Management's Discussion and Analysis

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

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

1. FORWARD-LOOKING STATEMENTS

This Annual Report, including this MD&A, contains forward-looking statements about the Company's objectives, plans, goals, aspirations, strategies, financial condition, results of operations, cash flows, performance, prospects and opportunities. Specific statements with respect to anticipated future results are included in Section 18, "Outlook" and future plans are included in Section 3, "Vision" and Section 4, "Operating and Financial Strategies". Forward-looking statements are typically identified by words such as "expect", "anticipate", "believe", "foresee", "could", "estimate", "goal", "intend", "plan", "seek", "strive", "will", "may" and "should" and similar expressions, as they relate to the Company and its management.

Forward-looking statements reflect the Company's current estimates, beliefs and assumptions, which are based on management's perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances. The Company's expectation of operating and financial performance in 2013 is based on certain assumptions including assumptions about revenue growth, anticipated cost savings and operating efficiencies, no unanticipated changes in the effective income tax rates, no unexpected adverse events or costs related to Loblaw Companies Limited's ("Loblaw") investments in information technology ("IT") and supply chain, and no significant unanticipated increase in the price of commodities and other input costs at Weston Foods that it will not be able to offset. The Company's estimates, beliefs and assumptions are inherently subject to significant business, economic, competitive and other uncertainties and contingencies regarding future events and as such, are subject to change. The Company can give no assurance that such estimates, beliefs and assumptions will prove to be correct.

Numerous risks and uncertainties could cause the Company's actual results to differ materially from the estimates, beliefs and assumptions expressed or implied in the forward-looking statements, including, but not limited to:

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

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

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

2. OVERVIEW

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

3. VISION

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

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

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

4. OPERATING AND FINANCIAL STRATEGIES

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

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

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

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

Weston Foods' long term operating strategies include:

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

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

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

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

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

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

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

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

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

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

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

5. KEY FINANCIAL PERFORMANCE INDICATORS

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

Key Financial Performance Indicators(2)

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

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

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

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

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

6. OVERALL FINANCIAL PERFORMANCE

6.1 CONSOLIDATED RESULTS OF OPERATIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

Sales

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

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

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

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

Operating Income

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

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

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

- Positively by 0.6% due to an increase of 3.8% in adjusted operating income[1] at Weston Foods. Adjusted operating income[1] was positively impacted by the benefits realized from productivity improvements and other cost reduction initiatives and higher pricing in key product categories. These benefits were partially offset by lower sales volumes and higher commodity and other input costs.

- Negatively by 8.6% due to a decrease of 10.2% in adjusted operating income[1] at Loblaw. The decrease in adjusted operating income[1] was mainly attributable to an increase in labour and other operating costs, incremental costs related to investments in IT and supply chain[2], fixed asset impairment charges net of recoveries and a slight decline in gross profit, partially offset by higher operating income from its Financial Services segment. Incremental investments in Loblaw's customer proposition that were not covered by operations were comprised of $20 million in price and $15 million in shrink, both of which impacted the slight decline in gross profit, and $20 million in labour. Included in 2011 operating income were start up costs associated with the launch of Loblaw's *Joe Fresh* brand in the United States.

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

Net Interest Expense and Other Financing Charges

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

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

Income Taxes

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

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

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

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

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

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

6.2 SELECTED ANNUAL INFORMATION

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

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

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

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

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

In 2012, Weston Foods sales and volumes were negatively impacted by the loss of certain distributed products. Excluding this loss, sales in 2012 were positively impacted by foreign currency translation and pricing across key product categories, partially offset by a decline in volumes. Weston Foods sales and volumes in 2011 and in the second half of 2010 were positively impacted by the acquisitions of Keystone and ACE. Excluding these acquisitions, 2011 sales were positively impacted by higher pricing across key product categories, partially offset by the negative impact of foreign currency translation and lower sales volumes compared to 2010.

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

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

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

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

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

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

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

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

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

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

7. RESULTS OF REPORTABLE OPERATING SEGMENTS

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

7.1 WESTON FOODS OPERATING RESULTS

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

Sales

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

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

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

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

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

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

Operating Income

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

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

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

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

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

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

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

7.2 LOBLAW OPERATING RESULTS

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

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

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

Sales

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

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

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

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

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

Operating Income

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

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

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

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

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

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

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

8. LIQUIDITY AND CAPITAL RESOURCES

8.1 MAJOR CASH FLOW COMPONENTS

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

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

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

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

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

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

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

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

Cash Flows used in Financing Activities

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

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

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

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

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

Free Cash Flow[(1)]

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

Defined Benefit Pension Plan Contributions

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

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

8.2 SOURCES OF LIQUIDITY

Adjusted Debt[1] to Adjusted EBITDA[1]

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Independent Funding Trusts

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

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

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

8.3 CAPITAL STRUCTURE

Outstanding Share Capital and Capital Securities

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

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

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

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

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

Dividends

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

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

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

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

Normal Course Issuer Bid ("NCIB") Programs

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

8.4 FINANCIAL DERIVATIVE INSTRUMENTS

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

Cross Currency Swaps

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

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

Interest Rate Swaps

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

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

Equity Derivative Contracts

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

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

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

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

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

8.5 CONTRACTUAL OBLIGATIONS

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

Summary of Contractual Obligations

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

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

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

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

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

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

8.6 OFF-BALANCE SHEET ARRANGEMENTS

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

Letters of Credit

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

Guarantees

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

9. OTHER BUSINESS MATTERS

IT and Other Systems Implementation

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

Real Estate Investment Trust

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

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

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

Pension and Post-Retirement Benefit Plan Changes

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

10. QUARTERLY RESULTS OF OPERATIONS

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

10.1 QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

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

Results by Quarter

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

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

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

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

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

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

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

10.2 FOURTH QUARTER RESULTS (UNAUDITED)

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

Selected Consolidated Information

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

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

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

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

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

Sales

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

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

- Negatively by 0.1% due to the sales decline of 2.7% at Weston Foods. The loss of certain frozen distributed products negatively impacted sales growth and volume by approximately 2.3% and 1.0%, respectively, and foreign currency translation negatively impacted sales growth by approximately 1.3%. Excluding these impacts, sales increased 0.9% due to the positive impact of pricing and changes in sales mix across certain product categories of 1.9%, partially offset by a decrease in volume of 1.0%.

- Positively by 1.2% due to the sales growth of 1.2% at Loblaw. Same-store sales were flat (2011 – growth of 2.5%), with an extra day of store operations having a positive impact on 2011 same-store sales estimated to be between 0.8% and 1.0%. Sales growth in both food and drugstore were modest, sales growth in gas bar was moderate, sales in general merchandise, excluding apparel, declined moderately and sales in apparel were flat. Loblaw's average quarterly internal food price index was flat during the fourth quarter of 2012 (2011 – moderate inflation), which was lower than the average quarterly national food price inflation of 1.5% (2011 – 5.2%) as measured by CPI. In the last 12 months, Loblaw opened 18 corporate and franchise stores and closed 11 corporate and franchise stores, resulting in a net increase of 0.3 million square feet, or 0.6%. Loblaw sales in the fourth quarter of 2012 were also positively impacted by an increase in Financial Services segment revenue.

Operating Income

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

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

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

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

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

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

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

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

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

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

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

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

Reportable Operating Segments

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

WESTON FOODS

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

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

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

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

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

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

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

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

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

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

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

LOBLAW

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

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

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

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

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

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

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

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

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

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

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

Liquidity and Capital Resources

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

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

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

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

During the fourth quarter of 2012, GWL and Loblaw completed the following financing activities:
- GWL issued $10 million of Series B Debentures;
- GWL issued 34,030 common shares on the exercise of stock options for cash consideration of $2 million;
- GWL purchased for cancellation 4,297 common shares for a nominal amount;
- Loblaw issued 474,747 common shares on the exercise of stock options for cash consideration of $15 million;
- Loblaw purchased for cancellation 246,228 common shares for $10 million;
- PC Bank issued $61 million of GICs; and
- PC Bank repaid $2 million in GICs.

During the fourth quarter of 2011, GWL and Loblaw completed the following financing activities:
- GWL issued $350 million of unsecured 3.78% MTN, Series 2-A;
- GWL repaid $300 million of 6.45% MTN;
- GWL issued $10 million of Series B Debentures;
- GWL issued 1,881 common shares on the exercise of stock options for cash consideration of a nominal amount;
- GWL purchased for cancellation 887,515 common shares for $60 million;
- Loblaw issued 54,908 common shares on the exercise of stock options for cash consideration of $2 million;
- Loblaw purchased for cancellation 415,719 common shares for $17 million;
- PC Bank issued $3 million of GICs; and
- PC Bank repaid $2 million in GICs.

Free Cash Flow(1)

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

11. DISCLOSURE CONTROLS AND PROCEDURES

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

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

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

12. INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

Changes in Internal Control over Financial Reporting

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

13. ENTERPRISE RISKS AND RISK MANAGEMENT

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

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

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

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

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

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

13.1 OPERATING RISKS AND RISK MANAGEMENT

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

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

Systems Implementations

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

Execution of Strategic Initiatives

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

Information Integrity and Reliability

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

Availability, Access and Security of Information Technology

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

Change Management and Process Execution

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

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

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

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

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

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

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

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

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

Disaster Recovery and Business Continuity

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

Real Estate Investment Trust Initial Public Offering

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

Employee Retention and Succession Planning

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

Labour Relations

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

Regulatory and Tax

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

13.2 FINANCIAL RISKS AND RISK MANAGEMENT

Financial Risks

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

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

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

Foreign Currency Exchange Rates

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

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

Credit

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

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

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

Interest Rates

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

Common Share Prices

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

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

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

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

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

14. RELATED PARTY TRANSACTIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

16. ACCOUNTING STANDARDS IMPLEMENTED IN 2012

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

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

17. FUTURE ACCOUNTING STANDARDS

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

Consolidated Financial Statements

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

Disclosure of Interests in Other Entities

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

Fair Value Measurement

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

Employee Benefits

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

Consolidated Statement of Earnings

Increase (decrease)

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

Consolidated Statement of Comprehensive Income

Increase (decrease)

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

Consolidated Balance Sheet

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

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

Other Standards

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

Financial Instruments

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

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

18. OUTLOOK(2)

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

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

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

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

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

19. NON-GAAP FINANCIAL MEASURES

The Company uses the following non-GAAP financial measures: adjusted operating income and adjusted operating margin, adjusted EBITDA and adjusted EBITDA margin, adjusted basic net earnings per common share, adjusted debt to adjusted EBITDA, free cash flow, interest coverage and return on average net assets. The Company believes these non-GAAP financial measures provide useful information to both management and investors in measuring the financial performance and financial condition of the Company for the reasons outlined below.

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

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

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

Adjusted Operating Income and Adjusted EBITDA

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

Management's Discussion and Analysis

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Adjusted Basic Net Earnings per Common Share

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

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

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

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

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

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

Adjusted Debt

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

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

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

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

Free Cash Flow

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

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

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

Interest Coverage

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

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

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

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

Net Assets

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

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

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

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

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

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

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

20. ADDITIONAL INFORMATION

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

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

Toronto, Canada

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