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 consolidated financial statements and the accompanying notes on pages 58 to 111 of this Annual Report. The consolidated financial statements and the accompanying notes have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are reported in Canadian dollars. These consolidated financial statements include the accounts of George Weston Limited and its subsidiaries and variable interest entities ("VIEs") that the Company is required to consolidate in accordance with Accounting Guideline ("AcG") 15, "Consolidation of Variable Interest Entities". A Glossary of terms and ratios used throughout this Annual Report can be found beginning on page 114. The information in this MD&A is current as of March 23, 2010, unless otherwise noted.

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. Words such as "anticipate", "expect", "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, are intended to identify forward-looking statements. These forward-looking statements are not historical facts but reflect the Company's current expectations concerning future results and events.

These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations, including, but not limited to:

- the possibility that the Company's plans and objectives will not be achieved;
- changes in economic conditions including the rate of inflation or deflation;
- changes in consumer spending and preferences;
- heightened competition, whether from new competitors or current competitors;
- the availability and increased costs relating to raw materials, ingredients and utilities, including electricity and fuel;
- changes in the Company's or its competitors' pricing strategies;
- failure of the Company's franchised stores to perform as expected;
- risks associated with the terms and conditions of financing programs offered to the Company's franchisees;
- failure to realize sales growth, anticipated cost savings or operating efficiencies from the Company's major initiatives, including investments in the Company's information technology systems, supply chain investments and other cost reduction initiatives, or unanticipated results of these initiatives;
- the inability of the Company's information technology infrastructure to support the requirements of the Company's business;
- the inability of the Company to manage inventory to minimize the impact of obsolete or excess inventory and to control shrink;
- failure to execute successfully and in a timely manner the Company's major initiatives, including the implementation of strategies and introduction of innovative and reformulated products or new and renovated stores;
- unanticipated results associated with the Company's strategic initiatives, including the impact of acquisitions or dispositions of businesses on the Company's future revenues and earnings;
- the inability of the Company's supply chain to service the needs of the Company's stores;
- deterioration in the Company's relationship with its employees, particularly through periods of change in the Company's business;
- failure to achieve desired results in labour negotiations, including the terms of future collective bargaining agreements which could lead to work stoppages;
- changes to the regulatory environment in which the Company operates;
- the adoption of new accounting standards and changes in the Company's use of accounting estimates including in relation to inventory valuation;
- fluctuations in the Company's earnings due to changes in the value of stock-based compensation and equity derivative contracts relating to GWL and Loblaw common shares;
- changes in the Company's tax liabilities including changes in tax laws or future assessments;
- detrimental reliance on the performance of third-party service providers;
- public health events;
- changes in interest and currency exchange rates;
- the inability of the Company or its franchisees to obtain external financing;

- the inability of the Company to collect on its credit card receivables;
- any requirement of the Company to make contributions to its funded defined benefit pension plans in excess of those currently contemplated;
- the inability of the Company to attract and retain key executives; and
- supply and quality control issues with vendors.

These and other 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. These forward-looking statements contained herein and in particular in the Report to Shareholders and MD&A reflect management's current assumptions regarding these risks and uncertainties and their respective impact on the Company.

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. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect the Company's expectations only as of the date of this MD&A. The Company disclaims any intention or obligation to update or revise these forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

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 distributor 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 is engaged in frozen baking and biscuit manufacturing in the United States.

In December 2008, the Company sold its Canadian dairy and bottling operations and in January 2009, Dunedin Holdings S.à r.l. ("Dunedin"), a subsidiary of GWL, sold its fresh bread and baked goods business in the United States ("U.S. fresh bakery business"). As a result, Dunedin and certain of its affiliates currently hold a significant amount of cash and short term investments.

3. VISION

The Company vision has been, and continues to be, centred on three main principles: growth, innovation and flexibility. The Company seeks long term, stable growth in its operating segments, while accepting prudent operating risks through continuous capital investment supported by 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. As a result of the recent dispositions, the Company holds significant cash and short term investments and is continuing to assess opportunities for the deployment of these funds.

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 recognized by its customers as providing the best bakery solutions in North America.

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

Weston Foods' long term operating strategies include:
- customer alignment;
- brand development including innovative new products to meet the nutritional and dietary concerns of consumers;
- plant and distribution optimization including capital investment to strategically position facilities to support growth and enhance quality, productivity and efficiencies;
- ongoing cost reduction initiatives with the objective of ensuring a low cost operating structure and economies of scale;
- strategic acquisitions and relationships to broaden market penetration and expand geographic presence; and
- building leadership capability.

Loblaw's mission is to be Canada's best food, health and home retailer by exceeding customer expectations through innovative products at great prices. This will be achieved by transforming Loblaw into a centralized, marketing-led organization focused on customers, value, innovative and fresh products and stores, while leveraging its scale and asset base to drive profitable growth.

Loblaw is committed to providing Canadians with a wide, growing and successful 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 Canada's strongest control (private) label program, including the unique *President's Choice*, *no name* and *Joe Fresh* brands. In addition, Loblaw makes available to consumers *President's Choice Financial* services and offers the *PC* points loyalty program.

While Loblaw achieved many of its goals in 2009, consistent execution remains Loblaw's focus in order to drive sustainable performance. In 2010, Loblaw intends to intensify its investments in infrastructure and condense its project timelines while keeping a vigilant watch on cost control and cash management. Entering into 2010, Loblaw continues to expect a challenging economic environment and heightened competitive intensity. With significant investments in supply chain and information technology, Loblaw remains committed to strategically balance trading for today while building for tomorrow by:
- continuing to invest in and execute its information technology strategy through the rollout of subsequent Enterprise Resource Planning ("ERP") and supply chain functionality releases;
- improving in-store, distribution centre, and store support centre processes in an effort to make the business simpler and more efficient;
- continuing its store upgrade program that will roll out the food renewal and customer service enhancement programs;
- continuing to innovate its control label offering while enhancing profitability; and
- focusing on in-store customer service and providing unmatched value.

The Company's financial strategies include:
- maintain a strong balance sheet;
- minimize the risks and costs of operating and financing activities; and
- maintain 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 the Enterprise Risks and Risk Management section of this MD&A, beginning on page 35.

GWL's Board of Directors (the "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 timeframe, targets specific issues in response to the Company's performance and 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 returns to its shareholders over the long term.

5. KEY PERFORMANCE INDICATORS

The Company continuously reviews and monitors its activities and key performance indicators, which it believes are important to measuring the success of the implementation of its operating and financial strategies. Some of the Company's key financial performance indicators are set out below:

Key Financial Performance Indicators	2009	2008[1]
Sales (decline) growth	(0.8)%	4.8%
EBITDA[2] ($ millions)	$ 1,654	$ 1,808
EBITDA margin[2]	5.2%	5.6%
Basic net earnings per common share from continuing operations (decline) growth	(86.2)%	86.7%
Net debt[2] ($ millions)	$ 299	$ 3,251
Net debt[2] to EBITDA[2]	0.18x	1.80x
Net debt[2] to equity[2]	0.04	0.53
Interest coverage	2.6x	3.2x
Return on average net assets[2]	9.3%	11.2%
Return on average common shareholders' equity	1.5%	13.4%

(1) Certain 2008 information has been restated to conform with the new Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064, "Goodwill and Intangible Assets". See note 2 to the consolidated financial statements.
(2) See non-GAAP financial measures beginning on page 51.

In addition, 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 BUSINESS DEVELOPMENTS

Two significant business developments occurred in the Weston Foods operating segment during 2009 and 2008: the sale of the U.S. fresh bakery business on January 21, 2009 and the sale of the dairy and bottling operations on December 1, 2008.

Sale of U.S. Fresh Bakery Business

On January 21, 2009, Dunedin sold its U.S. fresh bakery business to Grupo Bimbo, S.A.B. de C.V. for gross and net proceeds of approximately U.S. $2.5 billion, including approximately U.S. $125 million for interest bearing assets. The sale resulted in a gain of $939 million ($901 million, net of tax). The results and the gain on the sale of the U.S. fresh bakery business have been reflected separately as discontinued operations in the current and comparative results. Accordingly, all comparisons of operating results exclude the results of the U.S. fresh bakery business.

Sale of Dairy and Bottling Operations

On December 1, 2008, Weston Foods sold its dairy and bottling operations to Saputo Inc. resulting in a pre-tax gain of $335 million ($281 million, net of tax). The results of the dairy and bottling operations are not reported as discontinued operations, in accordance with Canadian GAAP, due to Loblaw's continuing purchases of product from the dairy and bottling operations. Therefore, the results of the dairy and bottling operations up to the date of sale, as well as the gain on disposal, are included in net earnings from continuing operations in the comparative period and are included in the discussion of continuing operating results.

6.2 CONSOLIDATED RESULTS OF OPERATIONS

($ millions except where otherwise indicated)	2009	2008[1]	2007[2]
Sales	**$ 31,820**	$ 32,088	$ 30,607
Operating income	**$ 1,009**	$ 1,198	$ 883
Gain on disposal of business		$ 335	
Interest expense and other financing charges	**$ 363**	$ 360	$ 175
Net earnings from continuing operations	**$ 127**	$ 647	$ 378
Net earnings[3]	**$ 1,035**	$ 834	$ 567
Basic net earnings per common share from continuing operations ($)	**$ 0.64**	$ 4.65	$ 2.49
Diluted net earnings per common share from continuing operations ($)	**$ 0.63**	$ 4.65	$ 2.49
Basic net earnings per common share ($)	**$ 7.68**	$ 6.10	$ 3.95
Diluted net earnings per common share ($)	**$ 7.67**	$ 6.10	$ 3.95
EBITDA[4]	**$ 1,654**	$ 1,808	$ 1,501
EBITDA margin[4]	**5.2%**	5.6%	4.9%

(1) Certain 2008 information has been restated to conform with the new CICA Handbook Section 3064, "Goodwill and Intangible Assets". See note 2 to the consolidated financial statements.
(2) Certain 2007 information has been restated to conform with the new CICA Handbook Section 3064, "Goodwill and Intangible Assets".
(3) Net earnings include a gain on disposal of $939 million ($901 million, net of tax) recorded in discontinued operations.
(4) See non-GAAP financial measures beginning on page 51.

Consolidated 2009 results reflect the impact of transformational changes undertaken by both the Weston Foods and Loblaw operating segments in order to position the businesses for strong growth in the future. Weston Foods brand and product development efforts continue, while its continuing focus on plant and distribution optimization along with other ongoing cost reduction initiatives continue to ensure a low cost operating structure. Loblaw continues to progress in its turnaround efforts by focusing on innovating and enhancing its food offering, providing unmatched customer value, standardizing processes for efficiency, and improving its store, supply chain and information technology infrastructure.

The following discussion summarizes the factors and trends that have impacted the Company's financial performance over the past two fiscal years.

In 2009, which was a 52-week fiscal year, consolidated sales decreased 0.8% to $31.8 billion from $32.1 billion in 2008, which was a 53-week fiscal year. In 2008, consolidated sales increased 4.8% from $30.6 billion in 2007. In 2009, consolidated net earnings from continuing operations were $127 million compared to $647 million in 2008. The decline was mainly due to the pre-tax gain of $335 million ($281 million, net of tax) reported in 2008 related to the disposal of Weston Foods' dairy and bottling operations and a charge reported in 2009 related to foreign exchange losses associated with the effect of foreign exchange on a portion of the U.S. dollar denominated cash and short term investments held by Dunedin and certain of its affiliates. Consolidated net earnings increased by $201 million to $1,035 million in 2009 compared to $834 million in 2008, including net earnings from discontinued operations of $908 million compared to $187 million in 2008. Included in 2009 net earnings from discontinued operations is the gain on disposal of $939 million ($901 million, net of tax) related to the sale of the U.S. fresh bakery business. In 2008, consolidated net earnings from continuing operations increased by $269 million to $647 million from net earnings from continuing operations of $378 million in 2007 mainly due to the pre-tax gain on the disposal of Weston Foods' dairy and bottling operations. Consolidated net earnings increased by $267 million to $834 million in 2008 from $567 million in 2007.

The 2009 basic net earnings per common share from continuing operations were $0.64 compared to $4.65 in 2008. The 2009 basic net earnings per common share increased $1.58 to $7.68 compared to $6.10 in 2008.

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 self-sustaining foreign operations in the United States ("U.S. net investment"), and its investment in integrated foreign subsidiaries through Dunedin and certain of its affiliates. 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 exchange rate gains and losses. Prior to the sale of the U.S. fresh bakery business, all of the Company's (excluding Loblaw's) U.S. dollar denominated net assets were held in self-sustaining foreign operations and although changes in the value of the U.S. dollar impacted reported sales, operating income and net earnings related to these operations, exchange rate gains and losses due to the translation of their net assets were recorded in accumulated other comprehensive loss. After the sale of the U.S. fresh bakery business in 2009, Dunedin and certain of its affiliates became integrated foreign subsidiaries for accounting purposes. As a result, gains and losses arising from the translation of the U.S. dollar denominated assets of these integrated foreign subsidiaries are included in operating income. As a result, the 2009 financial results include a significant amount of foreign exchange losses due to the appreciation of the Canadian dollar relative to the U.S. dollar throughout 2009, which are discussed in more detail below in the operating income section.

Over the past two years, the Weston Foods operating segment was impacted by the following key trends:

- a continuing consumer focus on healthier, more nutritious and value-added products as well as more portion controlled items that do not sacrifice great taste. This impacted Weston Foods sales mix and product innovation focus resulting in sales growth in whole grains products, nutritionally enhanced white breads, premium products such as artisan bakery offerings, reduced fat and no trans fat products and alternative products including flatbreads;
- a continuing growth in the alternate format retail food channels. Weston Foods continues to grow with these alternate formats while retaining its strong position in conventional supermarkets;
- a trend toward more consumers eating at home as the North American economic environment deteriorated. For Weston Foods, this had a positive impact on volume growth with retail store customers but a negative impact with food service customers; and
- cost pressure and volatility particularly for key input costs. In 2008, cost inflation in key commodities was significant and Weston Foods achieved sales price increases across many of its product categories, which helped to mitigate cost inflation. Although cost pressures somewhat eased in 2009 for certain key inputs, cost escalation continued in labour and related benefit costs as well as promotional spending.

Over the past two years, Weston Foods increased investment behind its brands, continued to introduce new products in response to changing consumer eating preferences, and invested capital to support growth and enhance quality and productivity. These investments, coupled with a continued focus on cost improvements, customer service and growth in higher margin product offerings, resulted in strong financial performance.

In 2009, Loblaw moved forward to deliver enhanced fresh food offerings, renovated and revitalized stores, and introduced innovative and differentiated control label brands to provide an enhanced customer shopping experience. In addition, Loblaw continued to invest and build its core infrastructure, including both information technology and supply chain.

Some of Loblaw's key accomplishments in 2009 include:

- improved fresh food quality and assortment;
- delivered targeted price positions through ongoing price management and implemented banner-specific price programs in each region;
- enhanced store standards that improved product availability;
- renovated and refreshed more than 200 stores, including 26 Western Canada *Real Canadian Superstore* upgrades and the rollout of the 2008 "Back to Best" pilot programs for food renewal and enhanced customer service programs;
- converted an additional five *Extra Foods* stores to *no frills* stores, opened two new *no frills* in Western Canada and opened the first *no frills* in Atlantic Canada;
- celebrated the 25th anniversary of the *President's Choice* brand, supported by the introduction of 524 new products, the launch of 718 improved products and the packaging redesign for over 1,800 products;
- opened and renovated three distribution centres and successfully commenced the rollout of new transportation and warehouse management systems, which significantly improved supply chain service levels;
- acquired T&T Supermarket Inc. ("T&T"), Canada's largest Asian food retailer;
- strengthened balance sheet providing enhanced financial flexibility;
- recognized as one of Canada's Top 100 employers; and
- subsequent to the end of 2009, successfully deployed the first ERP system release (finance and general ledger systems across Loblaw Properties Limited and President's Choice Financial).

The following analysis details factors that have impacted the Company's consolidated sales and net earnings over the past two years.

Sales

The Company's 2009 consolidated sales (52 weeks) decreased 0.8% to $31.8 billion from $32.1 billion in 2008 (53 weeks).

Consolidated sales for 2009 were impacted by each reportable operating segment as follows:

- Negatively by 1.6% due to the sales decrease of 23.3% at Weston Foods. The sale of the dairy and bottling operations and the additional week of operating results in 2008 negatively impacted reported sales growth by approximately 24.8% and 1.3%, respectively, while the foreign currency translation positively impacted sales by approximately 2.4%. The combined effect of price increases implemented in 2008 across key product categories and changes in sales mix was a positive impact of 1.3% for 2009. Volume declined 41.8% for the year, of which 39.5% was due to the sale of the dairy and bottling operations and approximately 1.4% was due to the additional week of operating results in 2008.
- Negatively by 0.2% due to the sales decrease of 0.2% at Loblaw. Same-store sales declined 1.1%, including a decline in sales and same-store sales of approximately 1.8% due to the extra selling week in 2008. Net retail square footage increased 0.8 million square feet or 1.6% in 2009 to 50.6 million square feet from year end 2008. Corporate store sales per average square foot decreased to $597 in 2009 from $624 in 2008.

The Company's 2008 consolidated sales (53 weeks) increased 4.8% to $32.1 billion from $30.6 billion in 2007 (52 weeks).

Consolidated sales growth for 2008 was impacted by each reportable operating segment as follows:

- Positively by 0.4% due to the sales increase of 5.2% at Weston Foods. The results of the dairy and bottling operations and foreign currency translation negatively impacted reported sales growth by approximately 4.8% and 0.3%, respectively, while the additional week of operating results in 2008 positively impacted sales by approximately 1.6%. Price increases across key product categories combined with changes in sales mix contributed positively to sales growth by 9.9% for 2008. Volume declined 3.8% for the year and was negatively impacted by 4.0% due to the results of the dairy and bottling operations, while the additional week of operating results in 2008 positively impacted volume growth by approximately 1.4%.
- Positively by 4.6% due to the sales increase of 4.8% at Loblaw. Same-store sales increased 4.2%, including an increase in sales and same-store sales growth of 1.9% due to the extra selling week in 2008. Net retail square footage increased 0.2 million square feet or 0.5% in 2008 from year end 2007. Corporate store sales per average square foot increased to $624 in 2008 from $591 in 2007.

Operating Income

The Company's 2009 consolidated operating income was $1,009 million compared to $1,198 in 2008, a decrease of 15.8%. The consolidated operating margin in 2009 was 3.2% compared to 3.7% in 2008. The Company's 2009 consolidated operating income was impacted negatively by 2.6% due to a decrease of 20.1% in operating income at Weston Foods, and positively by 12.8% due to an increase of 14.7% in operating income at Loblaw.

The year-over-year change in the following items influenced operating income and operating margin for 2009 compared to 2008:

- a charge of $225 million (2008 – nil) related to foreign exchange losses associated with the effect of foreign exchange on a portion of the U.S. dollar denominated cash and short term investments held by Dunedin and certain of its affiliates;
- a charge of $52 million (2008 – nil) related to the reversal of the cumulative foreign currency translation loss associated with the reduction in the Company's U.S. net investment in self-sustaining foreign operations;
- a charge of $34 million (2008 – nil) related to the reversal of the cumulative foreign currency translation loss associated with Dunedin and certain of its affiliates;
- a charge of $73 million (2008 – nil) related to the non-cash goodwill impairment in Weston Foods' biscuits, cookies, cones and wafers business;
- a charge of $12 million (2008 – income of $2 million) related to the effect of stock-based compensation net of equity derivatives of both GWL and Loblaw;
- income of $24 million (2008 – a charge of $46 million) related to the commodity derivatives fair value adjustment at Weston Foods. This commodity derivatives fair value adjustment includes realized and unrealized gains and losses related to future purchases of raw materials;
- nil (2008 – income of $47 million) related to the income of Weston Foods' dairy and bottling operations;
- nil (2008 – income of $22 million) related to the gain on the sale of Loblaw's food service business; and
- nil (2008 – income of $7 million) related to the redemption of the remaining outstanding GWL 3% Exchangeable Debentures and the sale of the Domtar (Canada) Paper Inc. shares.

2009 operating income includes a loss of $225 million (2008 – nil) related to foreign exchange losses associated with the effect of foreign exchange on a portion of the U.S. dollar denominated cash and short term investments held by Dunedin and certain of its affiliates, which are integrated foreign subsidiaries for accounting purposes. Included in these losses was a $48 million charge related to the conversion of U.S. $2.4 billion of cash and short term investments to approximately $3.0 billion Canadian dollars following the closing of the U.S. fresh bakery business sale transaction. This loss was a result of the appreciation of the Canadian dollar relative to the U.S. dollar between the closing date of the sale and the dates on which the proceeds were converted to Canadian dollars.

In addition, due to an internal reorganization in the fourth quarter of 2009, a reduction in the Company's U.S. net investment in self-sustaining foreign operations resulted in the reversal of an additional cumulative translation loss of $52 million into operating income. Also, on the date of the sale of the U.S. fresh bakery business, the cumulative foreign currency translation loss of $34 million associated with Dunedin and certain of its affiliates, which was previously reflected in accumulated other comprehensive loss, was reversed and included in operating income. These losses had no impact on the Company's reported assets, liabilities or total shareholders' equity.

Excluding the impact of these items, operating income for 2009 was strong compared to 2008.

The Company's 2009 consolidated EBITDA margin(1) decreased to 5.2% from 5.6% in 2008.

The Company's 2008 consolidated operating income increased $315 million, or 35.7%, to $1,198 million. The consolidated operating margin in 2008 was 3.7% compared to 2.9% in 2007. The Company's 2008 consolidated operating income was impacted positively by 0.8% due to an increase of 4.8% in operating income at Weston Foods, and positively by 34.9% due to an increase of 41.8% in operating income at Loblaw.

The year-over-year change in the following items influenced operating income and operating margin for 2008 compared to 2007:
- a charge of $5 million (2007 – $215 million) related to restructuring and other charges for restructuring plans undertaken by both Weston Foods and Loblaw;
- income of $2 million (2007 – a charge of $108 million) related to the effect of stock-based compensation net of equity derivatives of both GWL and Loblaw;
- a charge of $46 million (2007 – income of $9 million) related to the commodity derivatives fair value adjustment at Weston Foods;
- income of $47 million (2007 – $48 million) related to the income of Weston Foods' dairy and bottling operations;
- income of $22 million (2007 – nil) related to the gain on the sale of Loblaw's food service business; and
- income of $7 million (2007 – nil) related to the redemption of the remaining outstanding GWL 3% Exchangeable Debentures and the sale of the Domtar (Canada) Paper Inc. shares.

Excluding the impact of these specific items, operating income for 2008 improved compared to 2007.

The Company's 2008 consolidated EBITDA margin(1) increased to 5.6% from 4.9% in 2007.

Gain on Disposal of Business

The Company recorded a pre-tax gain of $335 million ($281 million, net of tax) on the disposal of Weston Foods' dairy and bottling operations in 2008. The effect on basic net earnings per common share for the year was income of $2.18.

Interest Expense and Other Financing Charges

Interest expense and other financing charges consist primarily of interest on short and long term debt, interest and other financing charges on financial derivative instruments and dividends on capital securities, net of interest earned on short term investments and security deposits, and interest capitalized to fixed assets. In 2009, interest expense and other financing charges also included a loss on redemption of debt.

In 2009, interest expense and other financing charges increased $3 million to $363 million from $360 million in 2008.

The increase was mainly due to:
- a loss of $49 million in 2009 on the redemption of the GWL 12.7% Promissory Notes; offset by
- a $25 million decrease in interest on long term debt to $371 million compared to $396 million in 2008; and
- non-cash income of $13 million compared to a non-cash charge of $11 million in 2008 recorded in other financing charges related to the fair value adjustment of Weston Holdings Limited's ("WHL"), a subsidiary of GWL, forward sale agreement for 9.6 million Loblaw common shares. See notes 6 and 26 to the consolidated financial statements for additional information.

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

The 2009 weighted average fixed interest rate on long term debt (excluding capital lease obligations) was 6.5% (2008 – 6.6%) and the weighted average term to maturity was 14 years (2008 – 15 years).

In 2008, interest expense and other financing charges increased by $185 million to $360 million from $175 million in 2007.

The increase was mainly due to:

- a non-cash charge of $11 million (2007 – non-cash income of $141 million) recorded in other financing charges related to the fair value adjustment of WHL's forward sale agreement for 9.6 million Loblaw common shares. See notes 6 and 26 to the consolidated financial statements for additional information;
- a decrease in net short term interest income to $13 million (2007 – $31 million), primarily due to lower interest income on U.S. dollar denominated cash and cash equivalents and short term investments due to lower interest rates, partially offset by lower average short term debt levels;
- dividends on capital securities of $22 million compared to nil in 2007; and
- interest on financial derivative instruments, which includes the net effect of interest rate swaps, cross currency swaps and equity derivatives, resulting in a charge of $2 million (2007 – $21 million). The change was due mainly to a decrease in United States short term interest rates.

The 2008 weighted average fixed interest rate on long term debt (excluding capital lease obligations and the Exchangeable Debentures) was 6.6% (2007 – 6.6%) and the weighted average term to maturity was 15 years (2007 – 16 years).

Income Taxes

The Company's effective income tax rate in 2009 increased to 40.1% compared to 25.9% in 2008. The increase in the effective income tax rate when compared to 2008 was mainly the result of the foreign exchange losses associated with the effect of foreign exchange on a portion of the U.S. dollar denominated cash and short term investments held by Dunedin and certain of its affiliates for which a tax benefit has not been fully recognized and the non-deductible reversal of the cumulative foreign currency translation loss associated with Dunedin and certain of its affiliates. The increase was partially offset by the cumulative reduction in the income tax expense as a result of a reduction in Ontario statutory income tax rates enacted in the fourth quarter of 2009 and a decrease in income tax accruals relating to certain prior year income tax matters.

The Company's effective income tax rate decreased in 2008 to 25.9% from 28.0% in 2007. The decrease was primarily due to non-taxable amounts including capital gains, lower Canadian federal and certain provincial statutory income tax rates relative to 2007 and a change in the proportion of taxable income earned across different tax jurisdictions, which were partially offset by a charge of $11 million related to tax on unrealized foreign exchange gains on short term investments, a 2007 cumulative adjustment of future taxes pursuant to a reduction in Canadian federal and certain provincial statutory income tax rates and an increase in income tax accruals relating to certain income tax matters.

Net Earnings from Continuing Operations

Net earnings from continuing operations for 2009 were $127 million compared to $647 million in 2008. Basic net earnings per common share from continuing operations for 2009 were $0.64 compared to $4.65 in 2008.

Basic net earnings per common share from continuing operations for 2009 were affected by the following factors compared to 2008:

- a $1.56 per common share charge (2008 – nil) related to foreign exchange losses associated with the effect of foreign exchange on a portion of the U.S. dollar denominated cash and short term investments held by Dunedin and certain of its affiliates;
- a $0.40 per common share charge (2008 – nil) related to the reversal of the cumulative foreign currency translation loss associated with the reduction in the Company's U.S. net investment in self-sustaining foreign operations;
- a $0.26 per common share charge (2008 – nil) related to the reversal of the cumulative foreign currency translation loss associated with Dunedin and certain of its affiliates;
- a $0.38 per common share charge (2008 – nil) related to the non-cash goodwill impairment in Weston Foods' biscuits, cookies, cones and wafers business;
- a $0.09 per common share charge (2008 – $0.06) related to the effect of stock-based compensation net of equity derivatives of both GWL and Loblaw;
- $0.12 per common share income (2008 – $0.24 per common share charge) related to the commodity derivatives fair value adjustment at Weston Foods;
- a $0.29 per common share charge (2008 – nil) related to the redemption of the GWL 12.7% Promissory Notes;

- $0.08 per common share non-cash income (2008 – $0.06 per common share non-cash charge) related to the accounting for WHL's forward sale agreement for 9.6 million Loblaw common shares;
- nil (2008 – $0.03 per common share charge) related to the income tax effect of the fair value adjustment of the Domtar (Canada) Paper Inc. shares, net of the remeasurement of the GWL 3% Exchangeable Debentures;
- nil (2008 – $0.04 per common share income) related to the redemption of the remaining outstanding GWL 3% Exchangeable Debentures and the sale of the Domtar (Canada) Paper Inc. shares;
- nil (2008 – $0.25 per common share income) related to the income of Weston Foods' dairy and bottling operations;
- nil (2008 – $0.07 per common share income) related to the gain on the sale of Loblaw's food service business; and
- nil (2008 – $2.18 per common share income) related to the gain on disposal of Weston Foods' dairy and bottling operations.

Net earnings from continuing operations for 2008 increased $269 million to $647 million from $378 million in 2007. Basic net earnings per common share from continuing operations for 2008 increased $2.16 to $4.65 from $2.49 in 2007.

Basic net earnings per common share from continuing operations for 2008 were affected by the following factors compared to 2007:
- a $0.02 per common share charge (2007 – $0.66) related to restructuring and other charges for restructuring plans undertaken by both Weston Foods and Loblaw;
- a $0.06 per common share charge (2007 – $0.62) related to the effect of stock-based compensation net of equity derivatives of both GWL and Loblaw;
- a $0.24 per common share charge (2007 – $0.05 per common share income) related to the commodity derivatives fair value adjustment at Weston Foods;
- $0.25 per common share income (2007 – $0.25) related to the income of Weston Foods' dairy and bottling operations;
- $0.07 per common share income (2007 – nil) related to the gain on the sale of Loblaw's food service business;
- $2.18 per common share income (2007 – nil) related to the gain on disposal of Weston Foods' dairy and bottling operations;
- a $0.06 per common share non-cash charge (2007 – $0.81 per common share non-cash income) related to the accounting for WHL's forward sale agreement for 9.6 million Loblaw common shares;
- a $0.03 per common share charge (2007 – $0.05) related to the income tax effect of the fair value adjustment of the Domtar (Canada) Paper Inc. shares, net of the remeasurement of the GWL 3% Exchangeable Debentures;
- $0.04 per common share income (2007 – nil) related to the redemption of the remaining outstanding GWL 3% Exchangeable Debentures and the sale of the Domtar (Canada) Paper Inc. shares; and
- nil per common share (2007 – $0.15 per common share income) related to the adjustment to future income tax balances resulting from changes in the Canadian federal and certain provincial statutory income tax rates.

Discontinued Operations

Net earnings from discontinued operations were $908 million in 2009 compared to $187 million in 2008 and $189 million in 2007. The 2009 net earnings from discontinued operations include a gain on disposal of $939 million ($901 million, net of tax).

For additional information, see note 5 to the consolidated financial statements.

Net Earnings

Net earnings for 2009 increased $201 million to $1,035 million compared to $834 million in 2008. Basic net earnings per common share for 2009 increased $1.58 to $7.68 compared to $6.10 in 2008, including basic net earnings per common share from discontinued operations of $7.04 compared to $1.45 in 2008.

Net earnings for 2008 of $834 million increased $267 million compared to $567 million in 2007. Basic net earnings per common share for 2008 of $6.10 increased $2.15 compared to $3.95 in 2007, including basic net earnings per common share from discontinued operations of $1.45 compared to $1.46 in 2007.

New accounting standards implemented in 2009 and the resulting impact on the Company's financial position and results of operations are outlined in the Accounting Standards Implemented in 2009 section of this MD&A and note 2 to the consolidated financial statements. Accounting standards implemented in 2008 are discussed in note 2 to the consolidated financial statements.

Changes in minority interest did not have a significant impact on growth rates of the Company's net earnings over the past two years. GWL's ownership of Loblaw was 62.5% as at the end of 2009 and 61.9% at the end of 2008 and 2007. The increase in GWL's ownership in 2009 is due to the Company's participation in the Loblaw Dividend Reinvestment Plan ("DRIP") and Loblaw's repurchase of 1.7 million of its common shares during the fourth quarter of 2009.

6.3 CONSOLIDATED FINANCIAL CONDITION

($ millions except where otherwise indicated)	2009	2008[1]	2007[2]
Total assets	**$ 20,143**	$ 19,563	$ 18,361
Total long term debt (excluding amount due within one year)	**$ 5,377**	$ 5,308	$ 5,494
Dividends declared per share ($) – Common share	**$ 1.44**	$ 1.44	$ 1.44
– Preferred share:			
Series I	**$ 1.45**	$ 1.45	$ 1.45
Series II	**$ 0.32**	$ 1.29	$ 1.29
Series III	**$ 1.30**	$ 1.30	$ 1.30
Series IV	**$ 1.30**	$ 1.30	$ 1.30
Series V	**$ 1.19**	$ 1.19	$ 1.19

(1) Certain 2008 information has been restated to conform with the new CICA Handbook Section 3064, "Goodwill and Intangible Assets". See note 2 to the consolidated financial statements.
(2) Certain 2007 information has been restated to conform with the new CICA Handbook Section 3064, "Goodwill and Intangible Assets".

The Company's total assets in 2009 were greater than in 2008 and 2007. The 2009 increase was primarily due to an increase in cash and short term investment balances net of the decrease in current assets of operations held for sale which were sold in 2009, an increase in goodwill and intangible assets as a result of the acquisition of T&T by Loblaw and an increase in fixed assets primarily as a result of Loblaw's incremental investment in information technology and supply chain and the reacquisition of a distribution centre that was sold in 2007. This increase was partially offset by the appreciation of the Canadian dollar relative to the U.S. dollar, which caused a decrease in the translated balances of U.S. dollar denominated assets. The increase in 2008 was primarily due to the depreciation of the Canadian dollar relative to the U.S. dollar compared to 2007, which caused an increase in the translated balances of U.S. dollar denominated assets. On a foreign currency adjusted basis, the Company's total assets were also higher in 2008 than in 2007, primarily due to increases in cash and cash equivalents and short term investments, as well as inventories. The increase in inventories was driven in 2008 by Loblaw's on-shelf availability program.

Following the sale of the U.S. fresh bakery business, Dunedin and certain of its affiliates hold significant cash and short term investments denominated in Canadian and United States currencies. A portion of these funds, together with the proceeds from the sale of the dairy and bottling operations and cash flows from operating activities have covered a large portion of the funding payments for the Company over the past two years.

Over the past two years, the Company's funding payments resulted primarily from:

- capital investment programs;
- repayment of long term debt;
- redemption of the GWL preferred shares, Series II;
- acquisition of T&T by Loblaw;
- dividends paid on common and preferred shares;
- redemption of the GWL 12.7% Promissory Notes; and
- settlement of Loblaw equity forward contracts.

Financial Ratios

The Company's 2009 return on average net assets[1] of 9.3% was lower than the 2008 return of 11.2%. The 2009 return on average common shareholders' equity of 1.5% was lower than the 2008 return of 13.4%. The decrease in both measures in 2009 was largely the result of lower reported operating income, while the decrease in the return on average common shareholders' equity in 2009 was also impacted by the gain on sale of Weston Foods' dairy and bottling operations in 2008.

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

The Company's 2008 return on average net assets[1] of 11.2% was higher than the 2007 return of 8.2%, and the Company's 2008 return on average common shareholders' equity of 13.4% was higher than the 2007 return of 8.0%. The increase in both measures in 2008 was largely the result of higher operating income, while the increase in the return on average common shareholders' equity in 2008 was also impacted by the gain on sale of Weston Foods' dairy and bottling operations, partially offset by higher interest expense and other financing charges in 2008, including the $11 million non-cash charge (2007 – $141 million non-cash income) related to the fair value adjustment of WHL's forward sale agreement for 9.6 million Loblaw common shares.

The Company's net debt[1] to EBITDA[1] ratio was 0.18 times at the end of 2009 compared to 1.8 times at the end of 2008. The decrease in this ratio was driven primarily by a reduction in net debt[1], which was partially offset by a decrease in EBITDA[1]. The reduction in net debt[1] was primarily due to the proceeds from the sale of the U.S. fresh bakery business of $3,107 million and improvements in non-cash working capital at Loblaw, partially offset by the redemption of GWL preferred shares, Series II, for $265 million and the acquisition of T&T by Loblaw. The decrease in EBITDA[1] was primarily due to lower operating income. The Company's 2009 net debt[1] to equity[1] ratio was 0.04:1 compared to 0.53:1 in 2008. The decrease in this ratio was also due primarily to the decrease in net debt[1], as described above, as well as an increase in shareholders' equity from 2008 to 2009. The increase in shareholders' equity resulted primarily from the gain on disposal of the U.S. fresh bakery business.

The Company's net debt (excluding Exchangeable Debentures)[1] to EBITDA[1] ratio was 1.8 times at the end of 2008 compared to 2.9 times at the end of 2007. The decrease in this ratio was driven by a reduction in net debt[1] and an increase in EBITDA[1]. The reduction in net debt[1] was primarily due to the proceeds from the sale of Weston Foods' dairy and bottling operations of $467 million and the issuance of preferred shares by Loblaw in 2008. The increase in EBITDA[1] was primarily due to higher operating income. The Company's 2008 net debt (excluding Exchangeable Debentures)[1] to equity[1] ratio was 0.53:1 compared to 0.87:1 in 2007. The decrease in this ratio was also due primarily to the decrease in net debt[1], as described above, as well as an increase in shareholders' equity from 2007 to 2008. The increase in shareholders' equity resulted from the translation of the Company's U.S. net investment due to the depreciation of the Canadian dollar relative to the U.S. dollar in 2008 and an increase in retained earnings.

The 2009 interest coverage ratio decreased to 2.6 times compared to 3.2 times in 2008 primarily due to the decrease in operating income. Interest expense and other financing charges included non-cash income of $13 million (2008 – a non-cash charge of $11 million) recorded in 2009 related to the fair value adjustment of WHL's forward sale agreement for 9.6 million Loblaw common shares, which positively impacted the change in the interest coverage ratio by approximately 0.2 times.

The 2008 interest coverage ratio decreased to 3.2 times compared to 4.5 times in 2007 due to higher interest expense and other financing charges, partially offset by an increase in operating income. Interest expense and other financing charges included a non-cash charge of $11 million (2007 – non-cash income of $141 million) recorded in 2008 related to the fair value adjustment of WHL's forward sale agreement for 9.6 million Loblaw common shares, which negatively impacted the change in the interest coverage ratio by approximately 1.9 times.

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:

	Authorized	Outstanding
Common shares	Unlimited	129,073,662
Preferred shares – Series I	10,000,000	9,400,000
– Series II[1]	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

(1) At year end 2008 and prior to their redemption in 2009, the preferred shares, Series II, were presented as capital securities and were included in current liabilities.

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

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 preferred shares 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. Further information on GWL's outstanding share capital is provided in note 22 to the consolidated financial statements.

On April 1, 2009, the Company redeemed for cash the 10.6 million outstanding Series II preferred shares for $25.00 per share, or $265 million in aggregate, plus accrued and unpaid dividends to but excluding April 1, 2009 in accordance with the terms of the shares.

During 2008, Loblaw issued 9.0 million non-voting Second Preferred Shares, Series A. Twelve million of these shares are authorized and 9.0 million were outstanding at year end 2009. These preferred shares are presented as capital securities and are included in long term liabilities.

Further information on the Company's capital securities is provided in note 21 to the consolidated financial statements.

At year end, a total of 1,669,345 stock options were outstanding, representing 1.3% of GWL's issued and outstanding common shares, which was within GWL's limit of 5%. Further information on GWL's stock-based compensation is provided in note 24 to the consolidated financial statements.

Dividends

The declaration and payment of dividends and the amounts thereof are at the discretion of the Board, which takes into account the Company's financial results, capital requirements, available cash flow and other factors the Board considers relevant from time to time. Over the long term, GWL's objective is for its common dividend payment ratio to be in the range of 20% to 25% of the prior year's basic net earnings per common share from continuing operations, adjusted as appropriate for items which are not regarded to be reflective of ongoing operations, giving consideration to the year end cash position, future cash flow requirements and investment opportunities. Currently, there is no restriction that would prevent GWL from paying common dividends at historical levels. Dividends on the preferred shares rank in priority ahead of the common shares. The Board has declared dividends as follows:

($)		**2009**	2008
Common shares		**$ 1.44**	$ 1.44
Preferred shares	– Series I	**$ 1.45**	$ 1.45
	– Series II	**$ 0.32**	$ 1.29
	– Series III	**$ 1.30**	$ 1.30
	– Series IV	**$ 1.30**	$ 1.30
	– Series V	**$ 1.19**	$ 1.19

Dividends on the GWL preferred shares, Series II, are presented in interest expense and other financing charges in the consolidated statements of earnings from the second quarter of 2008 until their redemption in the second quarter of 2009.

Subsequent to the end of 2009, common share dividends of $0.36 per share and preferred share dividends of $0.32 per share for the Series III and Series IV preferred shares and dividends of $0.30 per share for the Series V preferred shares, payable on April 1, 2010, were declared by the Board. In addition, dividends of $0.36 per share for the Series I preferred shares, payable on March 15, 2010, were also declared and subsequently paid.

7. RESULTS OF REPORTABLE OPERATING SEGMENTS

The following discussion provides details of the 2009 results of operations of each of the Company's reportable operating segments.

7.1 WESTON FOODS OPERATING RESULTS FROM CONTINUING OPERATIONS

($ millions except where otherwise indicated)	2009	2008	Change
Sales	**$ 1,686**	$ 2,197	(23.3)%
Operating income	**$ 123**	$ 154	(20.1)%
Operating margin	**7.3%**	7.0%	
EBITDA(1)	**$ 179**	$ 214	(16.4)%
EBITDA margin(1)	**10.6%**	9.7%	
Return on average net assets(1)	**19.2%**	22.6%	

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

Weston Foods 2009 sales included nil (2008 – $543 million) of sales from the dairy and bottling operations, which were sold on December 1, 2008. Sales in 2009 were generated by the continuing baking divisions: the Canadian fresh and frozen bakeries and the frozen baking and biscuit manufacturing operations in the United States.

Sales and operating income in 2009 were impacted by the following trends:

- changing consumer eating preferences toward healthier and more nutritious offerings continued in 2009. Weston Foods responded to these trends with innovative and expanded products across its product portfolio resulting in new sales growth as well as improved operating margins. These trends are expected to continue into 2010 and Weston Foods is well positioned to participate in this growth with its strong portfolio of on-trend offerings under its *Wonder*, *D'Italiano*, *Country Harvest* and *Gadoua* brands;
- the continuing shift in consumer food shopping patterns toward 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 aligned to serve all its customers' needs;
- the continued focus on productivity and cost reduction contributed to the growth in operating income;
- the combined effect of price increases implemented in 2008 across key product categories and changes in sales mix had a positive impact on both sales and operating income. Continued efforts to focus on developing and supporting key core brands and higher margin product offerings contributed to the positive change in price and sales mix; and
- lower input and fuel costs were realized in 2009 compared to 2008, partially offset by continued cost escalation in labour and related benefit costs as well as increased promotional support.

A detailed discussion on how these trends and other factors impacted sales and operating income in 2009 is set out below.

Sales

Weston Foods sales for 2009 of $1,686 million decreased 23.3% compared to 2008. The sale of the dairy and bottling operations and the additional week of operating results in 2008 negatively impacted reported sales growth by approximately 24.8% and 1.3%, respectively, while the foreign currency translation positively impacted sales by approximately 2.4%. The combined effect of price increases implemented in 2008 across key product categories and changes in sales mix was a positive impact of 1.3% for 2009. Volume declined 41.8% compared to 2008, of which 39.5% was due to the sale of the dairy and bottling operations and approximately 1.4% was due to the additional week of operating results in 2008.

The following sales analysis excludes the impact of foreign currency translation, the results of the dairy and bottling operations and the additional week of operating results in 2008.

Fresh bakery sales, principally bread, rolls, bagels, tortillas and fresh-baked sweet goods, decreased approximately 0.9% in 2009 compared to 2008 and represented approximately 38% of total Weston Foods sales, down from approximately 40% in 2008. The sales decline was primarily due to lower sales volumes. Volumes decreased in 2009 with declines in certain product categories and the continued softness in the food service market, offset by growth in the *Gadoua* and *D'Italiano* brands and private label products. The introduction of new products, such as *Gadoua MultiGo*, *Country Harvest Vitality*, *D'Italiano Thintini* and the recently launched *Wonder Invisibles*, contributed positively to branded sales in 2009.

Frozen bakery sales, principally bread, rolls and sweet goods, decreased approximately 0.6% in 2009 compared to 2008 and represented approximately 40% of total Weston Foods sales in both 2009 and 2008. The sales decline in this category was due to lower volumes and the combined effect of pricing and changes in sales mix. Overall, volumes for the year decreased compared to 2008 due to decreases in certain product categories and the continued softness in the food service market.

Biscuit sales, principally wafers, ice-cream cones, cookies and crackers, increased approximately 2.5% in 2009 compared to 2008 and represented approximately 22% of total Weston Foods sales, up from approximately 20% in 2008. The sales growth in this category was mainly due to price increases combined with changes in sales mix. Overall volumes decreased compared to 2008 mainly due to declines in certain categories, including lower sales volume in Girl Scout cookie sales in 2009 compared to 2008.

Operating Income

Weston Foods operating income for 2009 decreased 20.1% to $123 million from $154 million in 2008. Operating margin for 2009 was 7.3% compared to 7.0% in 2008.

The year-over-year change in the following items influenced 2009 operating income compared to 2008:

- a charge of $73 million (2008 – nil) related to the non-cash goodwill impairment in Weston Foods' biscuits, cookies, cones and wafers business;
- income of $10 million (2008 – $9 million) related to the effect of stock-based compensation net of equity derivatives;
- income of $24 million (2008 – a charge of $46 million) related to the commodity derivatives fair value adjustment;
- nil (2008 – income of $47 million) related to the income of the dairy and bottling operations; and
- nil (2008 – income of $7 million) related to the redemption of the remaining outstanding GWL 3% Exchangeable Debentures and the sale of the Domtar (Canada) Paper Inc. shares.

Subsequent to the disposition of its U.S. fresh bakery business on January 21, 2009, Weston Foods reorganized its remaining operations. The reorganization changed the composition of Weston Foods' reporting units for the purpose of goodwill impairment testing. As a result of this change, the goodwill related to the biscuits, cookies, cones and wafers business was determined to be impaired and a write-down of $73 million was recorded in the first quarter of 2009.

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 risk management strategy, 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. Certain of these derivatives are not designated for financial reporting purposes as cash flow hedges of anticipated future raw material purchases, and accordingly hedge accounting does not apply. As a result, changes in the fair value of these derivatives, which include realized and unrealized gains and losses related to future purchases of raw materials, are recorded in operating income. Weston Foods recorded income of $24 million (2008 – charge of $46 million) related to the fair value adjustment of exchange traded commodity derivatives that were not designated within a hedging relationship. 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.

On December 1, 2008, Weston Foods sold the net assets of its dairy and bottling operations for cash proceeds of $467 million, which resulted in a pre-tax gain of $335 million ($281 million, net of tax). The carrying value of the net assets sold consisted of fixed assets of $54 million, goodwill of $11 million and negative working capital of $6 million. Prior to the closing, Weston Foods paid Loblaw $65 million in consideration of Loblaw's agreement to enter into a long term supply agreement with the dairy and bottling operations. This payment will be recognized into operating income by Loblaw over the term of the agreement as goods are purchased. The dairy and bottling operations generated $543 million of sales, operating income of $47 million and earnings before interest, income taxes, depreciation and amortization of $53 million for Weston Foods in 2008.

Excluding these specific items described above and the negative impact of the additional week of operating results in 2008, operating income in 2009 was strong compared to 2008. Operating income was positively impacted by the benefits realized from productivity improvements and other cost reduction initiatives, lower input and fuel costs partially offset by continued escalation in labour and related benefit costs and promotional spending. Operating income was also positively impacted by sales growth primarily due to the combined effect of price increases implemented in 2008 and changes in sales mix.

Gross margin increased in 2009 compared to 2008, mainly as a result of the sale of the dairy and bottling operations and the positive impact of the commodity derivatives fair value adjustment. Excluding the results of the dairy and bottling operations in 2008 and the impact of the commodity derivatives fair value adjustment, 2009 gross margin increased when compared to 2008.

EBITDA[1] decreased by $35 million, or 16.4%, to $179 million in 2009 compared to $214 million in 2008. EBITDA margin[1] for 2009 increased to 10.6% from 9.7% in 2008, mainly due to the sale of the dairy and bottling operations.

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, and restructuring activities related to these initiatives are ongoing. In 2009, a charge of $9 million (2008 – $6 million) was recognized in operating income related to these restructuring activities.

Outlook[2]

Weston Foods expects to deliver satisfactory operating performance in 2010. To help offset economic pressures, the Company is continuing its efforts to reduce costs through improved efficiencies and productivity and grow sales by optimizing product mix and product innovation to meet changing consumer buying preferences.

7.2 LOBLAW OPERATING RESULTS

($ millions except where otherwise indicated)	2009	2008[1]	Change
Sales	**$ 30,735**	$ 30,802	(0.2)%
Operating income	**$ 1,197**	$ 1,044	14.7%
Operating margin	**3.9%**	3.4%	
EBITDA[2]	**$ 1,786**	$ 1,594	12.0%
EBITDA margin[2]	**5.8%**	5.2%	
Return on average net assets[2]	**11.8%**	10.4%	

(1) Certain 2008 information has been restated to conform with the new CICA Handbook Section 3064, "Goodwill and Intangible Assets". See note 2 to the consolidated financial statements.
(2) See non-GAAP financial measures beginning on page 51.

Sales

Sales for 2009 (52 weeks) decreased 0.2% to $30.7 billion compared to $30.8 billion in 2008 (53 weeks). The following factors explain the major components in the change in sales over the prior year:

- same-store sales declined 1.1% including a decline in sales and same-store sales of approximately 1.8% due to the extra selling week in the fourth quarter of 2008;
- T&T sales positively impacted sales by 0.5%;
- sales were negatively impacted by 0.5% by the sale of the food service business in the fourth quarter of 2008;
- on an equivalent 52 week basis:
  - sales growth in food and drugstore were moderate;
  - sales growth in apparel was strong while sales of other general merchandise declined significantly due to lower discretionary consumer spending and reductions in assortment and square footage;
- gas bar sales declined significantly as a result of lower retail gas prices despite strong volume growth;
- internal retail food price inflation was below national food price inflation of 5.5% (2008 – 4.0%) as measured by "The Consumer Price Index for Food Purchased from Stores" ("CPI") but higher than in 2008. CPI does not necessarily reflect the effect of inflation on the specific mix of goods sold in Loblaw stores; and
- 41 (2008 – 37) corporate and franchised stores were opened, including 17 acquired T&T stores, and 33 (2008 – 37) corporate and franchised stores were closed, resulting in a net increase of 0.5 million square feet, or 1.0%.

Sales of control label products for 2009 were $7.6 billion compared to $7.4 billion in 2008. In 2009, Loblaw launched over 800 new products, redesigned the packaging of over 4,000 products and celebrated the 25th anniversary of *President's Choice.*

(1) See non-GAAP financial measures beginning on page 51.
(2) This outlook should be read in conjunction with the Forward-Looking Statements section of this MD&A on page 5.

Operating Income

Operating income of $1,197 million for 2009 increased $153 million, or 14.7%, compared to $1,044 million in 2008 resulting in an increase in operating margin to 3.9% in 2009 from 3.4% in 2008.

Gross profit of $7,196 million for 2009 increased by $285 million compared to $6,911 million in 2008. Gross profit as a percentage of sales was 23.4% in 2009 compared to 22.4% in 2008. Improved buying synergies, more disciplined vendor management, lower fuel costs and the efficiency of transportation operations contributed to the increase in gross profit and gross profit as a percentage of sales. Investments in pricing partially offset the improvement.

Included in 2009 operating income was a charge of $22 million (2008 – $7 million) related to stock-based compensation including the equity forwards. The increases in operating income and operating margin for 2009 were primarily due to the improvement in gross profit partially offset by an increased stock-based compensation charge, incremental costs of $73 million related to Loblaw's investment in information technology and supply chain and a lower gain on the sale of financial investments by President's Choice Bank ("PC Bank"), a wholly owned subsidiary of Loblaw, of $8 million (2008 – $14 million). Included in 2009 operating income was a charge of $27 million (2008 – $29 million) for fixed asset impairments related to asset carrying values in excess of fair values for specific store locations. Included in 2008 operating income was a gain of $22 million on the sale of the food service business.

Cost reduction initiatives throughout the business contributed to the improvement in operating income in 2009 compared to the prior year. Specifically, labour and supply chain costs decreased as a result of continued labour productivity improvements and efficiency enhancements at distribution centres.

EBITDA[1] increased $192 million, or 12.0%, to $1,786 million in 2009 compared to $1,594 million in 2008. EBITDA margin[1] increased to 5.8% compared to 5.2% in 2008. The increases in EBITDA[1] and EBITDA margin[1] were primarily due to the increases in operating income and operating margin as described above.

Outlook[2]

Loblaw has completed three years of its renewal program and is making progress, with two of the toughest years ahead. Entering into 2010 sales and margins will continue to be challenged by deflation and increased competitive intensity. In 2010 Loblaw plans to step up investments in information technology and supply chain which will negatively impact operating income by approximately $185 million over 2009, while at the same time maintaining its capital expenditures at approximately $1 billion.

8. LIQUIDITY AND CAPITAL RESOURCES

8.1 MAJOR CASH FLOW COMPONENTS

($ millions)	**2009**	2008[1]	Change
Cash flows from operating activities of continuing operations	**$ 1,987**	$ 956	$ 1,031
Cash flows used in investing activities of continuing operations	**$ (2,050)**	$ (196)	$ (1,854)
Cash flows used in financing activities of continuing operations	**$ (867)**	$ (787)	$ (80)
Cash flows from discontinued operations	**$ 3,017**	$ 188	$ 2,829

(1) Certain 2008 information has been restated to conform with the new CICA Handbook Section 3064, "Goodwill and Intangible Assets". See note 2 to the consolidated financial statements.

Cash Flows from Operating Activities of Continuing Operations

In 2009, cash flows from operating activities of continuing operations were $1,987 million compared to $956 million in 2008. The increase was primarily due to increases in both cash flows from non-cash working capital and net earnings from continuing operations before minority interest, excluding the impact of the gain on disposal of business and other non-cash items. The increase in cash flows from non-cash working capital when compared to 2008 was primarily driven by changes in inventories and accounts payable and accrued liabilities at Loblaw.

(1) See non-GAAP financial measures beginning on page 51.
(2) This outlook should be read in conjunction with the Forward-Looking Statements section of this MD&A on page 5.

Cash Flows used in Investing Activities of Continuing Operations
Cash flows used in investing activities of continuing operations in 2009 were $2,050 million compared to $196 million in 2008. The primary reasons for the increase in cash flows used include the $467 million of proceeds from the 2008 disposition of Weston Foods' dairy and bottling operations, the net increase in short term investments and security deposits, an increase in cash outflows from credit card receivables, after securitization, fixed asset purchases and the acquisition of T&T by Loblaw. The change in cash flows used in short term investments includes Dunedin's and certain of its affiliates' investment of the proceeds from the sale of the U.S. fresh bakery business.

The Company's capital investment in 2009 was approximately $1.1 billion (2008 – $807 million). Weston Foods capital investment was $40 million (2008 – $57 million). Loblaw's capital investment was $1.1 billion (2008 – $750 million). Approximately 9% (2008 – 18%) of Loblaw's capital investment was for new store development, expansions and land, approximately 38% (2008 – 36%) was for store conversions and renovations, and approximately 53% (2008 – 46%) was for infrastructure investment. The capital investment activity benefited all regions to varying degrees and strengthened the existing store base.

Loblaw's capital investment of $1.1 billion included the purchase of a distribution centre for consideration of $140 million plus closing costs. Loblaw assumed long term debt secured by a mortgage of $96 million in connection with the purchase. In addition, Loblaw acquired T&T in the third quarter of 2009 for $204 million.

Loblaw expects to invest approximately $1.0 billion in capital expenditures in 2010. Approximately 50% of these funds are expected to be expended in upgrading its information technology and supply chain infrastructure. The remainder will be spent on retail operations as Loblaw plans to renovate certain banners and also to add approximately 300,000 square feet of retail space.

Loblaw's 2009 corporate and franchised store capital investment program, which included the impact of store openings and closures, resulted in an increase in net retail square footage of 1.0% compared to 2008. During 2009, 41 (2008 – 37) corporate and franchised stores were opened including 17 acquired T&T stores, 33 (2008 – 37) corporate and franchised stores were closed, resulting in a net increase of 0.5 million square feet (2008 – 0.2 million square feet). Additionally, 128 (2008 – 88) corporate and franchised stores were renovated. The 2009 average corporate store size remained relatively flat at 62,300 square feet (2008 – 61,900) and the average franchised store size increased 4.6% to 29,700 square feet (2008 – 28,400).

At year end 2009, the Company had committed approximately $76 million (2008 – $51 million) with respect to capital investment projects such as the construction, expansion and renovation of buildings and the purchase of real property.

During 2009, the Company also generated $27 million (2008 – $125 million) from fixed asset sales.

Cash Flows used in Financing Activities of Continuing Operations
Cash flows used in financing activities of continuing operations in 2009 were $867 million compared to $787 million in 2008.

During 2009, GWL and Loblaw completed the following financing activities:
- Loblaw issued $350 million of unsecured Medium Term Notes ("MTN") Series 2-A;
- Loblaw repaid $125 million of 5.75% MTN;
- Loblaw assumed a mortgage of $96 million;
- GWL redeemed $265 million of preferred shares, Series II;
- GWL repaid $250 million of 5.90% MTN;
- GWL repurchased 12.7% Promissory Notes; and
- GWL issued $37 million of Series B Debentures.

During 2008, GWL and Loblaw completed the following financing activities:
- Loblaw issued U.S. $300 million of fixed rate unsecured notes in a private placement debt financing;
- Loblaw repaid $390 million of 6.00% MTN;
- Loblaw issued 9.0 million Second Preferred Shares, Series A, for total proceeds of $218 million;
- GWL repaid the remaining outstanding 3% Exchangeable Debentures for an aggregate amount of approximately $140 million; and
- consolidated commercial paper outstanding was reduced by $609 million, partially offset by an increase in short term bank loans of $203 million, which included GWL's issuance of $43 million of Series B Debentures.

See notes 17, 18, 21 and 22 to the consolidated financial statements for the terms and details of the debt, capital securities and share capital transactions.

In 2009, GWL renewed its Normal Course Issuer Bid ("NCIB") to purchase on the Toronto Stock Exchange ("TSX") or enter into equity derivatives to purchase up to 5% of its common shares outstanding. GWL did not purchase any shares under its NCIB during 2009 or 2008. GWL intends to file a NCIB in 2010 to purchase on the TSX or enter into equity derivatives to purchase up to 5% of its outstanding common shares.

Net Debt (excluding Exchangeable Debentures)[1]

In the first quarter of 2009, the Company revised its definition of net debt[1] to include the fair value of certain financial derivatives, other than those related to commodities, as the Company believes the measure should include all interest bearing financing arrangements.

Net debt[1] was $299 million as at December 31, 2009 compared to $3,251 million at December 31, 2008. Of the $2,952 million reduction in net debt[1], the proceeds from the sale of the U.S. fresh bakery business accounted for $3,107 million. The reduction was also largely attributable to improvements in non-cash working capital at Loblaw, partially offset by the redemption of the GWL preferred shares, Series II, for $265 million and the acquisition of T&T by Loblaw.

The Company's net debt (excluding Exchangeable Debentures)[1] at December 31, 2008 was $3,251 million compared to $4,291 million at the end of 2007. Of the $1,040 million reduction, the proceeds from the sale of Weston Foods' dairy and bottling operations accounted for $467 million, the issuance of preferred shares by Loblaw in 2008 accounted for $218 million and all other factors accounted for $355 million.

8.2 SOURCES OF LIQUIDITY

Following the sale of the U.S. fresh bakery business, Dunedin and certain of its affiliates hold significant cash and short term investments denominated in Canadian and United States currencies. These funds are invested in highly liquid marketable short term investments consisting primarily of Canadian and United States government treasury bills and treasury notes, United States government sponsored debt securities, Canadian bank term deposits and corporate commercial paper.

The Company obtains its short term financing through a combination of cash generated from operating activities, cash and cash equivalents, short term investments, bank indebtedness and amounts available to be drawn against Loblaw's credit facility.

During 2008, Loblaw entered into an $800 million, 5-year committed credit facility, provided by a syndicate of third-party lenders. The facility contains certain financial covenants with which Loblaw was in compliance throughout the year. This facility is the primary source of Loblaw's short term funding requirements and permits borrowings having up to a 180-day term that accrue interest based on short term floating interest rates. At the end of the year, nil (2008 – $190 million) was drawn on the 5-year committed credit facility.

During 2008, GWL entered into a $300 million, 5-year committed credit facility provided by a syndicate of third-party lenders. As at December 31, 2008, nil was drawn on the 5-year committed credit facility. Following the sale of the U.S. fresh bakery business in 2009, GWL terminated this facility.

PC Bank participates in bank supported and term securitization programs which provide the primary source of funds for the operation of its business. Under these securitization programs, a portion of the total interest in the credit card receivables is sold to independent trusts. In 2009, no incremental (2008 – $300 million) credit card receivables were securitized. During the fourth quarter of 2009, PC Bank repurchased $50 million (2008 – nil) of co-ownership interest in the securitized receivables from an independent trust and an additional $90 million was repurchased subsequent to the end of 2009. The independent trusts' recourse to PC Bank's assets is limited to PC Bank's excess collateral (2009 – $121 million; 2008 – $124 million) as well as standby letters of credit (2009 – $116 million; 2008 – $116 million) on a portion of the securitized amount. A portion of the securitized receivables held by an independent trust facility was renewed for a 364-day term in the third quarter of 2009. In the absence of renewal or other securitization, Loblaw would be required to use its cash and short term investments or raise alternative financing by issuing additional debt or equity instruments. During the first quarter of 2009, one of these independent funding trusts filed a base shelf prospectus which permits it to issue up to $1.5 billion of notes over a 25-month period. Any issuance of notes is subject to the availability of credit markets. Further information about PC Bank's credit card receivables and securitization is provided in notes 1 and 10 to the consolidated financial statements and in the Off-Balance Sheet Arrangements section of this MD&A.

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

Loblaw has traditionally obtained its long term financing primarily through a MTN program. Loblaw may also refinance maturing long term debt with MTN if market conditions are appropriate or it may consider other alternatives.

GWL has traditionally obtained its long term financing primarily through MTN and preferred share programs. Given its significant holdings of cash and short term investments, GWL currently does not plan to refinance maturing MTN.

In the normal course of business, the Company provides comfort letters to third-party lenders in connection with financing activities of certain independent franchisees. In addition, the Company establishes standby and documentary letters of credit used in connection with certain obligations related to the financing program for Loblaw's independent franchisees, securitization of PC Bank's credit card receivables, pension and benefit programs and performance guarantees associated with real estate and other obligations associated with normal course operating activities. At year end, the aggregate gross potential liability related to the Company's standby letters of credit was approximately $557 million (2008 – $595 million), against which the Company had $879 million (2008 – $616 million) in credit facilities available to draw on.

Loblaw expects that cash and cash equivalents, short term investments, future operating cash flows and the amounts available to be drawn against its 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 twelve months. In addition, given reasonable access to capital markets, Loblaw does not foresee any impediments in securing financing to satisfy its long term obligations.

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 and pension plan funding over the next twelve months. The Company (excluding Loblaw) does not foresee any impediments in satisfying its long term obligations.

During 2009, Dominion Bond Rating Service ("DBRS") revised the trend on Loblaw's long term credit ratings to "Stable" from "Negative" and Standard & Poor's ("S&P") revised the outlook to "Stable" from "Negative". 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
Commercial paper	R-2 (middle)	Stable	A-2	Stable
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 rating organizations listed above base their credit ratings on quantitative and qualitative considerations. These credit ratings are forward-looking and intended to give an indication of the risk that Loblaw will not fulfill its obligations in a timely manner.

Loblaw's and PC Bank's ability to obtain funding from external sources may be restricted by downgrades in Loblaw's current credit ratings, should Loblaw's financial performance and condition deteriorate. In addition, credit and capital markets are subject to inherent global risks that may negatively affect Loblaw's access and ability to fund its financial and other liabilities. Loblaw mitigates these risks by maintaining appropriate levels of cash and cash equivalents and short term investments, committed lines of credit and by diversifying its sources of funding and the maturity profile of its debt and capital obligations.

During 2009, DBRS affirmed GWL's long term corporate credit, commercial paper and preferred share ratings at "BBB", "R-2 (high)" and "Pfd-3", respectively. DBRS revised the trend on GWL's commercial paper, notes and debentures, and preferred shares ratings to "Stable" from "Under Review with Developing Implications", where GWL's ratings were placed following the December 12, 2008 announcement that Dunedin had entered into an agreement with Grupo Bimbo, S.A.B. de C.V. to sell the U.S. fresh bakery business.

Also during 2009, S&P affirmed GWL's long term corporate credit, commercial paper and preferred share ratings at "BBB", "A-2" and "P-3 (high)", respectively. GWL was removed from "CreditWatch with Negative Implications", and the ratings outlook was changed to "Stable". GWL was placed on "CreditWatch with Negative Implications" by S&P on December 5, 2008, following the announcement that Dunedin was in discussions with Grupo Bimbo, S.A.B. de C.V. about the possible sale of the U.S. fresh bakery business.

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
Commercial paper	R-2 (high)	Stable	A-2	Stable
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 rating organizations listed above base their credit ratings on quantitative and qualitative considerations. These credit ratings are forward-looking and intended to give an indication of the risk that GWL will not fulfill its obligations in a timely manner.

GWL's ability to obtain funding from external sources may be restricted by downgrades in its current credit ratings, should its financial performance and condition deteriorate. In addition, credit and capital markets are subject to inherent global risks that may negatively affect GWL's access and ability to fund its financial and other liabilities. The Company (excluding Loblaw) mitigates these risks by maintaining appropriate levels of cash and cash equivalents and short term investments, committed lines of credit when required and by diversifying its sources of funding and the maturity profile of its debt and capital obligations. Given its significant holdings of cash and short term investments following the sale of the U.S. fresh bakery business, the Company (excluding Loblaw) currently does not foresee any impediments in funding its short term and long term debt requirements.

Independent Funding Trust

Certain independent franchisees of Loblaw obtain financing through a structure involving independent 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 trusts are administered by a major Canadian chartered bank.

The gross principal amount of loans issued to Loblaw's independent franchisees outstanding at the end of 2009 was $390 million (2008 – $388 million), including $163 million (2008 – $152 million) of loans payable by VIEs consolidated by the Company. Loblaw has agreed to provide credit enhancement in the form of a standby letter of credit for the benefit of the independent funding trust of not less than 15% (2008 – 15%) of the principal amount of the loans outstanding at any time. As at the end of the year, $66 million (2008 – $66 million) was outstanding as a standby letter of credit. The standby letter of credit has never been drawn upon. This credit enhancement allows the independent funding trust to provide financing to Loblaw's independent franchisees. As well, 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 this standby letter of credit.

During the second quarter of 2009, a 364-day revolving committed credit facility provided by a syndicate of third-party lenders in the amount of $475 million was renewed for 12 months. This facility is the source of funding to the independent trusts and has a 12 month repayment term at the end of the renewal period. In accordance with Canadian GAAP, the financial statements of the independent funding trust are not consolidated with those of the Company.

Equity Derivative Contracts

During 2009, Glenhuron Bank Limited ("Glenhuron"), a wholly owned subsidiary of Loblaw, paid $55 million to terminate equity forwards representing 3.3 million Loblaw common shares, which led to the extinguishment of a corresponding portion of the associated liability.

As at year end 2009, Glenhuron had equity forwards to buy 1.5 million (2008 – 4.8 million) Loblaw common shares at an average forward price of $66.25 (2008 – $54.46), including $10.03 (2008 – $9.59) per common share of interest expense. As at year end 2009, the interest and unrealized market loss of $48 million (2008 – $92 million) was included in accounts payable and accrued liabilities. As at year end 2009, GWL had equity swaps to buy 1.7 million (2008 – 1.7 million) GWL common shares at an average forward price of $103.17 (2008 – $103.17). As at year end 2009, the unrealized market loss of $61 million (2008 – $44 million) and nil (2008 – $29 million) was recorded in accounts payable and accrued liabilities and in other liabilities, respectively.

8.3 CONTRACTUAL OBLIGATIONS

The following illustrates certain of the Company's significant contractual obligations and discusses other obligations as at December 31, 2009:

Summary of Contractual Obligations

	Payments due by year						
($ millions)	2010	2011	2012	2013	2014	Thereafter	Total
Long term debt[1]	$ 343	$ 690	$ 38	$ 391	$ 674	$ 3,584	$ 5,720
Operating leases[2]	219	200	173	152	131	680	1,555
Contracts for purchase of real property and capital investment projects[3]	76						76
Purchase obligations[4]	742	671	479	16			1,908
Total contractual obligations	$ 1,380	$ 1,561	$ 690	$ 559	$ 805	$ 4,264	$ 9,259

(1) Long term debt includes capital 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.

At year end, the Company had other long term liabilities which included accrued benefit plan liabilities, future income tax liabilities, stock-based compensation liabilities and accrued insurance liabilities. These long term liabilities have not been included in the table above for the following reasons:

- future payments of accrued benefit plan liabilities, principally post-retirement benefits, depend on when and if retirees submit claims;
- future payments of income taxes depend on the levels of taxable earnings and income tax rates;
- future payments of the share appreciation value on employee stock options depend on whether employees exercise their stock options, the market price of GWL or Loblaw common shares on the exercise date and the manner in which the employees exercise those stock options;
- future payments of restricted share units depend on the market prices of GWL and Loblaw common shares; and
- future payments of insurance related obligations can extend over several years and depend on the timing of anticipated settlements and results of litigation.

8.4 OFF-BALANCE SHEET ARRANGEMENTS

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

Standby Letters of Credit

Standby and documentary letters of credit are used in connection with certain obligations mainly related to pension and benefit programs and performance guarantees associated with real estate and other obligations associated with normal course operating activities. The aggregate gross potential liability related to Loblaw's standby letters of credit, all of which are off-balance sheet, is approximately $246 million (2008 – $216 million) at year end.

Guarantees

The Company has entered into various guarantee agreements including standby letters of credit in relation to the securitization of PC Bank's credit card receivables, third-party financing made available to Loblaw's independent franchisees, and obligations to indemnify third parties in connection with leases, business dispositions and other transactions in the normal course of the Company's business. For a detailed description of the Company's guarantees, see note 29 to the consolidated financial statements.

Securitization of Credit Card Receivables

PC Bank participates in bank supported and term securitization programs. Under these programs, PC Bank sells a portion of the total interest in its credit card receivables to independent trusts in exchange for cash. The trusts fund these purchases by issuing debt securities in the form of asset-backed commercial paper or asset-backed term notes to third-party investors. The securitizations are accounted for as asset sales only when PC Bank transfers control of the transferred assets and receives consideration other than beneficial interests in the transferred assets. All transactions between the trusts and PC Bank have been, and are expected to continue to be, accounted for as sales as contemplated by Canadian GAAP, specifically AcG 12, "Transfers of Receivables". The trusts are either not controlled by PC Bank or are qualifying special purpose entities and therefore the financial results of the trusts are not included in the Company's consolidated financial statements.

PC Bank sells interests in its credit card receivables to the trusts on a fully serviced basis. PC Bank does not receive a servicing fee from the trusts for its servicing responsibilities and accordingly, a servicing obligation is recorded. When a sale occurs, PC Bank retains rights to future cash flows after obligations to the investors in the trusts have been met, which is considered to be a retained interest. The independent trusts' recourse to PC Bank's assets is limited to PC Bank's excess collateral as well as standby letters of credit provided by major Canadian chartered banks for 9% (2008 – 9%) on a portion of the securitized amount. 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. The subordinated notes issued by Eagle Credit Card Trust ("Eagle") provide credit support to those notes which are more senior. The retained interest is recorded at fair value.

As at year end 2009, the total amount of securitized credit card receivables outstanding which PC Bank continues to service was $1.7 billion (2008 – $1.8 billion) and the associated retained interest was $13 million (2008 – $14 million). During 2009, PC Bank received income of $235 million (2008 – $176 million) related primarily to PC Bank's rights to excess cash flows earned on the securitized credit card receivables. In the absence of securitization, Loblaw would be required to use its cash and short term investments or raise alternative financing by issuing debt or equity instruments. Further disclosure regarding this arrangement is provided in notes 1 and 10 to the consolidated financial statements.

Independent Funding Trust

Certain independent franchisees of Loblaw obtain financing through a structure involving independent 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. Further disclosure regarding this arrangement is provided in Section 8.2, "Independent Funding Trust" and in note 29 to the consolidated financial statements.

9. QUARTERLY RESULTS OF OPERATIONS

Under an accounting convention common in the food distribution industry the Company follows a 52-week reporting cycle which periodically necessitates a fiscal year of 53 weeks. 2008 was a 53-week year. 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 consolidated financial statements for each of the eight most recently completed quarters. This information was prepared in accordance with Canadian GAAP.

9.1 QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

($ millions except where otherwise indicated)		First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total (audited)
Sales	**2009**	**$ 7,022**	**$ 7,484**	**$ 9,777**	**$ 7,537**	**$ 31,820**
	2008	$ 6,835	$ 7,324	$ 9,879	$ 8,050	$ 32,088
Net earnings (loss) from continuing operations	**2009**	**$ (27)**	**$ 4**	**$ 71**	**$ 79**	**$ 127**
	2008(1)	$ 84	$ 87	$ 119	$ 357	$ 647
Net earnings	**2009**	**$ 863**	**$ 4**	**$ 86**	**$ 82**	**$ 1,035**
	2008(1)	$ 131	$ 118	$ 180	$ 405	$ 834
Net (loss) earnings per common share from continuing operations ($)						
Basic	**2009**	**$ (0.28)**	**$ (0.05)**	**$ 0.44**	**$ 0.53**	**$ 0.64**
	2008(1)	$ 0.55	$ 0.60	$ 0.81	$ 2.69	$ 4.65
Diluted	**2009**	**$ (0.28)**	**$ (0.05)**	**$ 0.44**	**$ 0.52**	**$ 0.63**
	2008(1)	$ 0.55	$ 0.60	$ 0.81	$ 2.69	$ 4.65
Net earnings (loss) per common share ($)						
Basic	**2009**	**$ 6.61**	**$ (0.05)**	**$ 0.56**	**$ 0.56**	**$ 7.68**
	2008(1)	$ 0.91	$ 0.84	$ 1.29	$ 3.06	$ 6.10
Diluted	**2009**	**$ 6.61**	**$ (0.05)**	**$ 0.56**	**$ 0.55**	**$ 7.67**
	2008(1)	$ 0.91	$ 0.84	$ 1.29	$ 3.06	$ 6.10

(1) Certain 2008 information has been restated to conform with the new CICA Handbook Section 3064, "Goodwill and Intangible Assets". See note 2 to the consolidated financial statements.

Results by Quarter

Consolidated sales in 2009 were impacted by various factors including the sale of the Weston Foods dairy and bottling operations in the fourth quarter of 2008 and the additional week of operating results in 2008. For Loblaw, sales and same-store sales growth were positive in the first two quarters of 2009 compared to 2008. Sales and same-store sales declined in the third and fourth quarters of 2009 compared to 2008. Quarterly same-store sales increases were 2.1% and 2.5% for the first two quarters of 2009 compared to 2008, respectively. Quarterly same-store sales declines were 0.6% and 7.8% for the third and fourth quarters of 2009 compared to 2008, respectively. The sale of the food service business in the fourth quarter of 2008 negatively impacted sales in 2009 compared to 2008 by 0.5% for each of the first three quarters and by 0.3% in the fourth quarter. The acquisition of T&T in the third quarter of 2009 positively impacted Loblaw sales by 0.2% and 1.8% in the third and fourth quarters of 2009, respectively, compared to 2008. Quarterly same-store sales increases for the four quarters of 2008 were 2.8%, 0.7%, 3.0% and 10.6%, respectively. The extra selling week in the fourth quarter of 2008 negatively impacted sales and same-store sales by approximately 7.0% in the fourth quarter of 2009 compared to 2008 and positively impacted sales and same-store sales by approximately 7.9% in the fourth quarter of 2008 compared to 2007. Quarterly sales and same-store sales are also impacted by seasonality and the timing of holidays.

Internal retail food price inflation at Loblaw decreased throughout each of the last eight quarters and was lower than national food price inflation as measured by CPI. In the fourth quarter of 2009, Loblaw experienced internal retail food price deflation. CPI decreased to 1.6% in the fourth quarter of 2009 from 9.0% in the first quarter of 2009 and increased to 8.4% in the fourth quarter of 2008 from 0.1% in the first quarter of 2008. This measure of inflation does not necessarily reflect the effect of inflation on the specific mix of goods sold in Loblaw stores.

Weston Foods 2009 quarterly sales were positively impacted by price increases implemented in 2008 across key product categories combined with changes in sales mix. Foreign currency translation positively impacted sales growth in the first three quarters of 2009 as compared to the same periods in 2008, and negatively impacted sales growth in the fourth quarter of 2009.

At Loblaw, fluctuations in quarterly net earnings during 2009 reflect the underlying operations of Loblaw as well as the impact of specific charges including the impact of stock-based compensation including the equity forwards and costs related to the incremental investment in information technology and supply chain. Since the third quarter of 2008, quarterly net earnings have benefitted from Loblaw's cost reduction initiatives. Earnings in the third and fourth quarters of 2009 and the first and second quarters of 2008 were pressured by investments in pricing. At Weston Foods, pricing and the benefits realized from cost reduction and productivity initiatives more than offset the impact of cost pressures during 2009 and 2008. Quarterly net earnings are also impacted by seasonality and the timing of holidays. The impact of seasonality is greatest in the third and fourth quarters and least in the first quarter.

In addition, consolidated quarterly net earnings (loss) from continuing operations during 2009 were impacted by foreign exchange gains and losses arising from the translation of the U.S. dollar denominated assets of the integrated foreign subsidiaries.

Interest expense and other financing charges fluctuate mainly as a result of the accounting for WHL's forward sale agreement for 9.6 million Loblaw common shares which results in non-cash income or non-cash charges due to the change in the market price of Loblaw common shares.

The changes in the quarterly effective income tax rates for 2009 over 2008 were primarily due to the foreign exchange losses associated with the effect of foreign exchange on a portion of the U.S. dollar denominated cash and short term investments held by Dunedin and certain of its affiliates for which a tax benefit has not been fully recognized and the non-deductible reversal of the cumulative foreign currency translation loss associated with Dunedin and certain of its affiliates. In addition, the fourth quarter of 2009 was impacted by the cumulative reduction in the income tax expense as a result of a reduction in Ontario statutory income tax rates and a decrease in income tax accruals relating to certain prior year income tax matters. The effective income tax rate for all quarters in 2008 was impacted by increases in income tax accruals relating to certain income tax matters and in the fourth quarter there was the offsetting impact of non-taxable amounts including capital gains.

9.2 FOURTH QUARTER RESULTS (UNAUDITED)

The following is a summary of selected unaudited consolidated financial information for the fourth quarter of 2009. This information was prepared in accordance with Canadian GAAP and is reported in Canadian dollars. The analysis of the data contained in the table focuses on the results of continuing operations and changes in the financial condition and cash flows in the fourth quarter.

Selected Consolidated Information

(unaudited)

($ millions except where otherwise indicated)	2009	2008[1]
Sales	**$ 7,537**	$ 8,050
Operating income	**$ 287**	$ 348
Operating margin	**3.8%**	4.3%
Gain on disposal of business		$ 335
Interest expense and other financing charges	**$ 99**	$ 136
Income taxes	**$ 39**	$ 113
Net earnings from continuing operations	**$ 79**	$ 357
Net earnings	**$ 82**	$ 405
Basic net earnings per common share from continuing operations ($)	**$ 0.53**	$ 2.69
Diluted net earnings per common share from continuing operations ($)	**$ 0.52**	$ 2.69
Basic net earnings per common share ($)	**$ 0.56**	$ 3.06
Diluted net earnings per common share ($)	**$ 0.55**	$ 3.06
EBITDA[2]	**$ 442**	$ 477
EBITDA margin[2]	**5.9%**	5.9%
Cash flows from (used in) continuing operations:		
Operating activities	**$ 638**	$ 594
Investing activities	**$ (739)**	$ 29
Financing activities	**$ (14)**	$ (491)

(1) Certain 2008 information has been restated to conform with the new CICA Handbook Section 3064, "Goodwill and Intangible Assets". See note 2 to the consolidated financial statements.

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

Sales

Sales in the fourth quarter of 2009 were $7.5 billion compared to $8.1 billion for the same period in 2008, a decrease of 6.4%. The sale of the dairy and bottling operations in the fourth quarter of 2008 and the additional week of operating results in 2008 (13 weeks) negatively impacted consolidated sales for the fourth quarter of 2009 by 1.1% and 7.4%, respectively.

Operating Income

Operating income for the fourth quarter of 2009 was $287 million compared to $348 million in the same period in 2008, a decrease of 17.5%. Consolidated operating margin of 3.8% for the fourth quarter decreased compared to 4.3% for the same period in 2008.

Year-over-year changes in the following items influenced the Company's operating income in the fourth quarter of 2009 compared to the same period in 2008:

- a charge of $52 million (2008 – nil) related to the reversal of the cumulative foreign currency translation loss associated with the reduction in the Company's U.S. net investment in self-sustaining foreign operations;
- income of $6 million (2008 – nil) related to unrealized foreign exchange gains associated with the effect of foreign exchange on a portion of the U.S. dollar denominated cash and short term investments held by Dunedin and certain of its affiliates;
- income of $11 million (2008 – $23 million) related to the effect of stock-based compensation net of equity derivatives of both GWL and Loblaw;
- income of $12 million (2008 – a charge of $5 million) related to the commodity derivatives fair value adjustment at Weston Foods. This commodity derivatives fair value adjustment includes realized and unrealized gains and losses related to future purchases of raw materials;

- nil (2008 – income of $9 million) related to the income of Weston Foods' dairy and bottling operations; and
- nil (2008 – income of $22 million) related to the gain on the sale of Loblaw's food service business.

Excluding the impact of these items, operating income for the fourth quarter of 2009 improved compared to 2008.

Gain on Disposal of Business

In the fourth quarter of 2008, the Company recorded a pre-tax gain of $335 million ($281 million, net of tax) on the disposal of Weston Foods' dairy and bottling operations. The effect on basic net earnings per common share for the fourth quarter of 2008 was income of $2.18.

Interest Expense and Other Financing Charges

Interest expense and other financing charges for the fourth quarter of 2009 were $99 million, compared to $136 million in the same period in 2008. This decrease was primarily due to a non-cash charge of $23 million compared to $52 million in 2008, representing the fair value adjustment of Weston Holdings Limited's, a subsidiary of GWL, forward sale agreement for 9.6 million Loblaw common shares and interest on long term debt of $87 million compared to $96 million in 2008.

Income Taxes

The effective income tax rate of 20.7% in the fourth quarter of 2009 remained unchanged compared to the fourth quarter of 2008. The effective income tax rate for the fourth quarter of 2009 was impacted by the cumulative reduction in the income tax expense as a result of a reduction in Ontario statutory income tax rates enacted in the fourth quarter of 2009 and a decrease in income tax accruals relating to certain prior year income tax matters, whereas the 2008 rate was impacted by non-taxable amounts including capital gains and a decrease in income tax accruals relating to certain income tax matters.

Net Earnings from Continuing Operations

Net earnings from continuing operations for the fourth quarter of 2009 were $79 million compared to $357 million in the same period in 2008. Basic net earnings per common share from continuing operations for the fourth quarter of 2009 were $0.53 compared to $2.69 in the same period in 2008.

Basic net earnings per common share from continuing operations were affected in the fourth quarter of 2009 compared to the fourth quarter of 2008 by the following factors:

- a $0.40 per common share charge (2008 – nil) related to the reversal of the cumulative foreign currency translation loss associated with the reduction in the Company's U.S. net investment in self-sustaining foreign operations;
- $0.04 per common share income (2008 – nil) related to unrealized foreign exchange gains associated with the effect of foreign exchange on a portion of the U.S. dollar denominated cash and short term investments held by Dunedin and certain of its affiliates;
- $0.06 per common share income (2008 – $0.08) related to the effect of stock-based compensation net of equity derivatives of both GWL and Loblaw;
- $0.07 per common share income (2008 – $0.03 per common share charge) related to the commodity derivatives fair value adjustment at Weston Foods;
- a $0.13 per common share non-cash charge (2008 – $0.30) related to the accounting for WHL's forward sale agreement for 9.6 million Loblaw common shares;
- nil (2008 – $0.05 per common share income) related to the income of Weston Foods' dairy and bottling operations;
- nil (2008 – $0.07 per common share income) related to the gain on the sale of Loblaw's food service business; and
- nil (2008 – $2.18 per common share income) related to the gain on disposal of Weston Foods' dairy and bottling operations.

Discontinued Operations

Net earnings from discontinued operations for the fourth quarter of 2009 were $3 million compared to $48 million in the same period in 2008.

Net Earnings

Net earnings for the fourth quarter of 2009 were $82 million compared to $405 million in the same period in 2008. Basic net earnings per common share for the fourth quarter of 2009 were $0.56 compared to $3.06 in 2008, including earnings from discontinued operations per common share of $0.03 compared to $0.37 in the same period in 2008.

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) ($ millions)	**2009**	2008
Sales	**$ 352**	$ 507
Operating income	**$ 58**	$ 30
EBITDA[1]	**$ 70**	$ 45

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

Weston Foods sales for the fourth quarter of 2009 of $352 million decreased 30.6% compared to the same period in 2008. The sale of the dairy and bottling operations in the fourth quarter of 2008, the additional week of operating results in 2008 and foreign currency translation negatively impacted sales by approximately 17.6%, 6.7% and 3.8%, respectively. The combined effect of pricing across key product categories and changes in sales mix was a negative impact of 1.9% for the fourth quarter of 2009. Volume declined 37.9% for the fourth quarter of 2009 when compared to the same period in 2008, of which 30.5% was due to the sale of the dairy and bottling operations during the fourth quarter of 2008 and approximately 6.8% was due to the additional week of operating results in 2008.

In the fourth quarter, the following sales analysis excludes the impact of foreign currency translation, the results of the dairy and bottling operations and the additional week of operating results in 2008:

- fresh bakery sales, including fresh-baked sweet goods, decreased approximately 3.3%, driven by the combined effect of pricing and changes in sales mix, and increased promotional support for new products during the fourth quarter of 2009. Volume in the fourth quarter of 2009 increased, positively impacted by growth in the *Gadoua* and *D'Italiano* brands. The introduction of new products, such as *Gadoua MultiGo*, *Country Harvest Vitality*, *D'Italiano Thintini* and the recently launched *Wonder Invisibles*, contributed positively to branded sales;
- frozen bakery sales decreased by approximately 4.5%, mainly due to lower volumes and the combined effect of pricing and changes in sales mix. Volume declines were due to decreases in certain product categories and the continued softness in the food service market; and
- biscuit sales, principally wafers, ice-cream cones, cookies and crackers, decreased approximately 2.9% mainly due to volume declines in certain categories.

Weston Foods operating income was $58 million in the fourth quarter of 2009 compared to $30 million in the same period in 2008. Operating margin was 16.5% for the fourth quarter of 2009 compared to 5.9% in 2008.

The year-over-year change in the following items influenced operating income for the fourth quarter of 2009 compared to the fourth quarter of 2008:

- income of $16 million (2008 – $6 million) related to the effect of stock-based compensation net of equity derivatives;
- income of $12 million (2008 – a charge of $5 million) related to the commodity derivatives fair value adjustment; and
- nil (2008 – income of $9 million) related to the income of the dairy and bottling operations.

Excluding these specific items described above and the negative impact of the additional week of operating results in 2008, operating income in the fourth quarter of 2009 was strong compared to the same period in 2008. Operating income was positively impacted by the benefits realized from productivity improvements and other cost reduction initiatives, lower input and fuel costs partially offset by continued escalation in labour and related benefit costs and higher promotional spending.

Gross margin increased in the fourth quarter of 2009 compared to the same period in 2008, mainly as a result of the sale of the dairy and bottling operations and the positive impact of the commodity derivatives fair value adjustment. Excluding the results of the dairy and bottling operations in 2008 and the impact of the commodity derivatives fair value adjustment, gross margin in the fourth quarter increased when compared to the same period in 2008.

EBITDA[1] increased by $25 million to $70 million in the fourth quarter of 2009 compared to $45 million in the fourth quarter of 2008. EBITDA margin[1] increased in the fourth quarter of 2009 to 19.9% from 8.9% in 2008, mainly due to the increase in operating income and operating margin as described above.

LOBLAW

(unaudited) ($ millions)	**2009**	2008[1]
Sales	**$ 7,311**	$ 7,745
Operating income	**$ 275**	$ 318
EBITDA[2]	**$ 418**	$ 432

(1) Certain 2008 information has been restated to conform with the new CICA Handbook Section 3064, "Goodwill and Intangible Assets". See note 2 to the consolidated financial statements.
(2) See non-GAAP financial measures beginning on page 51.

Sales in the fourth quarter decreased 5.6% to $7.3 billion compared to $7.7 billion in the fourth quarter of 2008. The following factors explain the major components in the change in sales for the fourth quarter of 2009 compared to the fourth quarter of 2008:

- same-store sales declined 7.8% including a decline in sales and same-store sales of approximately 7.0%, due to the extra selling week in the fourth quarter of 2008;
- T&T sales positively impacted sales by 1.8%;
- sales were negatively impacted by 0.3% by the sale of the food service business in the fourth quarter of 2008;
- sales and same-store sales were negatively impacted by approximately 0.7% as a result of the shift of Thanksgiving holiday sales into the third quarter of 2009 from the fourth quarter of 2008;
- sales and same-store sales were positively impacted by approximately 0.6% as a result of a labour disruption in certain *Maxi* stores in Quebec in the fourth quarter of 2008. These stores reopened in the first quarter of 2009, except for two stores that were permanently closed;
- on an equivalent 12 week basis, sales growth in food was flat and sales growth in drugstore was moderate;
- on an equivalent 12 week basis, sales growth in apparel was strong while sales of other general merchandise declined significantly due to lower discretionary consumer spending and reductions in assortment and square footage;
- on an equivalent 12 week basis, gas bar sales increased as a result of higher retail gas prices and strong volume growth;
- Loblaw experienced internal retail food price deflation compared to modest national food price inflation of 1.6% as measured by CPI. CPI does not necessarily reflect the effect of inflation on the specific mix of goods sold in Loblaw stores; and
- during the fourth quarter of 2009, 7 corporate and franchised stores were opened and 10 corporate and franchised stores were closed, resulting in a net decrease of 0.2 million square feet or 0.5%.

Operating income decreased by $43 million to $275 million for the fourth quarter of 2009 compared to $318 million in 2008, primarily as a result of the additional selling week in 2008. Operating margin was 3.8% for the fourth quarter of 2009 compared to 4.1% in 2008.

Gross profit decreased by $12 million to $1,728 million in the fourth quarter of 2009 compared to $1,740 million in 2008, as a result of the additional selling week in 2008. Gross profit as a percentage of sales was 23.6% in the fourth quarter of 2009 compared to 22.5% in 2008.

Contributing to the decrease in operating income was a charge of $5 million (2008 – income of $17 million) related to stock-based compensation including the equity forwards and incremental costs of $12 million related to Loblaw's investment in information technology and supply chain. Included in 2009 fourth quarter operating income was a charge of $27 million (2008 – $29 million) for fixed asset impairments related to asset carrying values in excess of fair values for specific store locations. The fourth quarter of 2008 was positively impacted by $8 million related to lower than anticipated restructuring costs and a gain of $22 million on the sale of the food service business.

EBITDA[1] decreased $14 million, or 3.2%, to $418 million in the fourth quarter of 2009 compared to $432 million in the fourth quarter of 2008. EBITDA margin[1] increased in the fourth quarter of 2009 to 5.7% compared to 5.6% in 2008. The decrease in EBITDA[1] was primarily due to the decrease in operating income and operating margin.

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

Liquidity and Capital Resources

Cash flows from operating activities of continuing operations

The Company's fourth quarter 2009 cash flows from operating activities of continuing operations were $638 million compared to $594 million in the same period in 2008. The increase in the fourth quarter of 2009 was primarily due to an increase in net earnings from continuing operations before minority interest, excluding the impact of the gain on disposal of business and other non-cash items, partially offset by the decrease in cash flows from non-cash working capital.

Cash flows (used in) from investing activities of continuing operations

The Company's fourth quarter 2009 cash flows used in investing activities of continuing operations were $739 million compared to cash flows from investing activities of continuing operations of $29 million in 2008. The primary reasons for the fourth quarter 2009 increase in cash flows used include the $467 million of proceeds from the fourth quarter 2008 disposition of Weston Foods' dairy and bottling operations, the net increase in short term investments and security deposits and an increase in cash outflows from credit card receivables, after securitization. During the fourth quarter of 2009, a distribution centre that was sold in 2007 was reacquired by Loblaw for approximately $140 million including the assumption of a mortgage for $96 million. Capital expenditures for the fourth quarter were approximately $466 million (2008 – $383 million).

Cash flows used in financing activities of continuing operations

The Company's fourth quarter 2009 cash flows used in financing activities of continuing operations were $14 million compared to $491 million in 2008. The fourth quarter decrease in cash outflows when compared to 2008 is primarily due to the repayment of the GWL committed credit facility in the fourth quarter of 2008 and the timing of dividend payments.

10. DISCLOSURE CONTROLS AND PROCEDURES

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

As required by National Instrument 52-109 (Certification of Disclosure in Issuers' Annual and Interim Filings), the Chairman and President and the Chief Financial Officer have caused to be evaluated under their supervision the effectiveness of such disclosure controls and procedures. 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, 2009.

11. INTERNAL CONTROL OVER FINANCIAL REPORTING

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

As required by National Instrument 52-109 (Certification of Disclosure in Issuers' Annual and Interim Filings), the Chairman and President and the Chief Financial Officer have caused to be evaluated under their supervision the effectiveness of such internal controls over financial reporting using the framework established in "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, 2009.

In designing and evaluating such controls, 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

Management has also evaluated whether there were changes in the Company's internal controls over financial reporting that occurred during the period beginning on October 11, 2009 and ended on December 31, 2009 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Management has determined that no material changes occurred during this period.

12. 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 managed through an Enterprise Risk Management ("ERM") program. The Board has approved an ERM policy and oversees the ERM program, which assists all areas of the business in achieving the Company's strategic objectives by bringing a systematic approach, methodology and tools for evaluating and improving the effectiveness of risk management and control. The results of the ERM program and other business planning processes are used to prioritize risk management activities, allocate resources effectively and develop a risk-based internal audit plan.

The Company identifies and manages its risks in support of its vision, mission and goals to assist in achieving its strategic objectives. Risk is not eliminated through the ERM program; rather, risks are identified and managed within acceptable risk tolerances. The ERM program is designed to:

- promote a cultural 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 identification, assessment, measurement and monitoring of the risks;
- ensure that resources are acquired economically, used efficiently and adequately protected; and
- allow the Company to focus on its key risks in the business planning process and optimize financial performance through responsible risk management.

An annual ERM assessment is completed to assist in the update and identification of financial, operational or reputational risks affecting the Company. The ERM program is primarily carried out through interviews and risk assessments with senior management. Risks are assessed based on the likelihood and impact that the underlying risk would have on the Company's ability to execute its strategies and achieve its objectives. Each quarter, management provides an update to the Audit Committee as to the status of the top ten risks in relation to how they have changed from the previous quarter. The accountability for oversight of the management of each risk is allocated by the Audit Committee to either the full Board or to a Committee of the Board. At least once a year, the relevant business owners update the applicable Committee or the full Board on their risk management activities over the course of the preceding year.

In the normal course of business, the Company is exposed to financial and market risks that have the potential to negatively affect its financial performance. As such, the Company operates with policies and guidelines covering funding, investing, equity, commodity, foreign currency exchange and interest rate risk management. Policies and guidelines prohibit the use of any financial derivative instrument for trading or speculative purposes.

The operating, financial and reputational risks and risk management strategies identified by management are discussed below. Any of these risks has the potential to negatively affect financial performance. The Company has risk management strategies, including insurance programs, which are intended to mitigate the potential impact of these risks. Although these strategies are designed to minimize these risks, some of which are discussed below, the strategies do not guarantee that the associated risks will be mitigated or not materialize or that events or circumstances will not occur which could negatively affect the Company's financial condition or performance.

12.1 OPERATING RISKS AND RISK MANAGEMENT

Strategic

The Company engages in strategic acquisitions and dispositions when it is in the best interests of its shareholders to do so. As a result of recent dispositions, the Company holds significant cash and short term investments and is continuing to assess strategic opportunities for the deployment of these funds. Strategies related to growth initiatives, product offerings and retail marketplace positioning must be understood and properly managed in order to deliver long term growth for the Company. The deployment of the funds and the execution of the Company's capital plans could pose a risk if they are not aligned with the strategy of the Company. In addition, the Company's ability to operate in the long term is affected by long term investment decisions, the development and location of real estate and spending decisions made in the short term. Decisions related to rebuilding old networks of assets or increasing new assets could affect the Company's ability to compete in the long term. The strategy is formulated annually by the Company's senior management and is communicated throughout the organization. It is reviewed on a periodic basis to drive execution and ensure ongoing relevance. If the Company's strategy is not effectively communicated and executed, performance of the Company could suffer.

Change Management and Execution

Significant initiatives in support of Loblaw's multi-year turnaround plan are currently underway or in the planning stages. These initiatives include the restructuring of Loblaw's supply chain, execution of its information technology strategic plan and changes in its organizational structure. Success of these initiatives is dependent on management effectively realizing the intended benefits. Ineffective change management may result in disruptions to the operations of the business or affect the ability of Loblaw to change or implement and achieve its long term strategic objectives. In addition, the centralization of Loblaw may create synergies in some areas of the business but also increase the risk of losing valuable market knowledge at the regional levels and across the various banners.

To assist in the management of change throughout the organization, the Company has positioned teams to support its major change initiatives. Certain employees are dedicated to business change management and have a focus on communication, training and other support functions for major change initiatives within the Company. In addition, Loblaw has a Strategic Program Office which tracks progress on strategic initiatives and reviews new initiatives for alignment to the strategy. Despite these activities, any of the events noted above could negatively impact the Company's performance. The Company may not always achieve the expected cost savings and other benefits of its initiatives.

Information Technology, Integrity and Reliability

To support the current and future requirements of the business in an efficient, cost-effective and well-controlled manner, the Company is reliant on information technology ("IT") systems. These systems are essential in providing management with relevant, reliable and accurate information for decision making, including its key performance indicators. Any significant failure or disruption of these systems or the failure to successfully migrate from legacy systems to new systems as part of Loblaw's significant IT infrastructure initiatives could negatively affect the Company's reputation, ability to carry on business, revenues and financial performance. If the information provided by the IT systems is inaccurate, the risk of disclosing inaccurate or incomplete information is increased.

IT systems have been assessed by Loblaw management as needing significant upgrading in certain areas in order to act as an enabler for the businesses. An IT strategic plan was developed to guide the new systems environment that Loblaw requires. Loblaw recently completed the first year of its ERP implementation to integrate and simplify finance and general ledger systems across Loblaw Properties Limited and *President's Choice Financial*. Loblaw is planning for additional system implementations in 2010 to streamline merchandising and operations activities. Completing these system implementations will require intense focus and significant investment over the next two years.

Change management risk and other associated risks will arise from the various projects which will be undertaken to upgrade existing systems and introduce new systems to effectively manage the business going forward. Failure by the Company to appropriately invest in IT or failure to implement IT infrastructure in a timely or effective manner may negatively impact the Company's financial performance.

Information security risk and other associated risks will also arise from undertaking the various projects to upgrade existing systems and introduce new systems. The IT strategic plans include upgrading information security systems through adherence to information security standards by instituting stricter security system protocols and corporate information security policies. However, any failures in the Company's information security systems or non-compliance with information security standards, including those in relation to personal information belonging to the Company's customers, could result in harm to the reputation or competitive position of the Company and could negatively affect financial performance.

Economic Environment

The Company remains cautious that the economic factors that impact consumer spending patterns could deteriorate. These factors include continued high levels of unemployment, changes in interest rates, household debt, reduced disposable incomes and access to consumer credit, and changes in inflation. Management regularly monitors economic conditions and estimates their impact on the Company's operations and incorporates these estimates in short term operating and longer term strategic decisions. Despite these activities, one or more of these factors could negatively affect the Company's sales and margins. Inflationary trends are unpredictable and changes in the rate of inflation will affect consumer prices, which in turn could have a negative impact on the results of the Company.

Competitive Environment

The North American food processing and retail industries are evolving and operate in increasingly competitive markets. Consumers' needs drive changes in the industries, and are impacted by changing demographic and economic trends such as changes in disposable income, ethnic diversity, health and environmental awareness and time availability. Customer satisfaction is central to the Company's business. Over the past several years, consumers have demanded more choice, value and convenience. If the Company is ineffective in responding to these trends or ineffective in executing its strategies, its financial performance could be negatively impacted.

The Company reviews and monitors operating plans and results, including market share in its reportable operating segments. When necessary, the operating segments will modify their operating strategies, including but not limited to, relocating production facilities or stores, closing underperforming assets, relocating stores or reformatting them under a different banner, reviewing and adjusting pricing, product offerings, brand positioning and/or marketing programs to take into account competitive activity. A significant competitive advantage the Company has developed is its brands. Both operating segments focus on brand development and building upon their core brand equity. Weston Foods' premium and mainstream brands provide Weston Foods with strong core brands and product lines that enhance consumer loyalty, trusted as they are for quality, great taste and freshness. Loblaw's control label program represents a competitive advantage because it enhances customer loyalty by offering superior value and provides some protection against national brand pricing strategies.

As cost pressures remain in the food processing industry and the competitive sales environment, Weston Foods anticipates that industry restructurings are likely. Although the outcome and the impact, if any, on the Company's consolidated financial results from this anticipated restructuring are uncertain, Weston Foods will closely monitor developments in the food processing industry and food retail market and, if required, adjust its strategies and programs as necessary.

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.

The Company is also subject to competitive pressures from new entrants into the marketplace and from the expansion or combination of existing competitors, particularly those expanding into the grocery market. These competitors may have extensive resources to allow them to compete effectively with the Company in the long term. Several of the Company's competitors operate in a non-union environment. These competitors may benefit from lower labour costs and more favourable operating efficiencies, making it more difficult for the Company to compete. Increased competition could adversely affect the Company's ability to achieve its objectives. The Company's inability to compete effectively with its current or any future competitors could result in, among other things, reduced market share and growth opportunities, as well as lower pricing in response to its competitors' pricing activities.

Food Safety and Public Health

The Company is subject to risks associated with food safety and non-food product defects. These risks may arise as part of the manufacturing, procurement, storage, distribution, preparation and display of products and, with respect to the Company's control label or branded products and contract manufactured products, in relation to the production, packaging and design of products. A majority of the Company's sales are generated from food products and thus the Company could be vulnerable in the event of a significant outbreak of food-borne illness or other public health concerns related to food products. Such an event could negatively affect the Company's financial performance. The traceability of products and ingredients may affect the Company's ability to be effective in a recall situation.

Product recall programs are in place to manage such events, should they occur. The programs identify risks, provide procedures for communication to employees and consumers and are aimed at ensuring that potentially harmful products are expeditiously removed from inventory and are not available for sale. The Company has food safety procedures and training programs which address safe food handling and preparation standards. The Company endeavours to employ current best practices for the procurement, distribution, preparation and display of food products. Also, it actively supports customer awareness of safe food handling and healthy choices. The Company places special focus on applying safety and quality management systems to ensure control label products meet all food safety, regulatory nutritional requirements and quality standards for today's health conscious consumer to make informed choices. The ability of these programs and procedures to address such events is dependent on their successful execution. 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 adversely affect the Company's reputation and its financial performance.

Employee Attraction, Development and Retention

The degree to which the Company is not effective in attracting and retaining talented employees, developing its employees, managing performance and implementing appropriate succession planning processes and retention strategies could lead to a lack of requisite knowledge, skills and experience. Effective talent attraction, employee development, performance management, succession planning and employee retention are essential to sustaining the growth and success of the Company. Loblaw has implemented new programs throughout 2009 which will be ongoing into 2010 to assist in employee attraction, retention and development. The initiatives are focused on improving employee engagement and supporting Loblaw's "Be a Great Place to Work" principle. Should these initiatives not be successful, the Company may not be able to execute its strategies, efficiently run its operations and its goals for financial performance may be adversely affected.

Distribution and Supply Chain

The need to invest in and improve the Company's supply chain may adversely affect the Company's capacity to effectively and efficiently attract and retain current and potential customers. A significant restructuring of Loblaw's supply chain will continue for the next two years. Although this initiative is expected to result in improved service levels for Loblaw's stores, the scale of the change and the implementation of new processes could cause disruption in the flow of goods to stores, which would negatively affect sales.

Labour Relations

A significant portion of the Company's workforce is unionized. Renegotiating collective agreements may result in work stoppages or slowdowns, which could negatively affect the Company's financial performance, depending on their nature and duration. In 2010, 80 collective agreements affecting approximately 35,800 employees will expire, including the Company's single largest agreement covering approximately 13,700 employees. The Company will also continue to negotiate the 68 collective agreements carried over from 2005 to 2009 inclusively. The Company is willing to accept the short term costs of labour disruption in order to negotiate competitive labour costs and operating conditions for the longer term. Although the labour relations leadership team attempts to mitigate work stoppages and disputes through early negotiations, where possible, or by delaying negotiations through busy periods, work stoppages or slowdowns are possible.

Merchandising and Excess Inventory

Loblaw's merchandising processes may create inventory that customers don't want or need, is not reflective of current trends in customer tastes or habits, is priced at a level customers are not willing to pay, or is late in reaching the market. The Company's operations as they relate to food, sales volume and product mix are impacted to some degree by certain holiday periods in the year. Certain of Loblaw's general merchandise items are subject to more seasonal fluctuations. Loblaw focuses effort on reducing inventory levels and early identification of inventory at risk. New information systems are being implemented that are expected to improve demand forecasting. In order to reduce the amount of excess inventory, Loblaw monitors the impact of customer trends. Innovation is critical to Loblaw in order to respond to these customer demands and to stay competitive in the marketplace. Despite these efforts, Loblaw may experience excess inventory that cannot be sold profitably, which may negatively impact the Company's financial performance.

Vendor Management and Business Partnership

Certain aspects of the Company's business rely on third-party providers of goods and services. Although appropriate contractual arrangements are put in place with these suppliers, the Company has no direct influence over how the companies are managed. Negative events affecting the suppliers could in turn negatively impact the Company's operations and its financial performance. Inefficient, ineffective or incomplete supplier management strategies, policies and/or procedures may impact the Company's ability to optimize financial performance, meet customer needs and/or control costs and quality.

Certain of Weston Foods' products and Loblaw's control label products are manufactured under contract by third-party suppliers. In order to preserve the brands' equity, these suppliers are held to high standards of quality. The Company also uses third-party logistic services including the operation of dedicated warehouse and distribution facilities and third-party common carriers. The Company maintains a strategy of multiple sources for logistics providers so that in the event of a disruption of service from one supplier, their services can be replaced by another. However, disruption in these services is possible, which could interrupt the flow of goods and therefore could negatively impact sales.

Offshore sourcing could provide products which contain harmful or banned substances or that do not meet Canadian standards. The Company continues to implement practices and performance expectations with its supplier base, including asking suppliers to support sales plans, cost reduction initiatives and to align with major program changes. Failure to effectively implement this program will have an impact on the Company's ability to realize the expected benefits.

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®. To minimize operating risk, PC Bank and Loblaw actively manage and monitor their relationships with all third-party service providers. PC Bank has developed a vendor management policy, approved by its Board of Directors, and has established a vendor management team that provides its Board of Directors with regular reports on vendor management and risk assessment.

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 affect the return on these assets or liquidity of the Company.

Business Continuity
Events or series of events may cause business interruptions which could potentially impact sales, profitability, colleague safety, reputation and customer service. The Company has a business continuity program which is being continually matured. However, there can be no assurance that the existence of a business continuity program will ensure the Company responds appropriately in the event of business interruptions, crises and potential disasters.

Trademark and Brand Protection
Decrease in value of the Company's trademarks or brands, either because of adverse events or otherwise over time may threaten the demand for the Company's products or services or damage the Company's reputation. The Company endeavours to have the appropriate contractual protections in Loblaw's arrangements with control label vendors and suppliers of all marketing elements (printing, flyers, advertising, etc.), and Weston Foods' arrangements with contract manufacturers, distributors and customers. The Company actively monitors and manages its trademark portfolio. Notwithstanding these activities, any negative impact to the value of the Company's trademarks or brands may impair its ability to maintain or grow current and future sales and profitability.

Commodity Prices
Weston Foods costs are directly impacted by fluctuations in the price of commodities such as wheat, flour, sugar, vegetable oil, cocoa, natural gas and fuel. Increases in the price of these commodities could adversely affect the Company's financial performance. In order to minimize the economic effect of these price fluctuations on current operating results and to lessen the resulting uncertainty of future financial results, Weston Foods hedges a portion of its anticipated commodity purchases. Weston Foods enters into contracts that mitigate price fluctuations on some commodities for approximately 6 months, on average. There can be no assurance that the Company's hedging arrangements will continue to achieve the purpose for which they are intended.

Tax and Regulatory
Changes to any of the laws, rules, regulations or policies related to the Company's business including taxation, accounting and the production, processing, preparation, distribution, packaging and labelling of its products could have an adverse impact on its financial and operational performance. In the course of complying with such changes, the Company may incur significant costs.

Changing regulations or enhanced enforcement of existing regulations could threaten the Company's competitive position and its capacity to efficiently conduct business. Failure by the Company to fully comply with applicable laws, rules, regulations and policies may subject it to civil or regulatory actions or proceedings, including fines, assessments, injunctions, recalls or seizures, which may have an adverse effect on the Company's financial results.

The Company is subject to various laws regarding the protection of personal information and has adopted a Privacy Code setting out guidelines for the handling of personal information. Any failure of the Company to comply with these laws may result in damage to its reputation and negatively affect financial performance.

There can be no assurance that the tax laws and regulations in the jurisdiction affecting the Company will not be changed in a manner which could adversely affect the Company. New accounting pronouncements introduced by appropriate authoritative bodies may also impact the Company's financial results.

Franchise and Independent Business Relationships

A significant portion of the Company's revenues and earnings arise from franchisee type relationships. Franchisees and independent operators are independent businesses and, as such, their operations may be negatively affected by factors beyond the Company's control, which in turn may damage the Company's reputation and potentially affect revenues and earnings. 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, including health and safety exposures, experience financial difficulty, be unwilling or unable to pay Loblaw for products, rent or other fees, or fail to enter into renewals of franchise agreements. 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 may negatively affect operations and could add administrative costs and burdens, any of which could affect the Company's relationship with its franchisees and independent operators. Relationships with franchisees could pose significant risks if they are disrupted which could result in legal action, reputational damage and/or adverse financial consequences.

Environmental, Health and Safety

The Company maintains a large portfolio of real estate and is subject to environmental risks associated with the contamination of such properties, whether by previous owners or occupants, neighbouring properties or from its own operations. The Company could be subject to increased or unexpected costs associated with the related remediation activities.

The Company has environmental, health and workplace safety programs and has established policies and procedures aimed at ensuring compliance with applicable environmental legislative requirements. To this end, the Company employs environmental risk assessments and audits using internal and external resources together with employee awareness programs throughout its operating locations. In the area of health and safety, the Company has established a national health and safety policy, and an injury reduction plan, which is administered by functional corporate and regional safety steering committees.

The Environmental, Health and Safety Committee of the Board receives regular reporting from management addressing current and potential future issues, risks, programs/initiatives, identifying new regulatory concerns and related communication efforts. The Company's dedicated Environmental Affairs department works closely with the operations to help ensure requirements are met.

Despite these efforts, adverse environmental, health and safety events could negatively affect the Company's reputation and financial performance. In addition, in recent years, provincial and municipal governments have introduced 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 consumers. This is a growing trend and the Company expects to be subject to increased costs associated with these laws.

Employee Future Benefit Contributions

The Company manages the assets in its 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. The future contributions to the Company's pension plans are impacted by the investment performance of the plan assets and the discount rate used to value the liabilities of the plans. The Company regularly monitors and assesses plan experience and the impact of changes in participant demographics, changes in capital markets and other economic factors that may impact funding requirements, employee future benefit costs and actuarial assumptions. If capital market returns are below assumed levels or if the discount rate drops, the Company may be required to make contributions to its funded defined benefit pension plans in excess of those currently contemplated, which in turn may have a negative effect on the Company's financial performance and cash flow.

Multi-Employer Pension Plans

In addition to the Company-sponsored pension plans, the Company participates in various multi-employer pension plans, providing pension benefits in which approximately 38% (2008 – 39%) of employees of the Company and of its independent franchisees participate. The administration of these plans and the investment of their assets are legally controlled by boards of independent trustees generally consisting of an equal number of union and employer representatives. In some circumstances, the Company may have a representative on the board of trustees of these multi-employer pension plans. 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. Pension cost for these plans is recognized as contributions are due.

Real Estate and Store Renovations

Real estate development plans may be contingent on successful negotiation of labour agreements with respect to same-site expansion or redevelopment. Loblaw maintains a significant portfolio of owned retail real estate and, whenever practical, pursues a strategy of purchasing sites for future store locations. This enhances Loblaw's operating flexibility by enabling Loblaw to introduce new departments and services that could be precluded under third-party operating leases. As part of its ongoing review of the performance of, and customer satisfaction with, its stores, Loblaw from time to time undertakes store renovations and remodelling. Efforts are made to minimize the duration of renovation and remodelling projects in order to limit the disruption at store level. However, Loblaw could be negatively impacted if such renovations and remodelling are carried out in a manner that is disruptive to the ongoing store operations or results in a poor customer experience.

Utility and Fuel Prices

The Company is a significant consumer of electricity, other utilities and fuel. The Company has entered into contracts to fix the price of a portion of its future variable costs associated with electricity, natural gas and fuel. However, cost increases in these items could negatively affect the Company's financial performance.

Ethical Business Conduct

Any failure of the Company or its vendors to adhere to ethical business conduct policies, the law or ethical business practices could significantly affect the Company's reputation and brands and could, therefore, negatively impact the Company's financial performance.

The Company has adopted a Code of Business Conduct which employees and directors of the Company are required to acknowledge on a regular basis. The Company has in place an Ethics and Business Conduct Committee which monitors compliance with the Code of Business Conduct and determines how the Company can best ensure it is conducting its business in an ethical manner. The Company encourages reporting of unethical conduct and has established a toll-free anonymous response line, which can be used by employees to report suspected accounting, internal control or auditing irregularities and unethical behaviour impacting the Company. Loblaw has also adopted a Vendor Code of Conduct which outlines its ethical expectations to its vendor community in a number of areas, including social responsibility.

Holding Company Structure

GWL is a holding company. As such, it does not carry on business directly but does so through its subsidiaries. It has no major source of income or assets of its own, other than the interests it has in its subsidiaries, which are all separate legal entities. GWL is therefore financially dependent on dividends and other distributions it receives from its subsidiaries.

12.2 FINANCIAL RISKS AND RISK MANAGEMENT

Foreign Currency Exchange Rate

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 self-sustaining foreign operations in the United States, and its investment in integrated foreign subsidiaries through Dunedin and certain of its affiliates. 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 exchange rate gains and losses. Prior to the sale of the U.S. fresh bakery business, all of the Company's (excluding Loblaw's) U.S. dollar denominated net assets were held in self-sustaining foreign operations. Exchange rate gains and losses due to the translation of these self-sustaining foreign operations' net assets were recorded in accumulated other comprehensive loss. After the sale of the U.S. fresh bakery business in 2009, Dunedin and certain of its affiliates became integrated foreign subsidiaries for accounting purposes. As a result, gains and losses arising from the translation of the U.S. dollar denominated assets of these integrated foreign subsidiaries are included in operating income. In addition, revenues and expenses of these integrated and self-sustaining 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 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 accounts payable and accrued liabilities, and U.S. dollar private placement notes included in long term debt. Loblaw and Glenhuron have cross currency swaps 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.

Credit

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

The Company may be exposed to losses if a counterparty to the Company's financial or non-financial derivative agreements fails to fulfill its obligations. Potential counterparty risk and losses are limited to the net amounts recoverable under such derivative agreements with any specific counterparty. These risks are further reduced by entering into agreements with counterparties that have a minimum long term "A" credit rating from a recognized credit rating agency and by placing risk adjusted limits on exposure to any single counterparty for financial derivative agreements. Internal policies, controls and reporting processes are in place which require ongoing assessment and corrective action, if necessary, with respect to derivative transactions.

Credit risk associated with cash equivalents, short term investments and security deposits results from the possibility that a counterparty may default on the repayment of a security. Policies and guidelines that require issuers of permissible investments to have a minimum long term "A" credit rating from a recognized credit rating agency and that specify minimum and maximum exposures to specific industries, issuers and types of investment instruments mitigate credit risk. These investments are purchased and held directly in custody accounts and have limited exposure to third-party money market portfolios and funds.

Credit risk associated with investments in the Company's defined benefit pension plans is described in the Employee Future Benefits Contributions discussion in Section 12.1 of this MD&A.

Credit risk from PC Bank's credit card receivables, receivables from Weston Foods' customers and suppliers and Loblaw's independent franchisees, associated stores and independent accounts results from the possibility that customers may default on their payment obligations. PC Bank manages the 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.

Receivables from Weston Foods' customers and suppliers and Loblaw's independent franchisees, associated stores and independent accounts are actively monitored and counterparties are assessed for credit risk on an ongoing basis.

Commodity Price

Weston Foods costs are directly impacted by fluctuations in the prices of commodities such as wheat, flour, sugar, vegetable oil, cocoa, natural gas and fuel. Loblaw is exposed to increases in the prices of commodities in operating its stores and distribution centres, as well as the indirect link of commodities to its consumer products. To manage a portion of this exposure, Loblaw uses purchase commitments for a portion of its needs for certain consumer products that may be commodities based and Loblaw expects to take delivery of these consumer products in the normal course of business. In addition, both Weston Foods and Loblaw use financial and non-financial 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.

Interest Rate

Interest rate risk arises from the issuance of short term debt and equity derivatives, net of cash and cash equivalents, short term investments and security deposits. The Company is exposed to changes in short term interest rate volatility which are offset partly by Glenhuron's and Loblaw's interest rate swaps. Interest rate swaps are transactions in which interest flows are exchanged with a counterparty on a specified notional amount for a pre-determined period based on agreed-upon fixed and floating interest rates.

Common Share Market Price

GWL and Loblaw issue stock-based compensation to their employees in the form of stock options and RSUs based on their respective underlying common shares. Consequently, operating income is negatively impacted when the common share prices increase and positively impacted when the share prices decline. The equity derivatives provide a partial offset to fluctuations in stock-based compensation cost. The equity derivatives allow for settlement in cash, common shares or net settlement. These derivatives change in value as the market prices of the respective underlying common shares change and provide a partial offset to fluctuations in stock-based compensation costs, including RSU plan expense. The partial offset between stock-based compensation costs, including RSU plan expense, and the equity derivatives is more effective when the market price of the respective underlying common shares exceeds the exercise price of the employee stock options. When the market price of the respective underlying common shares is lower than the exercise price of the employee stock options, these equity derivatives provide a partial offset only to the RSU plan expense. The amount of net stock-based compensation cost recorded in operating income is mainly dependent upon the number of unexercised stock options and RSUs, their vesting schedules relative to the number of respective underlying common shares on the equity derivatives and the level of fluctuations in the market price of the respective underlying common shares.

Changes in the Loblaw common share price impact the Company's interest and other financing charges. In 2001, Weston Holdings Limited ("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 $80.28 (2008 – $76.52) per Loblaw common share as at December 31, 2009. 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 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 shares it owns. At maturity, if the forward price is greater than the market price, WHL will receive a cash amount equal to the difference. If the forward price is less than the market price, WHL will pay a cash amount equal to the difference. Any cash paid under the forward contract could be offset by the sale of Loblaw 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. Insufficient access to capital would impair the Company's capacity to grow, execute its business model and generate financial returns.

Should the Company's financial performance and condition deteriorate or downgrades in the Company's credit ratings occur, the Company's ability to obtain funding from external sources may be restricted. In addition, credit and capital markets are subject to inherent global risks that may negatively affect the Company's short term investments as well as its access to external capital to fund its liabilities, including financial liabilities. The Company mitigates these risks by maintaining appropriate levels of cash and cash equivalents and short term investments in highly rated liquid securities, committed lines of credit and by diversifying the sources and maturity profile of its external capital.

In March 2011, $500 million of credit card receivables-backed notes issued by Eagle will mature. The notes were issued by Eagle to fund the purchase of an interest in PC Bank originated credit card receivables. An accumulation period that requires PC Bank to set aside cash collections will begin approximately 6 months prior to the maturity of the notes, or at such earlier or later date declared by the Trust. PC Bank and Loblaw expect to have sufficient access to short term liquidity to fund the accumulation and long term funding and securitization facilities to replace or refinance this facility.

Derivative Instruments
Over-the-counter derivative instruments offset certain risks. The fair value of derivative instruments is subject to changing market conditions which could negatively impact earnings. Policies and guidelines prohibit the use of any derivative instrument for trading or speculative purposes. See notes 1 and 26 to the consolidated financial statements for additional information about the Company's financial derivative instruments.

13. RELATED PARTY TRANSACTIONS

The Company's majority shareholder, Wittington Investments, Limited ("Wittington"), and its affiliates are related parties. The Company, in the normal course of business, has routine transactions with these related parties, including the rental of office space at market prices from Wittington. In 2009, rental payments amounted to approximately $3 million (2008 – $3 million). It is the Company's policy to conduct all transactions and settle balances with related parties on market terms and conditions.

From time to time, the Company and Wittington may make elections that are permitted or required under applicable income tax legislation with respect to affiliated corporations and, as a result, may enter into agreements in that regard. These elections and accompanying agreements do not have any material impact on the Company.

14. CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures made in the consolidated financial statements and accompanying notes. Management continually evaluates the estimates and assumptions it uses. These estimates and assumptions are based on management's historical experience, best knowledge of current events and conditions and activities that the Company may undertake in the future. Actual results could differ from these estimates.

The estimates and assumptions described in this section depend upon subjective or complex judgments about matters that may be uncertain and changes in these estimates and assumptions could materially impact the consolidated financial statements.

Inventories

The Company's inventories are stated at the lower of cost and estimated net realizable value. For its retail store inventories, Loblaw is required to make estimations or judgments in the determination of (i) discount factors used to convert inventory to cost after a physical count at retail has been completed and (ii) estimated inventory losses, or shrinkage, occurring between the last physical inventory count and the balance sheet date.

Inventories counted at retail are converted to cost by applying a discount factor to retail selling prices. This discount factor is determined at the category level, is calculated in relation to historical gross margins and is reviewed on a regular basis for reasonableness. Inventory shrinkage, which is calculated as a percentage of sales, is evaluated throughout the year and provides for estimated inventory shortages from the last physical count to the balance sheet date. To the extent that actual losses experienced vary from those estimated, both inventories and operating income will be impacted. Changes or differences in these estimates may result in changes to inventories on the consolidated balance sheet and a charge or credit to operating income in the consolidated statement of earnings.

Additional information on inventories is provided in note 12 to the consolidated financial statements.

Fixed Assets

Fixed assets are reviewed for impairment annually and when events or circumstances indicate that their carrying value exceeds the sum of the undiscounted future cash flows expected from their use and eventual disposition. An impairment loss is measured as the amount by which the fixed assets carrying value exceeds the fair value. As discussed in note 13 to the consolidated financial statements in 2009, Loblaw recorded a fixed asset impairment charge of $27 million (2008 – $29 million) and other charges of $19 million (2008 – $18 million). In addition, Weston Foods recorded a fixed asset impairment charge of $1 million (2008 – nil) and accelerated depreciation of $2 million (2008 – $2 million).

The factor that most significantly influences the impairment assessments is the determination of fair value based on estimates of future cash flows. Loblaw uses its internal plans in estimating future cash flows. These plans reflect Loblaw's current best estimate of future cash flows but may change due to uncertain competitive and economic market conditions or changes in business strategies. Changes or differences in these estimates may result in changes to fixed assets on the consolidated balance sheet and a charge to operating income on the consolidated statement of earnings.

Employee Future Benefits

The cost and accrued benefit plan obligations of the Company's defined benefit pension plans and other benefit plans are accrued based on actuarial valuations which are dependent on assumptions determined by management. These assumptions include the discount rate, the expected long term rate of return on plan assets, the expected growth rate of health care costs, the rate of compensation increase, retirement rates, termination rates and mortality rates. These assumptions are reviewed annually by management and the Company's actuaries.

The discount rate, the expected long term rate of return on plan assets and the expected growth rate in health care costs are the three most significant assumptions.

The discount rates are based on market interest rates, as at the Company's measurement date of September 30 on a portfolio of Corporate AA bonds with terms to maturity that, on average, match the terms of the accrued benefit plan obligations. The discount rates used to determine the 2009 net cost for defined benefit pension and other benefit plans were 6.0% and 5.9%, respectively, on a weighted average basis, compared to 5.5% and 5.4%, respectively, in 2008. The discount rates used to determine the net 2010 defined benefit pension and other benefit plans costs have decreased to 5.75% and 5.5%, respectively, in Canada and have decreased to 5.25% and 5.25%, respectively, in the United States.

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 Company has reduced the expected long term rate of return on plan assets in Canada to 6.75% and in the United States to 6.5% in calculating its defined benefit pension plans cost for 2010. The Company's defined benefit pension plan assets had a 10-year annualized return of 5.2% as at the 2009 measurement date. The actual annual returns within this 10-year period varied with market conditions.

The expected growth rate in health care costs for 2009 was based on external data and the Company's historical trends for health care costs. In 2010, the growth rate of health care costs is estimated at 9.0% and is assumed to gradually decrease to 5.0% by 2015, remaining at that level thereafter.

Since the three key assumptions discussed above are forward-looking and long term in nature, they are subject to uncertainty and actual results may differ. In accordance with Canadian GAAP, differences between actual experience and the assumptions, as well as the impact of changes in the assumptions, are accumulated as unamortized net actuarial gains or losses and amortized over future periods, affecting the recognized cost of defined benefit pension plans and other benefit plans and the accrued benefit plan obligation in future periods. While the Company believes that its assumptions are appropriate, significant differences in actual experience or significant changes in the Company's assumptions may materially affect its defined benefit pension plans and other benefit plans accrued benefit plan obligations and future costs.

Additional information regarding the Company's pension and other benefit plans, including a sensitivity analysis for changes in key assumptions, is provided in note 16 to the consolidated financial statements and in the Employee Future Benefit Contributions discussion in the Operating Risks and Risk Management section of this MD&A.

Goodwill and Intangible Assets

Goodwill is not amortized and is assessed for impairment at the reporting unit level at least annually. Any potential goodwill impairment is identified by comparing the fair value of a reporting unit to its carrying value. If the fair value of the reporting unit exceeds its carrying value, goodwill is considered not to be impaired. If the carrying value of the reporting unit exceeds its fair value, a more detailed goodwill impairment assessment must be undertaken. A goodwill impairment charge is recognized to the extent that, at the reporting unit level, the carrying value of goodwill exceeds the implied fair value.

The Company determines the fair value of its reporting units using a discounted cash flow model corroborated by other valuation techniques such as market multiples. The process of determining these fair values requires management to make estimates and assumptions of a long term nature including, but not limited to, projected future sales, earnings and capital investment, discount rates and terminal growth rates. Projected future sales, earnings and capital investment are consistent with strategic plans presented to GWL's and Loblaw's Boards. Discount rates are based on an industry weighted average cost of capital. These estimates and assumptions may change in the future due to uncertain competitive and economic market conditions or changes in business strategies.

During 2009, subsequent to the disposition of its U.S. fresh bakery business on January 21, 2009, Weston Foods reorganized its remaining operations. The reorganization changed the composition of Weston Foods' reporting units for the purpose of goodwill impairment testing. As a result of this change, the goodwill related to the biscuits, cookies, cones and wafers business was determined to be impaired and a write-down of $73 million was recorded in the first quarter of 2009.

During the fourth quarter of 2009, the Company performed its annual goodwill impairment test and determined that there was no impairment of the carrying value of goodwill.

Intangible assets with indefinite useful lives are assessed for impairment at least annually. Any potential intangible asset impairment is identified by comparing the fair value of the indefinite life intangible asset to its carrying value. If the fair value of the intangible asset exceeds its carrying value, the intangible asset is considered not to be impaired. If the carrying value of the intangible asset exceeds its fair value, impairment is identified as the difference between the fair value and the carrying value and will result in a reduction in the carrying value of the intangible asset on the consolidated balance sheet and the recognition of a non-cash impairment charge in operating income in the consolidated statement of earnings.

The Company determines the fair value of its trademarks and brand names by using the "Relief from Royalty Method", a discounted cash flow model. The process of determining the fair values requires management to make assumptions of a long term nature regarding projected future sales, terminal growth rates, royalty rates and discount rates. Projected future sales are consistent with strategic plans presented to GWL's and Loblaw's Boards and discount rates are based on an industry after-tax cost of equity. These estimates and assumptions may change in the future due to uncertain competitive and economic market conditions or changes in business strategies.

The annual impairment test on the indefinite life intangible assets was not performed in 2009 as Loblaw's indefinite life intangible assets were acquired in the third quarter.

Income Taxes
Future income tax assets and liabilities are recognized for the future income tax consequences attributable to temporary differences between the financial statement carrying values of assets and liabilities and their respective income tax bases. Future income tax assets or liabilities are measured using enacted or substantively enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The calculation of current and future income taxes requires management to make estimates and assumptions and to exercise judgment regarding the financial statement carrying values of assets and liabilities which are subject to accounting estimates inherent in those balances, the interpretation of income tax legislation across various jurisdictions, expectations about future operating results, the timing of reversal of temporary differences and possible audits of income tax filings by the tax authorities. Management believes it has adequately provided for income taxes based on currently available information.

At each balance sheet date, future income tax assets are reviewed to determine whether a valuation allowance is required. Such an allowance is required when it is deemed unlikely that projected future taxable income will be sufficient to realize the future income tax benefits.

Changes or differences in the underlying estimates or assumptions may result in changes to the current or future income tax balances on the consolidated balance sheet, a charge or credit to income tax expense in the consolidated statement of earnings and may result in cash payments or receipts.

15. ACCOUNTING STANDARDS IMPLEMENTED IN 2009

Goodwill and Intangible Assets
In November 2007, the CICA issued amendments to Section 1000, "Financial Statement Concepts", AcG 11, "Enterprises in the Development Stage", issued a new Section 3064, "Goodwill and Intangible Assets" ("Section 3064") to replace Section 3062, "Goodwill and Other Intangible Assets", withdrew Section 3450, "Research and Development Costs" and amended Emerging Issues Committee ("EIC") Abstract 27, "Revenues and Expenditures During the Pre-operating Period" to not apply to entities that have adopted Section 3064. These amendments, in conjunction with Section 3064, provide guidance for the recognition of intangible assets, including internally developed assets from research and development activities, ensuring consistent treatment of all intangible assets, whether separately acquired or internally developed. The Company implemented these requirements as of January 1, 2009, retroactively with restatement of the comparative period. Restatement of the comparative period resulted in an increase in selling and administrative expenses of $29 million, a decrease in depreciation and amortization of $35 million, an increase in future tax expense of $1 million and an increase in minority interest of $3 million, resulting in an increase in 2008 net earnings of $2 million. Restatement of the comparative period also resulted in a decrease in other assets of $42 million, a decrease in retained earnings net of income taxes and minority interest of $17 million, a decrease in future income taxes liability of $15 million and a decrease in minority interest of $10 million.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities
On January 20, 2009, the EIC issued Abstract 173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". The committee reached a consensus that a company's credit risk and the credit risk of its counterparties should be considered when determining the fair value of its financial assets and financial liabilities, including derivative instruments. The transitional provisions require the abstract to be applied retrospectively without restatement of prior periods. Financial assets and financial liabilities, including derivative instruments, have been remeasured as at January 1, 2009 to take into account the appropriate credit risk and counterparty credit risk. As a result, a decrease in other assets of $12 million, a decrease in other liabilities of $4 million, a decrease in minority interest of $3 million, an increase, net of income taxes and minority interest in accumulated other comprehensive loss of $1 million and a decrease in retained earnings net of income taxes and minority interest of $4 million were recorded on the consolidated balance sheet.

Financial Instruments – Disclosures
In June 2009, the CICA amended Section 3862, "Financial Instruments – Disclosures", to include additional disclosure relating to the measurement of fair value for financial instruments and liquidity risk. The amendment establishes a three level hierarchy that reflects the significance of the inputs used in fair value measurements on financial instruments. The amendment is effective for annual financial statements relating to fiscal years ending after September 30, 2009, therefore the Company has included these additional disclosures (see note 27). The implementation of these amendments did not have an impact on the Company's results of operations or financial condition.

16. FUTURE ACCOUNTING STANDARDS

The Company closely monitors new accounting standards to assess the impact, if any, on its consolidated financial statements.

In 2010 and 2011, the Company will be reviewing the implications of the following standards and implementing the recommendations as required.

BUSINESS COMBINATIONS

In January 2009, the CICA issued Section 1582, "Business Combinations", which will replace Section 1581 of the same title, and issued Sections 1601, "Consolidated Financial Statements" and 1602, "Non-Controlling Interests". These standards will harmonize Canadian GAAP with International Financial Reporting Standards ("IFRS"). The amendments establish principles and requirements for determining how an enterprise recognizes and measures the fair value of certain assets and liabilities acquired in a business combination, including non-controlling interests, contingent consideration and certain acquired contingencies. The amendments also require that acquisition related transaction expenses and restructuring costs be expensed as incurred rather than capitalized as a component of the business combination. These amendments are effective for business combinations with an acquisition date on or after January 1, 2011 and early adoption is permitted. The impact of implementing these amendments on the Company's financial statements is currently being assessed.

MULTIPLE DELIVERABLE REVENUE ARRANGEMENTS

On December 24, 2009 the EIC issued EIC Abstract 175, "Multiple Deliverable Revenue Arrangements", which replaces EIC 142 "Revenue Arrangements with Multiple Deliverables". The Abstract provides guidance on the identification and accounting for multiple revenue generating activities and specifically requires a vendor to allocate consideration to multiple deliverables based on their relative selling price. The Abstract may be applied prospectively for annual fiscal periods beginning on or after January 1, 2011 and early adoption is permitted. The impact of implementing this Abstract on the Company's financial statements is currently being assessed.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Canadian Accounting Standards Board will require all public companies to adopt IFRS for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

Project Structure and Status

The Company has an IFRS team led by the Chief Financial Officer to ensure the timely and appropriate implementation of IFRS. The IFRS team consists of dedicated resources as well as consultants and other employees on an as needed basis. This team reports regularly to a steering committee comprised of senior management, as well as to the Audit Committee.

The Company has developed an IFRS conversion project plan consisting of three main phases:

Phase One: Diagnostic Impact Assessment This phase consisted of a high-level impact assessment that identified the key areas of accounting differences between Canadian GAAP and IFRS that were likely to impact the Company. The diagnostic impact assessment was completed in 2008 and resulted in the ranking of accounting differences as high, medium, or low priority for further analysis.

Phase Two: Detailed Assessment This phase involved a comprehensive assessment of the differences between IFRS and the Company's current accounting policies and included reviews with the various finance groups and business process owners to further understand the impact of these differences. The detailed assessment was completed in April 2009, at which time the potential changes to existing accounting policies, business processes and information systems were identified. Further analysis to finalize these impacts continued through 2009 and will be concluded in 2010.

Phase Three: Implementation This phase includes two components, implementation development and implementation transition, and will result in the compilation of IFRS transitional adjustments, as required, as well as IFRS financial statements with required reconciliations to Canadian GAAP.

The implementation development phase is currently in progress and involves an analysis of policy alternatives under IFRS, including certain exemptions and elections available on transition. To date, management has determined preliminary conclusions for certain policy alternatives, as discussed below, while certain others remain under review. In addition, during this phase the required changes to supporting information systems and business processes, including the budgeting and planning process, financial covenants, key performance indicators, compensation arrangements that rely on financial statement indicators and contractual agreements, are being reviewed. The design and development of the required changes in these areas is in process and they are expected to be completed by the end of 2010.

The implementation transition phase involves the final approval of accounting policies, including transitional elections, the execution of changes to business processes and supporting information systems, and the training of finance, operational and other staff.

These activities are currently in process and will continue throughout 2010 in preparation for IFRS reporting, beginning in the first quarter of 2011.

Throughout 2010, the Company will prepare its internal opening balance sheet and quarterly financial statements in accordance with IFRS, based on management's preliminary conclusions for various policy alternatives. Changes to information systems required to prepare the opening balance sheet have been completed, while further changes necessary to gather appropriate information for dual reporting throughout 2010 are in process and nearing completion. Preparation of the opening balance sheet is currently in progress, and quarterly financial statements are expected to be prepared throughout 2010.

The Company has provided high level training to affected employees, senior management, and the Board. Further detailed training regarding specific changes has been provided to individuals responsible for affected areas and will continue throughout 2010.

For all accounting policy changes identified, an assessment of the design and effectiveness implications on Internal Controls over Financial Reporting and Disclosure Controls and Procedures will be completed. Documentation of internal controls related to accounting policy changes has commenced and is expected to be completed during the third quarter of 2010.

The Company will continue to provide quarterly updates on its progress throughout the conversion period, to allow stakeholders to assess the impact of the conversion on the Company's financial performance, and the Company's ability to transition to IFRS in the first quarter of 2011. The Company anticipates communicating decisions about accounting policy alternatives and the impact of these decisions on the Company's consolidated financial statements once these items are finalized.

The information below is provided to allow investors and others to obtain a better understanding of the possible effects on the Company's consolidated financial statements and operating performance measures. Readers are cautioned, however, that it may not be appropriate to use such information for any other purpose.

Changes in Accounting Policies
The Company continues to assess the aggregate effect of adopting IFRS, and the relevant changes in accounting policies. The changes identified below should not be regarded as a complete list of changes that will result from the transition to IFRS as it is intended to highlight those areas that are believed to be most significant at this point in the project. The International Accounting Standards Board has significant ongoing projects that could affect the ultimate differences between Canadian GAAP and IFRS and their impact on the Company's consolidated financial statements. Therefore, the Company's analysis of changes and accounting policy decisions have been made based on the accounting standards that are currently effective.

The Company is currently assessing the quantitative impact of the transitional adjustments on the consolidated financial statements and expects to be able to report later in fiscal 2010.

Securitization of Receivables International Accounting Standard ("IAS") 39, "Financial Instruments: Recognition and Measurement" contains different criteria than Canadian GAAP for the derecognition of financial assets and requires an evaluation of the extent to which an entity retains the risks and rewards of ownership. Under Canadian GAAP, these financial assets qualify for sale treatment pursuant to AcG 12. The Company has determined that under IFRS, credit card receivables will not qualify for derecognition.

Consolidation The Company consolidates certain independent franchisees and other entities subject to warehouse and distribution service agreements. Under IAS 27, "Consolidated and Separate Financial Statements" and Standing Interpretations Committee 12, "Consolidation – Special Purpose Entities", consolidation is assessed using a control model that does not include the concept of a variable interest entity. Under IFRS it is anticipated that the above noted entities will no longer be consolidated, while other financing entities, specifically the Independent Funding Trust through which franchisees obtain financing, and Eagle, the independent trust that finances certain PC Bank credit card receivables, will likely be consolidated.

Employee Benefits IAS 19, "Employee Benefits" ("IAS 19") requires the past service cost element of defined benefit plans to be expensed on an accelerated basis, with vested past service costs expensed immediately and unvested past service costs recognized on a straight-line basis until the benefits become vested. Under Canadian GAAP, the Company generally amortizes past service costs on a straight-line basis over the average remaining service period of active employees expected under the plan. This difference will likely result in a reduction of unamortized past service costs on transition to IFRS.

IAS 19 provides a policy choice regarding recognition of actuarial gains and losses for defined benefit pension plans and post-retirement benefit plans, permitting deferred recognition using the corridor method, or immediate recognition in either equity or through earnings. Under Canadian GAAP the Company applies the corridor method. The Company continues to review the impact of this policy choice.

Property, Plant and Equipment IAS 16, "Property, Plant and Equipment" ("IAS 16") provides specific guidance such that when an individual part of an item of property, plant and equipment is replaced and capitalized as part of property, plant and equipment, the replaced part of the original asset must be derecognized even if the replacement part was not originally componentized. The guidance in IAS 16 also provides more specific guidance with respect to the costs that are required and those that are eligible for capitalization, and the basis of their initial recognition. The Company is currently quantifying the potential impact of these changes on the opening balance sheet but they will likely result in the reduction of property, plant and equipment balances on transition to IFRS.

IAS 16 provides a policy choice in measuring each class of property, plant and equipment after initial recognition, permitting the use of the cost method or the revaluation model. The cost method is currently used under Canadian GAAP. The Company currently intends to continue to use the cost method as its accounting policy for the measurement of property, plant and equipment after initial recognition.

Impairment of Assets IAS 36, "Impairment of Assets", uses a one-step approach for testing and measuring impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use using discounted future cash flows. Canadian GAAP generally uses a two-step approach to impairment testing of long-lived assets: first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists; and then measuring any impairment by comparing asset carrying values with fair values. The difference in methodologies may potentially result in additional asset impairments under IFRS.

IFRS also requires that assets be tested for impairment at the level of cash generating units, which are defined as the lowest level of assets that generate largely independent cash inflows. Canadian GAAP requires assets to be grouped at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities for impairment testing purposes. As a result, IFRS is expected to result in a lower level grouping of assets and therefore, may result in additional asset impairment charges under IFRS.

Provisions IAS 37, "Provision, Contingent Liabilities and Contingent Assets" ("IAS 37") requires an entity to recognize a provision when a contract is determined to be onerous. A contract is onerous when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. Canadian GAAP only requires the recognition of such a liability in certain prescribed situations. This difference could result in recognition of a liability under IFRS that was not previously recognized under Canadian GAAP. In addition, the measurement provisions under IAS 37 differ from the corresponding requirements under Canadian GAAP, which could result in the recording of provisions earlier or at a different amount than under Canadian GAAP. The Company is currently reviewing contracts and assessing the impact of measurement differences throughout the business to determine the overall impact of IAS 37 on transition to IFRS.

Share-based Payments IFRS 2, "Share-based Payments" requires that cash-settled share-based payments to employees be measured (both initially and at each reporting date) based on the fair value of the awards. Canadian GAAP requires that such payments be measured based on the intrinsic value of the awards at each reporting date. This difference is expected to impact the compensation expense recognized related to the Company's share-based payments, including stock options, share appreciation rights and restricted share units, and will likely result in an increase to the Company's liability on transition to IFRS.

Customer Loyalty Programs International Financial Reporting Interpretations Committee 13, "Customer Loyalty Programs" requires the fair value of loyalty programs to be recognized as a component of sales transactions. The Company will be required to defer a portion of the revenue for the initial sales transaction in which the awards are granted based on their fair value. Under Canadian GAAP, the Company recognizes the net cost of the program in operating expenses. Although the amount of the impact is currently being assessed, the Company expects the impact will be not significant on transition to IFRS.

First-Time Adoption of IFRS

The adoption of IFRS will require the application of IFRS 1, "First-Time Adoption of IFRS" ("IFRS 1"), which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires retrospective application of all IFRS effective at the reporting date, with the exception of certain mandatory exceptions and limited optional exemptions provided in the standard. The following are the significant optional exemptions available under IFRS 1 that the Company expects to apply in preparing its opening balance sheet in accordance with IFRS:

Employee Benefits The Company expects to apply an election which will recognize all cumulative actuarial gains and losses through retained earnings. If this exemption is not taken, actuarial gains and losses would have to be recalculated based on the requirements of IAS 19 from the inception of each of the Company's defined benefit plans. The Company's choice must be applied to all defined benefit plans consistently.

Borrowing Costs IFRS 1 allows prospective application of IAS 23, "Borrowing Costs" ("IAS 23"), which requires capitalization of borrowing costs to all qualifying assets. The Company currently expects to elect to apply IAS 23 prospectively, which will result in derecognition of borrowing costs previously capitalized.

Foreign Currency On transition, cumulative translation gains or losses in accumulated other comprehensive loss can be reclassified to retained earnings at the company's election. The Company currently expects to utilize this election and recognize cumulative translation gains and losses prospectively from the date of transition.

Business Combinations The Company expects to apply IFRS 3, "Business Combinations" ("IFRS 3") prospectively only to those business combinations that occur after the date of transition. If this election is not made, the Company would have to select a historical transition date from which to apply the requirements of IFRS 3 prospectively.

17. OUTLOOK[1]

The consolidated results of George Weston Limited will continue to reflect the performance of both the Weston Foods and Loblaw operating businesses. In addition, the Company's results will be subject to earnings volatility caused by the impact of changes in U.S. foreign exchange currency fluctuations on a portion of the U.S. dollar denominated cash and short term investments held by Dunedin and certain of its affiliates. The Company is continuing to assess its strategic options for the deployment of the significant holdings of cash and short term investments generated from the divestitures of the dairy and bottling operations in December 2008 and the U.S. fresh bakery business in January 2009.

Weston Foods expects to deliver satisfactory operating performance in 2010. To help offset economic pressures, the Company is continuing its efforts to reduce costs through improved efficiencies and productivity and grow sales by optimizing product mix and product innovation to meet changing consumer buying preferences.

Loblaw has completed three years of its renewal program and is making progress, with two of the toughest years ahead. Entering into 2010 sales and margins will continue to be challenged by deflation and increased competitive intensity. In 2010 Loblaw plans to step up investments in information technology and supply chain which will negatively impact operating income by approximately $185 million over 2009, while at the same time maintaining its capital expenditures at approximately $1 billion.

(1) This outlook should be read in conjunction with the Forward-Looking Statements section of this MD&A on page 5.

18. NON-GAAP FINANCIAL MEASURES

The Company uses the following non-GAAP financial measures: EBITDA and EBITDA margin, net debt, net debt to equity, net debt to EBITDA 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. These measures do not have a standardized meaning prescribed by Canadian 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 Canadian GAAP.

EBITDA and EBITDA margin

The following tables reconcile earnings from continuing operations before minority interest, income taxes, interest, gain on disposal of business and depreciation and amortization ("EBITDA") to Canadian GAAP net earnings from continuing operations reported in the consolidated statements of earnings for the 12 (2008 – 13) and 52 (2008 – 53) week periods ended as indicated. For each of its reportable operating segments, segment EBITDA is reconciled to segment operating income. EBITDA is useful to management in assessing the performance of the Company's ongoing operations and its ability to generate cash flows to fund its cash requirements, including the Company's capital investment program.

EBITDA margin is calculated as EBITDA divided by sales.

	Quarter Ended December 31, 2009				Year Ended December 31, 2009			
($ millions)	Weston Foods	Loblaw	Other[(2)]	Consolidated	Weston Foods	Loblaw	Other[(2)]	Consolidated
Net earnings from continuing operations				$ 79				$ 127
Add impact of the following:								
Minority interest				70				260
Income taxes				39				259
Interest expense and other financing charges				99				363
Operating income (loss)	$ 58	$ 275	$ (46)	$ 287	$ 123	$ 1,197	$ (311)	$ 1,009
Depreciation and amortization[(1)]	12	143		155	56	589		645
EBITDA	$ 70	$ 418	$ (46)	$ 442	$ 179	$ 1,786	$ (311)	$ 1,654

(1) Includes depreciation of $10 million and $44 million for the quarter and the year, respectively, included in cost of inventories sold.

(2) After the sale of the U.S. fresh bakery business on January 21, 2009, Dunedin and certain of its affiliates became "integrated" foreign subsidiaries for accounting purposes. On the date of the sale, the cumulative foreign currency translation loss of $34 million associated with Dunedin and certain of its affiliates, which was previously reflected in accumulated other comprehensive loss, was reversed and included in operating income. Subsequent to January 21, 2009, gains and losses arising from the translation of the U.S. dollar denominated assets of these integrated foreign subsidiaries are included in operating income. As a result, 2009 operating income included $225 million (2008 – nil) of foreign exchange losses associated with the effect of foreign exchange on a portion of the U.S. dollar denominated cash and short term investments held by Dunedin and certain of its affiliates. In addition, during the fourth quarter of 2009, due to an internal reorganization, a reduction in the Company's U.S. net investment in self-sustaining foreign operations resulted in the reversal of an additional cumulative translation loss of $52 million into operating income.

($ millions)	Quarter Ended December 31, 2008[1] Weston Foods	Loblaw	Consolidated	Year Ended December 31, 2008[1] Weston Foods	Loblaw	Consolidated
Net earnings from continuing operations			$ 357			$ 647
Add (deduct) impact of the following:						
Minority interest			77			222
Income taxes			113			304
Interest expense and other financing charges			136			360
Gain on disposal of business			(335)			(335)
Operating income	$ 30	$ 318	$ 348	$ 154	$ 1,044	$ 1,198
Depreciation and amortization[2]	15	114	129	60	550	610
EBITDA	$ 45	$ 432	$ 477	$ 214	$ 1,594	$ 1,808

(1) Certain 2008 information has been restated to conform with the new CICA Handbook Section 3064, "Goodwill and Intangible Assets". See note 2 to the consolidated financial statements.
(2) Includes depreciation of $11 million and $44 million for the quarter and the year, respectively, included in cost of inventories sold.

($ millions)	Year Ended December 31, 2007[1] Weston Foods	Loblaw	Consolidated
Net earnings from continuing operations			$ 378
Add impact of the following:			
Minority interest			132
Income taxes			198
Interest expense and other financing charges			175
Operating income	$ 147	$ 736	$ 883
Depreciation and amortization[2]	62	556	618
EBITDA	$ 209	$ 1,292	$ 1,501

(1) Certain 2007 information has been restated to conform with the new CICA Handbook Section 3064, "Goodwill and Intangible Assets".
(2) Includes depreciation of $46 million included in cost of inventories sold.

Net Debt

In 2009, the Company revised its definition of net debt to include the fair value of certain financial derivatives, other than those related to commodities, as the Company believes the measure should include all interest bearing financing arrangements.

The Company calculates net debt as the sum of bank indebtedness, short term debt, long term debt, other liabilities and the fair value of financial derivatives less cash and cash equivalents, short term investments, security deposits and the fair value of financial derivatives. The Company believes this measure is useful in assessing the amount of financial leverage employed. The Company calculates net debt (excluding Exchangeable Debentures) as net debt (as calculated above) less Exchangeable Debentures and believes this measure is also useful in evaluating the amount of leverage employed by the Company as the Exchangeable Debentures could have been settled by using the Company's investment in Domtar (Canada) Paper Inc.

($ millions)	**Dec. 31, 2009**	Dec. 31, 2008	Dec. 31, 2007
Bank indebtedness	**$ 2**	$ 93	$ 36
Short term debt	**300**	453	859
Long term debt due within one year	**343**	415	432
Long term debt	**5,377**	5,308	5,494
Other liabilities	**36**		
Fair value of financial derivatives related to the above	**(327)**	(261)	(163)
	5,731	6,008	6,658
Less: Cash and cash equivalents	**3,368**	1,446	1,052
Short term investments	**1,538**	694	461
Security deposits	**348**	560	419
Fair value of financial derivatives related to the above	**178**	57	278
	5,432	2,757	2,210
Net debt	**299**	3,251	4,448
Less: Exchangeable Debentures			157
Net debt (excluding Exchangeable Debentures)	**$ 299**	$ 3,251	$ 4,291

Capital securities are excluded from the calculation of net debt because the Company at its option can convert the capital securities into common shares. For the purposes of calculating net debt, the fair values of financial derivatives are not credit value adjusted in accordance with Emerging Issues Abstract 173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" ("EIC 173"). As at the end of 2009, the credit value adjustment was $4 million.

Net Assets

The following table reconciles net assets used in the return on average net assets ratio to Canadian GAAP measures reported on the consolidated balance sheet. The Company believes the return on average net assets ratio is useful in assessing the return on productive assets.

Net assets is calculated as total assets less cash and cash equivalents, short term investments, the Domtar (Canada) Paper Inc. investment, security deposits, the fair value of Weston Holdings Limited's ("WHL"), a subsidiary of GWL, forward sale agreement for 9.6 million Loblaw common shares, assets of operations held for sale and accounts payable and accrued liabilities. Return on average net assets is calculated as operating income for the year divided by average net assets.

				As at December 31, 2009
($ millions)	**Weston Foods**	**Loblaw**	**Other[(1)]**	**Consolidated**
Canadian GAAP total assets	**$ 1,674**	**$ 15,151**	**$ 3,318**	**$ 20,143**
Less: Cash and cash equivalents	**171**	**993**	**2,204**	**3,368**
Short term investments	**27**	**397**	**1,114**	**1,538**
Security deposits	**98**	**250**		**348**
Fair value of WHL's forward sale agreement for 9.6 million Loblaw shares	**446**			**446**
Accounts payable and accrued liabilities	**337**	**3,242**		**3,579**
Net assets	**$ 595**	**$ 10,269**	**$**	**$ 10,864**

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

				As at December 31, 2008[(1)]
($ millions)	Weston Foods	Loblaw	Discontinued Operations	Consolidated
Canadian GAAP total assets	$ 2,892	$ 14,083	$ 2,588	$ 19,563
Less: Cash and cash equivalents	918	528		1,446
Short term investments	469	225		694
Security deposits	123	437		560
Current assets of operations held for sale			2,588	2,588
Fair value of WHL's forward sale agreement for 9.6 million Loblaw shares	397			397
Accounts payable and accrued liabilities	298	2,823		3,121
Net assets	$ 687	$ 10,070	$	$ 10,757

(1) Certain 2008 information has been restated to conform with the new CICA Handbook Section 3064, "Goodwill and Intangible Assets". See note 2 to the consolidated financial statements.

($ millions)	Weston Foods	Loblaw	Discontinued Operations	Consolidated
				As at December 31, 2007[1]
Canadian GAAP total assets	$ 2,478	$ 13,765	$ 2,118	$ 18,361
Less: Cash and cash equivalents	622	430		1,052
Short term investments	236	225		461
Security deposits	97	322		419
Current assets of operations held for sale			238	238
Long term assets of operations held for sale			1,880	1,880
Domtar (Canada) Paper Inc. investment	157			157
Fair value of WHL's forward sale agreement for 9.6 million Loblaw shares	365			365
Accounts payable and accrued liabilities	324	2,860		3,184
Net assets	$ 677	$ 9,928	$	$ 10,605

(1) Certain 2007 information has been restated to conform with the new CICA Handbook Section 3064, "Goodwill and Intangible Assets".

Equity

The following table reconciles equity used in the net debt to equity ratio to Canadian GAAP measures reported in the audited consolidated financial statements.

Equity is calculated as the sum of GWL capital securities and shareholders' equity as follows:

($ millions)	**As at December 31, 2009**	As at December 31, 2008[1]	As at December 31, 2007[2]
Capital securities		$ 264	$ 260
Shareholders' equity	**$ 6,942**	5,910	4,657
Equity	**$ 6,942**	$ 6,174	$ 4,917

(1) Certain 2008 information has been restated to conform with the new CICA Handbook Section 3064, "Goodwill and Intangible Assets". See note 2 to the consolidated financial statements.

(2) Certain 2007 information has been restated to conform with the new CICA Handbook Section 3064, "Goodwill and Intangible Assets".

19. ADDITIONAL INFORMATION

The following table provides additional financial information.

	As at December 31, 2009	As at December 31, 2008	As at December 31, 2007
Market price per common share ($)	**$ 66.92**	$ 59.90	$ 54.08
Actual common shares outstanding (in millions)	**129.1**	129.1	129.1
Weighted average common shares outstanding (in millions)	**129.1**	129.1	129.1

Additional information about the Company, including its Annual Information Form and other disclosure documents, has been filed electronically with the Canadian securities regulatory authorities 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 62.5%-owned public reporting company with shares trading on the Toronto Stock Exchange. For information regarding Loblaw, readers should also refer to the materials filed by Loblaw with the Canadian securities regulatory authorities from time to time.

Toronto, Canada

March 22, 2010