20	$ 23	$ 176	$ 2,698
Accumulated amortization and impairment losses, beginning of year	$ 1,062		$ 8	$ 4	$ 36	$ 1,110
Amortization			6	1	14	21
Write-off amortization of fully amortized assets					(4)	(4)
Accumulated amortization and impairment losses, end of year	$ 1,062		$ 14	$ 5	$ 46	$ 1,127
Carrying amount as at:						
December 31, 2012	$ 1,355	$ 62	$ 6	$ 18	$ 130	$ 1,571

The following is a continuity of the cost and accumulated amortization of goodwill and intangible assets for the year ended December 31, 2011:

	Indefinite Life Intangible Assets and Goodwill		Definite Life Intangible Assets			
	Goodwill	Trademarks and brand names	Internally generated intangible assets	Trademarks and brand names	Other intangible assets	Total
Cost, beginning of year	$ 2,415	$ 51	$ 18	$ 23	$ 143	$ 2,650
Additions	7		2		4	13
Write-off cost of fully amortized assets					(3)	(3)
Impact of foreign currency translation	3				2	5
Cost, end of year	$ 2,425	$ 51	$ 20	$ 23	$ 146	$ 2,665
Accumulated amortization and impairment losses, beginning of year	$ 1,062		$ 2	$ 3	$ 29	$ 1,096
Amortization			6	1	10	17
Write-off amortization of fully amortized assets					(3)	(3)
Accumulated amortization and impairment losses, end of year	$ 1,062		$ 8	$ 4	$ 36	$ 1,110
Carrying amount as at:						
December 31, 2011	$ 1,363	$ 51	$ 12	$ 19	$ 110	$ 1,555

During 2012, Loblaw had goodwill and intangible asset additions of $43 (2011 – $14), of which $31 (2011 – nil) was related to the purchase of prescription files from 106 Zellers Inc. stores, which were classified as definite life intangible assets.

Indefinite Life Intangible Assets and Goodwill
For purposes of goodwill impairment testing, the Company's CGUs were grouped at the lowest level at which goodwill was monitored for internal management purposes. The carrying amount of goodwill attributed to each CGU grouping was as follows:

	As at	
	Dec. 31, 2012	Dec. 31, 2011
Fresh and Frozen – Weston Foods	**$ 252**	$ 255
Quebec region – Loblaw	**700**	700
T&T Supermarket Inc.	**129**	129
Other	**274**	279
Carrying amount of goodwill	**$ 1,355**	$ 1,363

The indefinite life intangible assets include trademark and brand names recorded by Loblaw resulting from the acquisition of T&T Supermarket Inc. ("T&T").

The Company completed its 2012 and 2011 annual goodwill and indefinite life intangible assets impairment tests and concluded that there was no impairment.

Key Assumptions The key assumptions used to calculate the recoverable amount for the fair value less costs to sell are those regarding discount rates, growth rates and expected changes in margins.

Cash flow projections were discounted using a range of rates derived from the Company's after-tax weighted average cost of capital adjusted for specific risks relating to each CGU. As at year end 2012, the after-tax discount

rates used in the recoverable amount calculations were approximately 9.5% (2011 – 7.0% to 9.5%). The pre-tax discount rates ranged from 12.8% to 13.0% (2011 – 9.4% to 12.8%).

The Company included a minimum of five years of cash flows in its discounted cash flow model. The cash flow forecasts were extrapolated beyond the five year period using estimated long term growth rates ranging from 0.9% to 2.0% (2011 – 1.5% to 2.0%). The budgeted adjusted EBITDA growth is based on the Company's five year strategic plan approved by GWL's and Loblaw's Boards.

Sensitivity to Changes in Key Assumptions For the T&T CGU, two key assumptions were identified by Loblaw that, if changed, could cause the carrying amount to exceed its recoverable amount. A change in the discount rate or terminal growth rate of approximately 75 basis points or 125 basis points (2011 – 75 basis points or 125 basis points), respectively, would cause the estimated recoverable amount to equal the carrying amount. The values assigned to the key assumptions represent Loblaw's assessment of the future performance of T&T and were based on both external and internal sources of information.

The Company does not believe that any changes in other key assumptions would have a significant impact on the determination of the recoverable amount of the Company's other CGUs to which goodwill is allocated.

Definite Life Intangible Assets
The Company completed its assessments of impairment indicators for definite life intangible assets and concluded that there were no indications of impairment during 2012 and 2011.

Note 16. Other Assets

The components of other assets were as follows:

	As at	
	Dec. 31, 2012	Dec. 31, 2011
Fair value of equity forward (note 29)	**$ 483**	$ 478
Sundry investments and other receivables	**159**	166
Fair value of cross currency swaps (note 29)	**98**	103
Other	**41**	42
Other assets	**$ 781**	$ 789

Note 17. Provisions

Provisions consist primarily of amounts recorded in respect of restructuring, self-insurance, commodity taxes, environmental and decommissioning liabilities, onerous lease arrangements and a MEPP withdrawal liability.

The following are continuities relating to the Company's provisions:

	2012	2011
Provisions, beginning of year	**$ 161**	$ 187
Additions	**107**	72
Payments	**(41)**	(74)
Reversals	**(9)**	(26)
Impact of foreign currency translation	**(1)**	2
Provisions, end of year	**$ 217**	$ 161

	As at	
	Dec. 31, 2012	Dec. 31, 2011
Carrying amount of provisions recorded in:		
Current provisions	**$ 123**	$ 67
Non-current provisions	**94**	94
Provisions	**$ 217**	$ 161

The Company's accrued insurance liabilities were $73 (2011 – $85), of which $48 (2011 – $59) was included in non-current provisions and $25 (2011 – $26) in current provisions. Included in total accrued insurance liabilities were $35 (2011 – $45) of U.S. workers' compensation liabilities. The related cost and accrued workers' compensation liabilities are based on actuarial valuations which are dependent on assumptions determined by management. The discount rate used in determining the 2012 workers' compensation cost and liability was 3.50% (2011 – 3.50%). The total workers' compensation liability is equal to the ultimate actuarial loss estimate less any actual losses paid to date. Any change in the workers' compensation liability is recognized immediately in operating income.

The U.S. workers' compensation cost associated with the worker's compensation liabilities was $5 in 2012 (2011 – $5).

During 2012, Loblaw reduced a number of head office and administrative positions, affecting approximately 700 positions. Loblaw recorded a charge of $61 to reflect the costs of these reductions. As at year end 2012, $45 was included in provisions and $6 was included in other liabilities related to this charge.

During 2012, Weston Foods withdrew from one of the U.S. MEPPs in which it participated. As a result, the Company was subject to and paid a withdrawal liability. Also during 2012, another participating employer withdrew from the plan and a mass withdrawal was triggered. As a result of the mass withdrawal the Company is subject to an incremental withdrawal liability. Until the current actuarial valuation is made available, the actual amount of the incremental withdrawal liability is unknown. Management's estimate of this liability is approximately $17. This liability was recorded in 2012 and is presented in current provisions and selling, general and administrative expenses in the Company's consolidated balance sheet and consolidated statement of earnings, respectively.

Note 18. Short Term Debt

The components of short term debt were as follows:

	As at	
	Dec. 31, 2012	Dec. 31, 2011
Other Independent Securitization Trusts (note 10)[1]	**$ 905**	$ 905
Series B Debentures[2]	**414**	375
Short term debt	**$ 1,319**	$ 1,280

(1) The outstanding short term debt balances relate to the associated liabilities of the independent securitization trusts, excluding *Eagle* which is included in long term debt (see note 19). During 2012, PC Bank amended and extended the maturity date for two of its independent securitization trust agreements from the third quarter of 2013 to the second quarter of 2015, with all other terms and conditions remaining substantially the same.

During 2012, PC Bank did not securitize any credit card receivables (2011 – $370). In addition to PC Bank's securitized credit card receivables, the independent securitization trusts' recourse is limited to standby letters of credit arranged by Loblaw as at year end 2012 of $81 (2011 – $81) which is based on a portion of the securitized amount (see note 32).

(2) Series B Debentures issued by GWL are due on demand, and pay a current weighted average interest rate of 1.79% (2011 – 1.78%). The Series A, 7.00% (see note 19) and Series B Debentures are secured by a pledge of 9.6 million Loblaw common shares.

Note 19. Long Term Debt

The components of long term debt were as follows:

	As at	
	Dec. 31, 2012	Dec. 31, 2011
George Weston Limited		
Debentures		
Series A, 7.00%, due 2031[(i)]	**$ 466**	$ 466
Notes		
5.05%, due 2014	**200**	200
3.78%, due 2016[(ii)]	**350**	350
7.10%, due 2032	**150**	150
6.69%, due 2033	**100**	100
Loblaw Companies Limited		
Notes		
5.40%, due 2013	**200**	200
6.00%, due 2014	**100**	100
4.85%, due 2014	**350**	350
7.10%, due 2016	**300**	300
5.22%, due 2020	**350**	350
6.65%, due 2027	**100**	100
6.45%, due 2028	**200**	200
6.50%, due 2029	**175**	175
11.40%, due 2031		
Principal	**151**	151
Effect of coupon repurchase	**(76)**	(85)
6.85%, due 2032	**200**	200
6.54%, due 2033	**200**	200
8.75%, due 2033	**200**	200
6.05%, due 2034	**200**	200
6.15%, due 2035	**200**	200
5.90%, due 2036	**300**	300
6.45%, due 2039	**200**	200
7.00%, due 2040	**150**	150
5.86%, due 2043	**55**	55
U.S. Private placement notes		
6.48%, due 2013 (U.S. $150)	**150**	153
6.86%, due 2015 (U.S. $150)	**150**	153
Long term debt secured by mortgage		
5.49%, due 2018 (note 13)	**88**	91
Guaranteed investment certificates[(iii)]		
due 2013 – 2017 (0.85% – 3.78%)	**303**	276
Independent securitization trusts[(iv)]		
Eagle, 2.88%, due 2013	**250**	250
Eagle, 3.58%, due 2015	**350**	350
Independent funding trusts[(v)]	**459**	424
Finance lease obligations (note 28)	**366**	334
Transaction costs and other	**(4)**	1
Total long term debt	**6,933**	6,844
Less – amount due within one year	**(672)**	(87)
Long term debt	**$ 6,261**	$ 6,757

The schedule of repayment of long term debt, based on maturity, is as follows: 2013 – $672; 2014 – $1,179; 2015 – $545; 2016 – $782; 2017 – $96; thereafter – $3,667. See note 29 for the fair value of long term debt.

(i) The Series A, 7.00% and Series B Debentures (see note 18) are secured by a pledge of 9.6 million Loblaw common shares.

(ii) During 2011, GWL issued $350 principal amount of unsecured Medium Term Notes (“MTN”), Series 2-A pursuant to its MTN, Series 2 program. Series 2-A notes pay a fixed rate of interest of 3.78% per annum payable semi-annually until maturity on October 25, 2016. The notes are unsecured obligations of GWL and rank equally with all the unsecured indebtedness of GWL that has not been subordinated. The notes may be redeemed at the option of GWL, in whole at any time or in part from time to time, upon not less than 30 days and not more than 60 days notice to the holders of the notes.

(iii) During 2012, PC Bank sold $76 (2011 – $264) in guaranteed investment certificates (“GICs”) through independent brokers. In addition, during 2012, $49 (2011 – $6) of GICs matured and were repaid. As at year end 2012, Loblaw recorded in long term debt $303 (2011 – $276) of outstanding GICs, of which $36 (2011 – $46) was recorded as long term debt due within one year.

(iv) The notes issued by *Eagle* are MTNs which are collateralized by PC Bank's credit card receivables (see note 10). During 2011, *Eagle* repaid the $500 senior and subordinated notes due March 17, 2011.

(v) During 2012, Loblaw amended and increased the size of the revolving committed credit facility that is the source of funding to the independent funding trusts from $475 to $575. Other terms and conditions remain substantially the same. This facility bears interest at variable rates and expires in 2014. As at year end 2012, the independent funding trusts had drawn $459 (2011 – $424) from this committed credit facility.

Loblaw provides credit enhancement in the form of a standby letter of credit for the benefit of the independent funding trusts representing not less than 10% (2011 – 10%) of the principal amount of the loans outstanding. As at year end 2012, Loblaw had provided a letter of credit in the amount of $48 (2011 – $48).

During 2011, GWL's $300 6.45% MTN due October 24, 2011 matured and was repaid.

During 2011, Loblaw's $350 6.5% MTN due January 19, 2011 matured and was repaid.

Loblaw Committed Credit Facility

During 2012, Loblaw renewed and extended its existing $800 committed credit facility to March 2017. Interest is based on a floating rate, primarily the bankers' acceptance rate and an applicable margin based on Loblaw's credit rating. As at year end 2012, Loblaw was in compliance with all of its covenants (see note 24). Also, as at year end 2012 and 2011, there were no amounts drawn upon this credit facility.

Note 20. Other Liabilities

The components of other liabilities were as follows:

	As at	
	Dec. 31, 2012	Dec. 31, 2011
Defined benefit plan liability (note 25)	**$ 596**	$ 674
Other long term employee benefit liability	**127**	130
Deferred vendor allowances	**24**	32
Share-based compensation liability (note 26)	**36**	24
Other	**162**	173
Other liabilities	**$ 945**	$ 1,033

Note 21. Capital Securities ($ except where otherwise indicated)

Loblaw has 9.0 million 5.95% non-voting Second Preferred Shares, Series A, outstanding (authorized – 12.0 million), with a face value of $225 million, which were issued for net proceeds of $218 million, and entitle the holder to a fixed cumulative preferred cash dividend of $1.4875 per share per annum which, if declared, will be payable quarterly. These preferred shares which are presented as capital securities on the consolidated balance sheets are classified as other financial liabilities, and measured using the effective interest method.

On and after July 31, 2013, 2014 and 2015, Loblaw may at its option redeem for cash, in whole or in part, these outstanding preferred shares at $25.75, $25.50 and $25.00 per share, respectively. On and after July 31, 2013, Loblaw may at its option convert these preferred shares into that number of common shares of Loblaw determined by dividing the then applicable redemption price, together with all accrued and unpaid dividends to but excluding the date of conversion, by the greater of $2.00 per share and 95% of the then current market price of the common shares. On and after July 31, 2015, these outstanding preferred shares are convertible, at the option of the holder, into that number of common shares of Loblaw determined by dividing $25.00 per share, together with accrued and unpaid dividends to but excluding the date of conversion, by the greater of $2.00 per share and 95% of the then current market price of the common shares. This option is subject to Loblaw's right to redeem the preferred shares for cash or arrange for their sale to substitute purchasers.

Dividends on capital securities are presented in net interest expense and other financing charges in the consolidated statements of earnings (see note 5).

Note 22. Share Capital ($ except where otherwise indicated)

The components of share capital were as follows:

	As at	
($ millions)	**Dec. 31, 2012**	Dec. 31, 2011
Common share capital	**$ 136**	$ 133
Preferred shares, Series I	**228**	228
Preferred shares, Series III	**196**	196
Preferred shares, Series IV	**197**	197
Preferred shares, Series V	**196**	196
Share capital	**$ 953**	$ 950

Common Share Capital (authorized – unlimited)

The changes in the common shares issued and outstanding for the years ended December 31, 2012 and December 31, 2011 were as follows:

	2012		2011	
($ millions)	**Number of Common Shares**	**Common Share Capital**	Number of Common Shares	Common Share Capital
Issued and outstanding, beginning of year	**128,188,843**	**$ 133**	129,073,662	$ 133
Issued from treasury[(1)]	**42,210**	**$ 3**	17,560	$ 1
Purchased for cancellation	**(9,212)**		(902,379)	$ (1)
Issued and outstanding, end of year	**128,221,841**	**$ 136**	128,188,843	$ 133
Weighted average outstanding	**128,189,901**		129,015,579	

(1) Share capital includes $3 million (2011 – $1 million) issued for stock options exercised (see note 26).

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

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

Preferred Shares, Series III (authorized – 10.0 million)
GWL has 8.0 million 5.20% non-voting Preferred Shares, Series III outstanding, with a face value of $200 million, which entitle the holder to a fixed cumulative preferred cash dividend of $1.30 per share per annum which will, if declared, be payable quarterly. On or after July 1, 2012, GWL may, at its option, redeem for cash, in whole or in part, these outstanding preferred shares as follows:

On or after July 1, 2012 at $25.50 per share, together with all accrued and unpaid dividends to the redemption date;
On or after July 1, 2013 at $25.25 per share, together with all accrued and unpaid dividends to the redemption date; and
On or after July 1, 2014 at $25.00 per share, together with all accrued and unpaid dividends to the redemption date.

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

Preferred Shares, Series IV (authorized – 8.0 million)
GWL has 8.0 million 5.20% non-voting Preferred Shares, Series IV outstanding, with a face value of $200 million, which entitle the holder to a fixed cumulative preferred cash dividend of $1.30 per share per annum which will, if declared, be payable quarterly. On or after October 1, 2012, GWL may, at its option, redeem for cash, in whole or in part, these outstanding preferred shares as follows:

On or after October 1, 2012 at $25.50 per share, together with all accrued and unpaid dividends to the redemption date;
On or after October 1, 2013 at $25.25 per share, together with all accrued and unpaid dividends to the redemption date; and
On or after October 1, 2014 at $25.00 per share, together with all accrued and unpaid dividends to the redemption date.

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

Preferred Shares, Series V (authorized – 8.0 million)
GWL has 8.0 million 4.75% non-voting Preferred Shares, Series V outstanding, with a face value of $200 million, which entitle the holder to a fixed cumulative preferred cash dividend of $1.1875 per share per annum which will, if declared, be payable quarterly. On or after July 1, 2012, GWL may, at its option, redeem for cash, in whole or in part, these outstanding preferred shares as follows:

On or after July 1, 2012 at $25.75 per share, together with all accrued and unpaid dividends to the redemption date;
On or after July 1, 2013 at $25.50 per share, together with all accrued and unpaid dividends to the redemption date;
On or after July 1, 2014 at $25.25 per share, together with all accrued and unpaid dividends to the redemption date; and

On or after July 1, 2015 at $25.00 per share, together with all accrued and unpaid dividends to the redemption date.

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

Dividends

During 2012, the Company amended its dividend policy to state: the declaration and payment of dividends on the Company's common shares and the amount thereof are at the discretion of the Board which takes into account the Company's financial results, capital requirements, available cash flow, future prospects of the Company's business and other factors considered relevant from time to time. Over the long term, it is the Company's intention to increase the amount of the dividend while retaining appropriate free cash flow to finance future growth. Also during 2012, the Board raised the quarterly common share dividend by $0.02 per share to $0.38 per share. The Board declared dividends as follows:

($)		**2012**		2011
Common shares	**$**	**1.46**	$	1.44
Preferred shares – Series I	**$**	**1.45**	$	1.45
Preferred shares – Series III	**$**	**1.30**	$	1.30
Preferred shares – Series IV	**$**	**1.30**	$	1.30
Preferred shares – Series V	**$**	**1.19**	$	1.19

Subsequent to year end 2012, common share dividends of $0.38 (2011 – $0.36) per share and preferred share dividends of $0.32 (2011 – $0.32) per share for the Series III and Series IV preferred shares and dividends of $0.30 (2011 – $0.30) per share for the Series V preferred shares, payable on April 1, 2013, were declared by the Board. In addition, dividends of $0.36 (2011 – $0.36) per share for the Series I preferred shares, payable on March 15, 2013, were also declared.

Normal Course Issuer Bid ("NCIB") Program

In 2012, GWL renewed its NCIB program to purchase on the TSX or enter into equity derivatives to purchase up to 6,409,499 of its common shares, representing approximately 5% of the common shares outstanding. In accordance with the rules and regulations of the TSX, any purchases must be at the then market prices of such shares. During 2012, GWL purchased for cancellation 9,212 (2011 – 902,379) of its common shares for $1 million (2011 – $61 million). The premium of $1 million (2011 – $60 million) paid on common shares purchased for cancellation was recorded in retained earnings.

Note 23. Subsidiary Capital Transactions

During 2012, Loblaw purchased for cancellation 423,705 (2011 – 1,021,986) of its common shares. As a result, contributed surplus decreased by $4 (2011 – $10).

During 2012, Loblaw issued 718,544 (2011 – 686,794) of its common shares in connection with its stock option plan (see note 26). As a result, contributed surplus increased by $8 (2011 – $9).

During 2011, Loblaw issued 938,984 common shares to GWL under the Dividend Reinvestment Plan ("DRIP"). As a result of the Company's participation in the DRIP, the Company's proportional ownership of Loblaw increased, resulting in a decrease to contributed surplus of $4. The Loblaw Board approved the discontinuance of the DRIP following the dividend payment on April 1, 2011.

Note 24. Capital Management

In order to manage its capital structure, the Company, among other activities, may adjust the amount of dividends paid to shareholders, purchase shares for cancellation pursuant to its NCIB program, issue new shares or issue or repay long term debt with the objective of:

- ensuring sufficient liquidity is available to support its financial obligations and to execute its operating and strategic plans;
- maintaining financial capacity and flexibility through access to capital to support future development of the business;
- minimizing the after-tax cost of its capital while taking into consideration current and future industry, market and economic risks and conditions;
- utilizing short term funding sources to manage its working capital requirements and long term funding sources to manage the long term capital expenditures of the business; and
- targeting credit rating metrics consistent with those of investment grade companies.

The Company has policies in place which govern debt financing plans and risk management strategies for liquidity, interest rates and foreign exchange. These policies outline measures and targets for managing capital, including a range for leverage consistent with the desired credit rating. Management and the Audit Committee regularly review the Company's compliance with, and performance against, these policies. In addition, Management regularly reviews these policies to ensure they remain consistent with the risk tolerance acceptable to the Company.

On May 25, 2011, GWL filed a Short Form Base Shelf Prospectus (“Prospectus”) allowing for the issuance of up to $1.5 billion in unsecured debentures and/or preferred shares over a 25-month period subject to the availability of funding in capital markets. On June 25, 2011, GWL filed a Prospectus Supplement to this Prospectus creating an MTN program pursuant to which it may issue unsecured debentures of up to $1.0 billion. During 2011, GWL issued $350 principal amount of five-year unsecured MTN, Series 2-A pursuant to this MTN, Series 2 program (see note 19).

In December 2012, Loblaw filed a Prospectus which expires in 2015, allowing for the potential issuance of up to $1.0 billion of unsecured debentures and/or preferred shares subject to the availability of funding in capital markets. Loblaw had filed a similar Prospectus in 2010 that expired in 2012. Loblaw has not issued any instruments under either of the expired or new Prospectus.

As at year end 2012 and 2011, the items that the Company includes in its definition of capital were as follows:

	As at	
	Dec. 31, 2012	Dec. 31, 2011
Bank indebtedness		$ 3
Short term debt	**$ 1,319**	1,280
Long term debt due within one year	**672**	87
Long term debt	**6,261**	6,757
Certain other liabilities	**39**	39
Fair value of financial derivatives related to the above debt	**(440)**	(425)
Total debt	**$ 7,851**	$ 7,741
Capital securities	**223**	222
Equity attributable to shareholders of the Company	**5,692**	5,459
Total capital under management	**$ 13,766**	$ 13,422

Covenants and Regulatory Requirements

Loblaw has certain key financial and non-financial covenants under its existing $800 committed credit facility and certain MTNs, U.S. Private Placement notes, and letters of credit. The key financial covenants include interest coverage ratios as well as leverage ratios, as defined in the respective agreements. These ratios are measured by Loblaw on a quarterly basis to ensure compliance with the agreements. During 2011, Loblaw amended these agreements to include certain relevant IFRS adjustments in computing the financial metrics used in calculating Loblaw's financial covenants. These amendments largely served to neutralize the impact of IFRS on covenant calculations as at the date of conversion to IFRS. As at year end 2012, Loblaw was in compliance with each of the covenants under these agreements.

Loblaw is also subject to externally imposed capital requirements from the Office of the Superintendent of Financial Institutions ("OSFI"), the primary regulator of PC Bank. PC Bank's capital management objectives are to maintain a consistently strong capital position while considering its economic risks generated by its credit card receivables portfolio and to meet all regulatory capital requirements as defined by OSFI. PC Bank is subject to the Basel II regulatory capital management framework which includes a Tier 1 capital ratio of 7.0% and a total capital ratio of 10.0%. PC Bank has exceeded all applicable capital requirements as at year end 2012.

Loblaw is also subject to externally imposed capital requirements through its subsidiary Glenhuron Bank Limited ("Glenhuron"), a wholly owned subsidiary of Loblaw, which is regulated by the Central Bank of Barbados. Glenhuron is regulated under Basel I which requires Glenhuron's assets to be risk weighted and the minimum ratio of capital to risk weighted assets to be 8.0%. Glenhuron's ratio of capital to risk weighted assets exceeded the minimum requirements under Basel I as at year end 2012.

In addition, the Company has wholly owned subsidiaries that engage in insurance related activities. These subsidiaries each exceeded the minimum regulatory capital and surplus requirements as at year end 2012.

Note 25. Post-Employment and Other Long Term Employee Benefits

Post-Employment Benefits

The Company sponsors a number of pension plans, including registered funded defined benefit pension plans, registered defined contribution pension plans and supplemental unfunded arrangements providing pension benefits in excess of statutory limits. Certain obligations of the Company under these supplemental pension arrangements are secured by a standby letter of credit issued by a major Canadian chartered bank. The Company's defined benefit pension plans are predominantly non-contributory and these benefits are, in general, based on career average earnings subject to limits.

The Company also offers certain other defined benefit plans other than pension plans. These other defined benefit plans are generally not funded, are mainly non-contributory and include health care, life insurance and dental benefits. Employees eligible for these other defined benefits are those who retire at certain ages having met certain service requirements. The majority of other defined benefit plans for current and future retirees include a limit on the total benefits payable by the Company.

In Canada, the Company also has a national defined contribution plan for salaried employees. All newly hired salaried employees are only eligible to participate in this defined contribution plan.

The Company also contributes to various MEPPs, which are administered by a board of trustees. The Company's responsibility to make contributions to these plans is established pursuant to its collective agreements. During 2012, Weston Foods withdrew from one of the U.S. MEPPs in which it participated. As a result, the Company was subject to and paid a withdrawal liability. Also during 2012, another participating employer withdrew from the plan and a mass withdrawal was triggered (see note 17).

Other Long Term Employee Benefits

The Company offers other long term employee benefit plans that include long term disability benefits and continuation of health care and dental benefits while on disability.

(i) Defined Benefit Pension Plans and Other Defined Benefit Plans

Information on the Company's defined benefit pension plans and other defined benefit plans, in aggregate, is summarized as follows:

	As at			
	Dec. 31, 2012		Dec. 31, 2011	
	Defined Benefit Pension Plans	**Other Defined Benefit Plans**	Defined Benefit Pension Plans	Other Defined Benefit Plans
Present value of funded obligations	**$ (2,066)**		$ (1,942)	
Fair value of plan assets	**1,847**		1,621	
Status of funded obligations	**$ (219)**		$ (321)	
Present value of unfunded obligations	**(119)**	**$ (253)**	(117)	$ (235)
Total funded status of obligations	**$ (338)**	**$ (253)**	$ (438)	$ (235)
Unrecognized past service credit		**(2)**		(1)
Liability arising from minimum funding requirement for past service	**(3)**			
Total net defined benefit plan obligation	**$ (341)**	**$ (255)**	$ (438)	$ (236)
Recorded on the consolidated balance sheets as follows:				
Other liabilities (note 20)	**$ (341)**	**$ (255)**	$ (438)	$ (236)

The following are the continuities of the fair value of plan assets and the present value of the defined benefit plan obligations:

			2012			2011
	Defined Benefit Pension Plans	**Other Defined Benefit Plans**	**Total**	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total
Changes in the fair value of plan assets						
Fair value, beginning of year	**$ 1,621**		**$ 1,621**	$ 1,544		$ 1,544
Employer contributions	**182**	**$ 7**	**189**	124	$ 7	131
Employee contributions	**3**		**3**	3		3
Benefits paid	**(124)**	**(7)**	**(131)**	(103)	(7)	(110)
Expected return on plan assets	**94**		**94**	97		97
Actuarial gains (losses) in other comprehensive loss	**72**		**72**	(45)		(45)
Other	**(1)**		**(1)**	1		1
Fair value, end of year	**$ 1,847**		**$ 1,847**	$ 1,621		$ 1,621
Changes in the present value of the defined benefit plan obligations						
Balance, beginning of year	**$ 2,059**	**$ 235**	**$ 2,294**	$ 1,738	$ 214	$ 1,952
Current service cost	**63**	**15**	**78**	52	13	65
Interest cost	**88**	**10**	**98**	91	12	103
Benefits paid	**(124)**	**(7)**	**(131)**	(103)	(7)	(110)
Employee contributions	**3**		**3**	3		3
Actuarial losses in other comprehensive loss	**92**	**9**	**101**	273	6	279
Plan amendments[1]		**(9)**	**(9)**			
Contractual termination benefits[2]	**5**		**5**	3		3
Special termination benefits[2]	**3**		**3**			
Other	**(4)**		**(4)**	2	(3)	(1)
Balance, end of year	**$ 2,185**	**$ 253**	**$ 2,438**	$ 2,059	$ 235	$ 2,294

(1) Relates to the elimination of certain post-retirement benefits for employees of one of the Company's other defined benefit plans.
(2) Contractual and special termination benefits include $6 related to the reduction of head office and administrative positions at Loblaw (see note 17).

For the year ended 2012, the actual return on plan assets was $166 (2011 – $52).

During 2013, the Company expects to contribute approximately $175 (2012 – contributed approximately $176) to its registered funded defined benefit pension plans. The actual amount paid may vary from the estimate based on actuarial valuations being completed, investment performance, volatility in discount rates, regulatory requirements and other factors. In 2013, the Company also expects to make contributions to its defined contribution plans and the MEPPs in which it participates as well as make benefit payments to the beneficiaries of the supplemental unfunded defined benefit pension plans, other defined benefit plans and other long term employee benefit plans.

Composition of Plan Assets
The defined benefit pension plan assets are held in trust and consisted of the following asset categories:

Percentage of plan assets	As at Dec. 31, 2012	Dec. 31, 2011
Equity securities	**58%**	53%
Debt securities	**41%**	46%
Cash and cash equivalents	**1%**	1%
Total	**100%**	100%

As at year end 2012 and 2011, the defined benefit pension plans did not directly include any GWL or Loblaw securities.

The cost recognized in other comprehensive loss for defined benefit plans was as follows:

	2012			2011		
	Defined Benefit Pension Plans	**Other Defined Benefit Plans**	**Total**	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total
Actuarial losses	**$ 20**	**$ 9**	**$ 29**	$ 318	$ 6	$ 324
Change in liability arising from asset ceiling				(1)		(1)
Change in liability arising from minimum funding requirements for past service	**3**		**3**	(2)		(2)
Total net actuarial losses recognized in other comprehensive loss before income taxes	**$ 23**	**$ 9**	**$ 32**	$ 315	$ 6	$ 321
Income tax recoveries on actuarial losses (note 6)	**(6)**	**(2)**	**(8)**	(82)	(1)	(83)
Actuarial losses net of income tax recoveries	**$ 17**	**$ 7**	**$ 24**	$ 233	$ 5	$ 238

The cumulative actuarial losses before income taxes recognized in equity for the Company's defined benefit plans were as follows:

	2012			2011		
	Defined Benefit Pension Plans	**Other Defined Benefit Plans**	**Total**	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total
Cumulative amount, beginning of year	**$ 428**	**$ 25**	**$ 453**	$ 113	$ 19	$ 132
Net actuarial losses recognized in the year before income taxes	**23**	**9**	**32**	315	6	321
Cumulative amount, end of year	**$ 451**	**$ 34**	**$ 485**	$ 428	$ 25	$ 453

Principal Actuarial Assumptions

The principal actuarial assumptions used in calculating the Company's defined benefit plan obligations and net defined benefit plan cost for the year were as follows (expressed as weighted averages):

	2012		2011	
	Defined Benefit Pension Plans	**Other Defined Benefit Plans**	Defined Benefit Pension Plans	Other Defined Benefit Plans
Defined Benefit Plan Obligations				
Discount rate	**4.00%**	**4.00%**	4.25%	4.25%
Rate of compensation increase	**3.50%**	**n/a**	3.50%	n/a
Mortality table	**UP94@Fully Generational**	**UP94@Fully Generational**	UP94@Fully Generational	UP94@Fully Generational
Net Defined Benefit Plan Cost				
Discount rate	**4.25%**	**4.25%**	5.25%	5.25%
Expected long term rate of return on plan assets	**5.75%**	**n/a**	6.25%	n/a
Rate of compensation increase	**3.50%**	**n/a**	3.50%	n/a
Mortality table	**UP94@Fully Generational**	**UP94@Fully Generational**	UP94@2020	UP94@2020

n/a – not applicable

The growth rate of health care costs, primarily drug and other medical costs, for the other defined benefit plan obligations as at year end 2012 was estimated at 5.75% and was assumed to gradually decrease to 4.50% by 2018, remaining at that level thereafter.

The overall expected long term rate of return on plan assets was 5.75%. The expected long term rate of return on plan assets is determined based on asset mix, active management and a review of historical returns. The expected long term rate of return is based on the portfolio as a whole and not on the sum of the individual asset categories.

Sensitivity of Key Actuarial Assumptions

The following table outlines the key assumptions for 2012 (expressed as weighted averages) and the sensitivity of a 1% change in each of these assumptions on the defined benefit plan obligations and the net defined benefit plan cost.

The sensitivity analysis provided in the table is hypothetical and should be used with caution. The sensitivities of each key assumption have been calculated independently of any changes in other key assumptions. Actual experience may result in changes in a number of key assumptions simultaneously. Changes in one factor may result in changes in another, which could amplify or reduce the impact of such assumptions.

	Defined Benefit Pension Plans		Other Defined Benefit Plans	
Increase (Decrease)	Defined Benefit Plan Obligations	Net Defined Benefit Plan Cost[1]	Defined Benefit Plan Obligations	Net Defined Benefit Plan Cost[1]
Expected long term rate of return on plan assets		5.75%		n/a
Impact of: 1% increase	n/a	$ (17)	n/a	n/a
1% decrease	n/a	$ 17	n/a	n/a
Discount rate	4.00%	4.25%	4.00%	4.25%
Impact of: 1% increase	$ (313)	$ (6)	$ (32)	$ (2)
1% decrease	$ 368	$ 5	$ 37	$ 2
Expected growth rate of health care costs[2]			5.75%	5.75%
Impact of: 1% increase	n/a	n/a	$ 33	$ 4
1% decrease	n/a	n/a	$ (29)	$ (3)

n/a – not applicable

(1) Discount rate and expected growth rate of health care costs sensitivity is for current service and interest costs only.

(2) Gradually decreasing to 4.50% by 2018 for the defined benefit plan obligations, remaining at that level thereafter.

Historical Information

The history of defined benefit plans was as follows:

	As at			
	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Fair value of plan assets	**$ 1,847**	$ 1,621	$ 1,544	$ 1,372
Present value of defined benefit plan obligations	**(2,438)**	(2,294)	(1,952)	(1,710)
Deficit in the plans	**$ (591)**	$ (673)	$ (408)	$ (338)
Experience adjustments arising on plan assets[1]	**$ 72**	$ (45)	$ 50	n/a
Experience adjustments arising on plan liabilities[1]	**$ (101)**	$ (279)	$ (187)	n/a

n/a – not applicable.

(1) Experience adjustments arising on plan assets and plan liabilities were recognized in other comprehensive loss.

(ii) Post-Employment and Other Long Term Employee Benefit Costs

The net cost recognized in net earnings before income taxes for the Company's post-employment and other long term employee benefit plans was as follows:

						2012
		Defined Benefit Pension Plans		Other Defined Benefit Plans		Total
Current service cost	$	63	$	15	$	78
Interest cost on defined benefit plan obligations[1]		88		10		98
Expected return on pension plan assets[1]		(94)				(94)
Contractual and special termination benefits[2]		8				8
Past service cost[3]				(8)		(8)
Other		(3)				(3)
Net post-employment defined benefit cost	$	62	$	17	$	79
Defined contribution costs[4]						22
Multi-employer pension plan costs[4]						104
Total net post-employment benefit costs					$	205
Other long term employee benefit costs[1]						30
Net post-employment and other long term employee benefit costs					$	235

(1) Interest cost on defined benefit plan obligations, expected return on pension plan assets and $4 of other long term employee benefit costs were recognized in net interest expense and other financing charges.

(2) Includes $6 of contractual and special termination benefits related to the reduction in head office and administrative positions at Loblaw (see note 17).

(3) Relates to the elimination of certain post-retirement benefits for employees of one of the Company's other defined benefit plans.

(4) Amounts represent the Company's contributions made in connection with defined contribution plans and MEPPs. Includes $51 related to the Company's MEPP withdrawal (see note 17).

						2011
		Defined Benefit Pension Plans		Other Defined Benefit Plans		Total
Current service cost	$	52	$	13	$	65
Interest cost on defined benefit plan obligations[1]		91		12		103
Expected return on pension plan assets[1]		(97)				(97)
Contractual termination benefits		3				3
Other				(3)		(3)
Net post-employment defined benefit cost	$	49	$	22	$	71
Defined contribution costs[2]						20
Multi-employer pension plan costs[2]						53
Total net post-employment benefit costs					$	144
Other long term employee benefit costs[1]						26
Net post-employment and other long term employee benefit costs					$	170

(1) Interest cost on defined benefit plan obligations, expected return on pension plan assets and $5 of other long term employee benefit costs were recognized in net interest expense and other financing charges.

(2) Amounts represent the Company's contributions made in connection with defined contribution plans and MEPPs.

The net post-employment and other long term employee benefit costs presented in the consolidated statements of earnings were as follows:

	2012	2011
Operating income	**$ 227**	$ 159
Net interest expense and other financing charges (note 5)	**8**	11
Net post-employment and other long term employee benefit costs	**$ 235**	$ 170

Note 26. Share-Based Compensation ($ except where otherwise indicated)

The following table summarizes the Company's cost recognized in selling, general and administrative expenses related to its stock option plans, RSU plans, PSU plans and GWL's and Glenhuron's equity derivatives:

($ millions)	2012	2011
Stock option plans expense[(1)]	**$ 21**	$ 14
RSU[(1)] and PSU plans expense	**16**	18
Equity derivative contracts (income) expense	**(8)**	15
Net share-based compensation expense	**$ 29**	$ 47

(1) In connection with the $1.0 billion special one-time common share dividend paid during the first quarter of 2011, employees who held stock options and RSUs were compensated for the decreased value of their awards resulting from the payment of the dividend. The related expense was included in share-based compensation expense.

The following is the carrying amount of the Company's share-based compensation arrangements including stock option plans, RSU plans, PSU plans, DSU plans, and EDSU plans:

	As at	
($ millions)	Dec. 31, 2012	Dec. 31, 2011
Trade and other payables	**$ 14**	$ 17
Other liabilities	**$ 36**	$ 24
Contributed surplus	**$ 45**	$ 45

Subsequent to year end 2012, both GWL and Loblaw's RSU and PSU plans were amended to require settlement in shares rather than in cash. Trusts have been established to facilitate the purchase of shares for future settlement for each of the RSU and PSU plans upon vesting. These trusts will be consolidated by the Company.

Stock Option Plans

GWL maintains a stock option plan for certain employees. Under this plan, GWL may grant options for up to 6,453,726 of its common shares, representing approximately 5% of outstanding common shares. Stock options have up to a seven-year term, vest 20% or 33% cumulatively on each anniversary date of the grant and are exercisable at the designated common share price, which is based on the greater of the volume weighted average trading price of GWL's common shares for either the five trading days prior to the date of grant or the trading day immediately preceding the grant date. Each stock option is exercisable into one common share of GWL at the price specified in the terms of the option agreement.

Loblaw maintains a stock option plan for certain employees. Under this plan, Loblaw may grant options for up to 28,137,162 of its common shares, representing approximately 10% of outstanding common shares. Stock options have up to a seven-year term, vest 20% or 33% cumulatively on each anniversary date of the grant and are exercisable at the designated common share price, which is based on the greater of the volume weighted average trading price of Loblaw's common shares for either the five trading days prior to the date of grant or the

trading day immediately preceding the grant date. Each stock option is exercisable into one common share of Loblaw at the price specified in the terms of the option agreement.

Commencing February 22, 2011, GWL and Loblaw amended their stock option plans whereby the right to receive a cash payment in lieu of exercising an option for shares was removed. As a result, $51 million previously recorded in trade and other payables and other liabilities was reclassified to contributed surplus.

The following is a summary of GWL's stock option plan activity:

			2012			2011
	Options (number of shares)		**Weighted Average Exercise Price/Share**	Options (number of shares)		Weighted Average Exercise Price/Share
Outstanding options, beginning of year	**1,414,504**	**$**	**75.43**	1,533,443	$	75.71
Granted	**381,146**	**$**	**62.96**	250,628	$	68.37
Exercised	**(41,361)**	**$**	**57.83**	(17,560)	$	51.00
Forfeited/cancelled	**(49,328)**	**$**	**67.65**	(352,007)	$	72.83
Expired	**(268,727)**	**$**	**109.32**			
Outstanding options, end of year[1]	**1,436,234**	**$**	**66.55**	1,414,504	$	75.43
Options exercisable, end of year	**616,453**	**$**	**67.96**	684,118	$	84.08

(1) Options outstanding of 1,436,234 (2011 – 1,414,504) represented approximately 1.1% (2011 – 1.1%) of GWL's issued and outstanding common shares, which was within GWL's guideline of approximately 5%.

The following table summarizes information about GWL's outstanding stock options:

							2012
				Outstanding Options			**Exercisable Options**
Range of Exercise Prices ($)	**Number of Options Outstanding**	**Weighted Average Remaining Contractual Life (years)**		**Weighted Average Exercise Price/Share**	**Number of Exercisable Options**		**Weighted Average Exercise Price/Share**
$46.24 – $63.01	**562,492**	**5**	**$**	**58.88**	**139,905**	**$**	**52.42**
$63.02 – $71.60	**418,585**	**5**	**$**	**67.98**	**98,655**	**$**	**69.00**
$71.61 – $81.05	**455,157**	**2**	**$**	**74.73**	**377,893**	**$**	**73.44**
	1,436,234				**616,453**		

During 2012, GWL granted stock options with a weighted average exercise price of $62.96 (2011 – $68.37) per common share and a fair value of $5 million (2011 – $3 million). In addition, during 2012, GWL issued 41,361 (2011 – 17,560) common shares on the exercise of stock options with a weighted average share price of $69.39 (2011 – $67.60) per common share and received cash consideration of $2 million (2011 – $1 million).

Notes to the Consolidated Financial Statements

The assumptions used to measure the grant date fair value of the GWL options granted during 2012 and 2011 under the Black-Scholes stock option valuation model were as follows:

	2012	2011
Expected dividend yield[(1)]	**2.3% - 2.4%**	2.0% - 2.2%
Expected share price volatility[(2)]	**24.2% - 25.8%**	24.3% - 26.0%
Risk-free interest rate[(3)]	**1.5% - 1.8%**	1.4% - 2.8%
Expected life of options[(4)]	**4.8 - 6.6 years**	4.8 - 6.6 years

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

Estimated forfeiture rates are incorporated into the measurement of stock option plan expense. The forfeiture rate applied as at year end 2012 was 4.2% (2011 – 4.6%).

The following is a summary of Loblaw's stock option plan activity:

	2012			2011		
	Options (number of shares)		**Weighted Average Exercise Price/Share**	Options (number of shares)		Weighted Average Exercise Price/Share
Outstanding options, beginning of year	**10,750,993**	**$**	**38.90**	9,320,865	$	38.56
Granted	**4,605,970**	**$**	**34.91**	3,337,049	$	39.20
Exercised	**(718,544)**	**$**	**31.00**	(686,794)	$	30.61
Forfeited/cancelled	**(1,506,608)**	**$**	**36.74**	(1,220,127)	$	41.80
Expired	**(592,883)**	**$**	**68.64**			
Outstanding options, end of year[(1)]	**12,538,928**	**$**	**36.74**	10,750,993	$	38.90
Options exercisable, end of year	**4,120,017**	**$**	**38.72**	3,671,069	$	43.25

(1) Options outstanding of 12,538,928 (2011 – 10,750,993) represented approximately 4.5% (2011 – 3.8%) of Loblaw's issued and outstanding common shares, which was within Loblaw's guideline of approximately 10% (2011 – 5%).

The following table summarizes information about Loblaw's outstanding stock options:

	2012					
	Outstanding Options				Exercisable Options	
Range of Exercise Prices ($)	Number of Options Outstanding	Weighted Average Remaining Contractual Life (years)		Weighted Average Exercise Price/Share	Number of Exercisable Options	Weighted Average Exercise Price/Share
$28.95 – $34.62	**2,383,145**	**3**	**$**	**30.23**	**1,419,209**	**$ 29.95**
$34.63 – $36.85	**5,838,021**	**6**	**$**	**35.36**	**635,412**	**$ 36.35**
$36.86 – $54.71	**4,317,762**	**4**	**$**	**42.21**	**2,065,396**	**$ 45.48**
	12,538,928				**4,120,017**	

During 2012, Loblaw granted stock options with a weighted average exercise price of $34.91 (2011 – $39.20) per common share and a fair value of $27 million (2011 – $26 million). In addition, during 2012, Loblaw issued 718,544 common shares (2011 – 686,794) on the exercise of stock options with a weighted average share price of $36.90 (2011 – $39.86) per common share and received cash consideration of $22 million (2011 – $21 million).

The assumptions used to measure the grant date fair value of the Loblaw options granted during 2012 and 2011 under the Black-Scholes stock option valuation model were as follows:

	2012	2011
Expected dividend yield(1)	**2.4% - 2.7%**	2.1% - 2.3%
Expected share price volatility(2)	**21.1% - 24.8%**	22.1% - 24.7%
Risk-free interest rate(3)	**1.3% - 1.6%**	1.2% - 2.9%
Expected life of options(4)	**4.2 - 6.5 years**	4.4 - 6.4 years

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

Estimated forfeiture rates are incorporated into the measurement of stock option plan expense. The forfeiture rate applied as at year end 2012 was 15.0% (2011 – 16.3%).

Restricted Share Unit Plans
GWL and Loblaw both maintain a RSU plan for certain employees. RSU grants entitle employees to a cash payment after the end of each performance period, ranging from three to five years, following the date of the award. The RSU payment will be an amount equal to the weighted average price of a GWL or Loblaw common share on the TSX in the five trading days preceding the end of the performance period for the RSUs multiplied by the number of RSUs held by the employee.

The following is a summary of GWL's and Loblaw's RSU plan activity:

	GWL		Loblaw	
(Number of Awards)	**2012**	2011	**2012**	2011
Outstanding RSUs, beginning of year	**139,813**	163,370	**1,119,496**	1,045,346
Granted	**82,249**	85,573	**379,746**	548,003
Settled	**(66,546)**	(93,356)	**(382,871)**	(398,532)
Forfeited	**(7,590)**	(15,774)	**(78,100)**	(75,321)
Outstanding RSUs, end of year	**147,926**	139,813	**1,038,271**	1,119,496
RSUs settled ($ millions)	**$ 4**	$ 6	**$ 13**	$ 15

As at year end 2012, the intrinsic value of GWL's and Loblaw's vested RSUs was $5 million (2011 – $6 million) and $22 million (2011 – $22 million), respectively.

Performance Share Unit Plans
During 2012, the GWL and Loblaw Boards approved a PSU plan for certain employees. PSU grants entitle employees to a cash payment equal to the weighted average price of a GWL or Loblaw common share on the TSX in the five trading days preceding the end of a three year performance period multiplied by the number of units that are vested. The number of units that vest is based on the achievement of specified performance measures.

The following is a summary of GWL's and Loblaw's PSU plan activity:

	GWL	Loblaw
(Number of Awards)	**2012**	**2012**
Outstanding PSUs, beginning of year		
Granted	**43,012**	**50,818**
Forfeited	**(1,911)**	
Outstanding PSUs, end of year	**41,101**	**50,818**

As at year end 2012, the intrinsic value of GWL's and Loblaw's vested PSUs was $1 million and a nominal amount, respectively.

Director Deferred Share Unit Plans
The following is a summary of GWL's and Loblaw's DSU plan activity:

	GWL		Loblaw	
(Number of Awards)	**2012**	2011	**2012**	2011
Outstanding DSUs, beginning of year	**143,754**	105,015	**158,017**	147,358
Granted	**25,507**	24,569	**36,570**	36,438
Reinvested	**3,569**	14,170	**4,193**	3,209
Settled				(28,988)
Outstanding DSUs, end of year	**172,830**	143,754	**198,780**	158,017

In 2012, the Company recorded a compensation cost of $2 million (2011 – $5 million) related to these plans in selling, general and administrative expenses. As at year end 2012, the intrinsic value of GWL's and Loblaw's DSUs was $12 million (2011 – $10 million) and $8 million (2011 – $6 million), respectively.

Executive Deferred Share Unit Plans

The following is a summary of GWL's and Loblaw's EDSU plan activity:

	GWL		Loblaw	
(Number of Awards)	**2012**	2011	**2012**	2011
Outstanding EDSUs, beginning of year	**4,130**	2,129	**43,928**	29,143
Granted	**711**	1,691	**3,553**	14,733
Reinvested	**84**	310	**1,007**	877
Settled	**(1,327)**		**(21,781)**	(825)
Outstanding EDSUs, end of year	**3,598**	4,130	**26,707**	43,928

In 2012, the Company recorded a nominal compensation cost (2011 – $1 million) related to these plans in selling, general and administrative expenses. As at year end 2012, the intrinsic value of GWL's and Loblaw's EDSUs was a nominal amount (2011 – nominal) and $1 million (2011 – $2 million), respectively.

Equity Derivative Contracts

The following is a summary of GWL's equity swap contracts (see note 29):

	As at	
($ millions unless otherwise indicated)	**Dec. 31, 2012**	Dec. 31, 2011
Outstanding contracts (in millions)	**0.8**	0.8
Forward price per share ($)	**$ 107.26**	$ 107.26
Unrealized loss recorded in trade and other payables	**$ 29**	$ 31

Subsequent to the end of 2012, GWL paid $29 million to settle its remaining equity swap contract representing 800,000 GWL common shares, which GWL purchased under its NCIB for $57 million. Of the 800,000 common shares purchased, 580,000 common shares were cancelled and the remaining 220,000 common shares were placed into trusts for future settlement of GWL's RSUs and PSUs.

The following is a summary of Glenhuron's equity forward contracts (see note 29):

	As at	
($ millions unless otherwise indicated)	**Dec. 31, 2012**	Dec. 31, 2011
Outstanding contracts (in millions)	**1.1**	1.1
Average forward price per share ($)	**$ 56.59**	$ 56.38
Interest expense (income) per share ($)	**$ 0.16**	$ (0.05)
Unrealized loss recorded in trade and other payables	**$ 16**	$ 20

Subsequent to the end of 2012, Glenhuron paid $16 million to settle its remaining equity forward contract representing 1,103,500 Loblaw common shares, which Loblaw purchased under its NCIB for $46 million, and placed into trusts for future settlement of Loblaw's RSUs and PSUs.

Note 27. Employee Costs

Included in operating income were the following employee costs:

	2012	2011
Wages, salaries and other short term employee benefits	**$ 3,366**	$ 3,264
Post-employment benefits (note 25)	**201**	138
Other long term employee benefits (note 25)	**26**	21
Share-based compensation (note 26)	**37**	32
Capitalized to fixed assets	**(24)**	(21)
Employee costs	**$ 3,606**	$ 3,434

Note 28. Leases

The Company leases certain of its retail stores, distribution centres, corporate offices, and other assets under operating or finance lease arrangements. Substantially all of the retail store leases have renewal options for additional terms. The contingent rents under certain of the retail store leases are based on a percentage of retail sales. The Company also has properties which are sub-leased to third parties.

Determining whether a lease arrangement is classified as finance or operating requires judgment with respect to the fair value of the leased asset, the economic life of the lease, the discount rate and the allocation of leasehold interests between the land and building elements of property leases.

Operating Leases – As Lessee
Future minimum lease payments relating to the Company's operating leases are as follows:

	Payments due by year						As at	
	2013	2014	2015	2016	2017	Thereafter	**Dec. 31, 2012**	Dec. 31, 2011
Operating lease payments	$ 212	$ 195	$ 171	$ 140	$ 115	$ 455	**$ 1,288**	$ 1,242
Sub-lease income	(49)	(42)	(29)	(19)	(11)	(37)	**(187)**	(226)
Net operating lease payments	$ 163	$ 153	$ 142	$ 121	$ 104	$ 418	**$ 1,101**	$ 1,016

In 2012, the Company recorded $208 (2011 – $198) as an expense in the statement of earnings in respect of operating leases. Contingent rent recognized as an expense in respect of operating leases was $1 (2011 – $1), while sub-lease income earned was $51 (2011 – $49) which was recognized in operating income.

Operating Leases – As Lessor
As at year end 2012, Loblaw leased certain owned land and buildings with a cost of $2,037 (2011 – $1,681) and related accumulated depreciation of $539 (2011 – $408). For the year ended 2012, rental income was $132 (2011 – $127) and contingent rent was $2 (2011 – $1), both of which were recognized in operating income.

Future rental income relating to Loblaw's operating leases is as follows:

	Payments to be received by year						As at	
	2013	2014	2015	2016	2017	Thereafter	**Dec. 31, 2012**	Dec. 31, 2011
Net operating lease income	$ 153	$ 131	$ 110	$ 86	$ 58	$ 158	**$ 696**	$ 634

Finance Leases – As Lessee
Loblaw has finance leases for certain property, plant and equipment.

Future minimum lease payments relating to Loblaw's finance leases are as follows:

	Payments due by year						As at	
	2013	2014	2015	2016	2017	Thereafter	**Dec. 31, 2012**	Dec. 31, 2011
Finance lease payments	$ 62	$ 43	$ 42	$ 41	$ 38	$ 529	**$ 755**	$ 708
Less future finance charges	(28)	(25)	(23)	(22)	(21)	(270)	**(389)**	(374)
Present value of minimum lease payments	$ 34	$ 18	$ 19	$ 19	$ 17	$ 259	**$ 366**	$ 334

In 2012, contingent rent recognized by Loblaw as an expense in respect of finance leases was $1 (2011 – $1).

Future sub-lease income relating to Loblaw's sub-lease agreements is as follows:

	Payments to be received by year						As at	
	2013	2014	2015	2016	2017	Thereafter	**Dec. 31, 2012**	Dec. 31, 2011
Sub-lease income	$ (14)	$ (13)	$ (9)	$ (6)	$ (4)	$ (11)	**$ (57)**	$ (52)

As at year end 2012, the sub-lease payments receivable under finance leases was $16 (2011 – $14).

Note 29. Financial Instruments

The Company's financial assets and financial liabilities are classified as follows:
- cash and cash equivalents, short term investments and security deposits are designated as fair value through profit or loss;
- derivatives which are not designated in a hedge are classified as fair value through profit or loss;
- accounts receivable, credit card receivables and Loblaw franchise loans receivable and certain other assets are classified as loans and receivables and carried at amortized cost; and
- bank indebtedness, trade and other payables, short term debt, long term debt, finance lease obligations, certain other liabilities and capital securities are classified as other financial liabilities and carried at amortized cost.

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

Cash and Cash Equivalents, Short Term Investments and Security Deposits
As at year end 2012, the Company had cash and cash equivalents, short term investments and security deposits of $4,075 (2011 – $4,101), including U.S. $2,239 (2011 – U.S. $2,212) that was held primarily by Dunedin Holdings GmbH ("Dunedin"), a subsidiary of GWL, and certain of its affiliates and Glenhuron.

In 2012, a loss of $13 (2011 – gain of $12) was recognized in other comprehensive loss related to the effect of foreign currency translation on the Company's (excluding Loblaw's) U.S. net investment in foreign operations. In addition, a loss of $24 (2011 – gain of $25) was recorded in selling, general and administrative expenses related to the effect of foreign currency translation on a portion of the U.S. dollar denominated cash and cash equivalents and short term investments held by foreign operations that have the same functional currency as that of the Company.

In addition, a loss of $27 (2011 – gain of $25) was recognized in Loblaw's operating income as a result of translating U.S. dollar denominated cash and cash equivalents, short term investments and security deposits of U.S. $1,113 (2011 – U.S. $1,073) held primarily by Glenhuron. Cross currency swaps provide an offset to the effect of this foreign currency translation. See cross currency swaps section below.

Cross Currency Swaps

As at year end 2012, Glenhuron held outstanding cross currency swaps (see note 30) to exchange U.S. dollars for $1,199 (2011 – $1,252) Canadian dollars. The swaps mature by 2019 and are financial derivatives classified as fair value through profit or loss. Currency adjustments receivable or payable arising from these swaps are settled in cash on maturity. As at year end 2012, a cumulative unrealized foreign currency exchange rate receivable of $93 (2011 – $89) was recorded in other assets (see note 16), and a receivable of $20 (2011 – $48) was recorded in prepaid expenses and other assets. In 2012, a fair value gain of $25 (2011 – loss of $29) was recognized in operating income relating to these cross currency swaps.

In 2008, Loblaw entered into fixed cross currency swaps to exchange $148 Canadian dollars for U.S. $150, which mature in the second quarter of 2013 and entered into additional fixed cross currency swaps to exchange $148 Canadian dollars for U.S. $150, which mature in 2015. A portion of these cross currency swaps was originally designated in a cash flow hedge to manage the foreign exchange variability related to part of Loblaw's fixed-rate U.S. dollar private placement notes. In 2011, the designated swap was no longer classified as a cash flow hedge and as a result, the fair value changes were recorded in operating income. As at year end 2012, a cumulative unrealized foreign currency exchange rate receivable of $5 (2011 – $14) was recorded in other assets (see note 16) and a receivable of $2 (2011 – nil) was recorded in prepaid expenses and other assets. In 2012, Loblaw recognized an unrealized fair value loss of $7 (2011 – gain of $2) in operating income related to these cross currency swaps. Offsetting the unrealized fair value loss was an unrealized foreign currency translation gain of $6 (2011 – loss of $6) which was also recognized in operating income related to the translation of the U.S. $300 fixed rate private placement notes.

Interest Rate Swaps

Loblaw maintains a notional $150 (2011 – $150) in interest rate swaps that mature by the third quarter of 2013, on which it pays a fixed rate of 8.38%. As at year end 2012, the fair value of these interest rate swaps of $5 (2011 – $16) was recorded in other liabilities. In 2012, Loblaw recognized a fair value gain of $11 (2011 – $8) in operating income related to these swaps.

Interest rate swaps previously held by Glenhuron converted a notional $200 of floating rate cash and cash equivalents, short term investments and security deposits to average fixed rate investments at 4.74%. These interest rate swaps matured in 2011. During 2011, Glenhuron recognized a fair value loss of $7 on these interest rate swaps in operating income.

Equity Derivative Contracts ($, except where otherwise indicated)

As at year end 2012, GWL had an equity swap contract to buy 0.8 million (2011 – 0.8 million) GWL common shares at a forward price of $107.26 (2011 – $107.26) per share. As at year end 2012, the unrealized market loss of $29 million (2011 – $31 million) was recorded in trade and other payables. In 2012, GWL recorded a fair value gain of $2 million (2011 – loss of $15 million) in operating income in relation to this equity swap contract.

During 2011, GWL amended its swap agreements to adjust the forward price of its equity swaps by $7.75 from an average forward price of $103.17 to an average forward price of $95.42 as a result of the special one-time common share dividend of $7.75 per common share paid in January 2011. Also during 2011, GWL paid $75 million to terminate one equity swap contract and purchase for cancellation the underlying 886,700 GWL common shares under its NCIB program (see note 22).

Subsequent to the end of 2012, GWL paid $29 million to settle its remaining equity swap contract representing 800,000 GWL common shares, which GWL purchased under its NCIB for $57 million. Of the 800,000 common shares purchased, 580,000 common shares were cancelled and the remaining 220,000 common shares were placed into trusts for future settlement of GWL's RSUs and PSUs (see note 26).

As at year end 2012, Glenhuron had an equity forward contract to buy 1.1 million (2011 – 1.1 million) Loblaw common shares at an average forward price of $56.59 (2011 – $56.38) including $0.16 of interest expense (2011 – $0.05 interest income) per common share. As at year end 2012, the cumulative accrued interest and unrealized market loss of $16 million (2011 – $20 million) was included in trade and other payables. In 2012,

Glenhuron recognized a fair value gain of $5 million (2011 – loss of $2 million) in operating income in relation to this equity forward contract.

During 2011, Glenhuron paid $7 million to terminate equity forwards representing 390,100 Loblaw common shares, which Loblaw purchased for cancellation under its NCIB for $15 million (see note 23). Subsequent to the end of 2012, Glenhuron paid $16 million to settle its remaining equity forward contract representing 1,103,500 Loblaw common shares, which Loblaw purchased under its NCIB for $46 million, and placed into trusts for future settlement of Loblaw's RSUs and PSUs (see note 26).

In 2001, Weston Holdings Limited ("WHL"), a subsidiary of GWL, entered into an equity forward sale agreement based on 9.6 million Loblaw common shares at an original forward price of $48.50 per Loblaw common share. As at year end 2012, the forward price had increased to $92.26 (2011 – $88.14) per Loblaw common share under the terms of the agreement and the fair value of this forward sale agreement of $483 million (2011 – $478 million) was recorded in other assets (see note 16). In 2012, a fair value loss of $35 million (2011 – gain of $18 million) was recorded in net interest expense and other financing charges related to this agreement (see note 5).

Weston Foods Commodity Derivatives
Weston Foods uses commodity futures, options and forward contracts to manage its anticipated exposure to fluctuations in commodity prices.

As at year end 2012, the unrealized loss related to Weston Foods' commodity futures of $2 (2011 – $1) was recorded in accounts receivable. As at year end 2012, a nominal cumulative fair value loss (2011 – nominal gain) related to Weston Foods' commodity options was recorded in accounts receivable.

Franchise Loans Receivable and Franchise Investments in Other Assets
The value of Loblaw franchise loans receivable of $363 (2011 – $331) was recorded on the consolidated balance sheet. In 2012, Loblaw recorded an impairment loss of $12 (2011 – $11) in operating income related to these loan receivables.

The value of Loblaw franchise investments of $64 (2011 – $53) was recorded in other assets. In 2012, Loblaw recorded an impairment loss of $7 (2011 – $4) in operating income related to these investments.

Other Loblaw Derivatives
Loblaw also maintains other financial derivatives including foreign exchange forwards, electricity forwards and fuel exchange traded futures and options. As at year end 2012, a nominal (2011 – $1) cumulative unrealized receivable was recorded in prepaid expenses and other assets.

Fair Value Measurement
The Company classifies financial assets and financial liabilities under the following fair value hierarchy. The different levels have been identified as follows:
- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following describes the fair value determinations of financial instruments:

Cash and Cash Equivalents, Short Term Investments and Security Deposits Fair value is primarily based on interest rates for similar instruments. Due to the short term maturity of these instruments, the carrying amount approximates fair value.

Accounts Receivable, Credit Card Receivables, Bank Indebtedness, Trade and Other Payables and Short Term Debt Fair value is based on estimated cash flows, discounted at interest rates for similar instruments. Due to the short term maturity of these instruments, the carrying amount approximates fair value.

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Franchise Loan Receivables Fair value is based on estimated cash flows, discounted at interest rates for similar instruments. The carrying amount approximates fair value due to the minimal fluctuations in the forward interest rate and the sufficiency of provisions recorded for all impaired receivables.

Derivative Financial Instruments The fair values of derivative assets and liabilities are estimated using industry standard valuation models. Where applicable, these models project future cash flows and discount the future amounts to a present value using market based observable inputs including interest rate curves, credit spreads, foreign exchange rates and forward and spot prices for currencies.

Long Term Debt, Capital Securities and Other Financial Instruments Fair value is based on the present value of contractual cash flows, discounted at the Company's current incremental borrowing rate for similar types of borrowing arrangements or, where applicable, quoted market prices.

The following tables provide a summary of carrying and fair values for each classification of financial instruments and an analysis of financial instruments carried at fair value by fair value hierarchy level:

As at Dec. 31, 2012

	Financial instruments required to be classified as fair value through profit or loss	Financial instruments designated as fair value through profit or loss	Loans and receivables	Other financial liabilities	Total carrying amount	Total fair value
Cash and cash equivalents		$ 1,589			$ 1,589	$ 1,589
Short term investments		2,138			2,138	2,138
Derivatives included in accounts receivable	$ (2)				(2)	(2)
Other accounts receivable			$ 561		561	561
Credit card receivables			2,305		2,305	2,305
Security deposits		348			348	348
Franchise loans receivable			363		363	363
Derivatives included in other assets	603				603	603
Certain other assets			75		75	75
Total financial assets	$ 601	$ 4,075	$ 3,304		$ 7,980	$ 7,980
Fair value level 1	$ (2)	$ 385				$ 383
Fair value level 2	603	3,690				4,293
Fair value level 3						
Total fair value	$ 601	$ 4,075				$ 4,676
Short term debt				$ 1,319	$ 1,319	$ 1,319
Derivatives included in trade and other payables	$ 46				46	46
Other trade and other payables				3,891	3,891	3,891
Long term debt				6,933	6,933	7,901
Derivatives included in other liabilities	5				5	5
Certain other liabilities				44	44	44
Capital securities				223	223	243
Total financial liabilities	$ 51			$ 12,410	$ 12,461	$ 13,449
Fair value level 1						
Fair value level 2	$ 50					$ 50
Fair value level 3	1					1
Total fair value	$ 51					$ 51

						As at Dec. 31, 2011
	Financial instruments required to be classified as fair value through profit or loss	Financial instruments designated as fair value through profit or loss	Loans and receivables	Other financial liabilities	Total carrying amount	Total fair value
Cash and cash equivalents		$ 1,372			$ 1,372	$ 1,372
Short term investments		2,362			2,362	2,362
Derivatives included in accounts receivable	$ (1)				(1)	(1)
Other accounts receivable			$ 560		560	560
Credit card receivables			2,101		2,101	2,101
Security deposits		367			367	367
Franchise loans receivable			331		331	331
Derivatives included in other assets	630				630	630
Certain other assets			64		64	64
Total financial assets	$ 629	$ 4,101	$ 3,056		$ 7,786	$ 7,786
Fair value level 1	$ (1)	$ 384				$ 383
Fair value level 2	630	3,717				4,347
Fair value level 3						
Total fair value	$ 629	$ 4,101				$ 4,730
Bank indebtedness				$ 3	$ 3	$ 3
Short term debt				1,280	1,280	1,280
Derivatives included in trade and other payables	$ 53				53	53
Other trade and other payables				3,887	3,887	3,887
Long term debt				6,844	6,844	7,595
Derivatives included in other liabilities	19				19	19
Certain other liabilities				49	49	49
Capital securities				222	222	248
Total financial liabilities	$ 72			$ 12,285	$ 12,357	$ 13,134
Fair value level 1						
Fair value level 2	$ 70					$ 70
Fair value level 3	2					2
Total fair value	$ 72					$ 72

The fair value of the embedded foreign currency derivative classified as level 3 and included in other liabilities was $1 (2011 – $2), of which the fair value gain of $1 (2011 – loss of $5) was recognized in operating income. A 1% increase (decrease) in foreign currency exchange rates would result in an additional gain (loss) of $1 in fair value.

In 2012, the net loss on financial instruments designated as fair value through profit or loss recognized in net earnings before income taxes was $27 (2011 – $25). In addition, the net gain on financial instruments required to be classified as fair value through profit or loss recognized in net earnings before income taxes was $13 (2011 – net loss of $30).

During 2012, net interest expense of $414 (2011 – $418) was recorded related to financial instruments not classified or designated as fair value through profit and loss.

Note 30. Financial Risk Management

As a result of holding and issuing financial instruments, the Company is exposed to credit risk, market risk and liquidity and capital availability risk. The following is a description of those risks and how the exposures are managed:

Credit Risk

The Company is exposed to credit risk resulting from the possibility that counterparties could default on their financial obligations to the Company. Exposure to credit risk relates to derivative instruments, cash and cash equivalents, short term investments, security deposits, PC Bank's credit card receivables, Loblaw's franchise loans receivable, accounts receivable from Loblaw's franchisees, other receivables from Weston Foods' customers and suppliers and Loblaw's vendors, associated stores and independent accounts, and pension assets held in the Company's defined benefit plans.

The risk related to derivative instruments, cash and cash equivalents, short term investments and security deposits is reduced by policies and guidelines that require that the Company enters into transactions only with counterparties or issuers that have a minimum long term “A-” credit rating from a recognized credit rating agency and place minimum and maximum limits for exposures to specific counterparties and instruments. PC Bank manages its credit card receivable risk by employing stringent credit scoring techniques, actively monitoring the credit card portfolio, and reviewing techniques and technology that can improve the effectiveness of the collection process. In addition, these receivables are dispersed among a large, diversified group of credit card customers. Loblaw's franchise loans receivable, accounts receivable from Loblaw's franchisees, other receivables from Weston Foods' customers and suppliers and Loblaw's vendors, associated stores and independent accounts are actively monitored on an ongoing basis and settled on a frequent basis in accordance with the terms specified in the applicable agreements.

The Company's maximum exposure to credit risk as it relates to derivative instruments is approximated by the positive fair market value of the derivatives on the consolidated balance sheets (see note 29).

Refer to notes 9 and 10 for additional information on the credit quality performance of credit card receivables and other receivables from Weston Foods' customers and suppliers and Loblaw's vendors, independent franchisees, associated stores and independent accounts.

Market Risk

Market risk is the loss that may arise from changes in factors such as interest rates, foreign currency exchange rates, commodity prices, common share price and the impact these factors may have on other counterparties.

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

The Company estimates that based on the U.S. net assets held by foreign operations at the end of 2012, an appreciation in the Canadian dollar of one cent relative to the U.S. dollar would result in a loss of $10 (2011 – $10) in earnings before income taxes.

Revenues and expenses of all foreign operations are translated into Canadian dollars at the foreign currency exchange rates that approximate the rates in effect at the dates when such items are recognized. An appreciating Canadian dollar relative to the U.S. dollar will negatively impact year-over-year changes in reported sales,

operating income and net earnings, while a depreciating Canadian dollar relative to the U.S. dollar will have the opposite impact.

Loblaw is exposed to foreign currency exchange rate variability, primarily on its U.S. dollar denominated cash and cash equivalents, short term investments and security deposits held by Glenhuron, foreign denominated and foreign currency based purchases in trade and other liabilities, and U.S. dollar private placement notes included in long term debt. Loblaw and Glenhuron have cross currency swaps and foreign currency forward contracts that partially offset their respective exposure to fluctuations in foreign currency exchange rates (see note 29).

Commodity Price Risk Weston Foods costs are directly impacted by fluctuations in the prices of commodity-linked raw materials such as wheat flours, sugars, vegetable oils, cocoa powders and chocolate. Loblaw is also exposed to fluctuations in the commodity prices as a result of the indirect link between commodities and the cost of consumer products. In addition, both Weston Foods and Loblaw are exposed to increases in the prices of energy in operating, in the case of Weston Foods, its bakeries and distribution networks, and, in the case of Loblaw, its stores and distribution networks. Both Weston Foods and Loblaw use purchase commitments and derivative instruments in the form of futures contracts, option contracts and forward contracts to manage their current and anticipated exposure to fluctuations in commodity prices. The Company estimates that based on the outstanding derivative contracts held by the Company at the end of 2012, a 10% decrease in relevant commodity prices, with all other variables held constant, would result in a net loss of $7 in earnings before income taxes. This amount excludes the offsetting impact of the commodity price risk inherent in the transactions being hedged.

Interest Rate Risk The Company is exposed to interest rate risk from fluctuations in interest rates on its floating rate debt and financial instruments, net of cash and cash equivalents, short term investments and security deposits. GWL and Loblaw manage interest rate risk by monitoring their respective mix of fixed and floating rate debt, net of cash and cash equivalents, short term investments and security deposits, and by taking action as necessary to maintain an appropriate balance considering current market conditions. The Company estimates that a 100 basis point increase in short term interest rates, with all other variables held constant, would result in a decrease of $29 in net interest expense and other financing charges.

Common Share Price Risk GWL and Loblaw are exposed to common share market price risk as a result of the issuance of stock options to certain employees to the extent that the equivalent shares are repurchased by GWL and Loblaw on exercise, RSUs and PSUs. RSUs and PSUs negatively impact operating income when the common share prices increase and positively impact operating income when the common share prices decline. GWL and Glenhuron are parties to equity derivative contracts, which allow for settlement in cash, common shares or net settlement. These derivatives change in value as the market prices of the GWL and Loblaw common shares change and provide a partial offset to fluctuations in RSU and PSU plan expense or income. The impact on the equity derivatives of a one dollar decrease in the market value in the underlying common shares, with all other variables held constant, would result in a loss of $2 in earnings before income taxes.

In addition, the obligation of WHL under the equity forward sale agreement based on 9.6 million Loblaw common shares, which matures in 2031, is secured by the underlying Loblaw common shares. If the market value of the underlying Loblaw common shares exceeds the obligation of WHL under this forward, a portion of the proceeds from a future sale of these shares may be used to satisfy the obligation under this forward contract upon termination or maturity. At maturity, if the forward price is greater (less) than the market price of the Loblaw common shares, WHL will receive (pay) cash equal to the difference between the notional value and the market value of the forward contract. A one dollar decrease in the market value of the underlying shares of the equity forward, with all other variables held constant, would result in a loss of $10 in net interest expense and other financing charges.

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Liquidity and Capital Availability Risk

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they come due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price. Difficulty accessing capital markets could impair the Company's capacity to grow, execute its business model or generate financial returns.

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

Despite these mitigation strategies, if GWL, Loblaw or PC Bank's financial performance and condition deteriorate or downgrades in GWL's or Loblaw's current credit ratings occur, the ability to obtain funding from external sources could be restricted. In addition, credit and capital markets are subject to inherent risks that could negatively affect GWL's or Loblaw's access and ability to fund their financial or other liabilities.

Maturity Analysis The following are the undiscounted contractual maturities of significant financial liabilities as at December 31, 2012:

	2013	2014	2015	2016	2017	Thereafter[6]	Total
Interest rate swaps payable[1]	$ 6						$ 6
Equity swap and forward contracts[2]	148						148
Long term debt including fixed interest payments[3]	1,014	$ 1,472	$ 808	$ 1,021	$ 301	$ 6,899	11,515
Foreign exchange forward contracts	78						78
Short term debt[4]	1,319						1,319
Other liabilities[5]		35		4			39
	$ 2,565	$ 1,507	$ 808	$ 1,025	$ 301	$ 6,899	$ 13,105

(1) Based on the payment of fixed interest which will be partially offset by the floating interest received.

(2) Based on the average cost base as at December 31, 2012.

(3) Based on the maturing face values and annual interest for each instrument, including GICs, long term independent securitization trusts and an independent funding trust, as well as annual payment obligations for SPEs, mortgages and finance lease obligations.

(4) See note 18 for a breakdown of the components of short term debt.

(5) Contractual amount of Loblaw's obligation related to certain other liabilities.

(6) Loblaw capital securities and their related dividends have been excluded as Loblaw is not contractually obligated to pay these amounts. The Company also excluded bank indebtedness, trade payables and other liabilities, which are due within the next 12 months.

Note 31. Contingencies

The Company is involved in, and potentially subject to, various claims and matters arising out of the normal course and conduct of its business including, but not limited to, product liability, labour and employment, regulatory and environmental claims. Although such matters cannot be predicted with certainty, management currently considers the Company's exposure to such claims and litigation, to the extent not covered by the Company's insurance policies or otherwise provided for, not to be material to the consolidated financial statements, except for Income and Other Taxes as disclosed below.

Legal Proceedings

In 2007, pursuant to a transaction whereby Domtar was combined with the fine paper business of Weyerhaeuser Inc., Domtar common shares were exchanged for an equal number of either exchangeable shares of Domtar (Canada) Paper Inc. or common shares of New Domtar. The Company elected to receive exchangeable shares of Domtar (Canada) Paper Inc. in exchange for its Domtar common shares. The Share Purchase Agreement governing the June 1998 sale by GWL of E.B. Eddy Paper, Inc. to Domtar (the “SPA”) contains a price adjustment clause. The SPA provides, subject to certain limited exceptions, that if any person subsequently

acquired more than 50% of the outstanding voting shares of Domtar, the price adjustment clause applies. GWL believes that a price adjustment in the amount of $110 is payable to it by Domtar and it has demanded payment of such amount from Domtar. Domtar's position is that the purchase price adjustment does not apply because of the application of an exception contained in the SPA. GWL has commenced an action against Domtar for $110. The parties have exchanged legal pleadings.

The Company is the subject of various legal proceedings and claims that arise in the ordinary course of business. The outcome of all of these proceedings and claims is uncertain. However, based on information currently available, these proceedings and claims, individually and in the aggregate, are not expected to have a material impact on the Company.

Income and Other Taxes
The Company is involved in and potentially subject to tax audits from various governments and regulatory agencies relating to income, capital and commodity taxes on an ongoing basis. As a result, from time to time, taxing authorities may disagree with the positions and conclusions taken by the Company in its tax filings or legislation may be amended, which could lead to assessments and reassessments. These assessments and reassessments may have a material impact on the Company's financial statements in future periods. During 2012, Loblaw received indication from the Canada Revenue Agency ("CRA") that it intends to proceed with a reassessment with regard to the tax treatment of Loblaw's wholly owned subsidiary, Glenhuron. At this early stage, it is not possible to quantify the amount of the proposed reassessment. Although Loblaw does not expect the ultimate outcome to be material, such matters cannot be predicted with certainty and could result in a material charge in future periods.

During 2010, GWL received a reassessment from the CRA challenging GWL's characterization of a gain reported in a previous year's tax return filing. Should the CRA be successful in its assertion, the maximum exposure to the Company's net earnings would be approximately $65. GWL is vigorously defending its filing position. No amount has been provided for in the Company's financial statements.

Indemnification Provisions
The Company from time to time enters into agreements in the normal course of its business, such as service and outsourcing arrangements and leases, and in connection with business or asset acquisitions or dispositions. These agreements by their nature may provide for indemnification of counterparties. These indemnification provisions may be in connection with breaches of representation and warranty or with future claims for certain liabilities, including liabilities related to tax and environmental matters. The terms of these indemnification provisions vary in duration and may extend for an unlimited period of time. Given the nature of such indemnification provisions, the Company is unable to reasonably estimate its total maximum potential liability as certain indemnification provisions do not provide for a maximum potential amount and the amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. Historically, the Company has not made any significant payments in connection with these indemnification provisions.

Note 32. Financial Guarantees

The Company establishes letters of credit used in connection with certain obligations mainly related to real estate transactions, benefit programs, purchase orders and performance guarantees. The aggregate gross potential liability related to these letters of credit, not including the standby letters of credit for the benefit of the independent funding trusts and independent securitization trusts described below, is approximately $441 (2011 – $411). Letters of credit related to the financing program for Loblaw's independent franchisees and securitization of PC Bank's credit card receivables have been identified as guarantees and are described further below.

Independent Funding Trusts
The full balance relating to the debt of the independent funding trusts has been consolidated on the balance sheets of the Company as at year end 2012 and 2011. Loblaw has agreed to provide credit enhancement of $48 (2011 – $48) in the form of a standby letter of credit for the benefit of the independent funding trusts

representing not less than 10% (2011 – 10%) of the principal amount of the loans outstanding. This credit enhancement allows the independent funding trusts to provide financing to Loblaw's independent franchisees. As well, each independent franchisee provides security to the independent funding trusts for its obligations by way of a general security agreement. In the event that an independent franchisee defaults on its loan and Loblaw has not, within a specified time period, assumed the loan, or the default is not otherwise remedied, the independent funding trusts would assign the loan to Loblaw and draw upon this standby letter of credit. This standby letter of credit has never been drawn upon. Loblaw has agreed to reimburse the issuing bank for any amount drawn on the standby letter of credit.

Independent Securitization Trusts
Letters of credit for the benefit of other independent securitization trusts with respect to the securitization programs of PC Bank have been issued by major financial institutions. These standby letters of credit could be drawn upon in the event of a major decline in the income flow from or in the value of the securitized credit card receivables. Loblaw has agreed to reimburse the issuing banks for any amount drawn on the standby letters of credit. The aggregate gross potential liability under these arrangements, which represented 9% (2011 – 9%) on a portion of the securitized credit card receivables amount, was approximately $81 (2011 – $81) (see note 18). The undrawn commitments on the independent securitization trusts as at year end 2012 was $120 (2011 – $120).

Lease Obligations
In connection with historical dispositions of certain of its assets, Loblaw has assigned leases to third parties. Loblaw remains contingently liable for these lease obligations in the event any of the assignees are in default of their lease obligations. The estimated amount for minimum rent, which does not include other lease related expenses such as property tax and common area maintenance charges, was in aggregate of $13 (2011 – $14). Additionally, Loblaw has guaranteed lease obligations of a third-party distributor in the amount of $19 (2011 – $17).

PC Bank
Loblaw has provided a guarantee on behalf of PC Bank to MasterCard® International Incorporated in the amount of U.S. $230 (2011 – U.S. $180) for accepting PC Bank as a card member and licensee of MasterCard®.

Note 33. Related Party Transactions

The Company's majority shareholder is Mr. W. Galen Weston, who beneficially owns, directly and indirectly through private companies which he controls, including Wittington, a total of 80,724,599 of the Company’s common shares, representing approximately 63% (2011 – 63%) of the Company's 128,221,841 outstanding common shares. The Company's policy is to conduct all transactions and settle all balances with related parties on market terms and conditions.

Transactions between the Company and its consolidated entities have been eliminated on consolidation and are not disclosed in this note.

In 2012, rental payments to Wittington by the Company amounted to $4 (2011 – $4). As at year end 2012 and 2011, there were no rental payments outstanding.

In 2012, inventory purchases from Associated British Foods plc, a related party by virtue of Mr. W. Galen Weston being a director of such entity's parent company, amounted to $26 (2011 – $26). As at year end 2012, $2 (2011 – $2) was included in trade and other payables relating to these inventory purchases.

Post-Employment Benefit Plans
The Company sponsors a number of post-employment plans, which are related parties. Contributions made by the Company to these plans are disclosed in note 25.

Income Tax Matters
From time to time, the Company and Wittington may enter into agreements to make elections that are permitted or required under applicable income tax legislation with respect to affiliated corporations. These elections and accompanying agreements did not have a material impact on the Company.

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

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

	2012	2011
Salaries, director fees and other short term employee benefits	**$ 18**	$ 21
Share-based compensation	**8**	7
Total compensation	**$ 26**	$ 28

Note 34. Subsequent Event

Subsequent to year end 2012, the Company announced changes to certain of its defined benefit pension and post-employment benefits plans impacting certain employees retiring after January 1, 2015. These changes are expected to result in a one-time gain of approximately $51, which will be recorded in the first quarter of 2013.

Note 35. Segment Information

The Company has two reportable operating segments: Weston Foods and Loblaw. The accounting policies of the reportable operating segments are the same as those described in the Company's summary of significant accounting policies (see note 2). The Company measures each reportable operating segment's performance based on adjusted EBITDA[(1)] and adjusted operating income[(1)]. Neither reportable operating segment is reliant on any single external customer.

	2012	2011
Revenue		
Weston Foods	**$ 1,765**	$ 1,772
Loblaw	**31,604**	31,250
Intersegment	**(627)**	(646)
Consolidated	**$ 32,742**	$ 32,376
Adjusted EBITDA[(1)]		
Weston Foods	**$ 334**	$ 325
Loblaw	**2,065**	2,134
Total	**$ 2,399**	$ 2,459
Depreciation and Amortization[(2)]		
Weston Foods	**$ 59**	$ 60
Loblaw	**777**	699
Total	**$ 836**	$ 759
Adjusted Operating Income[(1)]		
Weston Foods	**$ 275**	$ 265
Loblaw	**1,288**	1,435
Impact of certain items[(3)]	**(147)**	(116)
Other[(4)]	**(24)**	25
Consolidated operating income	**$ 1,392**	$ 1,609

(1) Excludes certain items and is used internally by management when analyzing segment underlying operating performance.
(2) Excludes accelerated depreciation of $4 (2011 – $3) incurred by Weston Foods, included in restructuring and other charges.
(3) The impact of certain items excluded by management includes restructuring and other charges, the fair value adjustment of commodity derivatives at Weston Foods, share-based compensation net of equity derivatives, the MEPP withdrawal liability incurred by Weston Foods, the post-retirement plan change at Weston Foods, Weston Foods insurance proceeds, certain prior years' commodity tax matters at Loblaw, and the gain on sale of a portion of a Loblaw property.
(4) Operating income for the year included a loss of $24 (2011 – gain of $25) related to the effect of foreign currency translation on a portion of the U.S. dollar denominated cash and short term investments held by foreign operations.

	As at	
	Dec. 31, 2012	Dec. 31, 2011
Total Assets		
Weston Foods	**$ 1,979**	$ 1,875
Loblaw	**18,121**	17,588
Other[1]	**1,704**	1,860
Consolidated	**$ 21,804**	$ 21,323

(1) Other includes cash and cash equivalents and short term investments held by foreign operations that have the same functional currency as that of the Company.

	2012	2011
Additions to Fixed Assets and Goodwill and Intangible Assets		
Weston Foods	**$ 93**	$ 39
Loblaw	**1,060**	1,001
Consolidated	**$ 1,153**	$ 1,040

The Company operates primarily in Canada and the United States.

	2012	2011
Revenue (excluding intersegment)		
Canada	**$ 31,992**	$ 31,653
United States	**750**	723
Consolidated	**$ 32,742**	$ 32,376

	As at	
	Dec. 31, 2012	Dec. 31, 2011
Fixed Assets and Goodwill and Intangible Assets		
Canada	**$ 10,616**	$ 10,331
United States	**407**	396
Consolidated	**$ 11,023**	$ 10,727

Three Year Summary

CONSOLIDATED INFORMATION[1]

As at or for the years ended December 31

($ millions except where otherwise indicated)	**2012**	2011	2010
Operating Results			
Sales	**32,742**	32,376	31,847
Operating income	**1,392**	1,609	1,568
Adjusted operating income[2]	**1,563**	1,700	1,659
Adjusted EBITDA[2]	**2,399**	2,459	2,342
Net interest expense and other financing charges[3]	**417**	366	471
Net earnings attributable to shareholders of the Company	**486**	635	452
Net earnings	**726**	919	703
Financial Position			
Fixed assets	**9,452**	9,172	8,823
Goodwill and intangible assets	**1,571**	1,555	1,554
Total assets	**21,804**	21,323	21,696
Cash and cash equivalents, short term investments and security deposits	**4,075**	4,101	5,141
Adjusted debt[2]	**5,584**	5,536	5,833
Total equity attributable to shareholders of the Company	**5,692**	5,459	5,224
Total equity	**8,070**	7,680	7,304
Cash Flows			
Cash flows from operating activities	**1,852**	1,974	2,279
Fixed asset purchases	**1,110**	1,027	1,214
Free cash flow[2]	**946**	1,051	967
Per Common Share ($)			
Basic net earnings	**3.45**	4.58	3.16
Adjusted basic net earnings[2]	**4.46**	4.86	4.09
Dividend rate at year end	**1.46**	1.44	9.19 [4]
Book value	**38.03**	36.21	34.14
Market value at year end	**70.75**	68.09	84.20
Financial Measures and Ratios			
Sales growth (%)	**1.1**	1.7	0.1[5]
Adjusted operating margin (%)[2]	**4.8**	5.3	5.2
Adjusted EBITDA margin (%)[2]	**7.3**	7.6	7.4
Interest coverage[2]	**3.3x**	4.4x	3.3x
Adjusted debt[2] to adjusted EBITDA[2]	**2.3x**	2.3x	2.5x
Return on average net assets (%)[2]	**10.7**	12.8	13.0
Return on average common shareholders' equity attributable to shareholders of the Company (%)	**9.3**	13.1	8.4
Price/net earnings ratio at year end	**20.5**	14.9	26.6

(1) For financial definitions and ratios refer to the Glossary beginning on page 130.
(2) See non-GAAP financial measures beginning on page 51.
(3) 2012 included a non-cash charge of $35 (2011 – non-cash income of $18) related to the fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares (see note 5 to the consolidated financial statements).
(4) Included the special one-time common share dividend of $7.75 per common share.
(5) Compared to 2009 sales reported under Canadian GAAP.

SEGMENT INFORMATION[1]

As at or for the years ended December 31

($ millions except where otherwise indicated)		2012	2011	2010
OPERATING RESULTS				
Sales	Weston Foods	**1,765**	1,772	1,624
	Loblaw	**31,604**	31,250	30,836
	Intersegment	**(627)**	(646)	(613)
	Consolidated	**32,742**	32,376	31,847
Operating Income	Weston Foods	**228**	208	285
	Loblaw	**1,188**	1,376	1,339
	Other[2]	**(24)**	25	(56)
	Consolidated	**1,392**	1,609	1,568
Adjusted Operating Income[3]	Weston Foods	**275**	265	235
	Loblaw	**1,288**	1,435	1,424
	Consolidated	**1,563**	1,700	1,659
Adjusted EBITDA[3]	Weston Foods	**334**	325	290
	Loblaw	**2,065**	2,134	2,052
	Consolidated	**2,399**	2,459	2,342
FINANCIAL POSITION				
Fixed Assets	Weston Foods	**479**	447	446
	Loblaw	**8,973**	8,725	8,377
	Consolidated	**9,452**	9,172	8,823
Total Assets	Weston Foods	**1,979**	1,875	1,800
	Loblaw	**18,121**	17,588	17,001
	Other[4]	**1,704**	1,860	2,895
	Consolidated	**21,804**	21,323	21,696
CASH FLOWS				
Fixed Asset Purchases	Weston Foods	**93**	40	24
	Loblaw	**1,017**	987	1,190
	Consolidated	**1,110**	1,027	1,214
FINANCIAL MEASURES AND RATIOS				
Sales (Decline) Growth (%)	Weston Foods	**(0.4)**	9.1	(3.7)[5]
	Loblaw	**1.1**	1.3	0.3[5]
	Consolidated	**1.1**	1.7	0.1[5]
Operating Margin (%)	Weston Foods	**12.9**	11.7	17.5
	Loblaw	**3.8**	4.4	4.3
	Consolidated	**4.3**	5.0	4.9
Adjusted Operating Margin (%)[3]	Weston Foods	**15.6**	15.0	14.5
	Loblaw	**4.1**	4.6	4.6
	Consolidated	**4.8**	5.3	5.2
Adjusted EBITDA Margin (%)[3]	Weston Foods	**18.9**	18.3	17.9
	Loblaw	**6.5**	6.8	6.7
	Consolidated	**7.3**	7.6	7.4
Return on Average Net Assets (%)[3]	Weston Foods	**24.9**	24.5	40.8
	Loblaw	**9.8**	11.7	11.8
	Consolidated	**10.7**	12.8	13.0

(1) For financial definitions and ratios refer to the Glossary beginning on page 130.
(2) Operating income for the year included a loss of $24 (2011 – a gain of $25) related to the effect of foreign currency translation on a portion of the U.S. dollar denominated cash and short term investments held by foreign operations.
(3) See non-GAAP financial measures beginning on page 51.
(4) Other includes cash and cash equivalents and short term investments held by foreign operations that have the same functional currency as that of the Company.
(5) Compared to 2009 sales reported under Canadian GAAP.

Earnings Coverage Exhibit to the Audited Annual Consolidated Financial Statements

The following is the Company's updated earnings coverage ratio for the year ended December 31, 2012 in connection with the Company's Short Form Base Shelf Prospectus dated May 25, 2011.

Earnings coverage on financial liabilities	2.35 times

The earnings coverage ratio on financial liabilities is equal to consolidated net earnings attributable to shareholders of the Company (before interest on short term and long term debt, dividends on capital securities and income taxes) divided by consolidated interest on short term and long term debt and dividends on capital securities. For purposes of calculating the earnings coverage ratio set forth above, long term debt includes the current portion of long term debt.

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Glossary

Adjusted basic net earnings per common share
Basic net earnings available to common shareholders of the Company adjusted for items that are not necessarily reflective of the Company's underlying operating performance divided by the weighted average number of common shares outstanding during the year (see non-GAAP financial measures beginning on page 51).

Adjusted debt
Bank indebtedness, short term debt, long term debt, certain other liabilities and the fair value of certain financial derivative liabilities less independent securitization trusts in short term and long term debt, independent funding trusts and President's Choice Bank's guaranteed investment certificates (see non-GAAP financial measures beginning on page 51).

Adjusted debt to adjusted EBITDA
Adjusted debt divided by adjusted EBITDA (see non-GAAP financial measures beginning on page 51).

Adjusted EBITDA
Adjusted operating income before depreciation and amortization (see non-GAAP financial measures beginning on page 51).

Adjusted EBITDA margin
Adjusted EBITDA divided by sales (see non-GAAP financial measures beginning on page 51).

Adjusted operating income
Operating income adjusted for items that are not necessarily reflective of the Company's underlying operating performance (see non-GAAP financial measures beginning on page 51).

Adjusted operating margin
Adjusted operating income divided by sales (see non-GAAP financial measures beginning on page 51).

Basic net earnings per common share
Net earnings available to common shareholders of the Company divided by the weighted average number of common shares outstanding during the period.

Book value per common share
Total equity attributable to shareholders of the Company less preferred shares outstanding divided by the number of common shares outstanding at year end.

Capital investment
Fixed asset purchases.

Control label
A brand and associated trademark that is owned by Loblaw for use in connection with its own products and services.

Conversion
A store that changes from one Loblaw banner to another Loblaw banner.

Corporate stores sales per average square foot
Sales by corporate stores excluding gas bar sales divided by the average corporate stores' square footage at year end.

Diluted net earnings per common share
Net earnings available to common shareholders of the Company less the impact of dilutive items divided by the weighted average number of common shares outstanding during the period adding back the impact of dilutive items.

Dividend rate per common share at year end
Dividend per common share declared in the fourth quarter multiplied by four.

Free Cash Flow
Cash flow from operating activities excluding the net increase (decrease) in credit card receivables less fixed asset purchases (see non-GAAP financial measures beginning on page 51).

Gross margin
Sales less cost of inventories sold including inventory shrink divided by sales.

Interest coverage
Operating income divided by net interest expense and other financing charges adding back interest capitalized to fixed assets (see non-GAAP financial measures beginning on page 51).

Major expansion
Expansion of a store that results in an increase in square footage that is greater than 25% of the square footage of the store prior to the expansion.

Minor expansion
Expansion of a store that results in an increase in square footage that is less than or equal to 25% of the square footage of the store prior to the expansion.

Net earnings attributable to shareholders of the Company
Net earnings less non-controlling interests.

Net earnings available to common shareholders of the Company
Net earnings attributable to shareholders of the Company less preferred dividends.

New store
A newly constructed store, conversion or major expansion.

Operating income
Net earnings before net interest expense and other financing charges and income taxes.

Operating margin
Operating income divided by sales.

Price/net earnings ratio at year end
Market price per common share at year end divided by basic net earnings per common share for the year.

Renovation
A capital investment in a store resulting in no change to the store square footage.

Retail sales
Combined sales of stores owned by Loblaw and those owned by Loblaw's independent franchisees.

Retail square footage
Retail square footage includes corporate and independent franchised stores.

Return on average common shareholders' equity attributable to shareholders of the Company
Net earnings available to common shareholders of the Company divided by average total equity attributable to common shareholders of the Company.

Return on average net assets
Operating income divided by average total assets excluding cash and cash equivalents, short term investments, security deposits, fair value of the forward sale agreement for 9.6 million Loblaw common shares and trade and other payables (see non-GAAP financial measures beginning on page 51).

Same-store sales
Retail sales from the same physical location for Canadian stores in operation in that location in both periods being compared by excluding sales from a store that has undergone a conversion or major expansion in the period.

Total equity attributable to common shareholders of the Company
Total equity less preferred shares outstanding and non-controlling interests.

Total equity attributable to shareholders of the Company
Total equity less non-controlling interests.

Weighted average common shares outstanding
The number of common shares outstanding determined by relating the portion of time within the year the common shares were outstanding to the total time in that year.

Year
The Company's year end is December 31. Activities are reported on a fiscal year ending on the Saturday closest to December 31, usually 52 weeks in duration, but includes 53 weeks every 5 to 6 years. The years ended December 31, 2012 and December 31, 2011 contained 52 weeks.

Corporate Directory

Board of Directors

W. Galen Weston, O.C., B.A., LL.D.[1*]
Executive Chairman of the Corporation; Chairman, Holt, Renfrew & Co., Limited, Brown Thomas Group Limited and Selfridges & Co. Ltd.; President, The W. Garfield Weston Foundation; former Chairman, Loblaw Companies Limited and former Director Associated British Foods, plc.

A. Charles Baillie, O.C., B.A., M.B.A., LL.D.[2*,3]
Corporate Director; Chair, Alberta Investment Management Corporation; Retired Chairman and Chief Executive Officer, Toronto Dominion Bank; Director, Canadian National Railway Company and TELUS Corporation; Chancellor Emeritus, Queen's University; Chair, Art Gallery of Ontario's Board of Trustees.

Paviter S. Binning, F.C.M.A.
President of the Corporation and former Chief Financial Officer; former Executive Vice President, Chief Financial Officer and Chief Restructuring Officer, Nortel Networks Corporation; former Director and Chief Financial Officer, Hanson plc and Marconi Corporation plc; former Director, Loblaw Companies Limited.

Warren Bryant, B.S., M.B.A.[2,5*]
Corporate Director; former Chairman, President and Chief Executive Officer, Longs Drug Stores; former Executive, Kroger Co.; Director, Dollar General Corporation and OfficeMax Incorporated; Member, Executive Advisory Committee of the Portland State University Food Industry Leadership Center.

Peter B.M. Eby, B. Comm., M.B.A.[3]
Corporate Director; former Executive, Nesbitt Burns Inc., and its predecessor companies; former Vice-Chairman and Director, Nesbitt Burns Inc.; Director, Leon's Furniture Limited and TD Asset Management USA Funds Inc.; former Director, R. Split II Corp. and Sixty Split Corp.; former Chairman, Olympic Trust.

Darren Entwistle, B.A., M.B.A.[2]
President, Chief Executive Officer and Director, TELUS Corporation; Director, Canadian Council of Chief Executives; former Director, TD Bank Financial Group and Toronto-Dominion Bank.

Anthony R. Graham, LL.D.[1,3,4*]
President, Wittington Investments, Limited; President and Chief Executive Officer, Sumarria Inc.; President, Selfridges Group Limited; Director, Loblaw Companies Limited, Power Corporation of Canada, Power Financial Corporation, Graymont Limited, Brown Thomas Group Limited, De Bijenkorf B.V., Holt, Renfrew & Co., Limited, Selfridges & Co. Ltd. and Grupo Calidra, S.A. de C.V.; Chairman and Director, President's Choice Bank; Director, Art Gallery of Ontario, Canadian Institute for Advanced Research, Luminato, St. Michael's Hospital and Trans Canada Trail Foundation and Chairman of the Ontario Arts Foundation; former Director, Garbell Holdings Limited.

John S. Lacey, B.A.
Chairman of the Advisory Board, Brookfield Private Equity Group; Consultant to the Board and to the Board of Loblaw Companies Limited; former President and Chief Executive Officer, The Oshawa Group; Director, Loblaw Companies Limited, TELUS Corporation and Ainsworth Lumber Co. Ltd.; former Chairman of Alderwoods Group, Inc.; former Director, Canadian Imperial Bank of Commerce.

Isabelle Marcoux, B.A., LL.B.[5]
Chair, Transcontinental Inc.; Director, Rogers Communications Inc. and Power Corporation of Canada; Board Member, Board of Trade of Metropolitan Montreal.

J. Robert S. Prichard, O.C., O.Ont., LL.B., M.B.A., LL.M., LL.D.[1,3*,4]
Non-Executive Chair, Torys LLP; Chair, Bank of Montreal and Metrolinx; former President and Chief Executive Officer, Metrolinx and Torstar Corporation; President Emeritus, University of Toronto; Director, Onex Corporation; former Director, Torstar Corporation and Four Seasons Hotels Inc.; Chairman, Penguin Canada; Vice Chair, Canada's Science Technology & Innovation Council; Trustee, Hospital for Sick Children; Member, Canada's Economic Advisory Council and Ontario's Economic Advisory Panel.

Thomas F. Rahilly, B.A., M.A., LL.B.[2,4,5]
Corporate Director; former Vice-Chairman, RBC Capital Markets; former Director, Wittington Investments, Limited.

Barbara Stymiest, B.A., F.C.A.[2,4]
Corporate Director; former Group Head and Chief Operating Officer, Royal Bank of Canada; former Chief Executive Officer of TSX Group Inc.; former Executive Vice-President and Chief Financial Officer, BMO Nesbitt Burns; former Partner of Ernst & Young LLP; Chair, Research in Motion Limited (also known as Blackberry); Director, Sun Life Financial Inc., Canadian Institute for Advanced Research and University Health Network.

(1) Executive Committee
(2) Audit Committee
(3) Governance, Human Resource, Nominating and Compensation Committee
(4) Pension Committee
(5) Environmental, Health and Safety Committee
* Chair of the Committee

Corporate Officers (includes age and years of service)

W. Galen Weston, O.C. (72 and 41 years)
Executive Chairman

Paviter S. Binning (52 and 3 years)
President

Gordon A.M. Currie (54 and 8 years)
Executive Vice President,
Chief Legal Officer

Robert G. Vaux (64 and 15 years)
Executive Vice President,
Corporate Development

Richard Dufresne (47 and 1 year)
Executive Vice President,
Chief Financial Officer

Robert A. Balcom (51 and 19 years)
Senior Vice President, General Counsel - Canada and Secretary

Khush Dadyburjor (46 and 2 years)
Senior Vice President,
Corporate Development

J. Bradley Holland (49 and 19 years)
Senior Vice President, Taxation

Geoffrey H. Wilson (57 and 26 years)
Senior Vice President,
Financial Control and Investor Relations

Amy Jane Bull (45 and 9 years)
Vice President, Corporate Development

Allison Doner (36 and 8 years)
Vice President, Controller

David Farnfield (49 and 16 years)
Vice President, Commodities

Atulan Navaratnam (49 and 2 years)
Vice President,
Corporate Development

John Poos (56 and 2 years)
Vice President,
Pension and Benefits

Tamara Rebanks (45 and 12 years)
Vice President,
Community Affairs

Adam Walsh (39 and 8 years)
Vice President, Legal Counsel

John Williams (47 and 2 years)
Vice President, Treasurer

Shareholder and Corporate Information

Executive Office
George Weston Limited
22 St. Clair Avenue East
Toronto, Canada M4T 2S7
Tel: 416.922.2500
Fax: 416.922.4395
www.weston.ca

Stock Exchange Listing and Symbols
The Company's common and preferred shares are listed on the Toronto Stock Exchange and trade under the symbols: "WN", "WN.PR.A", "WN.PR.C", "WN.PR.D" and "WN.PR.E".

Common Shares
At year end 2012, there were 128,221,841 common shares outstanding, 856 registered common shareholders and 47,497,242 common shares available for public trading.

The average 2012 daily trading volume of the Company's common shares was 94,104.

Preferred Shares
At year end 2012, there were 9,400,000 preferred shares Series I, 8,000,000 preferred shares Series III, 8,000,000 preferred shares Series IV and 8,000,000 preferred shares Series V outstanding and 28 registered preferred shareholders. All outstanding preferred shares were available for public trading.

The average 2012 daily trading volume of the Company's preferred shares was:

Series I:	5,029
Series III:	5,634
Series IV:	5,942
Series V:	7,557

Common Dividend Policy
The declaration and payment of dividends on the Company's common shares and the amount thereof are at the discretion of the Board of Directors which takes into account the Company's financial results, capital requirements, available cash flow, future prospects of the Company's business and other factors considered relevant from time to time. Over the long term, it is the Company's intention to increase the amount of the dividend while retaining appropriate free cash flow to finance future growth.

Common Dividend Dates
The declaration and payment of quarterly common dividends are made subject to approval by the Board of Directors. The anticipated record and payment dates for 2013 are:

Record Date	Payment Date
March 15	April 1
June 15	July 1
Sept. 15	Oct. 1
Dec. 15	Jan. 1

Normal Course Issuer Bid
The Company has a Normal Course Issuer Bid on the Toronto Stock Exchange.

Value of Common Shares
For capital gains purposes, the valuation day (December 22, 1971) cost base for the Company, adjusted for the 4 for 1 stock split (effective May 27, 1986) and the 3 for 1 stock split (effective May 8, 1998), is $1.50 per share. The value on February 22, 1994 was $13.17 per share.

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Registrar and Transfer Agent
Computershare Investor Services Inc.
100 University Avenue
Toronto, Canada M5J 2Y1

Toll Free Tel:	1.800.564.6253 (Canada and U.S.A.)
International Tel:	514.982.7555 (direct dial)
Fax:	416.263.9394
Toll Free Fax:	1.888.453.0330

To change your address or eliminate multiple mailings, or for other shareholder account inquiries, please contact Computershare Investor Services Inc.

Independent Auditors
KPMG LLP
Chartered Accountants
Toronto, Canada

Annual Meeting
The George Weston Limited Annual Meeting of Shareholders will be held on Thursday May 9, 2013, at 11:00 a.m. at The Royal Conservatory, TELUS Centre for Performance and Learning, Koerner Hall, 273 Bloor Street West, Toronto, Ontario, Canada.

Trademarks
George Weston Limited and its subsidiaries own a number of trademarks. These trademarks are the exclusive property of George Weston Limited and its subsidiary companies. Trademarks where used in this report are in italics.

Investor Relations
Shareholders, security analysts and investment professionals should direct their requests to Mr. Geoffrey H. Wilson, Senior Vice President, Financial Control and Investor Relations at the Company's Executive Office or by e-mail at investor@weston.ca.

Additional financial information has been filed electronically with various securities regulators in Canada through the System for Electronic Document Analysis and Retrieval (SEDAR). The Company holds an analyst call shortly following the release of its quarterly results. These calls are archived in the Investor Centre section of the Company's website.

This Annual Report includes selected information on Loblaw Companies Limited, a 62.9%-owned public reporting subsidiary company with shares trading on the Toronto Stock Exchange.

Ce rapport est disponible en français.

This 2012 Annual Report was printed in Canada on
Enviro 100, which contains 100% post-consumer waste
and is processed chlorine-free, using biogas energy.

Weston

www.weston.ca