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Management's Statement of Responsibility for Financial Reporting

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

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

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

[*signed*]
W. Galen Weston
Executive Chairman

[*signed*]
Paviter S. Binning
President

[*signed*]
Richard Dufresne
Executive Vice President,
Chief Financial Officer

February 27, 2013
Toronto, Canada

Independent Auditors' Report

To the Shareholders of George Weston Limited:

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Chartered Accountants, Licensed Public Accountants

February 27, 2013
Toronto, Canada

Consolidated Statements of Earnings

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

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income

For the years ended December 31 (millions of Canadian dollars)	2012	2011
Net earnings	**$ 726**	$ 919
Other comprehensive loss		
Foreign currency translation adjustment (note 29)	**(13)**	12
Net defined benefit plan actuarial losses (note 25)	**(24)**	(238)
Other comprehensive loss	**(37)**	(226)
Comprehensive Income	**689**	693
Attributable to:		
Shareholders of the Company	**457**	486
Non-Controlling Interests	**232**	207
Comprehensive Income	**$ 689**	$ 693

See accompanying notes to the consolidated financial statements.

Consolidated Balance Sheets

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

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

Approved on behalf of the Board

[signed]
W. Galen Weston
Director & Executive Chairman

[signed]
A. Charles Baillie
Director

Consolidated Statements of Changes in Equity

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

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

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

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

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flow

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

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

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

Note 1. Nature and Description of the Reporting Entity

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

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

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

Note 2. Significant Accounting Policies

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

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

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

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

The consolidated financial statements are presented in Canadian dollars.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Accounting Standards Implemented in 2012

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

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

Note 3. Critical Accounting Estimates and Judgments

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

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

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

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

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

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

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

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

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

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

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

Allowance for credit card receivables

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

Note 4. Future Accounting Standards

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

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

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

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

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

Consolidated Statement of Earnings

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

Consolidated Statement of Comprehensive Income

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

Consolidated Balance Sheet

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

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

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

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

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

Note 5. Net Interest Expense and Other Financing Charges

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

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

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

Note 6. Income Taxes

The components of income taxes were as follows:

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

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

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

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

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

Note 7. Basic and Diluted Net Earnings per Common Share

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

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

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

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

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

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

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

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

Note 9. Accounts Receivable

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

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

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

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

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

Note 10. Credit Card Receivables

The components of credit card receivables were as follows:

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

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

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

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

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

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

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

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

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

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

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

Note 11. Inventories

The components of inventories were as follows:

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

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

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

Note 12. Assets Held for Sale

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

Note 13. Fixed Assets

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

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

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

Note 14. Investment Properties

The following is a continuity of investment properties:

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

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

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

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

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

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

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

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

Note 15. Goodwill and Intangible Assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Definite Life Intangible Assets

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

Note 16. Other Assets

The components of other assets were as follows:

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

Note 17. Provisions

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

Note 18. Short Term Debt

The components of short term debt were as follows:

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

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

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

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

Note 19. Long Term Debt

The components of long term debt were as follows:

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

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

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

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

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

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

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

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

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

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

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

Note 20. Other Liabilities

The components of other liabilities were as follows:

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

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

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

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

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

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

The components of share capital were as follows:

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

Common Share Capital (authorized – unlimited)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 23. Subsidiary Capital Transactions

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

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

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

Note 24. Capital Management

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

Other Long Term Employee Benefits

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

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

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

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

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

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

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

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

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

Composition of Plan Assets

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

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

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

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

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

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

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

Principal Actuarial Assumptions

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

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

n/a – not applicable

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

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

Sensitivity of Key Actuarial Assumptions

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

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

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

n/a – not applicable

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

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

Historical Information

The history of defined benefit plans was as follows:

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

n/a – not applicable.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Stock Option Plans

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Restricted Share Unit Plans

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

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

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

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

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

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

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

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

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

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

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

Executive Deferred Share Unit Plans

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

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

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

Equity Derivative Contracts

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

Note 27. Employee Costs

Included in operating income were the following employee costs:

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

Note 28. Leases

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

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

Operating Leases – As Lessee

Future minimum lease payments relating to the Company's operating leases are as follows:

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

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

Operating Leases – As Lessor

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

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

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

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

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

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

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

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

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

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

Note 29. Financial Instruments

The Company's financial assets and financial liabilities are classified as follows:

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

The Company has not classified any financial assets as held-to-maturity.

Cash and Cash Equivalents, Short Term Investments and Security Deposits
As at year end 2012, the Company had cash and cash equivalents, short term investments and security deposits of $4,075 (2011 – $4,101), including U.S. $2,239 (2011 – U.S. $2,212) that was held primarily by Dunedin Holdings GmbH ("Dunedin"), a subsidiary of GWL, and certain of its affiliates and Glenhuron.

In 2012, a loss of $13 (2011 – gain of $12) was recognized in other comprehensive loss related to the effect of foreign currency translation on the Company's (excluding Loblaw's) U.S. net investment in foreign operations. In addition, a loss of $24 (2011 – gain of $25) was recorded in selling, general and administrative expenses related to the effect of foreign currency translation on a portion of the U.S. dollar denominated cash and cash equivalents and short term investments held by foreign operations that have the same functional currency as that of the Company.

In addition, a loss of $27 (2011 – gain of $25) was recognized in Loblaw's operating income as a result of translating U.S. dollar denominated cash and cash equivalents, short term investments and security deposits of U.S. $1,113 (2011 – U.S. $1,073) held primarily by Glenhuron. Cross currency swaps provide an offset to the effect of this foreign currency translation. See cross currency swaps section below.

Cross Currency Swaps

As at year end 2012, Glenhuron held outstanding cross currency swaps (see note 30) to exchange U.S. dollars for $1,199 (2011 – $1,252) Canadian dollars. The swaps mature by 2019 and are financial derivatives classified as fair value through profit or loss. Currency adjustments receivable or payable arising from these swaps are settled in cash on maturity. As at year end 2012, a cumulative unrealized foreign currency exchange rate receivable of $93 (2011 – $89) was recorded in other assets (see note 16), and a receivable of $20 (2011 – $48) was recorded in prepaid expenses and other assets. In 2012, a fair value gain of $25 (2011 – loss of $29) was recognized in operating income relating to these cross currency swaps.

In 2008, Loblaw entered into fixed cross currency swaps to exchange $148 Canadian dollars for U.S. $150, which mature in the second quarter of 2013 and entered into additional fixed cross currency swaps to exchange $148 Canadian dollars for U.S. $150, which mature in 2015. A portion of these cross currency swaps was originally designated in a cash flow hedge to manage the foreign exchange variability related to part of Loblaw's fixed-rate U.S. dollar private placement notes. In 2011, the designated swap was no longer classified as a cash flow hedge and as a result, the fair value changes were recorded in operating income. As at year end 2012, a cumulative unrealized foreign currency exchange rate receivable of $5 (2011 – $14) was recorded in other assets (see note 16) and a receivable of $2 (2011 – nil) was recorded in prepaid expenses and other assets. In 2012, Loblaw recognized an unrealized fair value loss of $7 (2011 – gain of $2) in operating income related to these cross currency swaps. Offsetting the unrealized fair value loss was an unrealized foreign currency translation gain of $6 (2011 – loss of $6) which was also recognized in operating income related to the translation of the U.S. $300 fixed rate private placement notes.

Interest Rate Swaps

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

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

Equity Derivative Contracts ($, except where otherwise indicated)

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

During 2011, GWL amended its swap agreements to adjust the forward price of its equity swaps by $7.75 from an average forward price of $103.17 to an average forward price of $95.42 as a result of the special one-time common share dividend of $7.75 per common share paid in January 2011. Also during 2011, GWL paid $75 million to terminate one equity swap contract and purchase for cancellation the underlying 886,700 GWL common shares under its NCIB program (see note 22).

Subsequent to the end of 2012, GWL paid $29 million to settle its remaining equity swap contract representing 800,000 GWL common shares, which GWL purchased under its NCIB for $57 million. Of the 800,000 common shares purchased, 580,000 common shares were cancelled and the remaining 220,000 common shares were placed into trusts for future settlement of GWL's RSUs and PSUs (see note 26).

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

Glenhuron recognized a fair value gain of $5 million (2011 – loss of $2 million) in operating income in relation to this equity forward contract.

During 2011, Glenhuron paid $7 million to terminate equity forwards representing 390,100 Loblaw common shares, which Loblaw purchased for cancellation under its NCIB for $15 million (see note 23). Subsequent to the end of 2012, Glenhuron paid $16 million to settle its remaining equity forward contract representing 1,103,500 Loblaw common shares, which Loblaw purchased under its NCIB for $46 million, and placed into trusts for future settlement of Loblaw's RSUs and PSUs (see note 26).

In 2001, Weston Holdings Limited ("WHL"), a subsidiary of GWL, entered into an equity forward sale agreement based on 9.6 million Loblaw common shares at an original forward price of $48.50 per Loblaw common share. As at year end 2012, the forward price had increased to $92.26 (2011 – $88.14) per Loblaw common share under the terms of the agreement and the fair value of this forward sale agreement of $483 million (2011 – $478 million) was recorded in other assets (see note 16). In 2012, a fair value loss of $35 million (2011 – gain of $18 million) was recorded in net interest expense and other financing charges related to this agreement (see note 5).

Weston Foods Commodity Derivatives
Weston Foods uses commodity futures, options and forward contracts to manage its anticipated exposure to fluctuations in commodity prices.

As at year end 2012, the unrealized loss related to Weston Foods' commodity futures of $2 (2011 – $1) was recorded in accounts receivable. As at year end 2012, a nominal cumulative fair value loss (2011 – nominal gain) related to Weston Foods' commodity options was recorded in accounts receivable.

Franchise Loans Receivable and Franchise Investments in Other Assets
The value of Loblaw franchise loans receivable of $363 (2011 – $331) was recorded on the consolidated balance sheet. In 2012, Loblaw recorded an impairment loss of $12 (2011 – $11) in operating income related to these loan receivables.

The value of Loblaw franchise investments of $64 (2011 – $53) was recorded in other assets. In 2012, Loblaw recorded an impairment loss of $7 (2011 – $4) in operating income related to these investments.

Other Loblaw Derivatives
Loblaw also maintains other financial derivatives including foreign exchange forwards, electricity forwards and fuel exchange traded futures and options. As at year end 2012, a nominal (2011 – $1) cumulative unrealized receivable was recorded in prepaid expenses and other assets.

Fair Value Measurement
The Company classifies financial assets and financial liabilities under the following fair value hierarchy. The different levels have been identified as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following describes the fair value determinations of financial instruments:

Cash and Cash Equivalents, Short Term Investments and Security Deposits Fair value is primarily based on interest rates for similar instruments. Due to the short term maturity of these instruments, the carrying amount approximates fair value.

Accounts Receivable, Credit Card Receivables, Bank Indebtedness, Trade and Other Payables and Short Term Debt Fair value is based on estimated cash flows, discounted at interest rates for similar instruments. Due to the short term maturity of these instruments, the carrying amount approximates fair value.

Notes to the Consolidated Financial Statements

Franchise Loan Receivables Fair value is based on estimated cash flows, discounted at interest rates for similar instruments. The carrying amount approximates fair value due to the minimal fluctuations in the forward interest rate and the sufficiency of provisions recorded for all impaired receivables.

Derivative Financial Instruments The fair values of derivative assets and liabilities are estimated using industry standard valuation models. Where applicable, these models project future cash flows and discount the future amounts to a present value using market based observable inputs including interest rate curves, credit spreads, foreign exchange rates and forward and spot prices for currencies.

Long Term Debt, Capital Securities and Other Financial Instruments Fair value is based on the present value of contractual cash flows, discounted at the Company's current incremental borrowing rate for similar types of borrowing arrangements or, where applicable, quoted market prices.

The following tables provide a summary of carrying and fair values for each classification of financial instruments and an analysis of financial instruments carried at fair value by fair value hierarchy level:

As at Dec. 31, 2012

	Financial instruments required to be classified as fair value through profit or loss	Financial instruments designated as fair value through profit or loss	Loans and receivables	Other financial liabilities	Total carrying amount	Total fair value
Cash and cash equivalents		$ 1,589			$ 1,589	$ 1,589
Short term investments		2,138			2,138	2,138
Derivatives included in accounts receivable	$ (2)				(2)	(2)
Other accounts receivable			$ 561		561	561
Credit card receivables			2,305		2,305	2,305
Security deposits		348			348	348
Franchise loans receivable			363		363	363
Derivatives included in other assets	603				603	603
Certain other assets			75		75	75
Total financial assets	$ 601	$ 4,075	$ 3,304		$ 7,980	$ 7,980
Fair value level 1	$ (2)	$ 385				$ 383
Fair value level 2	603	3,690				4,293
Fair value level 3						
Total fair value	$ 601	$ 4,075				$ 4,676
Short term debt				$ 1,319	$ 1,319	$ 1,319
Derivatives included in trade and other payables	$ 46				46	46
Other trade and other payables				3,891	3,891	3,891
Long term debt				6,933	6,933	7,901
Derivatives included in other liabilities	5				5	5
Certain other liabilities				44	44	44
Capital securities				223	223	243
Total financial liabilities	$ 51			$ 12,410	$ 12,461	$ 13,449
Fair value level 1						
Fair value level 2	$ 50					$ 50
Fair value level 3	1					1
Total fair value	$ 51					$ 51

						As at Dec. 31, 2011
	Financial instruments required to be classified as fair value through profit or loss	Financial instruments designated as fair value through profit or loss	Loans and receivables	Other financial liabilities	Total carrying amount	Total fair value
Cash and cash equivalents		$ 1,372			$ 1,372	$ 1,372
Short term investments		2,362			2,362	2,362
Derivatives included in accounts receivable	$ (1)				(1)	(1)
Other accounts receivable			$ 560		560	560
Credit card receivables			2,101		2,101	2,101
Security deposits		367			367	367
Franchise loans receivable			331		331	331
Derivatives included in other assets	630				630	630
Certain other assets			64		64	64
Total financial assets	$ 629	$ 4,101	$ 3,056		$ 7,786	$ 7,786
Fair value level 1	$ (1)	$ 384				$ 383
Fair value level 2	630	3,717				4,347
Fair value level 3						
Total fair value	$ 629	$ 4,101				$ 4,730
Bank indebtedness				$ 3	$ 3	$ 3
Short term debt				1,280	1,280	1,280
Derivatives included in trade and other payables	$ 53				53	53
Other trade and other payables				3,887	3,887	3,887
Long term debt				6,844	6,844	7,595
Derivatives included in other liabilities	19				19	19
Certain other liabilities				49	49	49
Capital securities				222	222	248
Total financial liabilities	$ 72			$ 12,285	$ 12,357	$ 13,134
Fair value level 1						
Fair value level 2	$ 70					$ 70
Fair value level 3	2					2
Total fair value	$ 72					$ 72

The fair value of the embedded foreign currency derivative classified as level 3 and included in other liabilities was $1 (2011 – $2), of which the fair value gain of $1 (2011 – loss of $5) was recognized in operating income. A 1% increase (decrease) in foreign currency exchange rates would result in an additional gain (loss) of $1 in fair value.

In 2012, the net loss on financial instruments designated as fair value through profit or loss recognized in net earnings before income taxes was $27 (2011 – $25). In addition, the net gain on financial instruments required to be classified as fair value through profit or loss recognized in net earnings before income taxes was $13 (2011 – net loss of $30).

During 2012, net interest expense of $414 (2011 – $418) was recorded related to financial instruments not classified or designated as fair value through profit and loss.

Note 30. Financial Risk Management

As a result of holding and issuing financial instruments, the Company is exposed to credit risk, market risk and liquidity and capital availability risk. The following is a description of those risks and how the exposures are managed:

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

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

The Company's maximum exposure to credit risk as it relates to derivative instruments is approximated by the positive fair market value of the derivatives on the consolidated balance sheets (see note 29).

Refer to notes 9 and 10 for additional information on the credit quality performance of credit card receivables and other receivables from Weston Foods' customers and suppliers and Loblaw's vendors, independent franchisees, associated stores and independent accounts.

Market Risk
Market risk is the loss that may arise from changes in factors such as interest rates, foreign currency exchange rates, commodity prices, common share price and the impact these factors may have on other counterparties.

Foreign Currency Exchange Rate Risk The Company's consolidated financial statements are expressed in Canadian dollars, however a portion of the Company's (excluding Loblaw's) net assets are denominated in U.S. dollars through both its net investment in foreign operations in the U.S. and its foreign subsidiaries held by Dunedin and certain of its affiliates with a functional currency that is the same as that of the Company. The U.S. dollar denominated net assets are translated into Canadian dollars at the foreign currency exchange rate in effect at the balance sheet date. As a result, the Company is exposed to foreign currency translation gains and losses. Those gains and losses arising from the translation of the U.S. dollar denominated assets of foreign subsidiaries with a functional currency that is the same as that of the Company are included in operating income, while translation gains and losses on the net investment in foreign operations in the U.S. are recorded in accumulated other comprehensive loss.

The Company estimates that based on the U.S. net assets held by foreign operations at the end of 2012, an appreciation in the Canadian dollar of one cent relative to the U.S. dollar would result in a loss of $10 (2011 – $10) in earnings before income taxes.

Revenues and expenses of all foreign operations are translated into Canadian dollars at the foreign currency exchange rates that approximate the rates in effect at the dates when such items are recognized. An appreciating Canadian dollar relative to the U.S. dollar will negatively impact year-over-year changes in reported sales,

operating income and net earnings, while a depreciating Canadian dollar relative to the U.S. dollar will have the opposite impact.

Loblaw is exposed to foreign currency exchange rate variability, primarily on its U.S. dollar denominated cash and cash equivalents, short term investments and security deposits held by Glenhuron, foreign denominated and foreign currency based purchases in trade and other liabilities, and U.S. dollar private placement notes included in long term debt. Loblaw and Glenhuron have cross currency swaps and foreign currency forward contracts that partially offset their respective exposure to fluctuations in foreign currency exchange rates (see note 29).

Commodity Price Risk Weston Foods costs are directly impacted by fluctuations in the prices of commodity-linked raw materials such as wheat flours, sugars, vegetable oils, cocoa powders and chocolate. Loblaw is also exposed to fluctuations in the commodity prices as a result of the indirect link between commodities and the cost of consumer products. In addition, both Weston Foods and Loblaw are exposed to increases in the prices of energy in operating, in the case of Weston Foods, its bakeries and distribution networks, and, in the case of Loblaw, its stores and distribution networks. Both Weston Foods and Loblaw use purchase commitments and derivative instruments in the form of futures contracts, option contracts and forward contracts to manage their current and anticipated exposure to fluctuations in commodity prices. The Company estimates that based on the outstanding derivative contracts held by the Company at the end of 2012, a 10% decrease in relevant commodity prices, with all other variables held constant, would result in a net loss of $7 in earnings before income taxes. This amount excludes the offsetting impact of the commodity price risk inherent in the transactions being hedged.

Interest Rate Risk The Company is exposed to interest rate risk from fluctuations in interest rates on its floating rate debt and financial instruments, net of cash and cash equivalents, short term investments and security deposits. GWL and Loblaw manage interest rate risk by monitoring their respective mix of fixed and floating rate debt, net of cash and cash equivalents, short term investments and security deposits, and by taking action as necessary to maintain an appropriate balance considering current market conditions. The Company estimates that a 100 basis point increase in short term interest rates, with all other variables held constant, would result in a decrease of $29 in net interest expense and other financing charges.

Common Share Price Risk GWL and Loblaw are exposed to common share market price risk as a result of the issuance of stock options to certain employees to the extent that the equivalent shares are repurchased by GWL and Loblaw on exercise, RSUs and PSUs. RSUs and PSUs negatively impact operating income when the common share prices increase and positively impact operating income when the common share prices decline. GWL and Glenhuron are parties to equity derivative contracts, which allow for settlement in cash, common shares or net settlement. These derivatives change in value as the market prices of the GWL and Loblaw common shares change and provide a partial offset to fluctuations in RSU and PSU plan expense or income. The impact on the equity derivatives of a one dollar decrease in the market value in the underlying common shares, with all other variables held constant, would result in a loss of $2 in earnings before income taxes.

In addition, the obligation of WHL under the equity forward sale agreement based on 9.6 million Loblaw common shares, which matures in 2031, is secured by the underlying Loblaw common shares. If the market value of the underlying Loblaw common shares exceeds the obligation of WHL under this forward, a portion of the proceeds from a future sale of these shares may be used to satisfy the obligation under this forward contract upon termination or maturity. At maturity, if the forward price is greater (less) than the market price of the Loblaw common shares, WHL will receive (pay) cash equal to the difference between the notional value and the market value of the forward contract. A one dollar decrease in the market value of the underlying shares of the equity forward, with all other variables held constant, would result in a loss of $10 in net interest expense and other financing charges.

Liquidity and Capital Availability Risk

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

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

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

Maturity Analysis The following are the undiscounted contractual maturities of significant financial liabilities as at December 31, 2012:

	2013	2014	2015	2016	2017	Thereafter[6]	Total
Interest rate swaps payable[1]	$ 6						$ 6
Equity swap and forward contracts[2]	148						148
Long term debt including fixed interest payments[3]	1,014	$ 1,472	$ 808	$ 1,021	$ 301	$ 6,899	11,515
Foreign exchange forward contracts	78						78
Short term debt[4]	1,319						1,319
Other liabilities[5]		35		4			39
	$ 2,565	$ 1,507	$ 808	$ 1,025	$ 301	$ 6,899	$ 13,105

(1) Based on the payment of fixed interest which will be partially offset by the floating interest received.
(2) Based on the average cost base as at December 31, 2012.
(3) Based on the maturing face values and annual interest for each instrument, including GICs, long term independent securitization trusts and an independent funding trust, as well as annual payment obligations for SPEs, mortgages and finance lease obligations.
(4) See note 18 for a breakdown of the components of short term debt.
(5) Contractual amount of Loblaw's obligation related to certain other liabilities.
(6) Loblaw capital securities and their related dividends have been excluded as Loblaw is not contractually obligated to pay these amounts. The Company also excluded bank indebtedness, trade payables and other liabilities, which are due within the next 12 months.

Note 31. Contingencies

The Company is involved in, and potentially subject to, various claims and matters arising out of the normal course and conduct of its business including, but not limited to, product liability, labour and employment, regulatory and environmental claims. Although such matters cannot be predicted with certainty, management currently considers the Company's exposure to such claims and litigation, to the extent not covered by the Company's insurance policies or otherwise provided for, not to be material to the consolidated financial statements, except for Income and Other Taxes as disclosed below.

Legal Proceedings

In 2007, pursuant to a transaction whereby Domtar was combined with the fine paper business of Weyerhaeuser Inc., Domtar common shares were exchanged for an equal number of either exchangeable shares of Domtar (Canada) Paper Inc. or common shares of New Domtar. The Company elected to receive exchangeable shares of Domtar (Canada) Paper Inc. in exchange for its Domtar common shares. The Share Purchase Agreement governing the June 1998 sale by GWL of E.B. Eddy Paper, Inc. to Domtar (the “SPA”) contains a price adjustment clause. The SPA provides, subject to certain limited exceptions, that if any person subsequently

acquired more than 50% of the outstanding voting shares of Domtar, the price adjustment clause applies. GWL believes that a price adjustment in the amount of $110 is payable to it by Domtar and it has demanded payment of such amount from Domtar. Domtar's position is that the purchase price adjustment does not apply because of the application of an exception contained in the SPA. GWL has commenced an action against Domtar for $110. The parties have exchanged legal pleadings.

The Company is the subject of various legal proceedings and claims that arise in the ordinary course of business. The outcome of all of these proceedings and claims is uncertain. However, based on information currently available, these proceedings and claims, individually and in the aggregate, are not expected to have a material impact on the Company.

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

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

Indemnification Provisions
The Company from time to time enters into agreements in the normal course of its business, such as service and outsourcing arrangements and leases, and in connection with business or asset acquisitions or dispositions. These agreements by their nature may provide for indemnification of counterparties. These indemnification provisions may be in connection with breaches of representation and warranty or with future claims for certain liabilities, including liabilities related to tax and environmental matters. The terms of these indemnification provisions vary in duration and may extend for an unlimited period of time. Given the nature of such indemnification provisions, the Company is unable to reasonably estimate its total maximum potential liability as certain indemnification provisions do not provide for a maximum potential amount and the amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. Historically, the Company has not made any significant payments in connection with these indemnification provisions.

Note 32. Financial Guarantees

The Company establishes letters of credit used in connection with certain obligations mainly related to real estate transactions, benefit programs, purchase orders and performance guarantees. The aggregate gross potential liability related to these letters of credit, not including the standby letters of credit for the benefit of the independent funding trusts and independent securitization trusts described below, is approximately $441 (2011 – $411). Letters of credit related to the financing program for Loblaw's independent franchisees and securitization of PC Bank's credit card receivables have been identified as guarantees and are described further below.

Independent Funding Trusts
The full balance relating to the debt of the independent funding trusts has been consolidated on the balance sheets of the Company as at year end 2012 and 2011. Loblaw has agreed to provide credit enhancement of $48 (2011 – $48) in the form of a standby letter of credit for the benefit of the independent funding trusts

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

Independent Securitization Trusts
Letters of credit for the benefit of other independent securitization trusts with respect to the securitization programs of PC Bank have been issued by major financial institutions. These standby letters of credit could be drawn upon in the event of a major decline in the income flow from or in the value of the securitized credit card receivables. Loblaw has agreed to reimburse the issuing banks for any amount drawn on the standby letters of credit. The aggregate gross potential liability under these arrangements, which represented 9% (2011 – 9%) on a portion of the securitized credit card receivables amount, was approximately $81 (2011 – $81) (see note 18). The undrawn commitments on the independent securitization trusts as at year end 2012 was $120 (2011 – $120).

Lease Obligations
In connection with historical dispositions of certain of its assets, Loblaw has assigned leases to third parties. Loblaw remains contingently liable for these lease obligations in the event any of the assignees are in default of their lease obligations. The estimated amount for minimum rent, which does not include other lease related expenses such as property tax and common area maintenance charges, was in aggregate of $13 (2011 – $14). Additionally, Loblaw has guaranteed lease obligations of a third-party distributor in the amount of $19 (2011 – $17).

PC Bank
Loblaw has provided a guarantee on behalf of PC Bank to MasterCard® International Incorporated in the amount of U.S. $230 (2011 – U.S. $180) for accepting PC Bank as a card member and licensee of MasterCard®.

Note 33. Related Party Transactions

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

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

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

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

Post-Employment Benefit Plans
The Company sponsors a number of post-employment plans, which are related parties. Contributions made by the Company to these plans are disclosed in note 25.

Income Tax Matters

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

Compensation of Key Management Personnel

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

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

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

Note 34. Subsequent Event

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

Note 35. Segment Information

The Company has two reportable operating segments: Weston Foods and Loblaw. The accounting policies of the reportable operating segments are the same as those described in the Company's summary of significant accounting policies (see note 2). The Company measures each reportable operating segment's performance based on adjusted EBITDA[1] and adjusted operating income[1]. Neither reportable operating segment is reliant on any single external customer.

	2012	2011
Revenue		
Weston Foods	**$ 1,765**	$ 1,772
Loblaw	**31,604**	31,250
Intersegment	**(627)**	(646)
Consolidated	**$ 32,742**	$ 32,376
Adjusted EBITDA[1]		
Weston Foods	**$ 334**	$ 325
Loblaw	**2,065**	2,134
Total	**$ 2,399**	$ 2,459
Depreciation and Amortization[2]		
Weston Foods	**$ 59**	$ 60
Loblaw	**777**	699
Total	**$ 836**	$ 759
Adjusted Operating Income[1]		
Weston Foods	**$ 275**	$ 265
Loblaw	**1,288**	1,435
Impact of certain items[3]	**(147)**	(116)
Other[4]	**(24)**	25
Consolidated operating income	**$ 1,392**	$ 1,609

(1) Excludes certain items and is used internally by management when analyzing segment underlying operating performance.
(2) Excludes accelerated depreciation of $4 (2011 – $3) incurred by Weston Foods, included in restructuring and other charges.
(3) The impact of certain items excluded by management includes restructuring and other charges, the fair value adjustment of commodity derivatives at Weston Foods, share-based compensation net of equity derivatives, the MEPP withdrawal liability incurred by Weston Foods, the post-retirement plan change at Weston Foods, Weston Foods insurance proceeds, certain prior years' commodity tax matters at Loblaw, and the gain on sale of a portion of a Loblaw property.
(4) Operating income for the year included a loss of $24 (2011 – gain of $25) related to the effect of foreign currency translation on a portion of the U.S. dollar denominated cash and short term investments held by foreign operations.

	As at	
	Dec. 31, 2012	Dec. 31, 2011
Total Assets		
Weston Foods	**$ 1,979**	$ 1,875
Loblaw	**18,121**	17,588
Other[1]	**1,704**	1,860
Consolidated	**$ 21,804**	$ 21,323

(1) Other includes cash and cash equivalents and short term investments held by foreign operations that have the same functional currency as that of the Company.

	2012	2011
Additions to Fixed Assets and Goodwill and Intangible Assets		
Weston Foods	**$ 93**	$ 39
Loblaw	**1,060**	1,001
Consolidated	**$ 1,153**	$ 1,040

The Company operates primarily in Canada and the United States.

	2012	2011
Revenue (excluding intersegment)		
Canada	**$ 31,992**	$ 31,653
United States	**750**	723
Consolidated	**$ 32,742**	$ 32,376

	As at	
	Dec. 31, 2012	Dec. 31, 2011
Fixed Assets and Goodwill and Intangible Assets		
Canada	**$ 10,616**	$ 10,331
United States	**407**	396
Consolidated	**$ 11,023**	$ 10,727