2009 Annual Report

George Weston Limited

Weston

2009 Annual Report

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

Financial Highlights

CONSOLIDATED INFORMATION – CONTINUING OPERATIONS[1,2]

Years ended December 31[3] ($ millions except where otherwise indicated)	2009	2008
Operating Results		
Sales	**31,820**	32,088
EBITDA[4]	**1,654**	1,808
Operating income	**1,009**	1,198
Interest expense and other financing charges	**363**	360
Net earnings from continuing operations	**127**	647
Cash Flow		
Cash flows from operating activities of continuing operations	**1,987**	956
Capital investment	**1,107**	807
Per Common Share ($)		
Basic net earnings from continuing operations	**0.64**	4.65
Basic net earnings	**7.68**	6.10
Financial Ratios		
EBITDA margin[4]	**5.2%**	5.6%
Operating margin	**3.2%**	3.7%
Return on average net assets[4]	**9.3%**	11.2%
Return on average common shareholders' equity	**1.5%**	13.4%
Net debt[4]	**299**	3,251
Net debt[4] to EBITDA[4]	**0.18x**	1.80x
Net debt[4] to equity[4]	**0.04**	0.53
Reportable Operating Segments		
Weston Foods		
Sales	**1,686**	2,197
Operating income	**123**	154
Operating margin	**7.3%**	7.0%
Return on average net assets[4]	**19.2%**	22.6%
Loblaw		
Sales	**30,735**	30,802
Operating income	**1,197**	1,044
Operating margin	**3.9%**	3.4%
Return on average net assets[4]	**11.8%**	10.4%

(1) For financial definitions and ratios refer to the Glossary beginning on page 114.
(2) Certain 2008 information has been restated to conform with the new Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064, "Goodwill and Intangible Assets". See note 2 to the consolidated financial statements.
(3) 2008 was a 53-week year.
(4) See non-GAAP financial measures beginning on page 51.

Report to Shareholders[1]

2009 was a successful year for George Weston Limited, with positive results generated in both operating segments, Loblaw Companies Limited and Weston Foods. Loblaw continued to make good progress on its key transformational priorities. 2009 was also an exciting and historic year for Weston Foods with the sale of the fresh bread and baked goods business in the United States resulting in a significant gain for the Company. This transaction, together with the sale of the dairy and bottling operations in the fourth quarter of 2008, positions the Company to take advantage of opportunities to drive shareholder value.

Basic net earnings per common share for 2009 were $7.68 compared to $6.10 in 2008. Basic net earnings per common share from continuing operations were $0.64 compared to $4.65 in 2008. Sales decreased 0.8% to $31.8 billion from $32.1 billion in 2008. Each of these reported measures was impacted by the sale of the dairy and bottling operations in 2008, foreign exchange losses and a number of other notable items.

The Weston Foods operating segment achieved strong financial results from its continuing operations despite soft sales in a challenging market. Weston Foods reported sales for 2009 decreased 23.3% compared to the same period in 2008. After taking into account the impact of the sale of the dairy and bottling operations, the additional week of operating results in 2008 and foreign currency translation, sales were relatively flat. Strong product innovation contributed positively to branded sales in 2009, with the introduction of new products such as *Gadoua MultiGo*, *Country Harvest Vitality*, *D'Italiano Thintini* and the recently launched *Wonder Invisibles*. These introductions were well received by consumers.

Weston Foods operating income in 2009 decreased 20.1% to $123 million from $154 million in 2008, again influenced by the sale of the dairy and bottling operations, a non-cash goodwill impairment charge and a number of other notable items. After taking into account these items, operating income in 2009 was strong compared to 2008. The benefits realized from cost and productivity improvements, lower input and fuel costs and the combined effect of price increases implemented in 2008 and changes in sales mix contributed to positive earnings growth for the Weston Foods segment. Operating margin for 2009 was 7.3% compared to 7.0% in 2008.

(1) To be read in conjunction with Forward-Looking Statements on page 5 of this Annual Report.

Weston Foods continues to evaluate strategic and cost reduction initiatives related to its manufacturing assets and distribution networks with the objective of ensuring a low cost operating structure. Initiatives are in place to help drive best practices, which are expected to result in the continued improvement of processes as well as lower costs.

As disclosed in the Loblaw Companies Limited Annual Report, Loblaw sales for 2009 were $30.7 billion compared to $30.8 billion for 2008, representing a decrease of 0.2%. Same-store sales declined 1.1%. Sales and same-store sales were negatively impacted by 1.8% due to the extra selling week in 2008. In 2009, Loblaw continued to progress in its turnaround efforts, focusing on food offering enhancements, product innovation, store renovations, infrastructure improvements and increasing customer value. Operating income for 2009 was $1,197 million compared to $1,044 million in 2008, resulting in an increase in operating margin to 3.9% in 2009 from 3.4% in 2008.

With the divestitures of the dairy business in 2008 and the U.S. fresh bakery business in January 2009, George Weston Limited has strategically well positioned companies with leading market positions in food retail and baking in Canada, U.S. frozen baking and biscuit manufacturing businesses and a significant amount of cash. The remaining Weston Foods operating businesses are expected to deliver satisfactory operating performance in 2010. To help offset economic pressures, the Company is continuing its efforts to reduce costs through improved efficiencies and productivity, and grow sales by optimizing product mix and product innovation to meet changing consumer buying preferences. Loblaw continues to expect sales and margins to be challenged by deflation and increased competitive intensity as it enters 2010. Loblaw plans to step up its investment in information technology and supply chain which will negatively impact operating income in 2010.

On behalf of the Board of Directors and shareholders, I thank our loyal customers for their support and our more than 143,000 employees for their dedication and continued commitment to the Company.

[*signed*]
W. Galen Weston
Chairman and President

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

1. FORWARD-LOOKING STATEMENTS

This Annual Report, including this MD&A, contains forward-looking statements about the Company's objectives, plans, goals, aspirations, strategies, financial condition, results of operations, cash flows, performance, prospects and opportunities. Words such as "anticipate", "expect", "believe", "foresee", "could", "estimate", "goal", "intend", "plan", "seek", "strive", "will", "may" and "should" and similar expressions, as they relate to the Company and its management, are intended to identify forward-looking statements. These forward-looking statements are not historical facts but reflect the Company's current expectations concerning future results and events.

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

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

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

These and other risks and uncertainties are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including the Enterprise Risks and Risk Management section of this MD&A. These forward-looking statements contained herein and in particular in the Report to Shareholders and MD&A reflect management's current assumptions regarding these risks and uncertainties and their respective impact on the Company.

Other risks and uncertainties not presently known to the Company or that the Company presently believes are not material could also cause actual results or events to differ materially from those expressed in its forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect the Company's expectations only as of the date of this MD&A. The Company disclaims any intention or obligation to update or revise these forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

2. OVERVIEW

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

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

3. VISION

The Company vision has been, and continues to be, centred on three main principles: growth, innovation and flexibility. The Company seeks long term, stable growth in its operating segments, while accepting prudent operating risks through continuous capital investment supported by a strong balance sheet with the goal of providing sustainable returns to its shareholders over the long term through a combination of common share price appreciation and dividends.

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

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

4. OPERATING AND FINANCIAL STRATEGIES

To be successful in achieving its vision, the Company employs various operating and financial strategies. The Company engages in strategic acquisitions and dispositions when it is in the best long term interests of its shareholders to do so. As a result of the recent dispositions, the Company holds significant cash and short term investments and is continuing to assess opportunities for the deployment of these funds.

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

Weston Foods' mission is to be recognized by its customers as providing the best bakery solutions in North America.

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

Weston Foods' long term operating strategies include:

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

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

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

While Loblaw achieved many of its goals in 2009, consistent execution remains Loblaw's focus in order to drive sustainable performance. In 2010, Loblaw intends to intensify its investments in infrastructure and condense its project timelines while keeping a vigilant watch on cost control and cash management. Entering into 2010, Loblaw continues to expect a challenging economic environment and heightened competitive intensity. With significant investments in supply chain and information technology, Loblaw remains committed to strategically balance trading for today while building for tomorrow by:

- continuing to invest in and execute its information technology strategy through the rollout of subsequent Enterprise Resource Planning ("ERP") and supply chain functionality releases;
- improving in-store, distribution centre, and store support centre processes in an effort to make the business simpler and more efficient;
- continuing its store upgrade program that will roll out the food renewal and customer service enhancement programs;
- continuing to innovate its control label offering while enhancing profitability; and
- focusing on in-store customer service and providing unmatched value.

The Company's financial strategies include:

- maintain a strong balance sheet;
- minimize the risks and costs of operating and financing activities; and
- maintain liquidity and access to capital markets.

The success of these and other plans and strategies discussed in this MD&A may be affected by risks and uncertainties, including those described in the Enterprise Risks and Risk Management section of this MD&A, beginning on page 35.

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

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

5. KEY PERFORMANCE INDICATORS

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

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

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

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

6. OVERALL FINANCIAL PERFORMANCE

6.1 BUSINESS DEVELOPMENTS

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

Sale of U.S. Fresh Bakery Business

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

Sale of Dairy and Bottling Operations

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

6.2 CONSOLIDATED RESULTS OF OPERATIONS

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

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

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

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

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

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

The Company's consolidated financial statements are expressed in Canadian dollars, however a portion of the Company's (excluding Loblaw's) net assets are denominated in U.S. dollars through both its net investment in self-sustaining foreign operations in the United States ("U.S. net investment"), and its investment in integrated foreign subsidiaries through Dunedin and certain of its affiliates. The U.S. dollar denominated net assets are translated into Canadian dollars at the foreign currency exchange rate in effect at the balance sheet date.

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

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

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

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

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

Some of Loblaw's key accomplishments in 2009 include:

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

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

Sales

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

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

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

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

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

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

Operating Income

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

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

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

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

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

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

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

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

The year-over-year change in the following items influenced operating income and operating margin for 2008 compared to 2007:

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

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

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

Gain on Disposal of Business

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

Interest Expense and Other Financing Charges

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

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

The increase was mainly due to:

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

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

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

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

The increase was mainly due to:

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

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

Income Taxes

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

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

Net Earnings from Continuing Operations

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

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

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

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

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

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

Discontinued Operations

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

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

Net Earnings

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

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

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

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

6.3 CONSOLIDATED FINANCIAL CONDITION

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

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

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

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

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

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

Financial Ratios

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

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

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

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

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

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

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

Outstanding Share Capital and Capital Securities

GWL's outstanding share capital is comprised of common shares and preferred shares. The following table details the authorized and outstanding common shares and preferred shares:

	Authorized	Outstanding
Common shares	Unlimited	129,073,662
Preferred shares – Series I	10,000,000	9,400,000
– Series II[1]	10,600,000	
– Series III	10,000,000	8,000,000
– Series IV	8,000,000	8,000,000
– Series V	8,000,000	8,000,000

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

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

GWL may, at its option, redeem for cash, in whole or in part, the preferred shares Series I, Series III, Series IV and Series V outstanding preferred shares on or after the redemption dates specified by the terms of each series of preferred shares. GWL may at any time after issuance give the holders of these preferred shares the right, at the option of the holder, to convert the holder's preferred shares into preferred shares of a further series designated by GWL on a share-for-share basis on a date specified by GWL. Further information on GWL's outstanding share capital is provided in note 22 to the consolidated financial statements.

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

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

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

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

Dividends

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

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

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

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

7. RESULTS OF REPORTABLE OPERATING SEGMENTS

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

7.1 WESTON FOODS OPERATING RESULTS FROM CONTINUING OPERATIONS

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

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

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

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

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

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

Sales

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

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

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

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

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

Operating Income

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

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

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

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

Weston Foods is exposed to commodity price fluctuations primarily as a result of purchases of certain raw materials, fuels and utilities. In accordance with the Company's risk management strategy, Weston Foods enters into commodity derivatives to reduce the impact of price fluctuations in forecasted raw material purchases over a specified period of time. These commodity derivatives are not acquired for trading or speculative purposes. Certain of these derivatives are not designated for financial reporting purposes as cash flow hedges of anticipated future raw material purchases, and accordingly hedge accounting does not apply. As a result, changes in the fair value of these derivatives, which include realized and unrealized gains and losses related to future purchases of raw materials, are recorded in operating income. Weston Foods recorded income of $24 million (2008 – charge of $46 million) related to the fair value adjustment of exchange traded commodity derivatives that were not designated within a hedging relationship. Despite the impact of accounting for these commodity derivatives on the Company's reported results, the derivatives have the economic impact of largely mitigating the associated risks arising from price fluctuations in the underlying commodities.

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

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

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

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

Weston Foods continuously evaluates strategic and cost reduction initiatives related to its manufacturing assets, distribution networks and administrative infrastructure with the objective of ensuring a low cost operating structure, and restructuring activities related to these initiatives are ongoing. In 2009, a charge of $9 million (2008 – $6 million) was recognized in operating income related to these restructuring activities.

Outlook[2]
Weston Foods expects to deliver satisfactory operating performance in 2010. To help offset economic pressures, the Company is continuing its efforts to reduce costs through improved efficiencies and productivity and grow sales by optimizing product mix and product innovation to meet changing consumer buying preferences.

7.2 LOBLAW OPERATING RESULTS

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

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

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

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

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

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

Operating Income

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

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

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

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

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

Outlook[2]

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

8. LIQUIDITY AND CAPITAL RESOURCES

8.1 MAJOR CASH FLOW COMPONENTS

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

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

Cash Flows from Operating Activities of Continuing Operations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Net Debt (excluding Exchangeable Debentures)[1]

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

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

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

8.2 SOURCES OF LIQUIDITY

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

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

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

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

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

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

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

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

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

Loblaw expects that cash and cash equivalents, short term investments, future operating cash flows and the amounts available to be drawn against its credit facility will enable Loblaw to finance its capital investment program and fund its ongoing business requirements, including working capital, pension plan funding and financial obligations over the next twelve months. In addition, given reasonable access to capital markets, Loblaw does not foresee any impediments in securing financing to satisfy its long term obligations.

The Company (excluding Loblaw) expects that cash and cash equivalents, short term investments and future operating cash flows will enable it to finance its capital investment program and fund its ongoing business requirements, including working capital and pension plan funding over the next twelve months. The Company (excluding Loblaw) does not foresee any impediments in satisfying its long term obligations.

During 2009, Dominion Bond Rating Service ("DBRS") revised the trend on Loblaw's long term credit ratings to "Stable" from "Negative" and Standard & Poor's ("S&P") revised the outlook to "Stable" from "Negative". The following table sets out the current credit ratings of Loblaw.

	Dominion Bond Rating Service		Standard & Poor's	
Credit Ratings (Canadian Standards)	Credit Rating	Trend	Credit Rating	Outlook
Commercial paper	R-2 (middle)	Stable	A-2	Stable
Medium term notes	BBB	Stable	BBB	Stable
Preferred shares	Pfd-3	Stable	P-3 (high)	Stable
Other notes and debentures	BBB	Stable	BBB	Stable

The rating organizations listed above base their credit ratings on quantitative and qualitative considerations. These credit ratings are forward-looking and intended to give an indication of the risk that Loblaw will not fulfill its obligations in a timely manner.

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

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

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

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

	Dominion Bond Rating Service		Standard & Poor's	
Credit Ratings (Canadian Standards)	Credit Rating	Trend	Credit Rating	Outlook
Commercial paper	R-2 (high)	Stable	A-2	Stable
Medium term notes	BBB	Stable	BBB	Stable
Preferred shares	Pfd-3	Stable	P-3 (high)	Stable
Other notes and debentures	BBB	Stable	BBB	Stable

The rating organizations listed above base their credit ratings on quantitative and qualitative considerations. These credit ratings are forward-looking and intended to give an indication of the risk that GWL will not fulfill its obligations in a timely manner.

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

Independent Funding Trust

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

The gross principal amount of loans issued to Loblaw's independent franchisees outstanding at the end of 2009 was $390 million (2008 – $388 million), including $163 million (2008 – $152 million) of loans payable by VIEs consolidated by the Company. Loblaw has agreed to provide credit enhancement in the form of a standby letter of credit for the benefit of the independent funding trust of not less than 15% (2008 – 15%) of the principal amount of the loans outstanding at any time. As at the end of the year, $66 million (2008 – $66 million) was outstanding as a standby letter of credit. The standby letter of credit has never been drawn upon. This credit enhancement allows the independent funding trust to provide financing to Loblaw's independent franchisees. As well, each independent franchisee provides security to the independent funding trust for its obligations by way of a general security agreement. In the event that an independent franchisee defaults on its loan and Loblaw has not, within a specified time period, assumed the loan, or the default is not otherwise remedied, the independent funding trust would assign the loan to Loblaw and draw upon this standby letter of credit.

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

Equity Derivative Contracts

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

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

8.3 CONTRACTUAL OBLIGATIONS

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

Summary of Contractual Obligations

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

(1) Long term debt includes capital lease obligations.

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

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

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

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

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

8.4 OFF-BALANCE SHEET ARRANGEMENTS

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

Standby Letters of Credit

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

Guarantees

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

Securitization of Credit Card Receivables

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

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

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

Independent Funding Trust

Certain independent franchisees of Loblaw obtain financing through a structure involving independent trusts, which were created to provide loans to the independent franchisees to facilitate their purchase of inventory and fixed assets, consisting mainly of fixtures and equipment. Further disclosure regarding this arrangement is provided in Section 8.2, "Independent Funding Trust" and in note 29 to the consolidated financial statements.

9. QUARTERLY RESULTS OF OPERATIONS

Under an accounting convention common in the food distribution industry the Company follows a 52-week reporting cycle which periodically necessitates a fiscal year of 53 weeks. 2008 was a 53-week year. The 52-week reporting cycle is divided into four quarters of 12 weeks each except for the third quarter, which is 16 weeks in duration. The following is a summary of selected consolidated financial information derived from the Company's unaudited interim consolidated financial statements for each of the eight most recently completed quarters. This information was prepared in accordance with Canadian GAAP.

9.1 QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

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

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

Results by Quarter

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

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

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

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

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

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

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

9.2 FOURTH QUARTER RESULTS (UNAUDITED)

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

Selected Consolidated Information

(unaudited)

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

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

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

Sales

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

Operating Income

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

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

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

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

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

Gain on Disposal of Business

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

Interest Expense and Other Financing Charges

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

Income Taxes

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

Net Earnings from Continuing Operations

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

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

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

Discontinued Operations

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

Net Earnings

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

Reportable Operating Segments

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

WESTON FOODS

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

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

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

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

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

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

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

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

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

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

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

LOBLAW

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

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

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

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

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

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

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

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

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

Liquidity and Capital Resources

Cash flows from operating activities of continuing operations

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

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

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

Cash flows used in financing activities of continuing operations

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

10. DISCLOSURE CONTROLS AND PROCEDURES

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

As required by National Instrument 52-109 (Certification of Disclosure in Issuers' Annual and Interim Filings), the Chairman and President and the Chief Financial Officer have caused to be evaluated under their supervision the effectiveness of such disclosure controls and procedures. Based on that evaluation, they have concluded that the design and operation of the system of disclosure controls and procedures were effective as at December 31, 2009.

11. INTERNAL CONTROL OVER FINANCIAL REPORTING

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

As required by National Instrument 52-109 (Certification of Disclosure in Issuers' Annual and Interim Filings), the Chairman and President and the Chief Financial Officer have caused to be evaluated under their supervision the effectiveness of such internal controls over financial reporting using the framework established in "Internal Control – Integrated Framework (COSO Framework) published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)". Based on that evaluation, they have concluded that the design and operation of the Company's internal controls over financial reporting were effective as at December 31, 2009.

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

Changes in Internal Control over Financial Reporting

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

12. ENTERPRISE RISKS AND RISK MANAGEMENT

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

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

- promote a cultural awareness of risk management and compliance within the Company;
- facilitate corporate governance by providing a consolidated view of risks across the Company and insight into the identification, assessment, measurement and monitoring of the risks;
- ensure that resources are acquired economically, used efficiently and adequately protected; and
- allow the Company to focus on its key risks in the business planning process and optimize financial performance through responsible risk management.

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

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

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

12.1 OPERATING RISKS AND RISK MANAGEMENT

Strategic

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

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

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

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

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

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

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

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

Competitive Environment

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

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

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

Loblaw's competitors include traditional supermarket operators, as well as mass merchandisers, warehouse clubs, drugstores, limited assortment stores, discount stores, convenience stores and specialty stores. Many of these competitors now offer a selection of food, drugstore and general merchandise. Others remain focused on supermarket-type merchandise.

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

Food Safety and Public Health

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

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

Employee Attraction, Development and Retention

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

Distribution and Supply Chain

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

Labour Relations

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

Merchandising and Excess Inventory

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

Vendor Management and Business Partnership

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

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

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

President's Choice Financial banking services are provided by a major Canadian chartered bank. PC Bank uses third-party service providers to process credit card transactions, operate call centres and operationalize certain risk management strategies for the *President's Choice Financial* MasterCard®. To minimize operating risk, PC Bank and Loblaw actively manage and monitor their relationships with all third-party service providers. PC Bank has developed a vendor management policy, approved by its Board of Directors, and has established a vendor management team that provides its Board of Directors with regular reports on vendor management and risk assessment.

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

Business Continuity

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

Trademark and Brand Protection

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

Commodity Prices

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

Tax and Regulatory

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

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

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

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

Franchise and Independent Business Relationships

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

Environmental, Health and Safety

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

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

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

Despite these efforts, adverse environmental, health and safety events could negatively affect the Company's reputation and financial performance. In addition, in recent years, provincial and municipal governments have introduced legislation that imposes liabilities on retailers, brand owners and importers for costs associated with recycling and disposal of consumer goods packaging and printed materials distributed to consumers. This is a growing trend and the Company expects to be subject to increased costs associated with these laws.

Employee Future Benefit Contributions

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

Multi-Employer Pension Plans

In addition to the Company-sponsored pension plans, the Company participates in various multi-employer pension plans, providing pension benefits in which approximately 38% (2008 – 39%) of employees of the Company and of its independent franchisees participate. The administration of these plans and the investment of their assets are legally controlled by boards of independent trustees generally consisting of an equal number of union and employer representatives. In some circumstances, the Company may have a representative on the board of trustees of these multi-employer pension plans. The Company's responsibility to make contributions to these plans is limited by the amounts established pursuant to its collective agreements; however, poor performance of these plans could have an adverse impact on the Company's employees and former employees who are members of these plans. Pension cost for these plans is recognized as contributions are due.

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

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

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

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

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

12.2 FINANCIAL RISKS AND RISK MANAGEMENT

Foreign Currency Exchange Rate
The Company's consolidated financial statements are expressed in Canadian dollars, however a portion of the Company's (excluding Loblaw's) net assets are denominated in U.S. dollars through both its net investment in self-sustaining foreign operations in the United States, and its investment in integrated foreign subsidiaries through Dunedin and certain of its affiliates. The U.S. dollar denominated net assets are translated into Canadian dollars at the foreign currency exchange rate in effect at the balance sheet date. As a result, the Company is exposed to exchange rate gains and losses. Prior to the sale of the U.S. fresh bakery business, all of the Company's (excluding Loblaw's) U.S. dollar denominated net assets were held in self-sustaining foreign operations. Exchange rate gains and losses due to the translation of these self-sustaining foreign operations' net assets were recorded in accumulated other comprehensive loss. After the sale of the U.S. fresh bakery business in 2009, Dunedin and certain of its affiliates became integrated foreign subsidiaries for accounting purposes. As a result, gains and losses arising from the translation of the U.S. dollar denominated assets of these integrated foreign subsidiaries are included in operating income. In addition, revenues and expenses of these integrated and self-sustaining foreign operations are translated into Canadian dollars at the foreign currency exchange rates that approximate the rates in effect at the dates when such items are recognized. An appreciating Canadian dollar relative to the U.S. dollar will negatively impact year-over-year changes in reported sales, operating income and net earnings, while a depreciating Canadian dollar relative to the U.S. dollar will have the opposite impact.

Loblaw is exposed to foreign currency exchange rate variability, primarily on U.S. dollar denominated cash and cash equivalents, short term investments and security deposits held by Glenhuron, foreign denominated and foreign currency based purchases in accounts payable and accrued liabilities, and U.S. dollar private placement notes included in long term debt. Loblaw and Glenhuron have cross currency swaps that partially offset their respective exposure to fluctuations in foreign currency exchange rates. Cross currency swaps are transactions in which interest payments and principal amounts in one currency are exchanged against the receipt of interest payments and principal amounts in a second currency.

Credit

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

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

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

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

Credit risk from PC Bank's credit card receivables, receivables from Weston Foods' customers and suppliers and Loblaw's independent franchisees, associated stores and independent accounts results from the possibility that customers may default on their payment obligations. PC Bank manages the credit card receivable risk by employing stringent credit scoring techniques, actively monitoring the credit card portfolio and reviewing techniques and technology that can improve the effectiveness of the collection process. In addition, these receivables are dispersed among a large, diversified group of credit card customers.

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

Commodity Price

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

Interest Rate

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

Common Share Market Price

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

employee stock options, these equity derivatives provide a partial offset only to the RSU plan expense. The amount of net stock-based compensation cost recorded in operating income is mainly dependent upon the number of unexercised stock options and RSUs, their vesting schedules relative to the number of respective underlying common shares on the equity derivatives and the level of fluctuations in the market price of the respective underlying common shares.

Changes in the Loblaw common share price impact the Company's interest and other financing charges. In 2001, Weston Holdings Limited ("WHL") entered into an equity forward sale agreement based on 9.6 million Loblaw common shares at an original forward price of $48.50 per Loblaw common share which, under the terms of the agreement, had increased to a forward price of $80.28 (2008 – $76.52) per Loblaw common share as at December 31, 2009. The forward matures in 2031 and will be settled in cash as follows: WHL will receive the forward price and will pay the market value of the underlying Loblaw common shares at maturity. The obligation of WHL under this forward is secured by the underlying Loblaw common shares. WHL recognizes a non-cash charge or income, which is included in consolidated interest expense and other financing charges, representing the fair value adjustment of WHL's forward sale agreement for 9.6 million shares. The fair value adjustment in the forward contract is a non-cash item resulting from fluctuations in the market price of the underlying Loblaw shares that WHL owns. WHL does not record any change in the market price associated with the Loblaw shares it owns. At maturity, if the forward price is greater than the market price, WHL will receive a cash amount equal to the difference. If the forward price is less than the market price, WHL will pay a cash amount equal to the difference. Any cash paid under the forward contract could be offset by the sale of Loblaw shares.

Liquidity and Capital Availability

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

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

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

Derivative Instruments

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

13. RELATED PARTY TRANSACTIONS

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

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

14. CRITICAL ACCOUNTING ESTIMATES

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

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

Inventories

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

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

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

Fixed Assets

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

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

Employee Future Benefits

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

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

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

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

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

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

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

Goodwill and Intangible Assets

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

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

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

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

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

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

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

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

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

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

15. ACCOUNTING STANDARDS IMPLEMENTED IN 2009

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

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

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

16. FUTURE ACCOUNTING STANDARDS

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

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

BUSINESS COMBINATIONS

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

MULTIPLE DELIVERABLE REVENUE ARRANGEMENTS

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

INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Project Structure and Status

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

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

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

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

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

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

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

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

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

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

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

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

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

Changes in Accounting Policies

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

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

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

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

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

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

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

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

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

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

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

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

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

First-Time Adoption of IFRS

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

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

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

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

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

17. OUTLOOK[1]

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

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

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

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

18. NON-GAAP FINANCIAL MEASURES

The Company uses the following non-GAAP financial measures: EBITDA and EBITDA margin, net debt, net debt to equity, net debt to EBITDA and return on average net assets. The Company believes these non-GAAP financial measures provide useful information to both management and investors in measuring the financial performance and financial condition of the Company for the reasons outlined below. These measures do not have a standardized meaning prescribed by Canadian GAAP and therefore they may not be comparable to similarly titled measures presented by other publicly traded companies, and they should not be construed as an alternative to other financial measures determined in accordance with Canadian GAAP.

EBITDA and EBITDA margin

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

EBITDA margin is calculated as EBITDA divided by sales.

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

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

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

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

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

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

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

Net Debt

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

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

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

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

Net Assets

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

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

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

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

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

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

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

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

Equity

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

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

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

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

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

19. ADDITIONAL INFORMATION

The following table provides additional financial information.

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

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

This Annual Report includes selected information on Loblaw Companies Limited, a 62.5%-owned public reporting company with shares trading on the Toronto Stock Exchange. For information regarding Loblaw, readers should also refer to the materials filed by Loblaw with the Canadian securities regulatory authorities from time to time.

Toronto, Canada

March 22, 2010

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Management's Statement of Responsibility for Financial Reporting

The management of George Weston Limited is responsible for the preparation, presentation and integrity of the accompanying consolidated financial statements, Management's Discussion and Analysis and all other information in the Annual Report. This responsibility includes the selection and consistent application of appropriate accounting principles and methods in addition to making the judgments and estimates necessary to prepare the consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). It also includes ensuring that the financial information presented elsewhere in the Annual Report is consistent with that in the consolidated financial statements.

Management is also responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. Internal auditors, who are employees of the Company, review and evaluate internal controls on management's behalf. KPMG LLP, whose report follows, were appointed as independent auditors by a vote of the Company's shareholders to audit the consolidated financial statements.

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

[*signed*]
W. Galen Weston
Chairman and President

[*signed*]
Robert G. Vaux
Chief Financial Officer

Toronto, Canada
March 22, 2010

Independent Auditors' Report

To the Shareholders of George Weston Limited:
We have audited the consolidated balance sheets of George Weston Limited as at December 31, 2009 and 2008, the consolidated statements of earnings, changes in shareholders' equity and comprehensive income and the consolidated cash flow statements for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Toronto, Canada
March 22, 2010

Chartered Accountants, Licensed Public Accountants

Consolidated Statements of Earnings

For the years ended December 31 ($ millions except where otherwise indicated)	2009	2008[1]
Sales	$ 31,820	$ 32,088
Operating Expenses		
Cost of inventories sold (note 12)	24,006	24,569
Selling, administrative and other expenses	6,131	5,755
Depreciation and amortization	601	566
Goodwill impairment (note 14)	73	
	30,811	30,890
Operating Income	1,009	1,198
Gain on disposal of business (note 4)		335
	1,009	1,533
Interest Expense and Other Financing Charges (note 6)	363	360
Earnings from Continuing Operations Before the Following:	646	1,173
Income Taxes (note 7)	259	304
	387	869
Minority Interest	260	222
Net Earnings from Continuing Operations	127	647
Discontinued Operations (note 5)	908	187
Net Earnings	$ 1,035	$ 834
Net Earnings per Common Share – Basic ($)		
Continuing Operations (note 8)	$ 0.64	$ 4.65
Discontinued Operations	$ 7.04	$ 1.45
Net Earnings	$ 7.68	$ 6.10
Net Earnings per Common Share – Diluted ($)		
Continuing Operations (note 8)	$ 0.63	$ 4.65
Discontinued Operations	$ 7.04	$ 1.45
Net Earnings	$ 7.67	$ 6.10

(1) Restated – see note 2 to the consolidated financial statements.

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

For the years ended December 31 ($ millions except where otherwise indicated)	2009	2008[1]
Share Capital		
Preferred Shares	$ 817	$ 817
Common Shares	133	133
Total Share Capital, Beginning and End of Year (note 22)	$ 950	$ 950
Retained Earnings, Beginning of Year	$ 5,282	$ 4,699
Cumulative impact of implementing new accounting standards (note 2)	(4)	(19)
Net earnings	1,035	834
Dividends declared		
Per common share ($) – $1.44 (2008 – $1.44)	(186)	(186)
Per preferred share ($) – Series I – $1.45 (2008 – $1.45)	(13)	(13)
– Series II – $0.32 (2008 – $1.29) (note 21)		(3)
– Series III – $1.30 (2008 – $1.30)	(10)	(10)
– Series IV – $1.30 (2008 – $1.30)	(10)	(10)
– Series V – $1.19 (2008 – $1.19)	(10)	(10)
Retained Earnings, End of Year	$ 6,084	$ 5,282
Accumulated Other Comprehensive Loss, Beginning of Year	$ (322)	$ (999)
Cumulative impact of implementing new accounting standards (note 2)	(1)	
Other comprehensive income	231	677
Accumulated Other Comprehensive Loss, End of Year (note 25)	$ (92)	$ (322)
Total Shareholders' Equity	$ 6,942	$ 5,910

(1) Restated – see note 2 to the consolidated financial statements.

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income

For the years ended December 31 ($ millions)	2009	2008[1]
Net earnings	$ 1,035	$ 834
Other comprehensive income, net of income taxes and minority interest		
Foreign currency translation adjustment	35	677
Reclassification of cumulative foreign currency translation loss to net earnings	196	
	231	677
Net unrealized (loss) gain on available-for-sale financial assets	(14)	25
Reclassification of loss (gain) on available-for-sale financial assets to net earnings	1	(13)
	(13)	12
Net gain on derivatives designated as cash flow hedges	4	4
Reclassification of loss (gain) on derivatives designated as cash flow hedges to net earnings	9	(16)
	13	(12)
Other comprehensive income (note 25)	231	677
Total Comprehensive Income	$ 1,266	$ 1,511

(1) Restated – see note 2 to the consolidated financial statements.

See accompanying notes to the consolidated financial statements.

Consolidated Balance Sheets

As at December 31 ($ millions)	2009	2008[1]
ASSETS		
Current Assets		
Cash and cash equivalents (note 9)	**$ 3,368**	$ 1,446
Short term investments	**1,538**	694
Accounts receivable (notes 10 & 11)	**851**	958
Inventories (note 12)	**2,210**	2,307
Future income taxes (note 7)	**87**	69
Prepaid expenses and other assets	**56**	75
Current assets of operations held for sale (note 5)		2,588
Total Current Assets	**8,110**	8,137
Fixed Assets (note 13)	**9,020**	8,542
Goodwill and Intangible Assets (note 14)	**1,296**	1,145
Future Income Taxes (note 7)	**61**	36
Other Assets (note 15)	**1,656**	1,703
Total Assets	**$ 20,143**	$ 19,563
LIABILITIES		
Current Liabilities		
Bank indebtedness	**$ 2**	$ 93
Accounts payable and accrued liabilities	**3,579**	3,121
Income taxes	**78**	38
Short term debt (notes 17 & 18)	**300**	453
Long term debt due within one year (note 18)	**343**	415
Capital securities (note 21)		264
Current liabilities of operations held for sale (note 5)		620
Total Current Liabilities	**4,302**	5,004
Long Term Debt (note 18)	**5,377**	5,308
Future Income Taxes (note 7)	**269**	273
Other Liabilities (note 19)	**654**	615
Capital Securities (note 21)	**220**	219
Minority Interest	**2,379**	2,234
Total Liabilities	**13,201**	13,653
SHAREHOLDERS' EQUITY		
Share Capital (note 22)	**950**	950
Retained Earnings	**6,084**	5,282
Accumulated Other Comprehensive Loss (note 25)	**(92)**	(322)
Total Shareholders' Equity	**6,942**	5,910
Total Liabilities and Shareholders' Equity	**$ 20,143**	$ 19,563

(1) Restated – see note 2 to the consolidated financial statements.

Contingencies, commitments and guarantees (note 29). Leases (note 20).

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board

[*signed*]
W. Galen Weston
Director

[*signed*]
A. Charles Baillie
Director

Consolidated Cash Flow Statements

For the years ended December 31 ($ millions)	2009	2008[1]
Operating Activities		
Net earnings from continuing operations before minority interest	**$ 387**	$ 869
Gain on disposal of business (note 4)		(335)
Depreciation and amortization	**645**	610
Goodwill impairment (note 14)	**73**	
Foreign exchange losses (note 32)	**311**	
Loss on redemption of debt (notes 6 & 18)	**49**	
Settlement of equity forward contracts (note 26)	**(55)**	
Future income taxes	**(79)**	(14)
Fair value adjustment of Weston Holdings Limited's forward sale agreement (note 6)	**(13)**	11
Change in non-cash working capital	**675**	(177)
Other	**(6)**	(8)
Cash Flows from Operating Activities of Continuing Operations	**1,987**	956
Investing Activities		
Fixed asset purchases	**(1,011)**	(807)
Short term investments	**(949)**	(114)
Proceeds from fixed asset sales	**27**	125
Purchase of subsidiary interests (note 3)	**(35)**	
Business acquisitions – net of cash acquired (note 3)	**(204)**	(10)
Proceeds from business disposition (note 4)		467
Domtar investment (note 15)		144
Credit card receivables, after securitization (note 10)	**8**	82
Franchise investments and other receivables	**6**	(37)
Security deposits and other	**108**	(46)
Cash Flows used in Investing Activities of Continuing Operations	**(2,050)**	(196)
Financing Activities		
Bank indebtedness	**(95)**	58
Short term debt (notes 17 & 18)	**(153)**	(406)
Long term debt (note 18) – Issued	**402**	301
– Retired	**(490)**	(561)
Capital securities (note 21) – Issued		218
– Retired	**(265)**	
Cancellation of subsidiary share capital (note 3)	**(21)**	
Dividends – To common shareholders	**(139)**	(232)
– To preferred shareholders	**(36)**	(55)
– To minority shareholders	**(70)**	(110)
Cash Flows used in Financing Activities of Continuing Operations	**(867)**	(787)
Effect of Foreign Currency Exchange Rate Changes on Cash and Cash Equivalents (note 9)	**(165)**	233
Cash Flows (used in) from Continuing Operations	**(1,095)**	206
Cash Flows from Discontinued Operations (note 5)	**3,017**	188
Change in Cash and Cash Equivalents	**1,922**	394
Cash and Cash Equivalents, Beginning of Year	**1,446**	1,052
Cash and Cash Equivalents, End of Year (note 9)	**$ 3,368**	$ 1,446

(1) Restated – see note 2 to the consolidated financial statements.

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

December 31, 2009
($ millions except where otherwise indicated)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are reported in Canadian dollars.

Basis of Consolidation

The consolidated financial statements include the accounts of George Weston Limited ("GWL") and its subsidiaries (collectively the "Company") with provision for minority interest. The Company's interest in the voting share capital of its subsidiaries is 100% except for Loblaw Companies Limited ("Loblaw"), which is 62.5% (2008 – 61.9%). In addition, the Company consolidates variable interest entities ("VIEs") pursuant to the Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline 15, "Consolidation of Variable Interest Entities" ("AcG 15"), that are subject to control by Loblaw on a basis other than through ownership of a majority of voting interest. AcG 15 defines a variable interest entity as an entity that either does not have sufficient equity at risk to finance its activities without subordinated financial support or where the holders of the equity at risk lack the characteristics of a controlling financial interest. AcG 15 requires the primary beneficiary to consolidate VIEs and considers an entity to be the primary beneficiary of a VIE if it holds variable interests that expose it to a majority of the VIEs' expected losses or that entitle it to receive a majority of the VIEs' expected residual returns or both. The Company has two reportable operating segments: Weston Foods and Loblaw.

Fiscal Year

The Company's year end is December 31. Activities are reported on a fiscal year ending on the Saturday closest to December 31. As a result, the Company's fiscal year is usually 52 weeks in duration but includes a 53rd week every five to six years. The years ended December 31, 2009 and December 31, 2008 contained 52 weeks and 53 weeks, respectively.

Revenue Recognition

Weston Foods recognizes sales upon delivery of its products to customers and acceptance of its products by customers net of provisions for returns, discounts and allowances. Loblaw sales include revenues, net of estimated returns, from customers through corporate stores operated by Loblaw and independent franchisee stores that are consolidated by Loblaw pursuant to AcG 15. In addition, sales include sales to and service fees from associated stores and independent account customers and franchised stores excluding VIE stores net of sales incentives offered by Loblaw. Loblaw recognizes revenue at the time the sale is made to its customers.

Net Earnings per Common Share

Basic net earnings per common share is calculated by dividing the net earnings available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted net earnings per common share is calculated using the treasury stock method and the if converted method. The treasury stock method assumes that all outstanding stock options with an exercise price below the average market price during the year are exercised and the assumed proceeds are used to purchase the Company's common shares at the average market price during the year. Under the if converted method, diluted net earnings per common share also takes into consideration the dilutive effect of the conversion options on the Loblaw capital securities and a component of Loblaw's other liabilities, which are assumed to be converted using the market share price at the end of the year.

Cash and Cash Equivalents and Bank Indebtedness

Cash equivalents consist of highly liquid marketable investments with a maturity of 90 days or less. Cash equivalents are either designated as held-for-trading financial assets or classified as available-for-sale financial assets and the carrying value approximates the fair value of these instruments (see note 9 for more information).

Short Term Investments

Short term investments consist primarily of government treasury bills and treasury notes, government-sponsored debt securities, corporate commercial paper and bank term deposits. Short term investments are either designated as held-for-trading financial assets or classified as available-for-sale financial assets and the carrying value approximates the fair value of these instruments.

Security Deposits

Security deposits consist primarily of government treasury bills and government-sponsored debt securities, and are included in other assets for balance sheet presentation purposes. Security deposits are either designated as held-for-trading financial assets or classified as available-for-sale financial assets and the carrying value approximates the fair value of these instruments.

Credit Card Receivables

The Company, through President's Choice Bank ("PC Bank"), a wholly owned subsidiary of Loblaw, has credit card receivables that are stated net of an allowance for credit losses. Any credit card receivable with a payment that is contractually 180 days in arrears, or where the likelihood of collection is considered remote, is written off. Interest income on credit card receivables is recorded on an accrual basis and is recognized in operating income.

Allowance for Credit Losses

PC Bank maintains an allowance for probable credit losses on aggregate exposures for which losses cannot be determined on an item-by-item basis. The allowance is based upon a statistical analysis of past and current performance, the level of allowance already in place and management's judgment. The allowance for credit losses is deducted from the credit card receivables balance. The net credit loss experience for the year is recognized in operating income.

Securitization

PC Bank securitizes credit card receivables through the sale of a portion of the total interest in certain receivables to independent trusts. These trusts are either not controlled by PC Bank or are qualifying special purpose entities. The credit card receivables are removed from the consolidated balance sheet when PC Bank has surrendered control and are considered sold for accounting purposes pursuant to Accounting Guideline 12, "Transfers of Receivables". When PC Bank sells credit card receivables in a securitization transaction, it retains servicing responsibilities, certain administrative responsibilities and the rights to future cash flows after obligations to investors have been met. Although PC Bank remains responsible for servicing all credit card receivables, it does not receive additional compensation for servicing those credit card receivables and accordingly a servicing liability is recorded. The servicing liability is recorded at fair value upon initial recognition. In the absence of quoted market rates for servicing securitized assets, fees payable to a replacement servicer, in the event that a replacement servicer was to be appointed, formed the basis of determination of fair value of the servicing liability. Gains or losses on the securitization of the receivables depends, in part, on the previous carrying amount of receivables involved in the transfer, allocated between the assets sold and retained interest, based on their relative fair values at the date of transfer. The fair value of the retained interest is determined as the best estimate of the net present value of expected future cash flows using management's best estimates of key assumptions such as net yield, monthly payment rates, weighted average life, expected annual credit losses and discount rates. Any gain or loss on a sale is recognized in operating income at the time of the securitization. Retained interest is designated as held-for-trading financial assets and is recorded at fair value on the consolidated balance sheet.

Vendor Allowances

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

Inventories

The Company values inventories at the lower of cost and net realizable value. Costs include the costs of purchases net of vendor allowances plus other costs, such as transportation, that are directly incurred to bring inventories to their present location and condition. Loblaw's seasonal general merchandise, Loblaw's inventories at the distribution centres and Weston Foods inventories are measured at weighted average cost. Loblaw uses the retail method to measure the cost of certain retail store inventories. Loblaw estimates net realizable value as the amount that inventories are expected to be sold taking into consideration fluctuations in retail prices due to seasonality less estimated costs necessary to make the sale. Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage or declining selling prices. When circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in selling prices, the amount of the write-down previously recorded is reversed. Storage costs, indirect administrative overhead and certain selling costs related to inventories are expensed in the period that these costs are incurred. See note 12 for more information.

Fixed Assets

Fixed assets are recorded at cost including capitalized interest. Depreciation commences when the assets are put into use and is recognized on a straight-line basis to depreciate the cost of these assets over their estimated useful lives. Estimated useful lives range from 10 to 40 years for buildings, up to 10 years for building improvements and from 3 to 16 years for equipment and fixtures. Leasehold improvements are depreciated over the lesser of the lease term and their estimated useful lives and may include renewal options when an improvement is made after inception of the lease, to a maximum of 25 years, which approximates economic life. Equipment under capital leases is depreciated over the term of the lease.

Fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value exceeds the sum of the undiscounted future cash flows expected from their use and eventual disposal. These events or changes in circumstances include a commitment to retire or transfer manufacturing assets for Weston Foods and to close a Loblaw store or distribution centre or to relocate or convert a Loblaw store. Fixed assets are also reviewed for impairment annually. For purposes of annually reviewing assets for impairment, asset groups are reviewed at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. Therefore, Weston Foods manufacturing asset net cash flows are grouped together by major production categories, where cash flows are largely dependent on each other. Loblaw's store net cash flows are grouped together by primary market areas, where cash flows are largely dependent on each other. Primary markets are regional areas where a number of store formats operate within close proximity to one another. If an indicator of impairment exists, such as sustained negative operating cash flows of the respective asset group, then an estimate of undiscounted future cash flows of each such major production category for Weston Foods, or each such store for Loblaw, within this group is prepared and compared to its carrying value. For purposes of annually reviewing Loblaw's distribution centre assets for impairment, distribution centre net cash flows are grouped with the respective net cash flows of the stores they service. An impairment in the Loblaw store network serviced by the distribution centre may indicate an impairment in the distribution centre assets as well. If Weston Foods or Loblaw's assets are determined to be impaired, the impairment loss is measured as the excess of the carrying value over fair value. In addition, the carrying value of fixed assets is evaluated whenever events or changes in circumstances indicate that the carrying value of fixed assets may not be recoverable. For Loblaw, these events or changes in circumstances include a commitment to close a store or distribution centre or to relocate or convert a store where the carrying value of its assets is greater than the expected undiscounted future cash flows.

Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price of a business acquired over the fair value of the underlying net assets acquired at the date of acquisition. Other intangible assets are recorded at fair value at the date of acquisition. Goodwill is not amortized and is assessed for impairment at the reporting unit level at least annually. Any potential goodwill impairment is identified by comparing the fair value of a reporting unit to its carrying value. If the fair value of the reporting unit exceeds its carrying value, goodwill is considered not to be impaired. If the carrying value of the reporting unit exceeds its fair value, a more detailed goodwill impairment assessment must be undertaken. A goodwill impairment charge is recognized to the extent that, at the reporting unit level, the carrying value of goodwill exceeds the implied fair value.

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

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

The Company determines the fair values of its trademarks and brand names by using the "Relief from Royalty Method", a discounted cash flow model. The process of determining the fair values requires management to make assumptions of a long term nature regarding projected future sales, terminal growth rates, royalty rates and discount rates. Projected future sales are consistent with strategic plans presented to GWL's and Loblaw's Boards of Directors and discount rates are based on an industry after-tax cost of equity. These estimates and assumptions may change in the future due to uncertain competitive and economic market conditions or changes in business strategies. Intangible assets with a finite life are amortized over their estimated useful lives, ranging from 10 to 30 years.

Any impairment in the carrying value of goodwill or intangible assets is recognized in operating income. Additional disclosure regarding the results of the annual goodwill impairment test is provided in note 14.

Foreign Currency Translation

Self-Sustaining Foreign Operations

Assets and liabilities of self-sustaining foreign operations denominated in foreign currencies are translated into Canadian dollars at the foreign currency exchange rate in effect at the balance sheet date. The resulting exchange gains or losses on translation are recognized as part of shareholders' equity in accumulated other comprehensive loss. When there is a reduction in the Company's net investment in self-sustaining foreign operations, the proportionate amount of accumulated other comprehensive loss is recognized in net earnings. Revenues and expenses denominated in foreign currencies 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.

Other

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the foreign currency exchange rate in effect at the balance sheet date. Exchange gains or losses arising from the translation of these balances denominated in foreign currencies are recognized in operating income, except for items which are designated in a cash flow hedge and are deferred in accumulated other comprehensive loss and reclassified to net earnings when realized. Revenues and expenses denominated in foreign currencies 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.

Financial Instruments

Financial instruments are classified into a defined category, namely, held-for-trading financial assets or financial liabilities, held-to-maturity investments, loans and receivables, available-for-sale financial assets, or other financial liabilities. Financial instruments are included on the Company's balance sheet and measured at fair value, except for loans and receivables, held-to-maturity financial assets and other financial liabilities which are measured at cost or amortized cost. Financial assets and financial liabilities have been initially remeasured as at January 1, 2009 to take into account the appropriate credit risk and counterparty credit risk (see note 2). Gains and losses on held-for-trading financial assets and financial liabilities are recognized in net earnings in the period in which they arise. Unrealized gains and losses, including those related to changes in foreign exchange rates on available-for-sale financial assets, are recognized in accumulated other comprehensive loss until the financial asset is derecognized or determined to be impaired, at which time any unrealized gains or losses are recorded in net earnings. Transaction costs other than those related to financial instruments classified as held-for-trading, which are expensed as incurred, are amortized using the effective interest method.

The following classifications have been applied:

- Cash and cash equivalents, short term investments and security deposits are designated as held-for-trading with the exception of certain Loblaw U.S. dollar denominated cash equivalents, short term investments and security deposits designated in a cash flow hedging relationship, which are classified as available-for-sale financial assets.
- Accounts receivable and other receivables are classified as loans and receivables.
- Investments in equity instruments are classified as available-for-sale, with the exception of GWL's investment in exchangeable shares of Domtar (Canada) Paper Inc. prior to its sale in 2008, which was designated as held-for-trading.
- Bank indebtedness, accounts payable and certain accrued liabilities, short term debt, long term debt, capital lease obligations, certain other liabilities and capital securities have been classified as other financial liabilities.
- Certain accrued liabilities are classified as held-for-trading.
- GWL's Exchangeable Debentures, which prior to their redemption in 2008 could have been exchanged for common shares of Domtar Corporation, were remeasured at each balance sheet date based on the market price of the underlying shares.

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

Derivative Instruments

Derivative instruments in the form of cross currency swaps, interest rate swaps and equity swaps and forwards partially offset exposure to fluctuations in foreign currency exchange rates, interest rates and the market prices of GWL and Loblaw common shares. Financial and non-financial derivative instruments in the form of futures contracts, option contracts and forward contracts mitigate current and anticipated exposure to fluctuations in commodity prices and foreign currency exchange rates. Policies and guidelines prohibit the use of any derivative instruments for trading or speculative purposes.

All financial derivative instruments are recorded at fair value on the consolidated balance sheet. Derivative instruments have been initially remeasured as at January 1, 2009 to take into account the appropriate credit risk and counterparty credit risk (see note 2). Non-financial derivative instruments, such as certain contracts that are linked to commodity prices, are recorded at fair value on the consolidated balance sheet unless they are exempt from this treatment based upon expected purchase, sale or usage requirements. Embedded derivative instruments are separated from their host contract and recorded on the consolidated balance sheet at fair value. Fair values are based on quoted market prices where available from active markets; otherwise fair values are estimated using valuation methodologies, primarily discounted cash flow analysis (see note 27).

Derivative instruments are recorded in current or non-current assets and liabilities based on their remaining terms to maturity. All changes in fair value of the derivative instruments are recorded in net earnings unless cash flow hedge accounting is applied.

The Company formally identifies, designates and documents the relationships between hedging instruments and hedged items including cross currency swaps and interest rate swaps as cash flow hedges against the exposure to fluctuations in the foreign currency exchange rate and variable interest rates, and certain commodity futures as cash flow hedges against the exposure to commodity price fluctuations (see note 26). The Company assesses whether these derivative instruments continue to be highly effective in offsetting changes in the cash flows of hedged items. If and when a derivative instrument is no longer expected to be highly effective, hedge accounting is discontinued. Hedge ineffectiveness, if any, is included in current period net earnings.

Exchangeable Debentures

Prior to their redemption in 2008, GWL's 3% Exchangeable Debentures were remeasured at each balance sheet date based on the market price of the underlying shares with any change in value recognized in operating income.

Income Taxes

The asset and liability method of accounting is used for income taxes. Under the asset and liability method, future income tax assets and liabilities are recognized for the future income tax consequences attributable to temporary differences between the financial statement carrying values of existing assets and liabilities and their respective income tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in income tax rates is recognized in income tax expense when enacted or substantively enacted. Future income tax assets are evaluated and a valuation allowance, if required, is recorded against any future income tax asset if it is more likely than not that the asset will not be realized.

Employee Future Benefits

The Company sponsors a number of pension plans, including funded defined benefit pension plans, defined contribution pension plans and supplemental unfunded arrangements providing pension benefits in excess of statutory limits. The Company also offers certain employee post-retirement and post-employment benefit plans and a long term disability benefit plan. Post-retirement and post-employment benefit plans are generally not funded, are mainly non-contributory and include health care, life insurance and dental benefits. The Company also contributes to various multi-employer pension plans which provide pension benefits.

Defined Benefit Plans

The cost and accrued benefit plan obligations of the Company's defined benefit pension plans and other benefit plans, including post-retirement, post-employment and long term disability benefits, are based on actuarial valuations. The actuarial valuations for the defined benefit plans are determined using the projected benefit method prorated on service and management's best estimate of the discount rate, the expected long term rate of return on plan assets, the expected growth rate of health care costs, the rate of compensation increase, retirement rates, termination rates and mortality rates. Actuarial valuations are performed using a September 30 measurement date for accounting purposes. Market values used to value benefit plan assets are as at the measurement date and then adjusted for employer contributions made between the measurement date and the fiscal year end.

The discount rate used to value the accrued benefit plan obligation is based on market interest rates as at the measurement date, assuming a portfolio of Corporate AA bonds with terms to maturity that, on average, match the terms of the accrued benefit plan obligations.

Past service costs arising from plan amendments are amortized over the expected average remaining service period of the active employees. The unamortized net actuarial gain or loss that exceeds 10% of the greater of the accrued benefit plan obligation or the fair value of the benefit plan assets at the beginning of the year is amortized over the expected average remaining service period of the active employees for defined benefit pension and post-retirement benefit plans unless the plan covers mostly inactive members, in which case life expectancy is used. The amortization period for the defined benefit pension plans ranges from 8 to 25 years, with a weighted average of 11 years. The amortization period for the post-retirement benefit plans ranges from 7 to 17 years, with a weighted average of 15 years. The unamortized net actuarial gain or loss for post-employment and long term disability benefits is amortized over a period not exceeding three years.

The net accrued benefit plan asset or liability represents the cumulative difference between the cost and the funding contributions and is recorded in other assets and other liabilities.

Defined Contribution and Multi-Employer Pension Plans

The costs of pension benefits for defined contribution pension plans and multi-employer pension plans are expensed as contributions are due.

Stock Option Plan and Share Appreciation Rights

The Company recognizes a compensation cost in operating income and a liability related to employee stock option grants that allow for settlement in shares or in the share appreciation value in cash at the option of the employee and employee share appreciation right grants that will be settled in cash, using the intrinsic value method. Under the intrinsic value method, the stock-based compensation liability is the amount by which the market price of the common shares at the balance sheet date exceeds the exercise price of the stock options. A year-over-year change in the stock-based compensation liability is recognized in operating income on a prescribed vesting basis.

Restricted Share Unit ("RSU") Plan

The Company recognizes a compensation cost in operating income on a prescribed vesting basis for each RSU granted equal to the market value of a GWL or Loblaw common share at the date on which RSUs are awarded to each participant, prorated over the performance period, and adjusts for changes in the market value until the end of the performance period. The cumulative effect of the changes in market value is recognized in operating income in the period of the change.

Director Deferred Share Unit ("DSU") Plan

Members of GWL's and Loblaw's Boards of Directors who are not management may elect annually to receive all or a portion of their annual retainer(s) and fees in the form of DSUs. The DSU compensation liability is accounted for based on the number of units outstanding and the market value of the underlying GWL or Loblaw common share at the balance sheet date. The year-over-year change in the DSU compensation liability is recognized in operating income.

Executive Deferred Share Unit ("EDSU") Plan

Under this plan, executives may elect to defer up to 100% of the Short Term Incentive Plan ("STIP") bonus earned in any year into the EDSU plan, subject to an overall cap of three times the executive's base salary. All EDSUs held by an executive will be paid out in cash by December 15 of the year following the year in which the executive's employment ceases for any reason. An election to participate in the plan in any year must be made before the beginning of the year and is irrevocable. The number of EDSUs granted in respect of any year will be determined by dividing the STIP bonus that is subject to the EDSU plan election by the value of GWL or Loblaw common shares on the date the STIP bonus would otherwise be payable. For this purpose, and for purposes of determining the value of an EDSU upon conversion of the EDSUs into cash, the value of the EDSUs will be calculated by using the weighted average of the trading prices of GWL or Loblaw common shares on the Toronto Stock Exchange for the five trading days prior to the valuation date.

Employee Share Ownership Plan ("ESOP")

GWL and Loblaw maintain ESOPs for their employees, which allow employees to acquire GWL and Loblaw common shares through payroll deductions of up to 5% of their gross regular earnings. GWL and Loblaw contribute an additional 25% of each employee's contribution to their respective plans, which is recognized in operating income as a compensation cost when the contribution is made.

Use of Estimates and Assumptions

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts and disclosures made in the consolidated financial statements and accompanying notes. These estimates and assumptions are based on management's historical experience, best knowledge of current events and conditions, and activities that may be undertaken in the future. Actual results could differ from these estimates.

Certain estimates, such as those related to valuation of inventories, goodwill and intangible assets, income taxes, employee future benefits and impairment of fixed assets, depend upon subjective or complex judgments about matters that may be uncertain, and changes in those estimates could materially impact the consolidated financial statements. Illiquid credit markets, volatile equity, foreign currency and energy markets and declines in consumer spending have combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

Comparative Information

Certain prior year's information was reclassified to conform with the current year's presentation.

Loblaw intangible assets, which were previously presented as other assets on the consolidated balance sheet, are now included in goodwill and intangible assets and totaled $10 (2008 – $11) as at year end 2009.

Future Accounting Standards

Business Combinations

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

Multiple Deliverable Revenue Arrangements

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

2. IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

Accounting Standards Implemented in 2009

Goodwill and Intangible Assets

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

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

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

Financial Instruments – Disclosures

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

Accounting Standards Implemented in 2008

Capital Disclosures and Financial Instruments – Disclosure and Presentation

In 2008, the Company adopted three new disclosure standards: Section 1535, "Capital Disclosures", Section 3862, "Financial Instruments – Disclosures" and Section 3863, "Financial Instruments – Presentation". The adoption of these standards did not have an impact on the Company's results of operations or financial condition.

Inventories

Effective January 1, 2008, the Company implemented Section 3031, "Inventories" ("Section 3031"), issued by the CICA in June 2007, which replaced Section 3030 of the same title.

The transitional adjustments resulting from the implementation of Section 3031 are recognized in 2008 opening retained earnings. Upon implementation of these requirements, a decrease in opening inventories of $67 and a corresponding decrease of $27 to opening retained earnings net of income taxes of $25 and minority interest of $15 were recorded on the consolidated balance sheet resulting mainly from the application by Loblaw of a consistent cost formula for all inventories having a similar nature and use.

3. BUSINESS ACQUISITIONS

Loblaw acquired all of the outstanding common shares of T&T Supermarket Inc. ("T&T") in the third quarter of 2009, for cash consideration of $200, $191 of which was paid on the date of acquisition. Loblaw also assumed a liability of $34 associated with the preferred shares issued by T&T to a vendor prior to the acquisition. The liability will increase with a favourable performance of the T&T business and the increase in the liability will be expensed as incurred. Acquisition costs of $4 were incurred in connection with the acquisition. The acquisition was accounted for using the purchase method of accounting and its results of operations from the date of the acquisition have been included by the Company.

The preferred shares are classified as other liabilities on the consolidated balance sheet as at year end 2009. Redemption or purchase of the preferred shares may take place upon the occurrence of certain events, including the expiry of 5 years from the closing date of the acquisition. The preferred shareholder may increase this period up to a further 5 years if certain conditions are met. The preferred share liability may be satisfied in cash, Loblaw common shares, or a combination thereof, at the option of Loblaw.

The preliminary purchase price allocation, based on Loblaw's assessment of fair value is as follows:

Net assets acquired:		
Inventory	$	39
Other current assets		7
Fixed assets		73
Goodwill		131
Indefinite life intangible assets (trademarks and brand names)		51
Definite life intangible assets		14
Current liabilities		(60)
Other liabilities		(39)
Future income taxes		(16)
Cash consideration	$	200

In connection with the acquisition of T&T, Loblaw also acquired certain net assets for $5.

The goodwill associated with these transactions is not deductible for tax purposes.

In 2009, Loblaw commenced a Dividend Reinvestment Plan ("the DRIP"). Under the terms of the DRIP, eligible holders of common shares may elect to automatically reinvest their regular quarterly dividends in additional common shares of Loblaw without incurring any commissions, service charges or brokerage fees. The Company has elected to participate in the DRIP with respect to approximately 160 million Loblaw common shares owned by the Company. As a result of the common shares issued under the DRIP during 2009, the Company's proportional ownership of Loblaw increased and this change was accounted for as a step acquisition of Loblaw by the Company, resulting in an increase to goodwill of $9 (see note 14).

During the fourth quarter of 2009, Loblaw purchased for cancellation 1.7 million (2008 – nil) of its common shares for $56 (2008 – nil). As a result, the Company's proportionate ownership of Loblaw increased and this change was accounted for as a step acquisition, resulting in an increase to goodwill of $11 (see note 14).

During 2008, Weston Foods purchased a frozen bakery manufacturing facility in Ontario, Canada for cash consideration of $10. The acquisition was accounted for using the purchase method of accounting. The fair value of the net assets acquired consisted of $1 of inventories and $10 of fixed assets, net of current liabilities of $1.

In the normal course of business, Loblaw may acquire from time to time franchisee stores and convert them to corporate stores. In 2009, Loblaw acquired 3 (2008 – 1) franchisee stores for cash consideration of $6 (2008 – $1), resulting in goodwill acquired of $5 (2008 – $1).

4. BUSINESS DISPOSITIONS

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

In 2008, Loblaw disposed of its food service business for proceeds of $36 which resulted in a pre-tax gain of $22 in operating income ($16, net of tax).

5. DISCONTINUED OPERATIONS

On January 21, 2009, Dunedin Holdings S.à r.l. ("Dunedin"), a subsidiary of GWL, sold its fresh bread and baked goods business in the United States ("U.S. fresh bakery business") to Grupo Bimbo, S.A.B. de C.V. for gross and net proceeds of $3,107 (approximately U.S. $2,500, including approximately U.S. $125 for interest bearing assets). The carrying value of the net assets sold was $2,168 including goodwill and intangible assets of $1,421.

As part of the sale transaction and typical of the normal process of selling a business, Dunedin agreed to indemnify Grupo Bimbo in the event of inaccuracies in representations and warranties or if it fails to perform agreements and covenants provided for in the agreement of purchase and sale. The terms of the indemnification provisions vary in duration and may extend for an unlimited period of time. The indemnification provisions could result in future cash outflows and statement of earnings charges. The Company is unable to reasonably estimate its total maximum potential liability as certain indemnification provisions do not provide for a maximum potential amount and the amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time.

The results of discontinued operations presented in the consolidated statements of earnings were as follows:

	2009[(1)]	2008
Sales	**$ 145**	$ 2,422
Operating income	**9**	218
Gain on disposal[(2)]	**939**	
Interest income and other financing charges[(3)]	**(1)**	(10)
Earnings before the following:	**949**	228
Income taxes	**41**	41
Earnings from discontinued operations	**$ 908**	$ 187

(1) Reflects results of the U.S. fresh bakery business up to the date of sale, January 21, 2009, and the gain on disposal.
(2) Net of the reclassification of the cumulative foreign currency translation loss of $110 associated with the U.S. fresh bakery business that was previously reflected in accumulated other comprehensive loss (see note 25).
(3) In calculating earnings from discontinued operations, no general interest expense has been allocated to these operations.

The assets held for sale and related liabilities as at year end 2008 were as follows:

	2008
Current assets of operations held for sale	
Accounts receivable	$ 219
Inventories	40
Prepaid expenses and other assets	211
Fixed assets	618
Goodwill and intangible assets	1,364
Future income taxes	136
	$ 2,588

		2008
Current liabilities of operations held for sale		
Bank indebtedness	$	22
Accounts payable and accrued liabilities		354
Income taxes		52
Future income taxes		2
Other liabilities		190
	$	620

The cash flows from discontinued operations were as follows:

		2009[1]		2008
Cash flows (used in) from operations	**$**	**(105)**	$	247
Cash flows from (used in) investing		**3,107**		(50)
Cash flows from (used in) financing		**15**		(9)
Cash flows from discontinued operations	**$**	**3,017**	$	188

(1) Reflects the proceeds received on the sale and the cash flows of the U.S. fresh bakery business up to the date of sale, January 21, 2009.

6. INTEREST EXPENSE AND OTHER FINANCING CHARGES

		2009		2008
Interest on long term debt	**$**	**371**	$	396
Loss on redemption of debt (note 18)		**49**		
Interest expense on financial derivative instruments (note 26)		**3**		2
Other financing charges[1]		**(33)**		(15)
Net short term interest income (note 9)		**(20)**		(13)
Interest income on security deposits		**(4)**		(12)
Dividends on capital securities		**18**		22
Capitalized to fixed assets		**(21)**		(20)
Interest expense and other financing charges	**$**	**363**	$	360

(1) Other financing charges for 2009 includes non-cash income of $13 (2008 – a non-cash charge of $11) related to the fair value adjustment of Weston Holdings Limited's ("WHL"), a subsidiary of GWL, forward sale agreement for 9.6 million Loblaw common shares, which was entered into during 2001 and matures in 2031. The fair value adjustment of the forward contract is a non-cash item resulting from fluctuations in the market price of the underlying Loblaw common shares that WHL owns. WHL does not record any change in the market price associated with the Loblaw common shares it owns. Any cash paid under the forward contract could be offset by the sale of Loblaw common shares. Also included in other financing charges is forward accretion income of $36 (2008 – $43) net of the forward fee of $16 (2008 – $17) associated with WHL's forward sale agreement.

During 2009, net interest expense of $403 (2008 – $407) was recorded related to the financial assets and financial liabilities not classified as held-for-trading. In addition, $19 (2008 – $37) of income from cash and cash equivalents and short term investments held primarily by Dunedin and certain of its affiliates and Glenhuron Bank Limited ("Glenhuron"), a wholly owned subsidiary of Loblaw, was recognized in net short term interest income.

Interest on debt and dividends on capital securities paid in 2009 was $511 (2008 – $561), and interest received on cash and cash equivalents, short term investments and security deposits in 2009 was $93 (2008 – $167).

7. INCOME TAXES

The effective income tax rate in the consolidated statement of earnings is reported at a rate different than the weighted average basic Canadian federal and provincial statutory income tax rate for the following reasons:

	2009	2008[(1)]
Weighted average basic Canadian federal and provincial statutory income tax rate	**30.4%**	30.9%
Net increase (decrease) resulting from:		
Earnings in jurisdictions taxed at rates different from the Canadian statutory income tax rates	**(1.6)**	(2.8)
Unrecognized benefit of foreign exchange losses and impact of the reversal of the cumulative foreign currency translation loss	**4.4**	
Non-taxable and non-deductible amounts (including capital gains/losses and dividends)	**8.5**	(4.5)
Impact of statutory income tax rate changes on future income tax balances	**(0.2)**	
Impact of resolution of certain income tax matters from a previous year and other	**(1.4)**	2.3
Effective income tax rate applicable to earnings from continuing operations before income taxes and minority interest	**40.1%**	25.9%

(1) Restated – see note 2.

Net income taxes paid in 2009 were $299 (2008 – $133).

The cumulative effects of changes in Canadian federal and certain provincial statutory income tax rates on future income tax assets and liabilities are included in the consolidated financial statements at the time of substantive enactment. Accordingly, in 2009 a $1 (2008 – nil) net reduction to the future income tax expense was recognized as a result of changes in the Canadian federal and certain provincial statutory income tax rates.

The income tax effects of temporary differences that gave rise to significant portions of the future income tax assets (liabilities) were as follows:

	2009	2008[(1)]
Accounts payable and accrued liabilities	**$ 72**	$ 71
Other liabilities	**166**	163
Losses carried forward (expiring 2015 to 2029)	**121**	117
Fixed assets	**(295)**	(319)
Goodwill and intangible assets	**11**	(29)
Other assets	**(217)**	(188)
Other	**21**	17
Net future income tax liabilities	**$ (121)**	$ (168)

	2009	2008[(1)]
Recorded on the consolidated balance sheet as follows:		
Future income tax assets		
Current	**$ 87**	$ 69
Non-current	**61**	36
	148	105
Future income tax liability		
Non-current	**(269)**	(273)
	(269)	(273)
Net future income tax liabilities	**$ (121)**	$ (168)

(1) Restated – see note 2.

8. BASIC AND DILUTED NET EARNINGS PER COMMON SHARE FROM CONTINUING OPERATIONS

	2009	2008[1]
Net earnings from continuing operations	$ 127	$ 647
Prescribed dividends on preferred shares in share capital	(44)	(47)
Net earnings from continuing operations available to common shareholders for basic earnings per share	$ 83	$ 600
Reduction in net earnings due to dilution at Loblaw	(2)	
Net earnings from continuing operations available to common shareholders for diluted earnings per share	$ 81	$ 600
Weighted average common shares outstanding (in millions) (note 22)	129.1	129.1
Dilutive effect of stock-based compensation (in millions)[2]		
Diluted weighted average common shares outstanding (in millions)	129.1	129.1
Basic net earnings per common share from continuing operations ($)	$ 0.64	$ 4.65
Diluted net earnings per common share from continuing operations ($)	$ 0.63	$ 4.65

(1) Restated – see note 2.

(2) Stock options with an exercise price greater than the average market price of GWL's common shares are not included in the computation of diluted net earnings per common share from continuing operations. Accordingly, for 2009, 1,252,630 (2008 – 1,303,182) stock options, with a weighted average price of $85.92 (2008 – $86.54) per common share, were excluded from the computation of diluted net earnings per common share from continuing operations.

9. CASH AND CASH EQUIVALENTS

The components of cash and cash equivalents as at December 31, 2009 and December 31, 2008 were as follows:

	2009	2008
Cash	$ 294	$ 85
Cash equivalents – short term investments with a maturity of 90 days or less:		
Bank term deposits	1,140	101
Government treasury bills	1,446	656
Government-sponsored debt securities	99	107
Corporate commercial paper	389	450
Foreign bonds		47
Cash and cash equivalents	$ 3,368	$ 1,446

As at year end 2009, U.S. $2,220 (2008 – U.S. $2,129) held primarily by Dunedin and certain of its affiliates and Glenhuron was included in cash and cash equivalents, short term investments and security deposits.

The Company recognized an unrealized foreign currency exchange loss of $327 (2008 – gain of $451) as a result of translating U.S. dollar denominated cash and cash equivalents, short term investments and security deposits, of which a loss of $165 (2008 – gain of $233) related to cash and cash equivalents. Loblaw recognized an unrealized foreign currency exchange loss of $146 (2008 – gain of $210) as a result of translating U.S. dollar denominated cash and cash equivalents, short term investments and security deposits, of which a loss of $59 (2008 – gain of $87) related to cash and cash equivalents. The remaining unrealized foreign currency exchange loss of $181 (2008 – gain of $241) includes a loss of $106 (2008 – gain of $146) related to the translation of cash and cash equivalents held by GWL's foreign operations. During 2009, foreign currency exchange losses associated with a portion of the U.S. dollar denominated cash and cash equivalents and short term investments held by Dunedin and certain of its affiliates of $225 (2008 – nil) were recognized in operating income with the balance recognized in other comprehensive income.

The resulting Loblaw loss (2008 – gain) on cash and cash equivalents, short term investments and security deposits is offset in operating income and other comprehensive income by the unrealized foreign currency exchange gain of $145 (2008 – loss of $208) on the cross currency swaps (see note 26).

10. ACCOUNTS RECEIVABLE

The components of accounts receivable as at December 31, 2009 and December 31, 2008 were as follows:

	2009	2008
Credit card receivables	$ 2,128	$ 2,206
Amount securitized	(1,725)	(1,775)
Net credit card receivables	403	431
Other receivables	448	527
Accounts receivable	$ 851	$ 958

Credit Card Receivables

The Company, through PC Bank, securitizes certain credit card receivables by selling them to independent trusts that issue interest bearing securities. When PC Bank sells credit card receivables, it retains servicing responsibilities, certain administrative responsibilities and the rights to future cash flows after obligations to investors have been met. The retained interest has been designated as held-for-trading and is carried at its fair value in accounts receivable. The fair value of the retained interest was estimated using management's best estimate of the net present value of expected future cash flows using key assumptions. Although PC Bank remains responsible for servicing all credit card receivables, it does not receive additional compensation for servicing those credit card receivables sold to the independent trusts and accordingly, a servicing liability is recorded.

In 2009, no incremental (2008 – $300) credit card receivables were securitized. During the year the securitization yielded no gain (2008 – $1) on the initial sale. During 2009, PC Bank repurchased $50 (2008 – nil) of the co-ownership interest in the securitized receivables from an independent trust and an additional $90 was repurchased subsequent to the end of 2009. A portion of the securitized receivables held by an independent trust facility was renewed for a 364-day term during 2009. During 2009, PC Bank received income of $235 (2008 – $176) related primarily to PC Bank's right to excess cash flows earned on the securitized credit card receivables. A decrease in servicing liability of $3 (2008 – increase of $1) was recognized during the year on securitization and at year end the servicing liability was $8 (2008 – $11). The trusts' recourse to PC Bank's assets is limited to PC Bank's excess collateral of $121 (2008 – $124) as well as a standby letter of credit for $116 (2008 – $116) on a portion of the securitized amount (see note 29).

Net credit loss experience of $21 (2008 – $35) includes $139 (2008 – $99) of credit losses on the total portfolio of credit card receivables net of credit losses of $118 (2008 – $64) relating to securitized credit card receivables.

The following table displays the sensitivity of the current fair value of the retained interest to an immediate 10% and 20% adverse change in the 2009 key assumptions. The sensitivity analysis provided in the table is hypothetical and should be used with caution. The sensitivities of each key assumption have been calculated independently of any changes in other key assumptions. Actual experience may result in changes in a number of key assumptions simultaneously. Changes in one factor may result in changes in another, which could amplify or reduce the impact of such assumptions.

		Change in Assumptions	
	2009	10%	20%
Carrying value of retained interest	$ 13		
Payment rate (monthly)	45.46%	$ (1)	$ (2)
Weighted average life (years)	0.7		
Expected credit losses	7.11%	$ (2)	$ (4)
Annual discount rate applied to residual cash flows	6.44%		
Net yield	13.55%	$ (4)	$ (8)
Cost of funds	2.34%	$ (1)	$ (1)

The details on the cash flows from securitization are as follows:

	2009	2008
(Repurchase of co-ownership interests) Proceeds from new securitizations	$ (50)	$ 300
Net cash flows received on retained interest	$ 244	$ 177

Credit card receivables that are past due of $7 (2008 – $7) as at year end 2009 are not classified as impaired as they are less than 90 days past due and most receivables are reasonably expected to remedy the past due status. Any credit card receivable balances with a payment that is contractually 180 days in arrears or where the likelihood of collection is considered remote are written off. Concentration of credit risk with respect to receivables is limited due to the Company's customer base being diverse. Credit risk on the credit card receivables is managed as described in note 28.

Other Receivables

Other receivables consist mainly of receivables from Loblaw's independent franchisees, associated stores and independent accounts and receivables from Weston Foods customers. Other receivables that are past due but not impaired totaled $54 (2008 – $86) as at year end 2009, of which a nominal amount were more than 60 days past due.

11. ALLOWANCES FOR RECEIVABLES

The allowance for receivables recorded on the consolidated balance sheet is maintained at a level which is considered adequate to absorb credit related losses on credit card receivables and losses on other receivables. The receivables for PC Bank credit card, Loblaw associated stores and independent accounts and Weston Foods customers are presented net of allowances in accounts receivable on the consolidated balance sheet. A continuity of the Company's allowances for receivables is as follows:

Credit Card Receivables	2009	2008
Allowances, beginning of year	$ (15)	$ (13)
Provision for losses	(21)	(35)
Recoveries	(9)	(14)
Write-offs	29	47
Allowances, end of year	$ (16)	$ (15)

Other Receivables	2009	2008
Allowances, beginning of year	$ (32)	$ (44)
Provision for losses	(102)	(84)
Write-offs	107	96
Allowances, end of year	$ (27)	$ (32)

12. INVENTORIES

	2009	2008
Raw materials and supplies	$ 36	$ 41
Finished goods	2,174	2,266
Inventories	$ 2,210	$ 2,307

Cost of inventories sold includes $44 (2008 – $44) of depreciation in 2009.

For inventories recorded as at year end 2009, Loblaw recorded $15 (2008 – $16) as an expense for the write-down of inventories below cost to net realizable value. There were no reversals of inventories written down previously that are no longer estimated to sell below cost.

13. FIXED ASSETS

			2009			2008
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Properties held for development	$ 494		$ 494	$ 556		$ 556
Properties under development	191		191	164		164
Land	1,862		1,862	1,773		1,773
Buildings	6,099	$ 1,703	4,396	5,699	$ 1,541	4,158
Equipment and fixtures	5,488	3,779	1,709	5,029	3,501	1,528
Buildings and leasehold improvements	583	278	305	562	260	302
	14,717	5,760	8,957	13,783	5,302	8,481
Capital leases – buildings and equipment	180	117	63	171	110	61
Fixed assets	$ 14,897	$ 5,877	$ 9,020	$ 13,954	$ 5,412	$ 8,542

Included in land and buildings was $58 (2008 – $68) of properties held for sale. Loblaw recorded a fixed asset impairment charge of $27 (2008 – $29) and other charges of $19 (2008 – $18). In addition, Weston Foods recorded a fixed asset impairment charge of $1 (2008 – nil) and accelerated depreciation of $2 (2008 – $2).

During 2009, Loblaw completed the purchase of a distribution centre for consideration of $140 plus closing costs. Loblaw assumed a mortgage of $96 in connection with the purchase, of which $2 is included in long term debt due within one year (see note 18).

14. GOODWILL AND INTANGIBLE ASSETS

Changes in the carrying value of goodwill and intangible assets were as follows:

			2009			2008
	Weston Foods	**Loblaw**	**Total**	Weston Foods	Loblaw	Total
Goodwill, beginning of year	**$ 169**	**$ 947**	**$ 1,116**	$ 157	$ 946	$ 1,103
Goodwill acquired during the year[1]		**156**	**156**		1	1
Business disposition (note 4)				(11)		(11)
Goodwill impairment[2]	**(73)**		**(73)**			
Impact of foreign currency translation	**(4)**		**(4)**	23		23
Goodwill, end of year	**92**	**1,103**	**1,195**	169	947	1,116
Trademarks and brand names	**13**	**51**	**64**	13		13
Other intangible assets	**5**	**32**	**37**	5	11	16
Goodwill and intangible assets	**$ 110**	**$ 1,186**	**$ 1,296**	$ 187	$ 958	$ 1,145

(1) Goodwill acquired during 2009 includes $131 in connection with Loblaw's acquisition of T&T, $9 related to the Company's participation in the Loblaw DRIP, $11 related to Loblaw's repurchase of 1.7 million of its common shares and $5 (2008 – $1) related to Loblaw's acquisition of franchisee stores (see note 3).

(2) Weston Foods reorganized its remaining operations subsequent to the disposition of the U.S. fresh bakery business (see note 5). The reorganization changed the composition of Weston Foods' reporting units for the purpose of goodwill impairment testing. As a result of this change, Weston Foods recorded a write-down of goodwill related to the biscuits, cookies, cones and wafers business in the first quarter of 2009.

The Loblaw trademark and brand names are indefinite life intangible assets. The remaining intangible assets are definite life intangible assets and are being amortized over their estimated useful lives ranging from 10 to 30 years.

During the fourth quarters of 2009 and 2008, the Company performed its annual goodwill impairment test and determined that there was no impairment of the carrying values of goodwill.

15. OTHER ASSETS

	2009	2008[1]
Security deposits	**$ 348**	$ 560
WHL's unrealized equity forward receivable (note 26)	**446**	397
Accrued benefit plan asset (note 16)	**381**	324
Franchise investments and other receivables	**201**	204
Unrealized cross currency swaps receivable (note 26)	**187**	107
Other	**93**	111
Other assets	**$ 1,656**	$ 1,703

(1) Restated – see note 2.

During 2008, GWL sold its investment in Domtar (Canada) Paper Inc. which was included in other assets for $144, and used these proceeds to settle its obligation under the related Exchangeable Debentures (see note 18). The Domtar (Canada) Paper Inc. investment was carried at fair value. The fair value of this investment was based on the market price of common shares of Domtar (Canada) Paper Inc.

Included in other above are $15 (2008 – $21) of unrealized interest rate swaps receivable and nil (2008 – $7) related to an electricity forward contract (see note 26).

16. EMPLOYEE FUTURE BENEFITS

Pension and Other Benefit Plans

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

In Canada, a national defined contribution pension plan for salaried employees was introduced by the Company during 2006. All eligible salaried employees were given the option to join this plan and convert their past accrued pension benefits or to remain in their existing defined benefit pension plans. All new salaried employees participate only in the national defined contribution pension plan.

The Company also offers certain employee post-retirement and post-employment benefit plans and a long term disability benefit plan. Post-retirement and post-employment benefit plans are generally not funded, are mainly non-contributory and include health care, life insurance and dental benefits. Employees eligible for post-retirement benefits are those who retire at certain retirement ages having met certain service requirements and employees eligible for post-employment benefits are those on long term disability leave. The majority of post-retirement health care plans for current and future retirees include a limit on the total benefits payable by the Company.

The Company also contributes to various multi-employer pension plans that provide pension benefits.

The accrued benefit plan obligations and the fair value of the benefit plan assets were determined using a September 30 measurement date for accounting purposes.

Funding of Pension and Other Benefit Plans

The most recent actuarial valuations of the Canadian defined benefit pension plans for funding purposes ("funding valuations") were performed as at December 31, 2006, December 31, 2007 or December 31, 2008. The Company is required to file funding valuations at least every three years; accordingly, the next funding valuations for the above mentioned plans will be performed as at December 31, 2009, 2010 or 2011. The most recent funding valuations of the United States defined benefit pension plans were as at January 1, 2009. The Company is required to file United States funding valuations every year; accordingly, the next required funding valuations will be as at January 1, 2010.

Total cash payments made by the Company during 2009, consisting of contributions to funded defined benefit pension plans, defined contribution pension plans, multi-employer pension plans, long term disability benefit plans and benefits paid directly to beneficiaries of the supplemental unfunded defined benefit pension plans and other benefit plans, were $217 (2008 – $232).

During 2010, the Company expects to contribute approximately $120 to its funded defined benefit pension plans. The actual amount paid may vary from the estimate based on actuarial valuations being completed, market performance and regulatory requirements. The Company also expects to make contributions in 2010 to defined contribution pension plans and multi-employer pension plans as well as benefit payments to the beneficiaries of the supplemental unfunded defined benefit pension plans and other benefit plans.

Pension and Other Benefit Plans Status

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

			2009			2008
	Pension Benefit Plans	Other Benefit Plans[1]	Total	Pension Benefit Plans	Other Benefit Plans[1]	Total
Benefit Plan Assets						
Fair value, beginning of year	$ 1,311	$ 21	$ 1,332	$ 1,456	$ 36	$ 1,492
Actual return (loss) on plan assets	58	1	59	(183)	2	(181)
Employer contributions	130	13	143	152	11	163
Employee contributions	3		3	3	1	4
Benefits paid	(123)	(27)	(150)	(105)	(27)	(132)
Transfers to national defined contribution pension plan				(25)		(25)
Other, including impact of foreign currency translation	(7)		(7)	13	(2)	11
Fair value, end of year	$ 1,372	$ 8	$ 1,380	$ 1,311	$ 21	$ 1,332
Accrued Benefit Plan Obligations						
Balance, beginning of year	$ 1,483	$ 343	$ 1,826	$ 1,563	$ 341	$ 1,904
Current service cost	48	34	82	51	37	88
Interest cost	89	20	109	87	19	106
Benefits paid	(123)	(27)	(150)	(105)	(27)	(132)
Actuarial loss (gain)	70	(28)	42	(101)	(29)	(130)
Plan amendments	8		8			
Transfers to national defined contribution pension plan				(25)		(25)
Other, including impact of foreign currency translation	(9)	(2)	(11)	13	2	15
Balance, end of year	$ 1,566	$ 340	$ 1,906	$ 1,483	$ 343	$ 1,826
Deficit of Plan Assets Versus Plan Obligations	$ (194)	$ (332)	$ (526)	$ (172)	$ (322)	$ (494)
Unamortized past service costs	8	(2)	6	2	(1)	1
Unamortized net actuarial loss	505	73	578	430	105	535
Net accrued benefit plan asset (liability)	$ 319	$ (261)	$ 58	$ 260	$ (218)	$ 42
Recorded in the consolidated balance sheets as follows:						
Other assets (note 15)	$ 381		$ 381	$ 324		$ 324
Other liabilities (note 19)	(62)	$ (261)	(323)	(64)	$ (218)	(282)
Net accrued benefit plan asset (liability)	$ 319	$ (261)	$ 58	$ 260	$ (218)	$ 42

(1) Other benefit plans include post-retirement, post-employment and long term disability benefit plans.

Funded Status of Plans in Deficit

Included in the accrued benefit plan obligations and the fair value of benefit plan assets at year end are the following amounts in respect of plans with accrued benefit plan obligations in excess of benefit plan assets:

	2009		2008	
	Pension Benefit Plans	**Other Benefit Plans[1]**	Pension Benefit Plans	Other Benefit Plans[1]
Fair Value of Benefit Plan Assets	**$ 1,293**	**$ 8**	$ 1,234	$ 21
Accrued Benefit Plan Obligations	**(1,489)**	**(340)**	(1,407)	(343)
Deficit of Plan Assets versus Plan Obligations	**$ (196)**	**$ (332)**	$ (173)	$ (322)

(1) Other benefit plans include post-retirement, post-employment and long term disability benefit plans.

Asset Allocations

The benefit plan assets are held in trust and at September 30 consisted of the following asset categories:

Percentage of Plan Assets	2009		2008	
Asset Category	**Pension Benefit Plans**	**Other Benefit Plans[1]**	Pension Benefit Plans	Other Benefit Plans[1]
Equity securities	**54%**		62%	
Debt securities	**44%**	**98%**	37%	99%
Cash and cash equivalents	**2%**	**2%**	1%	1%
Total	**100%**	**100%**	100%	100%

(1) Other benefit plans include post-employment and long term disability benefit plans.

Pension benefit plan assets include securities issued by Loblaw having a fair value of $3 (2008 – $2) as at September 30, 2009. Pension benefit plan assets do not include any GWL securities. Other benefit plan assets do not include any GWL or Loblaw securities.

Pension and Other Benefit Plans Cost

The total net cost for the Company's benefit plans and multi-employer pension plans was as follows:

	2009		2008	
	Pension Benefit Plans	**Other Benefit Plans[1]**	Pension Benefit Plans	Other Benefit Plans[1]
Current service cost, net of employee contributions	**$ 45**	**$ 34**	$ 48	$ 36
Interest cost on plan obligations	**89**	**20**	87	19
Actual (return) loss on plan assets	**(58)**	**(1)**	183	(2)
Actuarial loss (gain)	**70**	**(28)**	(101)	(29)
Plan amendments	**8**			
Defined benefit plan cost, before adjustments to recognize the long term nature of employee future benefit costs	**154**	**25**	217	24
(Shortfall) excess of actual return over expected return on plan assets	**(34)**		(291)	1
(Shortfall) excess of amortized net actuarial loss (gain) over actual actuarial loss (gain) on accrued benefit obligation	**(44)**	**32**	110	43
(Shortfall) excess of amortized past service costs over actual past service costs	**(6)**		1	
Net defined benefit plan cost	**70**	**57**	37	68
Defined contribution plan cost	**17**		15	
Multi-employer pension plan cost	**57**		54	
Net benefit plan cost	**$ 144**	**$ 57**	$ 106	$ 68

(1) Other benefit plans include post-retirement, post-employment and long term disability benefit plans.

Plan Assumptions

The significant annual weighted average actuarial assumptions used in calculating the Company's accrued benefit plan obligations as at the measurement date of September 30 and the net defined benefit plan cost for the year were as follows:

	2009		2008	
	Pension Benefit Plans	**Other Benefit Plans[1]**	Pension Benefit Plans	Other Benefit Plans[1]
Accrued Benefit Plan Obligations				
Discount rate	**5.7%**	**5.5%**	6.0%	5.9%
Rate of compensation increase	**3.5%**		3.5%	
Net Defined Benefit Plan Cost				
Discount rate	**6.0%**	**5.9%**	5.5%	5.4%
Expected long term rate of return on plan assets	**7.3%**	**5.0%**	7.5%	5.0%
Rate of compensation increase	**3.5%**		3.5%	

(1) Other benefit plans include post-retirement, post-employment and long term disability benefit plans.

The growth rate of health care costs, primarily drug and other medical costs for other benefit plans, for the net benefit plan cost was estimated at 9.5% (2008 – 10.0%) and is assumed to gradually decrease to 5.0% by 2015 (2008 – 5.0% by 2015), remaining at that level thereafter.

Sensitivity of Key Assumptions

The following table outlines the key assumptions for 2009 and the sensitivity of a 1% change in each of these assumptions on the accrued benefit plan obligations and on the benefit plan cost for defined benefit pension plans and other benefit plans. The table reflects the impact on the current service and interest cost components for the discount rate and expected growth rate of health care costs assumptions.

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

	Pension Benefit Plans		Other Benefit Plans[1]	
	Accrued Benefit Plan Obligations	Benefit Plan Cost[2]	Accrued Benefit Plan Obligations	Benefit Plan Cost[2]
Expected long term rate of return on plan assets		7.3%		5.0%
Impact of: 1% increase	n/a	$ (13)	n/a	–
1% decrease	n/a	$ 13	n/a	–
Discount rate	5.7%	6.0%	5.5%	5.9%
Impact of: 1% increase	$ (193)	$ (9)	$ (36)	$ (3)
1% decrease	$ 221	$ 9	$ 41	$ 3
Expected growth rate of health care costs[3]			9.0%	9.5%
Impact of: 1% increase	n/a	n/a	$ 31	$ 5
1% decrease	n/a	n/a	$ (27)	$ (4)

n/a – not applicable

(1) Other benefit plans include post-retirement, post-employment and long term disability benefit plans.

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

(3) Gradually decreasing to 5.0% by 2015 (2008 – 5.0% by 2015) for the accrued benefit plan obligation and the benefit plan cost and remaining at that level thereafter.

17. SHORT TERM DEBT

During 2008, GWL entered into a $300, 5-year committed credit facility provided by a syndicate of third-party lenders. This facility was the primary source of GWL's short term funding requirements. As at December 31, 2008, nil was drawn on this credit facility and it was terminated following the sale of the U.S. fresh bakery business in 2009.

During 2008, Loblaw entered into an $800 committed credit facility, expiring in March of 2013, provided by a syndicate of third-party lenders which contains certain financial covenants (see note 23). This facility is a source of Loblaw's short term funding requirements and permits borrowings having up to a 180-day term. Interest is based on a floating rate, primarily the bankers' acceptance rate, and an applicable margin based on Loblaw's credit rating. As at year end 2009, nil (2008 – $190) was drawn on the committed credit facility.

Also included in short term debt are GWL's Series B Debentures, due on demand, of $300 (2008 – $263) (see note 18).

18. LONG TERM DEBT

	2009	2008
George Weston Limited		
Debentures		
Series B, current rate 0.93%, due on demand[(i)]	**$ 300**	$ 263
Series A, 7.00%, due 2031[(i)]	**466**	466
Notes		
5.90%, due 2009[(ii)]		250
6.45%, due 2011	**300**	300
5.05%, due 2014	**200**	200
12.70%, due 2030[(iii)]		
Principal		150
Effect of coupon repurchase		(128)
7.10%, due 2032	**150**	150
6.69%, due 2033	**100**	100
Loblaw Companies Limited		
Notes		
5.75%, due 2009[(ii)]		125
7.10%, due 2010	**300**	300
6.50%, due 2011	**350**	350
5.40%, due 2013	**200**	200
6.00%, due 2014	**100**	100
4.85%, due 2014[(iv)]	**350**	
7.10%, due 2016	**300**	300
6.65%, due 2027	**100**	100
6.45%, due 2028	**200**	200
6.50%, due 2029	**175**	175
11.40%, due 2031		
Principal	**151**	151
Effect of coupon repurchase	**(67)**	(55)
6.85%, due 2032	**200**	200
6.54%, due 2033	**200**	200
8.75%, due 2033	**200**	200
6.05%, due 2034	**200**	200
6.15%, due 2035	**200**	200
5.90%, due 2036	**300**	300
6.45%, due 2039	**200**	200
7.00%, due 2040	**150**	150
5.86%, due 2043	**55**	55
Private placement notes[(v)]		
6.48%, due 2013 (U.S. $150)	**158**	180
6.86%, due 2015 (U.S. $150)	**158**	181
Long term debt secured by mortgage[(vi)]		
5.49%, due 2018 (note 13)	**96**	
VIE loans payable[(vii)] (note 30)	**163**	152
Capital lease obligations[(vii)] (note 20)	**64**	62
Other	**1**	9
Total long term debt	**6,020**	5,986
Less – amount due within one year	**(343)**	(415)
– amount due on demand (note 17)	**(300)**	(263)
	$ 5,377	$ 5,308

The schedule of repayment of long term debt, inclusive of VIE and other debt, based on maturity, excluding the amount due on demand, is as follows: 2010 – $343; 2011 – $690; 2012 – $38; 2013 – $391; 2014 – $674; thereafter – $3,584.

(i) During 2009, GWL issued $37 (2008 – $43) of Series B Debentures due on demand, which are at a current weighted average interest rate of 0.93%. The Series A, 7.00% and Series B Debentures are secured by a pledge of 9.6 million Loblaw common shares.

(ii) During 2009, GWL's $250 5.90% Medium Term Notes ("MTN") due February 5, 2009 and Loblaw's $125 5.75% MTN due January 22, 2009 matured and were repaid.

(iii) During 2009, GWL repurchased the 12.70% Promissory Notes, due 2030, for an aggregate purchase price of $73. As a result, GWL recorded a loss of $49 in interest expense and other financing charges (see note 6).

(iv) During 2009, Loblaw issued $350 principal amount of unsecured MTN, Series 2-A pursuant to its MTN, Series 2 program. The Series 2-A notes pay a fixed rate of interest of 4.85% payable semi-annually commencing on November 8, 2009 until maturity on May 8, 2014 and are subject to certain covenants. The notes are unsecured obligations of Loblaw and rank equally with all other unsecured indebtedness that has not been subordinated. The Series 2-A notes may be redeemed at the option of Loblaw, in whole at any time or in part from time to time, upon not less than 30 days and not more than 60 days notice to the holders of the notes.

(v) During 2008, Loblaw issued U.S. $300 of fixed rate notes in a private placement debt financing which contains certain financial covenants (see note 23). The notes were issued in two equal tranches of U.S. $150 with 5 and 7 year maturities at interest rates of 6.48% and 6.86%, respectively. Loblaw entered into fixed cross currency swaps, a portion of which are designated as cash flow hedges to manage the foreign currency exchange rate risk. As at year end 2009, $316 (2008 – $361) was recorded in long term debt on the consolidated balance sheet. For further information on the Company's policies with respect to cash flow hedges, refer to note 1.

(vi) During 2009, Loblaw assumed a mortgage of $96 in connection with the purchase of a distribution centre (see note 13), of which $2 is included in long term debt due within one year.

(vii) Pursuant to the requirements of AcG 15, the consolidated balance sheet as at year end 2009 includes $181 (2008 – $179) of loans payable and capital lease obligations of VIEs consolidated by the Company, $37 (2008 – $35) of which is due within one year.

During 2008, GWL exercised its right to redeem all of the remaining outstanding 3% Exchangeable Debentures pursuant to the trust indenture dated June 29, 1998 made between GWL and Computershare Trust Company of Canada by paying cash of $633.08 per each one thousand dollar principal amount of Exchangeable Debentures for $137 plus accrued but unpaid interest of approximately $3, for an aggregate amount including interest of approximately $140. GWL also sold its investment in Domtar (Canada) Paper Inc. for $144 (see note 15) and used these proceeds to settle its obligation under the Exchangeable Debentures. The Company recorded a gain of $7 in operating income in 2008.

During 2008, Loblaw's $390 6.00% MTN due June 2, 2008 matured and was repaid.

See note 27 for the fair value of long term debt.

19. OTHER LIABILITIES

	2009	2008
Accrued benefit plan liability (note 16)	**$ 323**	$ 282
Accrued insurance liabilities	**83**	108
Asset retirement obligation	**11**	14
Stock-based compensation liability (note 24)	**29**	14
Unrealized equity swaps liability (note 26)		29
Unrealized interest rate swap liability (note 26)	**31**	43
Deferred vendor allowances (note 4)	**48**	56
Other	**129**	69
Other liabilities	**$ 654**	$ 615

Included in other above is the Loblaw liability associated with the preferred shares issued by T&T (see note 3).

Total accrued insurance liabilities are $111 (2008 – $153), of which $83 (2008 – $108) is included in other liabilities and $28 (2008 – $45) in accounts payable and accrued liabilities. Included in total accrued insurance liabilities of $111 (2008 – $153) are $69 (2008 – $99) of United States workers' compensation liabilities. The related cost and accrued workers' compensation liabilities are based on actuarial valuations which are dependent on assumptions determined by management. The discount rate used in determining the 2009 workers' compensation cost and liability was 4.0% (2008 – 4.0%). The total workers' compensation liability is equal to the ultimate actuarial loss estimate less any actual losses paid to date. Any change in the workers' compensation liability is recognized immediately in operating income.

The United States workers' compensation cost associated with the workers' compensation liability was $3 in 2009 (2008 – $2).

20. LEASES

As Lessee

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

	Payments due by year						2009	2008
	2010	2011	2012	2013	2014	Thereafter	**Total**	Total
Operating lease payments	$ 219	$ 200	$ 173	$ 152	$ 131	$ 680	**$ 1,555**	$ 1,674
Sub-lease income	(41)	(37)	(33)	(30)	(23)	(91)	**(255)**	(237)
Net operating lease payments	$ 178	$ 163	$ 140	$ 122	$ 108	$ 589	**$ 1,300**	$ 1,437

As Lessor

Fixed assets on the consolidated balance sheets include cost of properties held for leasing purposes of $755 (2008 – $603) and related accumulated depreciation of $211 (2008 – $173). Rental income for 2009 from these operating leases totaled $47 (2008 – $45) before income taxes and minority interest.

Capital Leases

Capital lease obligations of $64 (2008 – $62) are included on the consolidated balance sheets as at year end (see note 18). These Loblaw capital lease obligations are related to leased properties and equipment of the VIEs that provide distribution and warehousing services. The amount due within one year is $8 (2008 – $8).

21. CAPITAL SECURITIES ($ except where otherwise indicated)

On April 1, 2009, the 10.6 million GWL 5.15% non-voting preferred shares, Series II authorized and outstanding, which were presented as capital securities and included in current liabilities, were redeemed for cash of $25.00 per share, or $265 million in aggregate, plus accrued and unpaid dividends to but excluding April 1, 2009.

During 2008, Loblaw issued 9.0 million of the 12.0 million authorized 5.95% non-voting Second Preferred Shares, Series A, with a face value of $225 million for net proceeds of $218 million, which entitle the holder to a fixed cumulative preferred cash dividend of $1.4875 per share per annum which will, if declared, be payable quarterly.

On or after July 31, 2013, Loblaw may, at its option, redeem for cash, in whole or in part, these outstanding preferred shares as follows:

On or after July 31, 2013 at $25.75 per share, together with all accrued and unpaid dividends to but not including the redemption date;
On or after July 31, 2014 at $25.50 per share, together with all accrued and unpaid dividends to but not including the redemption date; and
On or after July 31, 2015 at $25.00 per share, together with all accrued and unpaid dividends to but not including the redemption date.

On and after July 31, 2013, Loblaw may, at its option, convert these preferred shares into that number of common shares of Loblaw determined by dividing the then applicable redemption price, together with all accrued and unpaid dividends to but excluding the conversion date, by the greater of $2.00 and 95% of the then current market price of the common shares. On and after July 31, 2015, these outstanding preferred shares are convertible, at the option of the holder, into that number of common shares of Loblaw determined by dividing $25.00, together with accrued and unpaid dividends to but excluding the date of conversion, by the greater of $2.00 and 95% of the then current market price of the common shares. This option is subject to Loblaw's right to redeem the preferred shares for cash or arrange for their sale to substitute purchasers. These preferred shares are classified as other financial liabilities and are measured using the effective interest method.

Dividends on capital securities are presented in interest expense and other financing charges in the consolidated statement of earnings (see note 6).

22. SHARE CAPITAL

	2009	2008
Common share capital	**$ 133**	$ 133
Preferred shares, Series I	**228**	228
Preferred shares, Series III	**196**	196
Preferred shares, Series IV	**197**	197
Preferred shares, Series V	**196**	196
Share capital	**$ 950**	$ 950

Common Share Capital (authorized – unlimited)

The common shares issued and outstanding during the year were as follows:

	2009		2008	
	Number of Common Shares	**Common Share Capital**	Number of Common Shares	Common Share Capital
Issued and outstanding, beginning and end of year	**129,073,662**	**$ 133**	129,073,662	$ 133
Weighted average outstanding	**129,073,662**		129,073,662	

Preferred Shares, Series I (authorized – 10.0 million) ($)
GWL has 9.4 million 5.80% non-voting Preferred Shares, Series I outstanding, with a face value of $235 million, which entitle the holder to a fixed cumulative preferred cash dividend of $1.45 per share per annum which will, if declared, be payable quarterly. On or after December 15, 2006, GWL may, at its option, redeem for cash, in whole or in part, these outstanding preferred shares as follows:

On or after December 15, 2006 at $26.00 per share, together with all accrued and unpaid dividends to the redemption date;
On or after December 15, 2007 at $25.75 per share, together with all accrued and unpaid dividends to the redemption date;
On or after December 15, 2008 at $25.50 per share, together with all accrued and unpaid dividends to the redemption date;
On or after December 15, 2009 at $25.25 per share, together with all accrued and unpaid dividends to the redemption date; and
On or after December 15, 2010 at $25.00 per share, together with all accrued and unpaid dividends to the redemption date.

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

Preferred Shares, Series III (authorized – 10.0 million) ($)
GWL has 8.0 million 5.20% non-voting Preferred Shares, Series III outstanding, with a face value of $200 million, which entitle the holder to a fixed cumulative preferred cash dividend of $1.30 per share per annum which will, if declared, be payable quarterly. On or after July 1, 2010, GWL may, at its option, redeem for cash, in whole or in part, these outstanding preferred shares as follows:

On or after July 1, 2010 at $26.00 per share, together with all accrued and unpaid dividends to the redemption date;
On or after July 1, 2011 at $25.75 per share, together with all accrued and unpaid dividends to the redemption date;
On or after July 1, 2012 at $25.50 per share, together with all accrued and unpaid dividends to the redemption date;
On or after July 1, 2013 at $25.25 per share, together with all accrued and unpaid dividends to the redemption date; and
On or after July 1, 2014 at $25.00 per share, together with all accrued and unpaid dividends to the redemption date.

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

Preferred Shares, Series IV (authorized – 8.0 million) ($)
GWL has 8.0 million 5.20% non-voting Preferred Shares, Series IV outstanding, with a face value of $200 million, which entitle the holder to a fixed cumulative preferred cash dividend of $1.30 per share per annum which will, if declared, be payable quarterly. On or after October 1, 2010, GWL may, at its option, redeem for cash, in whole or in part, these outstanding preferred shares as follows:

On or after October 1, 2010 at $26.00 per share, together with all accrued and unpaid dividends to the redemption date;
On or after October 1, 2011 at $25.75 per share, together with all accrued and unpaid dividends to the redemption date;
On or after October 1, 2012 at $25.50 per share, together with all accrued and unpaid dividends to the redemption date;
On or after October 1, 2013 at $25.25 per share, together with all accrued and unpaid dividends to the redemption date; and
On or after October 1, 2014 at $25.00 per share, together with all accrued and unpaid dividends to the redemption date.

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

Preferred Shares, Series V (authorized – 8.0 million) ($)
GWL has 8.0 million 4.75% non-voting Preferred Shares, Series V outstanding, with a face value of $200 million, which entitle the holder to a fixed cumulative preferred cash dividend of $1.1875 per share per annum which will, if declared, be payable quarterly. On or after July 1, 2011, GWL may, at its option, redeem for cash, in whole or in part, these outstanding preferred shares as follows:

On or after July 1, 2011 at $26.00 per share, together with all accrued and unpaid dividends to the redemption date;
On or after July 1, 2012 at $25.75 per share, together with all accrued and unpaid dividends to the redemption date;
On or after July 1, 2013 at $25.50 per share, together with all accrued and unpaid dividends to the redemption date;
On or after July 1, 2014 at $25.25 per share, together with all accrued and unpaid dividends to the redemption date; and
On or after July 1, 2015 at $25.00 per share, together with all accrued and unpaid dividends to the redemption date.

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

Dividends

The declaration and payment of dividends and the amounts thereof are at the discretion of the Board of Directors, which takes into account the Company's financial results, capital requirements, available cash flow and other factors the Board of Directors considers relevant from time to time. Over the long term, GWL's objective is for its common dividend payment ratio to be in the range of 20% to 25% of the prior year's basic net earnings per common share from continuing operations, adjusted as appropriate for items which are not regarded to be reflective of ongoing operations, giving consideration to the year end cash position, future cash flow requirements and investment opportunities. During 2009, the Board of Directors declared dividends as follows:

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

Normal Course Issuer Bid ("NCIB")

During 2009, GWL renewed its NCIB to purchase on the Toronto Stock Exchange or enter into equity derivatives to purchase up to 5% of its common shares outstanding. In accordance with the rules and by-laws of the Toronto Stock Exchange, GWL may purchase its shares at the then market price of such shares. GWL did not purchase any shares under its NCIB during 2009 or 2008.

23. CAPITAL MANAGEMENT

The Company defines capital as net debt[1], capital securities and shareholders' equity.

The Company's objectives when managing capital are to:

- ensure sufficient liquidity to support its financial obligations and execute its operating and strategic plans;
- maintain financial capacity and access to capital to support future development of the business;
- minimize the cost of its capital while taking into consideration current and future industry, market and economic risks and conditions; and
- utilize short term funding sources to manage its working capital requirements and long term funding sources to match the long term nature of the fixed assets of the business.

The following ratios are used by the Company to monitor its capital:

	2009	2008[2]
Interest coverage	**2.6x**	3.2x
Net debt[1] to EBITDA[1]	**0.18x**	1.80x
Net debt[1] to equity[1]	**0.04**	0.53

(1) See non-GAAP financial measures in the Company's Management's Discussion and Analysis ("MD&A") beginning on page 51.

(2) Restated – see note 2.

The Company manages debt on a net basis, excluding capital securities, calculated as outlined below. The Company's internal guideline targets a net debt[1] to equity[1] ratio of less than 1:1. This ratio is useful in assessing the amount of leverage employed. These ratios are also calculated from time to time on an alternative basis by management to approximate the methodology of debt rating agencies and other market participants.

Net Debt[1]

The following table details the net debt calculation used in the net debt[1] to equity[1] and the net debt[1] to EBITDA[1] ratios:

	2009	2008
Bank indebtedness	$ 2	$ 93
Short term debt	300	453
Long term debt due within one year	343	415
Long term debt	5,377	5,308
Other liabilities	36	
Fair value of financial derivatives related to the above	(327)	(261)
	5,731	6,008
Less: Cash and cash equivalents	3,368	1,446
Short term investments	1,538	694
Security deposits	348	560
Fair value of financial derivatives related to the above	178	57
	5,432	2,757
Net debt[1]	$ 299	$ 3,251

(1) See non-GAAP financial measures in the Company's MD&A beginning on page 51.

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

Capital securities are excluded from the calculation of net debt[1] because the Company at its option can convert the capital securities into common shares. For the purpose of calculating net debt[1], fair values of financial derivatives are not credit value adjusted in accordance with EIC 173 (see note 2). As at year end 2009, the credit value adjustment was $4.

EBITDA[1]

The following table reconciles earnings from continuing operations before minority interest, income taxes, interest, gain on disposal of business and depreciation and amortization ("EBITDA") used in the net debt[1] to EBITDA[1] ratio to Canadian GAAP measures reported in the audited consolidated financial statements:

	2009	2008[2]
Net earnings from continuing operations	$ 127	$ 647
Add (deduct) impact of the following:		
Minority interest	260	222
Income taxes	259	304
Interest expense and other financing charges	363	360
Gain on disposal of business		(335)
Operating income	1,009	1,198
Depreciation and amortization[3]	645	610
EBITDA[1]	$ 1,654	$ 1,808

(1) See non-GAAP financial measures in the Company's MD&A beginning on page 51.

(2) Restated – see note 2.

(3) Includes depreciation of $44 (2008 – $44) included in cost of inventories.

Equity[1]

The following table reconciles equity used in the net debt[1] to equity[1] ratio to Canadian GAAP measures reported in the audited consolidated financial statements.

Equity[1] is calculated as the sum of GWL capital securities and shareholders' equity as follows:

	2009	2008[2]
Capital securities		$ 264
Shareholders' equity	$ 6,942	5,910
Equity[1]	$ 6,942	$ 6,174

(1) See non-GAAP financial measures in the Company's MD&A beginning on page 51.
(2) Restated – see note 2.

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

During 2008, Loblaw filed a Short Form Base Shelf Prospectus ("Prospectus") allowing for the potential issue of up to $1 billion of unsecured debentures and/or preferred shares subject to the availability of funding by capital markets. During 2008, Loblaw issued preferred shares (see note 21). During the second quarter of 2009, Loblaw filed a Prospectus Supplement to the Prospectus filed in 2008 to allow for the issuance of up to $775 in unsecured MTN, Series 2. Under this Prospectus Supplement, Loblaw issued $350 of MTN (see note 18).

Covenants and Regulatory Requirements

The committed credit facility which Loblaw entered into during 2008 (see note 17) and the U.S. $300 fixed rate private placement notes which Loblaw issued during 2008 (see note 18) both contain certain financial covenants. The covenants under both agreements include maintaining an interest coverage ratio as well as a leverage ratio, which Loblaw measures on a quarterly basis. These ratios are defined in the respective agreements. As at year end 2009, Loblaw was in compliance with both of these covenants.

Loblaw is also subject to externally imposed capital requirements from the Office of the Superintendent of Financial Institutions ("OSFI"), as the primary regulator of PC Bank, and the Central Bank of Barbados, as the primary regulator of Glenhuron, both wholly owned subsidiaries of the Company. PC Bank's capital management objectives are to maintain a consistently strong capital position while considering the Bank's economic risks and to meet all regulatory capital requirements as defined by OSFI. PC Bank is subject to the Basel II regulatory capital management framework and has met all applicable capital targets as at year end 2009. Glenhuron is currently regulated under Basel I. Under Basel I, Glenhuron's assets are risk weighted and the minimum ratio of capital to risk weighted assets is 8.0%. Glenhuron's ratio of capital to risk weighted assets met the minimum requirements under Basel I as at year end 2009.

In addition, a wholly owned subsidiary of the Company that engages in insurance related activities exceeded the minimum regulatory capital and surplus requirements as at year end 2009.

24. STOCK-BASED COMPENSATION ($ except table)

The Company maintains various types of stock-based compensation plans, which are described below.

Stock Option Plans

GWL maintains a stock option plan for certain employees. Under this plan, GWL may grant options for up to 7 million of its common shares; however, these stock option plans limit the number of common shares available for stock option grants to a maximum of 5% of outstanding common shares at any time. Stock options have up to a 7-year term, vest 20% or 33% cumulatively on each anniversary date of the grant and are exercisable at the designated common share price, which is 100% of the market price of GWL's common shares on the last trading day prior to the effective date of the grant. Each stock option is exercisable into one common share of GWL at the price specified in the terms of the option agreement, or option holders may elect to receive in cash the share appreciation value equal to the excess of the market price at the date of exercise over the specified option price.

During 2009, GWL granted 236,988 (2008 – 222,362) stock options with a weighted average exercise price of $59.65 (2008 – $46.29) per common share under its existing stock option plan, which allows for settlement in shares or in the share appreciation value in cash at the option of the employee.

During 2009, the share appreciation value of a nominal amount (2008 – nil) was paid by the Company on the exercise of 22,527 (2008 – nil) stock options and 67,460 (2008 – 138,753) stock options were forfeited or cancelled.

In 2009 and 2008, GWL did not issue common shares or receive cash consideration on the exercise of stock options.

Loblaw maintains a stock option plan for certain employees. Under this plan, Loblaw may grant options for up to 13.7 million common shares, which is Loblaw's guideline on the number of stock option grants up to a maximum of 5% of outstanding common shares at any time. Stock options have up to a 7-year term, vest 20% or 33% cumulatively on each anniversary date of the grant and are exercisable at the designated common share price, which is 100% of the market price of Loblaw's common shares on the last trading day prior to the effective date of the grant. Each stock option is exercisable into one common share of Loblaw at the price specified in the terms of the option, or option holders may elect to receive in cash the share appreciation value equal to the excess of the market price at the date of exercise over the specified option price.

During 2009, Loblaw granted 2,787,970 (2008 – 3,431,432) stock options with a weighted average exercise price of $31.13 (2008 – $28.99) per common share under its existing stock option plan, which allows for settlement in shares or in the share appreciation value in cash at the option of the employee.

During 2009, the share appreciation value of $1 million (2008 – nil) was paid by Loblaw on the exercise of 127,513 (2008 – nil) stock options and 1,345,301 (2008 – 2,071,528) stock options were forfeited or cancelled.

In 2009 and 2008, Loblaw did not issue common shares or receive cash consideration on the exercise of stock options.

Share Appreciation Right Plan

GWL maintains a share appreciation right plan for certain senior United States employees. Share appreciation rights have up to a 7-year term, vest 20% cumulatively on each anniversary date of the grant and are exercisable at the designated common share price, which is 100% of the market price of GWL's common shares on the last trading day prior to the effective date of the grant.

When they are exercised, the employee will receive in cash the share appreciation value equal to the excess of the market price at the date of exercise over the specified right price.

In 2009 and 2008, no share appreciation rights were exercised, and in 2009, 2,000 (2008 – 2,400) share appreciation rights were forfeited or cancelled.

Restricted Share Unit ("RSU") Plans

GWL and Loblaw both maintain a RSU plan for certain senior employees. The RSUs entitle employees to a cash payment after the end of each performance period, of up to 3 years, following the date of the award. The RSU payment will be an amount equal to the weighted average price of a GWL or Loblaw common share on the last three trading days preceding the end of the performance period for the RSUs multiplied by the number of RSUs held by the employee.

The following is a summary of GWL's and Loblaw's RSU activity during the year:

	GWL		Loblaw	
	2009	2008	**2009**	2008
Outstanding RSUs, beginning of year	**151,769**	169,993	**829,399**	768,687
Granted	**62,706**	58,179	**453,680**	416,294
Cash settled	**(59,423)**	(69,482)	**(204,943)**	(252,479)
Cancelled	**(2,497)**	(6,921)	**(104,785)**	(103,103)
Outstanding RSUs, end of year	**152,555**	151,769	**973,351**	829,399

During 2009, $4 million (2008 – $4 million) and $7 million (2008 – $9 million) was paid on the settlement of GWL and Loblaw RSUs, respectively.

The following table summarizes the Company's cost recognized in operating income related to its stock-based compensation plans, equity derivatives and RSU plans:

($ millions)	**2009**	2008
Stock option plans/share appreciation right plan expense	**$ 7**	$ 8
Equity derivatives gain (note 26)	**(9)**	(22)
Restricted share unit plan expense	**14**	12
Net stock-based compensation expense (income)	**$ 12**	$ (2)

Director Deferred Share Unit Plans

Members of GWL's and Loblaw's Boards of Directors who are not management may elect annually to receive all or a portion of their annual retainer(s) and fees in the form of DSUs, the value of which is determined by the market price of GWL or Loblaw common shares at the time the director's annual retainer(s) or fees are earned. Upon termination of Board service, the common shares due to the director, as represented by the DSUs, will be purchased on the open market on the director's behalf. As at year end 2009, GWL had 83,974 (2008 – 59,787) and Loblaw had 110,303 (2008 – 79,939) DSUs outstanding. During 2009, a compensation cost of $3 million (2008 – $2 million) related to these plans was recognized in operating income.

Executive Deferred Share Unit Plan

Under this plan, executives may elect to defer up to 100% of the STIP bonus earned in any year into the EDSU plan, subject to an overall cap of three times the executive's base salary. All EDSUs held by an executive will be paid out in cash by December 15 of the year following the year in which the executive's employment ceases for any reason. An election to participate in the plan in any year must be made before the beginning of the year and is irrevocable. The number of EDSUs granted in respect of any year will be determined by dividing the STIP bonus that is subject to the EDSU plan election by the value of the GWL or Loblaw common shares on the date the STIP bonus would otherwise be payable. For this purpose, and for purposes of determining the value of an EDSU upon conversion of the EDSUs into cash, the value of the EDSUs will be calculated by using the weighted average of the trading prices of GWL or Loblaw common shares on the Toronto Stock Exchange for the five trading days prior to the valuation date. As at year end 2009 and 2008, there were no EDSUs outstanding.

Employee Share Ownership Plans

GWL and Loblaw maintain ESOPs for their employees which allow employees to acquire GWL and Loblaw common shares through regular payroll deductions of up to 5% of their gross regular earnings. GWL and Loblaw contribute an additional 25% (2008 – 25%) of each employee's contribution to the respective plans. The ESOPs are administered through a trust which purchases GWL and Loblaw common shares on the open market on behalf of employees. During 2009, a compensation cost of $7 million (2008 – $7 million) related to these plans was recognized in operating income.

GWL's stock option and share appreciation right transactions were as follows:

		2009		2008
	Options/ Rights (number of shares)	**Weighted Average Exercise Price/Share**	Options/ Rights (number of shares)	Weighted Average Exercise Price/Share
Outstanding options/rights, beginning of year	**1,616,344**	**$ 81.94**	1,535,135	$ 87.45
Granted	**236,988**	**$ 59.65**	222,362	$ 46.29
Exercised	**(22,527)**	**$ 46.24**		
Forfeited/cancelled	**(69,460)**	**$ 90.09**	(141,153)	$ 85.69
Outstanding options/rights, end of year[1,2]	**1,761,345**	**$ 79.07**	1,616,344	$ 81.94
Options/rights exercisable, end of year[2]	**883,822**	**$ 91.15**	699,390	$ 94.61

(1) Options outstanding of 1,669,345 (2008 – 1,522,344) represented approximately 1.3% (2008 – 1.2%) of GWL's issued and outstanding common shares, which was within GWL's limit of 5%.

(2) Included in the outstanding balance are 92,000 (2008 – 94,000) share appreciation rights at a weighted average exercise price of $101.03 (2008 – $101.25). Included in the exercisable balance are 84,000 (2008 – 77,200) share appreciation rights at a weighted average exercise price of $100.08 (2008 – $99.12).

The following table summarizes information about GWL's stock option and share appreciation rights outstanding:

					2009
	Outstanding Options/Rights			**Exercisable Options/Rights**	
Range of Exercise Prices ($)	**Number of Options/ Rights Outstanding**	**Weighted Average Remaining Contractual Life (years)**	**Weighted Average Exercise Price/Share**	**Number of Exercisable Options/ Rights**	**Weighted Average Exercise Price/Share**
$46.24 – $59.56	**416,715**	**6**	**$ 53.63**	**19,236**	**$ 46.35**
$62.71 – $75.62	**677,941**	**4**	**$ 72.14**	**268,553**	**$ 72.23**
$93.35 – $111.02[1]	**666,689**	**1**	**$ 102.03**	**596,033**	**$ 101.12**

(1) Included in the outstanding balance are 92,000 share appreciation rights with a weighted average remaining contractual life of 1 year and a weighted average exercise price of $101.03. Included in the exercisable balance are 84,000 share appreciation rights with a weighted average exercise price of $100.08.

25. ACCUMULATED OTHER COMPREHENSIVE LOSS

The following tables provide further detail regarding the composition of accumulated other comprehensive loss for the years ended December 31, 2009 and December 31, 2008:

	December 31, 2009							
		Foreign Currency Translation Adjustment		**Cash Flow Hedges**		**Available-for-Sale Assets**		**Total**
Balance, beginning of year	**$**	**(334)**	**$**	**2**	**$**	**10**	**$**	**(322)**
Cumulative impact of implementing new accounting standards[1] (note 2)				**(1)**				**(1)**
Foreign currency translation adjustment		**35**						**35**
Reclassification of cumulative foreign currency translation loss to net earnings		**196**						**196**
Net unrealized loss on available-for-sale financial assets[2]						**(14)**		**(14)**
Reclassification of loss on available-for-sale financial assets[3]						**1**		**1**
Net gain on derivatives designated as cash flow hedges[4]				**4**				**4**
Reclassification of loss on derivatives designated as cash flow hedges[5]				**9**				**9**
Balance, end of year	**$**	**(103)**	**$**	**14**	**$**	**(3)**	**$**	**(92)**

(1) Net of income taxes recovered of $1 and minority interest of $1.
(2) Net of income taxes recovered of $1 and minority interest of $9.
(3) Net of income taxes recovered of $3 and minority interest of $1.
(4) Net of income taxes of $8 and minority interest of $3.
(5) Net of income taxes recovered of $10 and minority interest of $1.

	December 31, 2008							
		Foreign Currency Translation Adjustment		Cash Flow Hedges		Available-for-Sale Assets		Total
Balance, beginning of year	$	(1,011)	$	14	$	(2)	$	(999)
Foreign currency translation adjustment		677						677
Net unrealized gain on available-for-sale financial assets[1]						25		25
Reclassification of gain on available-for-sale financial assets[2]						(13)		(13)
Net gain on derivatives designated as cash flow hedges[3]				4				4
Reclassification of gain on derivatives designated as cash flow hedges[4]				(16)				(16)
Balance, end of year	$	(334)	$	2	$	10	$	(322)

(1) Net of income taxes of $1 and minority interest of $15.
(2) Net of income taxes of $5 and minority interest of $8.
(3) Net of income taxes of $17 and minority interest of $8.
(4) Net of income taxes of $19 and minority interest of $11.

During 2009, the foreign currency translation adjustment included in accumulated other comprehensive loss decreased by $231 (2008 – $677) from year end 2008.

The Company reversed a cumulative foreign currency translation loss of $196 into operating income in 2009 associated with the U.S. net investment summarized as follows:

- A loss of $34 was reversed after the sale of the U.S. fresh bakery business on January 21, 2009, when Dunedin and certain of its affiliates became integrated foreign subsidiaries.
- A loss of $52 was reversed related to a reduction in the Company's U.S. net investment in self-sustaining foreign operations.
- An additional loss of $110 associated with the Company's net investment in the U.S. fresh bakery business was reversed and included in the results of discontinued operations.

The remaining decrease in the foreign currency translation adjustment of $35 resulted primarily from the depreciation of the Canadian dollar relative to the U.S. dollar in the period prior to the sale of the U.S. fresh bakery business, partially offset by the appreciation of the Canadian dollar thereafter. The 2008 change in the foreign currency translation adjustment of $677 was due to the depreciation of the Canadian dollar during 2008.

An estimated gain of $5 (2008 – loss of $6), net of income taxes and minority interest, recorded in accumulated other comprehensive loss related to interest rate swaps as at year end 2009 is expected to be reclassified to net earnings during the next 12 months. Remaining amounts on the interest rate swaps will be reclassified to net earnings over periods of up to 2 years.

A gain of $3 (2008 – $7), net of income taxes and minority interest, recorded in accumulated other comprehensive loss on cross currency swaps will be reclassified to net earnings over the next 12 months but will be partially offset by the losses reclassified from accumulated other comprehensive loss to net earnings on available-for-sale assets. Remaining amounts on the cross currency swaps will be reclassified to net earnings over periods of up to 4 years.

A loss of nil (2008 – $6) on commodity derivatives is expected to be reclassified from accumulated other comprehensive loss to net earnings during the next 12 months.

26. FINANCIAL DERIVATIVE INSTRUMENTS

A summary of the Company's outstanding derivative instruments is as follows:

	Notional Amounts Maturing in							
	2010	2011	2012	2013	2014	Thereafter	**2009 Total**	2008 Total
Cross currency swap receivable	$ 161	$ 56	$ 166	$ 75	$ 145	$ 546	**$ 1,149**	$ 1,181
Cross currency swap payable				$ 148		$ 148	**$ 296**	$ 296
Interest rate swaps receivable	$ 50	$ 200					**$ 250**	$ 390
Interest rate swaps payable				$ 150			**$ 150**	$ 150
Equity swaps and forwards	$ 181					$ 92	**$ 273**	$ 435
Equity forward associated with the forward sale of Loblaw common shares						$ 771	**$ 771**	$ 735
Electricity forward contract	$ 9	$ 8					**$ 17**	$ 25

Notional amounts do not represent assets or liabilities and are therefore not recorded on the consolidated balance sheet. The notional amounts are used in order to calculate the payments to be exchanged under the contracts.

Cross Currency Swaps

Glenhuron entered into cross currency swaps (see note 28) to exchange U.S. dollars for $1,149 (2008 – $1,181) Canadian dollars, which mature by 2017. Cross currency swaps totaling $250 (2008 – $320) are designated in a cash flow hedge and the remaining undesignated $899 (2008 – $861) are classified as held-for-trading financial assets. Currency adjustments receivable or payable arising from these swaps are settled in cash on maturity. As at year end 2009, a cumulative unrealized foreign currency exchange rate receivable of $167 (2008 – $36) was recorded in other assets. In addition, a credit value adjustment of $4 was recorded in other assets.

In 2008, Loblaw entered into fixed cross currency swaps to exchange $296 Canadian dollars for U.S. $300, which mature by 2015. A portion of these cross currency swaps are designated in a cash flow hedge to manage the foreign currency exchange risk related to a part of Loblaw's fixed rate U.S. dollar private placement notes (see note 18).

Interest Rate Swaps

Glenhuron maintains interest rate swaps (see note 28) that convert a notional $250 (2008 – $390) of floating rate available-for-sale cash and cash equivalents, short term investments and security deposits to average fixed rate investments at 5.11% (2008 – 5.39%), which are part of a hedging relationship that matures by 2011. As at year end 2009, the fair value of these interest rate swaps of $15 (2008 – $21) was recorded in other assets (see note 15) and the unrealized fair value gain of $9 (2008 – $13) was deferred, net of income taxes and minority interest, in accumulated other comprehensive loss. In addition, a nominal credit value adjustment was recorded in other assets. When realized, these unrealized gains are reclassified to net earnings.

Loblaw also maintains interest rate swaps which are not part of a hedging relationship. At year end 2009, the fair value of these interest rate swaps of $31 (2008 – $43) was recorded in other liabilities (see note 19). In addition, a nominal credit value adjustment was recorded in other liabilities.

Equity Swaps and Forwards **($, except where otherwise indicated)**

As at year end 2009, GWL had cumulative outstanding equity swaps in its common shares of 1.7 million (2008 – 1.7 million) at an average forward price of $103.17 (2008 – $103.17). As at year end 2009, Glenhuron had cumulative outstanding equity forwards to buy 1.5 million (2008 – 4.8 million) Loblaw common shares at a cumulative average forward price of $66.25 (2008 – $54.46), including $10.03 (2008 – $9.59) per common share of interest expense, net of dividends, that has been recognized in net earnings from continuing operations and will be paid at termination. These swaps and forwards provide for settlement of net amounts owing between the respective company and its counterparty in cash or common shares. As at year end 2009, the fair value of GWL's swaps of $61 million (2008 – $44 million) and nil (2008 – $29 million) was recorded in accounts payable and accrued liabilities and in other liabilities, respectively (see note 19). Cumulative interest net of dividends and unrealized market loss on Glenhuron's forwards of $48 million (2008 – $92 million) was recorded in accounts payable and accrued liabilities. During 2009, a fair value gain of $9 million (2008 – $22 million) was recorded in operating income related to these equity swaps and forwards (see note 24). During 2009, Glenhuron paid $55 million to terminate equity forwards representing 3.3 million Loblaw common shares, which led to the extinguishment of a corresponding portion of the associated liability.

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 $80.28 (2008 – $76.52) per Loblaw common share as at year end 2009. The forward matures in 2031 and will be settled in cash as follows: WHL will receive the forward price and will pay the market value of the underlying Loblaw common shares at maturity. As at year end 2009, the fair value of this equity forward sale agreement based on 9.6 million Loblaw common shares of $446 million (2008 – $397 million) was recorded in other assets (see note 15). During 2009, a fair value gain of $13 million (2008 – fair value loss of $11 million) was recorded in interest expense and other financing charges related to this forward (see note 6).

Commodity Derivatives

The Company uses commodity futures, options and forward contracts to manage its anticipated exposure to fluctuations in commodity prices.

As at year end 2009, the fair value of Weston Foods' commodity futures of negative $5 (2008 – $33) was recorded in accounts receivable. During 2009, a fair value gain of $23 (2008 – loss of $40) was recorded in operating income relating to futures which were not designated in a cash flow hedge while a fair value loss of nil (2008 – $8) was deferred in accumulated other comprehensive loss relating to futures which were designated in a cash flow hedge. As at year end 2009, the fair value of the commodity options of a nominal amount (2008 – negative $5) was recorded in accounts receivable and a fair value gain of $5 (2008 – loss of $7) was recorded in operating income.

Loblaw entered into an electricity forward contract to minimize price volatility and to maintain a portion of its electricity costs in Alberta, Canada at approximately 2006 rates. This electricity forward contract has an initial term of five years and expires in December 2011. Loblaw is required to measure its electricity forward contract at fair value. As at year end 2009, the fair value of this forward contract of $3 (2008 – $7) was recorded in other liabilities (2008 – other assets). During 2009, a loss in value of $10 (2008 – gain of $2) was recorded in operating income.

Loblaw entered into exchange traded futures contracts and options contracts to minimize cost volatility on fuel prices. Futures contracts establish a fixed cost on a portion of Loblaw's fuel exposure and option contracts typically provide protection against a range of cost outcomes. As at year end 2009, Loblaw had nil (2008 – $4) recorded in accounts payable and accrued liabilities related to the above contracts.

Foreign Exchange Forwards

During 2009, Loblaw entered into forward contracts to hedge a portion of its U.S. dollar fixed asset purchases. As at year end 2009, a nominal fair value of the outstanding forward contracts was included in accounts payable and accrued liabilities and accordingly a nominal loss was recorded in operating income.

27. FAIR VALUES OF FINANCIAL INSTRUMENTS

Derivative Instruments

The fair value of derivative instruments is the estimated amount that the Company would receive or pay to terminate the instrument at the reporting date. The fair values have been determined by reference to prices available from the markets on which the instruments trade and prices provided by counterparties where available, or are estimated using industry standard valuation models. Where applicable, these models project future cash flows and discount the future amounts to a present value using market-based observable inputs including interest rate curves, credit spreads, foreign exchange rates, and forward and spot prices for currencies.

Other Financial Instruments

The fair values of cash and cash equivalents, short term investments, security deposits, accounts receivable, accounts payable and accrued liabilities and short term borrowings approximate their carrying values given their short term maturities. The fair values of long term debt and capital securities were estimated based on the Company's current incremental borrowing rate for similar types of borrowing arrangements or where applicable, quoted market prices.

The following tables provide a comparison of carrying and fair values for each classification of financial instruments as at December 31, 2009 and December 31, 2008 and an analysis of financial instruments carried at fair value by fair value hierarchy level.

The different fair value hierarchy levels have been defined as follows:

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

As at December 31, 2009

	Financial derivatives designated in a cash flow hedge	Financial instruments required to be classified as held-for-trading	Financial instruments designated as held-for-trading	Available-for-sale instruments measured at fair value	Loans and receivables	Other financial liabilities	Total carrying amount	Total fair value
Cash and cash equivalents, short term investments and security deposits			$ 5,062	$ 192			$ 5,254	$ 5,254
Derivatives included in accounts receivable		$ (5)					(5)	(5)
Other receivables			13		$ 843		856	856
Derivatives included in other assets	$ 83	562					645	645
Total financial assets	$ 83	$ 557	$ 5,075	$ 192	$ 843		$ 6,750	$ 6,750
Fair value level 1		$ (5)						$ (5)
Fair value level 2	$ 83	561	$ 5,062	$ 192				5,898
Fair value level 3		1	13					14
Total fair value	$ 83	$ 557	$ 5,075	$ 192				$ 5,907
Short term borrowings						$ 302	$ 302	$ 302
Derivatives included in accounts payable and accrued liabilities		$ 109					109	109
Other accounts payable and accrued liabilities						3,470	3,470	3,470
Long term debt						5,720	5,720	6,066
Derivatives included in other liabilities		34				7	41	41
Capital securities						220	220	244
Total financial liabilities		$ 143				$ 9,719	$ 9,862	$ 10,232
Fair value level 1								
Fair value level 2		$ 143						$ 143
Fair value level 3								
Total fair value		$ 143						$ 143

The equity investment in Loblaw franchises is measured at a cost of $75 because quoted market prices in an active market are not available. These investments are classified as available-for-sale, and Loblaw has no intention of disposing of these equity investments.

As at December 31, 2008

	Financial derivatives designated in a cash flow hedge	Financial instruments required to be classified as held-for-trading	Financial instruments designated as held-for-trading	Available-for-sale instruments measured at fair value	Loans and receivables	Other financial liabilities	Total carrying amount	Total fair value
Cash and cash equivalents, short term investments and security deposits			$ 2,408	$ 292			$ 2,700	$ 2,700
Derivatives included in accounts receivable	$ (5)	$ (33)					(38)	(38)
Other receivables			14		$ 982		996	996
Available-for-sale securities included in other assets				7			7	7
Derivatives included in other assets	98	442					540	540
Total financial assets	$ 93	$ 409	$ 2,422	$ 299	$ 982		$ 4,205	$ 4,205
Short term borrowings						$ 546	$ 546	$ 546
Derivatives included in accounts payable and accrued liabilities		$ 136					136	136
Other accounts payable and accrued liabilities						2,985	2,985	2,985
Long term debt						5,723	5,723	5,180
Derivatives included in other liabilities		85				7	92	92
Capital securities						483	483	479
Total financial liabilities		$ 221				$ 9,744	$ 9,965	$ 9,418

The equity investment in Loblaw franchises is measured at a cost of $72 because quoted market prices in an active market are not available. These investments are classified as available-for-sale, and Loblaw has no intention of disposing of these equity investments.

The financial instruments classified as fair value level 3 are as follows:

- The retained interest from the securitization of PC Bank receivables, for which a reconciliation and sensitivity analysis are included in note 10.
- The fair value of the Loblaw embedded foreign currency derivative of $1 included in other assets (2008 – $3 included in other liabilities), of which the fair value gain of $4 (2008 – loss of $4) was recognized in operating income. A 100 basis point increase (decrease) in foreign currency exchange rates would result in a $1 gain (loss) in fair value.

There were no significant transfers between the fair value hierarchy levels during 2009.

During 2009, the net unrealized and realized loss on held-for-trading financial assets designated as held-for-trading, recognized in net earnings from continuing operations before income taxes and minority interest was $120 (2008 – gain of $158). In addition, the net unrealized and realized gain on held-for-trading financial assets and financial liabilities, including non-financial derivatives, required to be classified as held-for-trading, recognized in net earnings from continuing operations before income taxes and minority interest was $108 (2008 – loss of $252).

28. FINANCIAL RISK MANAGEMENT

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

Credit Risk

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

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

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

Credit risk from PC Bank's credit card receivables, receivables from Weston Foods' customers and suppliers and Loblaw's independent franchisees, associated stores and independent accounts results from the possibility that customers may default on their payment obligations. PC Bank manages the credit card receivable risk by employing stringent credit scoring techniques, actively monitoring its credit card portfolio and reviewing techniques and technology that can improve the effectiveness of the collection process. In addition, these receivables are dispersed among a large, diversified group of credit card customers.

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

The Company's maximum exposure to credit risk as it relates to derivative instruments is approximated by the positive fair market value of the derivatives on the balance sheet (see note 27).

See note 11 for additional information on the credit quality performance of credit card receivables and other receivables from Weston Foods' customers, Loblaw's independent franchisees, associated stores and independent accounts.

Market Risk

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

Foreign Currency Exchange Rate Risk

As at year end 2009, the Company had $3.4 billion (2008 – $1.4 billion) in cash and cash equivalents, $1,538 (2008 – $694) in short term investments and $348 (2008 – $560) in security deposits, of which $2.2 billion (2008 – $2.1 billion) is denominated in U.S. dollars and is held primarily by Dunedin and certain of its affiliates and Glenhuron.

The Company's consolidated financial statements are expressed in Canadian dollars, however a portion of the Company's (excluding Loblaw's) net assets are denominated in U.S. dollars through both its net investment in self-sustaining foreign operations in the United States, and its investment in integrated foreign subsidiaries through Dunedin and certain of its affiliates. The U.S. dollar denominated net assets are translated into Canadian dollars at the foreign currency exchange rate in effect at the balance sheet date. As a result, the Company is exposed to exchange rate gains and losses. Prior to the sale of the U.S. fresh bakery business, all of the Company's (excluding Loblaw's) U.S. dollar denominated net assets were held in self-sustaining foreign operations. Exchange rate gains and losses due to the translation of these self-sustaining foreign operations' net assets were recorded in accumulated other comprehensive loss. After the sale of the U.S. fresh bakery business in 2009, Dunedin and certain of its affiliates became integrated foreign subsidiaries. As a result, gains and losses arising from the translation of the U.S. dollar denominated assets of these integrated foreign subsidiaries are included in operating income.

Accordingly, operating income includes $225 (2008 – nil) of foreign exchange losses due to the effect of foreign exchange on a portion of the U.S. dollar denominated cash and cash equivalents and short term investments held by Dunedin and certain of its affiliates. The Company estimates that based on the U.S. net assets held in integrated subsidiaries at the end of 2009, an appreciation (depreciation) in the Canadian dollar of $0.01 relative to the U.S. dollar would have a negative (positive) impact on operating income of $12.

Unrealized foreign exchange gains associated with the effect of foreign exchange on the Company's (excluding Loblaw's) U.S. net investment held in self-sustaining foreign operations decreased accumulated other comprehensive loss by $35 (2008 – $677) during 2009.

Revenues and expenses of these integrated and self-sustaining foreign operations are translated into Canadian dollars at the foreign currency exchange rates that approximate the rates in effect at the dates when such items are recognized. An appreciating Canadian dollar relative to the U.S. dollar will negatively impact year-over-year changes in reported sales, operating income and net earnings, while a depreciating Canadian dollar relative to the U.S. dollar will have the opposite impact.

Loblaw is exposed to foreign currency exchange rate variability, primarily on U.S. dollar denominated cash and cash equivalents, short term investments and security deposits held by Glenhuron, foreign denominated and foreign currency based purchases in accounts payable and accrued liabilities, and U.S. dollar private placement notes included in long term debt. Loblaw and Glenhuron have cross currency swaps that partially offset their respective exposure to fluctuations in foreign currency exchange rates. Loblaw designates a portion of the cross currency swaps in a cash flow hedge of the exposure to fluctuations in the foreign currency exchange rate on a portion of its U.S. dollar denominated cash equivalents, short term investments and security deposits. The remaining undesignated cross currency swaps partially offset fluctuations in the foreign currency exchange rate on the remaining U.S. dollar denominated cash and cash equivalents, short term investments and security deposits and the U.S. dollar private placement notes.

During 2009, Loblaw's unrealized foreign currency exchange loss of $25 (2008 – gain of $50) before income taxes and minority interest, related to cash and cash equivalents, short term investments and security deposits classified as available-for-sale was recognized in accumulated other comprehensive loss and was partially offset by the unrealized foreign currency exchange rate gain of $28 (2008 – loss of $51) before income taxes and minority interest relating to the designated cross currency swaps also deferred in accumulated other comprehensive loss. The unrealized foreign currency exchange loss of $121 (2008 – gain of $160) on the designated held-for-trading cash and cash equivalents, short term investments and security deposits is partially offset in operating income by the unrealized foreign currency exchange rate gain of $117 (2008 – loss of $157) relating to the cross currency swaps which are not designated in a cash flow hedge. During 2009, Loblaw realized a foreign currency exchange loss of $14 (2008 – gain of $26) relating to cross currency swaps that matured or were terminated.

During 2009, Loblaw recognized in operating income an unrealized foreign currency exchange gain of $45 (2008 – loss of $65) related to U.S. $300 fixed rate private placement notes. This was partially offset by both the effective portion of the designated cross currency swaps that was reclassified from other comprehensive income to operating income and the fair value gain on the cross currency swaps that are not designated in a hedging relationship. At the inception of the cash flow hedge, a nominal amount of ineffectiveness was recognized in operating income.

Commodity Price Risk

Weston Foods costs are directly impacted by fluctuations in the price of commodities such as wheat, flour, sugar, vegetable oil, cocoa, natural gas and fuel. Loblaw is exposed to increases in the prices of commodities in operating its stores and distribution centres, as well as the indirect link of commodities to its consumer products. To manage a portion of this exposure, Loblaw uses purchase commitments for a portion of its needs for certain consumer products that may be commodities based and Loblaw expects to take delivery of these consumer products in the normal course of business. In addition, both Weston Foods and Loblaw use financial and non-financial derivative instruments in the form of futures contracts, option contracts and forward contracts to manage their current and anticipated exposure to fluctuations in commodity prices. The Company estimates that a 10% increase (decrease) in relevant commodity prices, with all other variables held constant, would result in a net gain (loss) of $8 in net earnings before income taxes and minority interest.

Interest Rate Risk

Interest rate risk arises from the issuance of short term debt and equity derivatives, net of cash and cash equivalents, short term investments and security deposits. The Company is exposed to changes in short term interest rate volatility which are offset partly by Glenhuron's and Loblaw's interest rate swaps. The Company estimates that a 100 basis point increase (decrease) in interest rates, with all other variables held constant, would result in a decrease (increase) of $51 in interest expense and other financing charges.

Common Share Price Risk

GWL and Loblaw issue stock-based compensation to employees in the form of stock options and RSUs based on their respective underlying common shares. Consequently, operating income is negatively impacted when the common share prices increase and positively impacted when the common share prices decline. The equity derivatives provide a partial offset to fluctuations in stock-based compensation cost. The equity derivatives allow for settlement in cash, common shares or net settlement. These derivatives change in value as the market prices of the respective underlying common shares change and provide a partial offset to fluctuations in stock-based compensation cost, including RSU plan expense. The partial offset between stock-based compensation costs, including RSU plan expense, and the equity derivatives is more effective when the market price of the respective underlying common shares exceeds the exercise price of the employee stock options. When the market price of the respective underlying common shares is lower than the exercise price of the employee stock options, these equity derivatives provide a partial offset only to the RSU plan expense. The amount of net stock-based compensation cost recorded in operating income is mainly dependent upon the number of unexercised stock options and RSUs, their vesting schedules relative to the number of respective underlying common shares on the equity derivatives and the level of fluctuations in the market price of the respective underlying common shares. A one dollar increase (decrease) in the market value of the respective underlying shares of the equity derivatives, with all other variables held constant, would result in a gain (loss) of $3 in net earnings before income taxes and minority interest.

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

Liquidity Risk

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they come due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price.

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

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

The following are the undiscounted contractual maturities of significant financial liabilities as at December 31, 2009:

	2010	2011	2012	2013	2014	Thereafter[5]	Total
Interest rate swaps payable[1]	$ 13	$ 13	$ 13	$ 5			$ 44
Equity swaps and forwards[2]	181					$ 92	273
Long term debt including fixed interest payments[3]	662	978	283	621	$ 883	7,015	10,442
Other liabilities[4]	5				36		41
	$ 861	$ 991	$ 296	$ 626	$ 919	$ 7,107	$ 10,800

(1) Based on the pay fixed interest which will be partially offset by the floating interest received.
(2) Based on the average cost base as at December 31, 2009.
(3) Based on the maturing face values and annual interest for each instrument as well as annual payment obligations for VIEs, mortgages and capital leases.
(4) Contractual amount of Loblaw's foreign exchange forwards and the contractual obligation related to certain other liabilities.
(5) Loblaw's capital securities and their related dividends have been excluded as Loblaw is not contractually obligated to pay these amounts.

The Company's bank indebtedness, short term debt and accounts payable and accrued liabilities are short term in nature, which are due within the next 12 months, and thus not included above.

29. CONTINGENCIES, COMMITMENTS AND GUARANTEES

The Company is involved in, and potentially subject to, various claims by third parties arising out of the normal course and conduct of its business including, but not limited to, product liability, labour and employment, regulatory and environmental claims. In addition, the Company is involved in and potentially subject to regular audits from federal, provincial and state tax authorities relating to income, capital and commodity taxes and as a result of these audits may receive assessments and reassessments. Although such matters cannot be predicted with certainty, management currently considers the Company's exposure to such claims and litigation, to the extent not covered by the Company's insurance policies or otherwise provided for, not to be material to these consolidated financial statements, with the exception of the items disclosed in the Legal Proceedings section below.

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

The Company establishes standby letters of credit used in connection with certain obligations mainly related to real estate transactions, benefit programs and performance guarantees. The aggregate gross potential liability related to these standby letters of credit is approximately $375 (2008 – $413), a portion of which is recorded on the consolidated balance sheet. Other standby letters of credit related to the financing program for Loblaw's independent franchisees and securitization of PC Bank's credit card receivables have been identified as guarantees and are discussed further in the Guarantees section below.

Guarantees

The Company has provided to third parties the following significant guarantees as defined pursuant to AcG 14, "Disclosure of Guarantees".

Independent Funding Trust

Certain independent franchisees of Loblaw obtain financing through a structure involving independent trusts, which were created to provide loans to the independent franchisees to facilitate their purchase of inventory and fixed assets, consisting mainly of fixtures and equipment. These trusts are administered by a major Canadian chartered bank. The gross principal amount of loans issued to Loblaw's independent franchisees outstanding as at year end 2009 was $390 (2008 – $388) including $163 (2008 – $152) of loans payable by VIEs consolidated by the Company. Based on a formula, Loblaw has agreed to provide credit enhancement in the form of a standby letter of credit for the benefit of the independent funding trust equal to approximately 15% (2008 – 15%) of the principal amount of the loans outstanding at any point in time, $66 (2008 – $66) as at year end 2009. The standby letter of credit has not been drawn upon. This credit enhancement allows the independent funding trust to provide favourable financing terms to Loblaw's independent

franchisees. As well, each independent franchisee provides security to the independent funding trust for its obligations by way of a general security agreement. In the event that an independent franchisee defaults on its loan and Loblaw has not, within a specified time period, assumed the loan, or the default is not otherwise remedied, the independent funding trust would assign the loan to Loblaw and draw upon this standby letter of credit. Loblaw has agreed to reimburse the issuing bank for any amount drawn on the standby letter of credit.

During the second quarter of 2009, the $475, 364-day revolving committed credit facility was renewed. This facility has a further 12-month repayment term upon maturity and is the source of funding to the independent trusts. The new financing structure has been reviewed and Loblaw determined there were no additional VIEs to consolidate as a result of this financing. In accordance with Canadian GAAP, the financial statements of the independent funding trust are not consolidated with those of the Company.

Standby Letters of Credit

Standby letters of credit for the benefit of independent trusts with respect to the credit card receivables securitization program of PC Bank have been issued by major Canadian chartered banks. These standby letters of credit could be drawn upon in the event of a major decline in the income flow from or in the value of the securitized credit card receivables. Loblaw has agreed to reimburse the issuing banks for any amount drawn on the standby letters of credit. The aggregate gross potential liability under these arrangements, which represents 9% (2008 – 9%) on a portion of the securitized credit card receivables amount, is approximately $116 (2008 – $116) (see note 10).

Lease Obligations

In connection with historical dispositions of certain of its assets, the Company has assigned leases to third parties. The Company remains contingently liable for these lease obligations in the event any of the assignees are in default of their lease obligations. The estimated amount for minimum rent, which does not include other lease related expenses such as property tax and common area maintenance charges, is in aggregate $41 (2008 – $63).

Indemnification Provisions

The Company from time to time enters into agreements in the normal course of its business, such as service and outsourcing arrangements and leases, and in connection with business or asset acquisitions or dispositions. These agreements by their nature may provide for indemnification of counterparties. These indemnification provisions may be in connection with breaches of representations and warranties or with future claims for certain liabilities, including liabilities related to tax and environmental matters. Indemnities were provided to the purchasers of the Company's dairy and bottling operations and the U.S. fresh bakery business. The terms of these indemnification provisions vary in duration and may extend for an unlimited period of time. Indemnification provisions could result in future cash outflows and statement of earnings charges. The Company is unable to reasonably estimate its total maximum potential liability as certain indemnification provisions do not provide for a maximum potential amount and the amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. Historically, the Company has not made any significant payments in connection with these indemnification provisions.

Legal Proceedings

In 2007, pursuant to a transaction whereby Domtar was combined with the fine paper business of Weyerhaeuser Inc., Domtar common shares were exchanged for an equal number of either exchangeable shares of Domtar (Canada) Paper Inc. or common shares of New Domtar. The Company elected to receive exchangeable shares of Domtar (Canada) Paper Inc. in exchange for its Domtar common shares. The Share Purchase Agreement governing the June 1998 sale by GWL of E.B. Eddy Paper, Inc. to Domtar (the "SPA") contains a price adjustment clause. The SPA provides, subject to certain limited exceptions, that if any person subsequently acquired more than 50% of the outstanding voting shares of Domtar, the price adjustment clause applies. GWL believes that a price adjustment in the amount of $110 is payable to it by Domtar and it has demanded payment of such amount from Domtar. Domtar's position is that the purchase price adjustment does not apply because of the application of an exception contained in the SPA. GWL has commenced an action against Domtar for $110. The parties have exchanged legal pleadings.

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

30. VARIABLE INTEREST ENTITIES

Pursuant to AcG 15, Loblaw consolidates all VIEs for which it is the primary beneficiary. AcG 15 defines a VIE as an entity that either does not have sufficient equity at risk to finance its activities without subordinated financial support or where the holders of the equity at risk lack the characteristics of a controlling financial interest. AcG 15 requires the primary beneficiary to consolidate VIEs and considers an entity to be the primary beneficiary of a VIE if it holds variable interests that expose it to a majority of the VIEs' expected losses or that entitle it to receive a majority of the VIEs' expected residual returns or both. Loblaw has identified the following significant VIEs:

Independent Franchisees

Loblaw enters into various forms of franchise agreements that generally require the independent franchisee to purchase inventory from Loblaw and pay certain fees in exchange for services provided by Loblaw and for the right to use certain trademarks and licenses owned by Loblaw. Independent franchisees generally lease the land and building from Loblaw, and when eligible, may obtain financing through a structure involving independent trusts to facilitate the purchase of the majority of their inventory and fixed assets, consisting mainly of fixtures and equipment (see note 29). These trusts are administered by a major Canadian chartered bank. Under the terms of certain franchise agreements, Loblaw may also lease equipment to independent franchisees. Independent franchisees may also obtain financing through operating lines of credit with traditional financial institutions or through issuing preferred shares or notes payable to Loblaw. Loblaw monitors the financial condition of its independent franchisees and provides for estimated losses or write-downs on its accounts and notes receivable or investments when appropriate.

As at year end 2009, 166 (2008 – 154) of Loblaw's independent franchise stores met the criteria for a VIE and were consolidated pursuant to AcG 15.

Warehouse and Distribution Agreements

Loblaw has warehouse and distribution agreements with third-party entities to provide to Loblaw distribution and warehousing services from dedicated facilities. Loblaw has no equity interest in these third-party entities; however, the terms of the agreement with the third-party entities are such that Loblaw has determined that the third-party entities meet the criteria for a VIE that requires consolidation by Loblaw. The impact of the consolidation of the warehouse and distribution entities was not material.

Accordingly, the Company has included the results of these independent franchisees and these third-party entities that provide distribution and warehousing services in its consolidated financial statements. The consolidation of these VIEs by the Company does not result in any change to its tax, legal or credit risks, nor does it result in the Company assuming any obligations of these third parties.

Independent Trust

Loblaw has also identified that it holds variable interests, by way of standby letters of credit in independent trusts which are used to securitize credit card receivables for PC Bank. In these securitizations, PC Bank sells a portion of its credit card receivables to the independent trust in exchange for cash. Although these independent trusts have been identified as VIEs, it was determined that Loblaw is not the primary beneficiary and therefore these VIEs are not subject to consolidation by the Company. The Company's maximum exposure to loss as a result of its involvement with these independent trusts is disclosed in note 29.

31. RELATED PARTY TRANSACTIONS

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

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

32. SEGMENT INFORMATION

The Company has two reportable operating segments: Weston Foods and Loblaw. The Weston Foods operating segment is a leading fresh and frozen baking company in Canada and is engaged in frozen baking and biscuit manufacturing in the United States. The Loblaw operating segment, which is operated by Loblaw and its subsidiaries, is Canada's largest food distributor and a leading provider of drugstore, general merchandise and financial products and services.

The accounting policies of the reportable operating segments are the same as those described in the Company's summary of significant accounting policies. The Company measures each reportable operating segment's performance based on operating income. Neither reportable operating segment is reliant on any single external customer.

	2009	2008
Sales		
Weston Foods	$ 1,686	$ 2,197
Loblaw	30,735	30,802
Intersegment	(601)	(911)
Consolidated	$ 31,820	$ 32,088
Operating Income		
Weston Foods	$ 123	$ 154
Loblaw[(1)]	1,197	1,044
Other[(2)]	(311)	
Consolidated	$ 1,009	$ 1,198
Depreciation and Amortization		
Weston Foods	$ 56	$ 60
Loblaw[(1)]	589	550
Consolidated	$ 645	$ 610
Total Assets		
Weston Foods	$ 1,674	$ 2,892
Loblaw[(1)]	15,151	14,083
Other[(3)]	3,318	
Discontinued Operations		2,588
Consolidated	$ 20,143	$ 19,563
Fixed Assets and Goodwill Purchases		
Weston Foods	$ 40	$ 57
Loblaw	1,127	751
Consolidated	$ 1,167	$ 808

(1) Restated for 2008 – see note 2.

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

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

The Company operates primarily in Canada and the United States.

	2009	2008
Sales (excluding intersegment)		
Canada	**$ 31,126**	$ 31,461
United States	**694**	627
Consolidated	**$ 31,820**	$ 32,088
Fixed Assets and Goodwill		
Canada	**$ 9,974**	$ 9,302
United States	**241**	356
Consolidated	**$ 10,215**	$ 9,658

Three Year Summary

CONSOLIDATED INFORMATION – CONTINUING OPERATIONS[1,2]

For the years ended December 31[3] ($ millions except where otherwise indicated)	**2009**	2008	2007
Operating Results			
Sales	**31,820**	32,088	30,607
EBITDA[4]	**1,654**	1,808	1,501
Operating income	**1,009**	1,198	883
Interest expense and other financing charges[5]	**363**	360	175
Net earnings from continuing operations	**127**	647	378
Financial Position			
Working capital	**3,808**	1,165	380
Fixed assets	**9,020**	8,542	8,453
Goodwill and intangible assets	**1,296**	1,145	1,134
Total assets	**20,143**	19,563	18,361
Net debt[4]	**299**	3,251	4,448
Shareholders' equity	**6,942**	5,910	4,657
Cash Flows			
Cash flows from operating activities of continuing operations	**1,987**	956	1,342
Fixed asset purchases	**1,011**	807	658
Per Common Share ($)			
Basic net earnings from continuing operations	**0.64**	4.65	2.49
Basic net earnings	**7.68**	6.10	3.95
Common dividend rate at year end	**1.44**	1.44	1.44
Cash flows from operating activities of continuing operations	**15.05**	7.04	9.95
Fixed asset purchases	**7.83**	6.25	5.10
Book value	**47.44**	39.45	29.74
Market value at year end	**66.92**	59.90	54.08
Financial Ratios			
EBITDA margin (%)[4]	**5.2**	5.6	4.9
Operating margin (%)	**3.2**	3.7	2.9
Return on average net assets (%)[4]	**9.3**	11.2	8.2
Return on average common shareholders' equity (%)	**1.5**	13.4	8.0
Interest coverage	**2.6x**	3.2x	4.5x
Net debt (excluding Exchangeable Debentures)[4] to EBITDA[4]	**0.18x**	1.80x	2.86x
Net debt (excluding Exchangeable Debentures)[4] to equity[4]	**0.04**	0.53	0.87
Cash flows from operating activities of continuing operations to net debt[4]	**6.65**	0.29	0.30
Price/net earnings from continuing operations ratio at year end	**104.6**	12.9	21.7
Market/book ratio at year end	**1.4**	1.5	1.8

(1) For financial definitions and ratios refer to the Glossary beginning on page 114.
(2) Certain prior years' information has been restated to conform with the new Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064, "Goodwill and Intangible Assets". See note 2 to the consolidated financial statements.
(3) 2008 was a 53-week year.
(4) See non-GAAP financial measures beginning on page 51.
(5) 2009 includes non-cash income of $13 (2008 – non-cash charge of $11) related to the fair value adjustment of WHL's forward sale agreement for 9.6 million Loblaw common shares (see note 6 to the consolidated financial statements).

SEGMENT INFORMATION – CONTINUING OPERATIONS[1,2]

For the years ended December 31[3] ($ millions except where otherwise indicated)		2009	2008	2007
OPERATING RESULTS				
Sales	Weston Foods	**1,686**	2,197	2,088
	Loblaw	**30,735**	30,802	29,384
	Intersegment	**(601)**	(911)	(865)
	Consolidated	**31,820**	32,088	30,607
EBITDA[4]	Weston Foods	**179**	214	209
	Loblaw	**1,786**	1,594	1,292
	Other[6]	**(311)**		
	Consolidated	**1,654**	1,808	1,501
Operating Income	Weston Foods	**123**	154	147
	Loblaw	**1,197**	1,044	736
	Other[6]	**(311)**		
	Consolidated	**1,009**	1,198	883
FINANCIAL POSITION				
Fixed Assets	Weston Foods	**461**	497	500
	Loblaw	**8,559**	8,045	7,953
	Consolidated	**9,020**	8,542	8,453
Total Assets	Weston Foods[5]	**1,674**	2,892	2,478
	Loblaw	**15,151**	14,083	13,765
	Discontinued Operations		2,588	2,118
	Other[7]	**3,318**		
	Consolidated	**20,143**	19,563	18,361
CASH FLOWS				
Fixed Asset Purchases	Weston Foods	**40**	57	45
	Loblaw	**971**	750	613
	Consolidated	**1,011**	807	658
FINANCIAL RATIOS				
EBITDA Margin (%)[4]	Weston Foods	**10.6**	9.7	10.0
	Loblaw	**5.8**	5.2	4.4
	Consolidated	**5.2**	5.6	4.9
Operating Margin (%)	Weston Foods	**7.3**	7.0	7.0
	Loblaw	**3.9**	3.4	2.5
	Consolidated	**3.2**	3.7	2.9
Return on Average Net Assets (%)[4]	Weston Foods	**19.2**	22.6	17.9
	Loblaw	**11.8**	10.4	7.4
	Consolidated	**9.3**	11.2	8.2

(1) For financial definitions and ratios refer to the Glossary beginning on page 114.
(2) Certain prior years' information has been restated to conform with the new CICA Handbook Section 3064, "Goodwill and Intangible Assets". See note 2 to the consolidated financial statements.
(3) 2008 was a 53-week year.
(4) See non-GAAP financial measures beginning on page 51.
(5) Total assets include the following: 2009 – nil (2008 – nil, 2007 – $157) investment in Domtar common shares/Domtar (Canada) Paper Inc. exchangeable shares.
(6) After the sale of the U.S. fresh bakery business on January 21, 2009, Dunedin and certain of its affiliates became "integrated" foreign subsidiaries for accounting purposes. On the date of the sale, the cumulative foreign currency translation loss of $34 associated with Dunedin and certain of its affiliates, which was previously reflected in accumulated other comprehensive loss, was reversed and included in operating income. Subsequent to January 21, 2009, gains and losses arising from the translation of the U.S. dollar denominated assets of these integrated foreign subsidiaries are included in net earnings. As a result, operating income for 2009 included $225 (2008 – nil) of foreign exchange losses associated with the effect of foreign exchange on a portion of the U.S. dollar denominated cash and cash equivalents and short term investments held by Dunedin and certain of its affiliates. In addition, during the fourth quarter of 2009, due to an internal reorganization, a reduction in the Company's U.S. net investment in self-sustaining foreign operations resulted in the reversal of an additional cumulative translation loss of $52 into operating income.
(7) Other includes cash and cash equivalents and short term investments held by Dunedin and certain of its affiliates.

Glossary

Basic net earnings per common share from continuing operations
Net earnings from continuing operations available to common shareholders divided by the weighted average number of common shares outstanding during the year.

Book value per common share
Common shareholders' equity divided by the number of common shares outstanding at year end.

Cash flows from operating activities of continuing operations per common share
Cash flows from operating activities of continuing operations less preferred dividends paid divided by the weighted average number of common shares outstanding during the year.

Cash flows from operating activities of continuing operations to net debt
Cash flows from operating activities of continuing operations divided by net debt (see non-GAAP financial measures beginning on page 51).

Common shareholders' equity
Total shareholders' equity less preferred shares outstanding.

Control label
A brand and associated trademark that is owned by Loblaw for use in connection with its own products and services.

Conversion
A store that changes from one Loblaw banner to another Loblaw banner.

Corporate stores sales per average square foot
Sales by corporate stores divided by the average corporate stores' square footage at year end.

Diluted net earnings per common share from continuing operations
Net earnings from continuing operations available to common shareholders divided by the weighted average number of common shares outstanding during the year minus the dilutive impact of outstanding stock option grants and certain other liabilities.

Dividend rate per common share at year end
Dividend per common share declared in the fourth quarter multiplied by four.

DRIP
Loblaw Dividend Reinvestment Plan.

EBITDA
Operating income before depreciation and amortization (see non-GAAP financial measures beginning on page 51).

EBITDA Margin
EBITDA divided by sales (see non-GAAP financial measures beginning on page 51).

Fixed asset purchases per common share
Fixed asset purchases divided by the weighted average number of common shares outstanding during the year.

Gross margin
Sales less cost of inventories sold including inventory shrinkage divided by sales.

Interest coverage
Operating income divided by interest expense and other financing charges adding back interest capitalized to fixed assets.

Major expansion
Expansion of a store that results in an increase in square footage that is greater than 25% of the square footage of the store prior to the expansion.

Market/book ratio at year end
Market price per common share at year end divided by book value per common share at year end.

Minor expansion
Expansion of a store that results in an increase in square footage that is less than or equal to 25% of the square footage of the store prior to the expansion.

Net debt
Bank indebtedness, short term debt, long term debt due within one year, certain other liabilities, long term debt and the fair value of certain financial derivative liabilities less cash and cash equivalents, short term investments, security deposits included in other assets and the fair value of certain financial derivative assets (see non-GAAP financial measures beginning on page 51).

Net debt to EBITDA
Net debt divided by EBITDA (see non-GAAP financial measures beginning on page 51).

Net debt (excluding Exchangeable Debentures) to equity
Net debt excluding Exchangeable Debentures divided by total shareholders' equity adding back GWL's capital securities (see non-GAAP financial measures beginning on page 51).

Net debt to equity
Net debt divided by total shareholders' equity adding back GWL's capital securities (see non-GAAP financial measures beginning on page 51).

New store
A newly constructed store, conversion or major expansion.

Operating income
Net earnings from continuing operations before gain on disposal of business, minority interest, interest expense and other financing charges and income taxes.

Operating margin
Operating income divided by sales.

Price/earnings from continuing operations ratio at year end
Market price per common share at year end divided by basic net earnings per common share from continuing operations for the year.

Renovation
A capital investment in a store resulting in no change to the store square footage.

Retail sales
Combined sales of stores owned by Loblaw and those owned by Loblaw's independent franchisees.

Retail square footage
Retail square footage includes corporate and independent franchised stores.

Return on average common shareholders' equity
Net earnings from continuing operations available to common shareholders divided by average total common shareholders' equity.

Return on average net assets
Operating income divided by average total assets excluding cash and cash equivalents, short term investments, security deposits included in other assets, accounts payable and accrued liabilities and assets of discontinued operations (see non-GAAP financial measures beginning on page 51).

Same-store sales
Retail sales from the same physical location for stores in operation in that location in both periods being compared but excluding sales from a store that has undergone a conversion or major expansion in the period.

Variable interest entity ("VIE")
An entity that either does not have sufficient equity at risk to finance its activities without subordinated financial support or where the holders of the equity at risk lack the characteristics of a controlling financial interest (see note 30 to the consolidated financial statements).

Weighted average common shares outstanding
The number of common shares outstanding determined by relating the portion of time within the year the common shares were outstanding to the total time in that year.

Working capital
Total current assets excluding current assets of discontinued operations, less total current liabilities excluding current liabilities of discontinued operations.

Year
The Company's year end is December 31. Activities are reported on a fiscal year ending on the Saturday closest to December 31, usually 52 weeks in duration, but including 53 weeks every 5 to 6 years. 2008 was a 53-week year.

Corporate Directory

Board of Directors

W. Galen Weston, O.C., B.A., LL.D.(1*)
Chairman and President of the Corporation; former Chairman, Loblaw Companies Limited; Chairman, Holt, Renfrew & Co., Limited, Brown Thomas Group Limited and Selfridges & Co. Ltd.; President, The W. Garfield Weston Foundation; Director, Associated British Foods plc; Member, Advisory Board of Columbia University.

Allan L. Leighton
Deputy Chairman of the Corporation; Deputy Chairman and President, Loblaw Companies Limited; Deputy Chairman, Selfridges & Co. Ltd.; former Chairman, Royal Mail Group (U.K. Postal Service); former President and Chief Executive Officer, Wal-Mart Europe; former Chief Executive, Asda Stores Ltd.; Director, Loblaw Companies Limited, BskyB plc, Selfridges & Co. Ltd., Holt, Renfrew & Co., Limited and Brown Thomas Group Limited.

A. Charles Baillie, O.C., B.A., M.B.A., LL.D.(2*,3)
Corporate Director; Chair, Alberta Investment Management Company; Retired Chairman and Chief Executive Officer, Toronto Dominion Bank; Director, Canadian National Railway Company and TELUS Corporation; Chancellor Emeritus, Queen's University; Chair, Art Gallery of Ontario's Board of Trustees; former Chair, Canadian Council of Chief Executives.

Robert J. Dart, B. Comm., CA, F.C.A.(4,5)
Director, Vice Chairman and former President, Wittington Investments, Limited; former Senior Tax Partner, Price Waterhouse Canada; Director, Holt, Renfrew & Co., Limited and Brown Thomas Group Limited.

Peter B.M. Eby, B. Comm., M.B.A.(1,2,3*)
Corporate Director; Former Vice-Chairman and Director, Nesbitt Burns Inc.; former Executive, Nesbitt Burns Inc. and its predecessor companies; Director, Leon's Furniture Limited, Sixty Split Corporation, R. Split II Corporation and TD Asset Management USA Funds Inc.; former Chairman, Olympic Trust.

Anne L. Fraser, C.M., B.Sc., LL.D.(5*)
Corporate Director; Education Consultant, University of Victoria; Associate, Faculties of Education, Engineering, Law and Fine Arts, University of Calgary; President, EnerG Enterprises Inc.; Director, Pier 21 Foundation; active with The Victoria Foundation; former syndicated broadcaster, CBC.

Anthony R. Graham, LL.D.(1,3,4*)
President and Director, Wittington Investments, Limited; President and Chief Executive Officer, Sumarria Inc.; former Vice-Chairman and Director, National Bank Financial; Chairman and Director, President's Choice Bank; Director, Loblaw Companies Limited, Brown Thomas Group Limited, Graymont Limited, Holt, Renfrew & Co., Limited, Power Corporation of Canada, Power Financial Corporation, Selfridges & Co. Ltd., Grupo Calidra and Victoria Square Ventures Inc.

John S. Lacey, B.A.
Consultant to the Chairman of the Board; Chairman of the Advisory Board, Tricap Restructuring Fund; Former President and Chief Executive Officer, The Oshawa Group (now a part of Sobeys Inc.); Director, Loblaw Companies Limited, TELUS Corporation and Ainsworth Lumber Co. Ltd.

Isabelle Marcoux, B.A., LL.B.(2)
Vice-Chair, Board of Directors and Vice-President, Corporate Development, Transcontinental Inc.; Director, Rogers Communications Inc.; Board Member, The Montreal Museum of Fine Arts and Montreal Mayor's Foundation for Youth.

J. Robert S. Prichard, O.C., O.Ont., LL.B, M.B.A., LL.M., LL.D.(3,4)
President and Chief Executive Officer, Metrolinx; Past President and Chief Executive Officer and Former Director, Torstar Corporation; President Emeritus, University of Toronto; Director, Bank of Montreal, Onex Corporation and Toronto Community Foundation; Chairman, the Visiting Committee for Harvard Law School; Vice Chair, Canada's Science Technology & Innovation Council; Trustee, Hospital for Sick Children.

Thomas F. Rahilly, B.A., M.A., LL.B.(2,4,5)
Corporate Director; Retired Vice-Chairman, RBC Capital Markets.

(1) Executive Committee
(2) Audit Committee
(3) Governance, Human Resource, Nominating and Compensation Committee
(4) Pension and Benefits Committee
(5) Environmental, Health and Safety Committee

* Chair of the Committee

Corporate Officers (includes age and years of service)

W. Galen Weston, O.C. (69 and 38 years)
Chairman and President

Allan L. Leighton (56 and 4 years)
Deputy Chairman

Robert G. Vaux (61 and 12 years)
Chief Financial Officer

Gordon A.M. Currie (51 and 5 years)
Executive Vice President and Chief Legal Officer

Louise M. Lacchin (52 and 26 years)
Executive Vice President, Finance

Robert A. Balcom (48 and 16 years)
Senior Vice President, General Counsel – Canada and Secretary

Manny DiFilippo (50 and 18 years)
Senior Vice President, Risk Management and Audit Services

J. Bradley Holland (46 and 16 years)
Senior Vice President, Taxation

Lucy J. Paglione (50 and 26 years)
Senior Vice President, Pension and Benefits

Jeremy Roberts (47 and 1 year)
Senior Vice President, Finance

Geoffrey H. Wilson (54 and 23 years)
Senior Vice President, Financial Control and Investor Relations

Gabriel R. Crozzoli (47 and 6 years)
Vice President, Canadian Tax

David Farnfield (46 and 13 years)
Vice President, Commodities

Kirk W. Mondesire (49 and 24 years)
Vice President, Systems

Lina Taglieri (41 and 9 years)
Vice President, Controller

Adam Walsh (36 and 5 years)
Vice President, Legal Counsel

Shareholder and Corporate Information

Executive Office
George Weston Limited
22 St. Clair Avenue East
Toronto, Canada M4T 2S7
Tel: 416.922.2500
Fax: 416.922.4395
www.weston.ca

Stock Exchange Listing and Symbols
The Company's common and preferred shares are listed on the Toronto Stock Exchange and trade under the symbols: "WN", "WN.PR.A", "WN.PR.C", "WN.PR.D" and "WN.PR.E".

Common Shares
At year end 2009, there were 129,073,662 common shares outstanding, 930 registered common shareholders and 48,350,214 common shares available for public trading.

The average 2009 daily trading volume of the Company's common shares was 122,559.

Preferred Shares
At year end 2009, there were 9,400,000 preferred shares Series I, 8,000,000 preferred shares Series III, 8,000,000 preferred shares Series IV and 8,000,000 preferred shares Series V outstanding and 29 registered preferred shareholders. All outstanding preferred shares were available for public trading.

The average 2009 daily trading volume of the Company's preferred shares was:

Series I:	6,424
Series III:	6,942
Series IV:	6,572
Series V:	7,864

Common Dividend Policy
The declaration and payment of common dividends and the amount thereof are at the discretion of the Board of Directors (the "Board") which takes into account the Company's financial results, capital requirements, available cash flow and other factors the Board considers relevant from time to time. Over the long term, the Company's objective is for its dividend payment ratio to be in the range of 20% to 25% of the prior year's basic net earnings per common share from continuing operations adjusted as appropriate for items which are not regarded to be reflective of ongoing operations giving consideration to the year end cash position, future cash flow requirements and investment opportunities.

Common Dividend Dates
The declaration and payment of quarterly common dividends are made subject to approval by the Board. The anticipated record and payment dates for 2010 are:

Record Date	Payment Date
March 15	April 1
June 15	July 1
Sept. 15	Oct. 1
Dec. 15	Jan. 1

Normal Course Issuer Bid
The Company has a Normal Course Issuer Bid on the Toronto Stock Exchange.

Value of Common Shares
For capital gains purposes, the valuation day (December 22, 1971) cost base for the Company, adjusted for the 4 for 1 stock split (effective May 27, 1986) and the 3 for 1 stock split (effective May 8, 1998), is $1.50 per share.
The value on February 22, 1994 was $13.17 per share.

Registrar and Transfer Agent
Computershare Investor Services Inc.
100 University Avenue
Toronto, Canada M5J 2Y1
Tel: 416.263.9200
Toll Free Tel: 1.800.663.9097
Fax: 416.263.9394
Toll Free Fax: 1.888.453.0330

To change your address or eliminate multiple mailings, or for other shareholder account inquiries, please contact Computershare Investor Services Inc.

Independent Auditors
KPMG LLP
Chartered Accountants
Toronto, Canada

Annual Meeting
The George Weston Limited Annual Meeting of Shareholders will be held on Thursday, May 13, 2010, at 11:00 a.m. at The Royal Conservatory, TELUS Centre for Performance and Learning, Koerner Hall, Toronto, Ontario, Canada.

Trademarks
George Weston Limited and its subsidiaries own a number of trademarks. These trademarks are the exclusive property of George Weston Limited and its subsidiary companies. Trademarks where used in this report are in italics.

Investor Relations
Shareholders, security analysts and investment professionals should direct their requests to Mr. Geoffrey H. Wilson, Senior Vice President, Financial Control and Investor Relations at the Company's Executive Office or by e-mail at investor@weston.ca.

Additional financial information has been filed electronically with various securities regulators in Canada through the System for Electronic Document Analysis and Retrieval (SEDAR). The Company holds an analyst call shortly following the release of its quarterly results. These calls are archived in the Investor Zone section of the Company's website.

This Annual Report includes selected information on Loblaw Companies Limited, a 62.5%-owned public reporting subsidiary company with shares trading on the Toronto Stock Exchange.

Ce rapport est disponible en français.

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Weston

www.weston.ca