2008 Annual Report

George Weston Limited

Weston

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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)	2008	2007
Operating Results		
Sales	**32,088**	30,607
EBITDA[4]	**1,837**	1,525
Operating income	**1,192**	875
Interest expense and other financing charges	**360**	175
Net earnings from continuing operations	**645**	374
Cash Flow		
Cash flows from operating activities of continuing operations	**985**	1,368
Free cash flow[4]	**(219)**	379
Fixed asset purchases	**807**	658
Per Common Share ($)		
Basic net earnings from continuing operations	**4.63**	2.46
Basic net earnings	**6.08**	3.92
Financial Ratios		
EBITDA margin[4]	**5.7%**	5.0%
Operating margin	**3.7%**	2.9%
Return on average total assets[4]	**8.3%**	6.2%
Return on average common shareholders' equity	**13.3%**	7.9%
Net debt (excluding Exchangeable Debentures)[4] to equity	**0.58:1**	0.96:1
Reportable Operating Segments		
Weston Foods		
Sales	**2,197**	2,088
Operating income	**154**	147
Operating margin	**7.0%**	7.0%
Return on average total assets[4]	**11.0%**	10.5%
Loblaw		
Sales	**30,802**	29,384
Operating income	**1,038**	728
Operating margin	**3.4%**	2.5%
Return on average total assets[4]	**8.1%**	5.7%

(1) For financial definitions and ratios refer to the Glossary beginning on page 110.
(2) Certain prior year's information was reclassified to conform with the current year's presentation (see note 1 to the consolidated financial statements). Results of Weston Foods' U.S. fresh bakery business have been reclassified as discontinued operations.
(3) 2008 was a 53-week year.
(4) See non-GAAP financial measures beginning on page 46.

Report to Shareholders[1]

2008 was a year of significant accomplishments for George Weston Limited despite challenging market conditions affecting both operating businesses. Loblaw Companies Limited's financial results continue to edge forward, demonstrating that it is continuing to make good progress on its key transformational priorities. In December 2008, two significant business developments occurred in the Weston Foods operating segment: the sale of our Canadian dairy and bottling operations and the announcement of an agreement to sell our fresh bread and baked goods business in the United States, which was completed in January 2009. As a result of these dispositions, the Company holds significant cash and short term investments and is in the process of assessing opportunities for the deployment of these funds.

Basic net earnings per common share for 2008 were $6.08 compared to $3.92 in 2007. Basic net earnings per common share from continuing operations were $4.63 compared to $2.46 in 2007. Sales increased 4.8% to $32.1 billion from $30.6 billion in 2007, including the positive impact of approximately 1.9% due to the additional week in 2008.

The Weston Foods operating segment achieved improved financial results from its continuing operations despite challenging market conditions. Sales for 2008 increased 5.2% compared to 2007. 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 2008 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%. 2008 operating income grew 4.8% to $154 million from $147 million in 2007. Operating margin in 2008 was 7.0% and was consistent with 2007.

Inflationary commodity cost pressures continued in 2008 and consumer eating preferences and food shopping patterns continued to evolve. Industry price increases helped to mitigate the higher commodity costs; however, cost and productivity improvements and growth in higher margin products resulted in positive earnings growth for the Weston Foods operating segment.

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

Weston Foods sales growth was driven by price increases across key product categories combined with changes in sales mix. The introduction of new products, such as *D'Italiano Thintini*, *Gadoua Vitalité*, *Wonder+ Headstart*, *Country Harvest Plus* and products under the *Weight Watchers®* licensed brand contributed positively to branded sales growth in 2008.

Weston Foods continuously evaluates 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 standardization, simplification and continued improvement of processes as well as lower costs.

As disclosed in the Loblaw Companies Limited Annual Report, sales for 2008 were $30.8 billion compared to $29.4 billion for 2007, representing an increase of 4.8%. Same-store sales growth was 4.2% including a positive impact of 1.9% due to the extra selling week in 2008. In 2008, Loblaw continued to refine and simplify its processes and systems, initiated several innovation efforts and made measured progress on key growth opportunities. Operating income for 2008 was $1,038 million compared to $728 million in 2007 resulting in an increase in operating margin to 3.4% in 2008 from 2.5% in 2007.

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, our retained U.S. bakery businesses and a significant amount of cash. The remaining Weston Foods operating businesses are expected to deliver satisfactory operating performance in 2009 despite challenging market conditions. Reported earnings will continue to be impacted by volatility in commodity markets. Loblaw remains confident in its approach and will continue to focus on making measured progress on its key transformation priorities, including food renewal, store enhancements, product innovation, infrastructure, and customer value.

On behalf of the Board of Directors and shareholders, I thank our loyal customers for their support and our more than 145,000 employees for their dedication and commitment during these challenging times.

[*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 51 to 107 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 110. The information in this MD&A is current as of March 23, 2009, 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 the possibility that the Company's plans and objectives will not be achieved. These risks and uncertainties include, but are not limited to: changes in economic conditions; changes in consumer spending and preferences; heightened competition, whether from new competitors or current competitors; the availability and cost of raw materials and ingredients, fuels and utilities; 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 and simplification 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 issues 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; 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 resulting from changes in tax laws or future assessments; detrimental reliance on the performance of third-party service providers; public health events; the inability of the Company to obtain external financing; changes in interest and currency exchange rates; 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 general merchandise, drugstore, 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 sold its fresh bread and baked goods business in the United States ("U.S. fresh bakery business"). As a result, the Company currently holds 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 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 in the process of assessing 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' 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 with an unrelenting focus on customers, stores and products, while leveraging scale and developing capacity for consistent execution 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 Style* brands. In addition, Loblaw makes available to consumers *President's Choice Financial* services and offers the *PC points* loyalty program.

In 2008, Loblaw continued to refine and simplify its processes and systems, initiated several innovation efforts and made measured progress on key growth opportunities. Some of Loblaw's key accomplishments in 2008 include:

- continued to improve price position by format and effectively embed pricing index management in the organization;
- leveraged national scale to negotiate cost of goods sold and goods not for resale reductions to offset planned margin investment;
- successfully piloted a food renewal and enhanced customer service program in 18 "Back to Best" Ontario great food stores;
- enhanced local merchandising focus by appointing a small number of local market merchants;

- initiated the revitalization and redesign of *President's Choice* and *no name* control label brands;
- commenced the western Canada store refurbishment program;
- continued to embed the new store operations model across the country to improve shrink, labour, store expenses and availability;
- progressed in efforts to rebuild supply chain and information technology infrastructure; and
- completed three key management changes, appointing a new President, Chief Merchandising Officer and a new Chief Financial Officer.

Loblaw remains confident in its strategy. In 2009, Loblaw will build upon the foundation that was laid in 2008, while focusing on cost control, conserving cash and managing capital expenditures. It will continue to concentrate on growing the business through the Formula for Growth, while focusing on its immediate priorities of food renewal, store enhancements, product innovation, infrastructure and customer value, including:

- an event driven marketing calendar;
- a 300-store renovation program that will enhance meat, seafood, produce and grocery offerings to customers;
- a renewed focus on in-store customer service;
- the celebration of *President's Choice* 25th anniversary, which includes the rollout of 250 improved and 1,000 repackaged products;
- the relaunch of Loblaw's value-based *no name* brand, introducing more than 750 redesigned products; and
- dedicated investment to support information technology and supply chain infrastructure improvements.

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 33.

GWL's Board of Directors (the "Board") and senior management meet annually to review strategic imperatives. These strategic imperatives, which generally span a three to five year timeframe, target 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 strategic imperatives 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	**2008**	2007
Sales growth	**4.8%**	2.3%
EBITDA[1] ($ millions)	**$ 1,837**	$ 1,525
EBITDA margin[1]	**5.7%**	5.0%
Basic net earnings per common share from continuing operations growth	**88.2%**	415.4%
Free cash flow[1] ($ millions)	**$ (219)**	$ 379
Net debt (excluding Exchangeable Debentures)[1] ($ millions)	**$ 3,569**	$ 4,732
Net debt (excluding Exchangeable Debentures)[1] to equity ratio	**0.58**	0.96
Return on average common shareholders' equity	**13.3%**	7.9%

(1) See non-GAAP financial measures beginning on page 46.

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 NEW BUSINESS DEVELOPMENTS

Two significant business developments occurred in the Weston Foods operating segment during 2008: the sale of the Canadian dairy and bottling operations and the announcement of an agreement to sell the U.S. fresh bakery business.

Sale of Canadian Dairy and Bottling Operations

On December 1, 2008, Weston Foods closed the previously announced sale of its Canadian 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 because of 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 sale, are included in net earnings from continuing operations.

Sale of U.S. Fresh Bakery Business

Dunedin Holdings S.à r.l., a subsidiary of GWL, announced on December 10, 2008 an agreement to sell its U.S. fresh bakery business to Grupo Bimbo, S.A.B. de C.V. for gross and net proceeds of approximately USD $2.5 billion, including approximately USD $125 million for interest bearing assets. The sale transaction was completed subsequent to the end of 2008. The results of the U.S. fresh bakery business have been reflected separately as discontinued operations in the current and comparative results, and accordingly all comparisons of operating results exclude the results of the U.S. fresh bakery business. The Company expects to recognize a gain on the sale of this business in discontinued operations in the first quarter of 2009 of approximately USD $800 million, which is subject to normal post closing working capital and other adjustments. In addition, the Company expects to recognize a portion of the cumulative foreign currency translation loss currently reflected in shareholders' equity associated with the U.S. net investment in net earnings in the first quarter of 2009.

After the closing of the U.S. fresh bakery transaction in 2009, Dunedin Holdings S.à r.l. converted USD $2.4 billion of its cash and short term investments to approximately $3.0 billion Canadian dollars. The Company will recognize a foreign exchange loss of approximately $50 million associated with this conversion in net earnings in the first quarter of 2009 due to the strengthening of the Canadian dollar relative to the U.S. dollar between the closing date and the dates on which the proceeds were converted to Canadian dollars. In addition, the future net earnings of the Company will reflect translation gains and losses associated with approximately USD $1.1 billion of cash and short term investments.

Weston Foods reorganized its remaining operations subsequent to the disposition of the U.S. fresh bakery business. 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 expects to record a write-down of a portion of the remaining goodwill related to the biscuits, cookies, cones and wafers business in an amount of up to USD $60 million in the first quarter of 2009.

6.2 CONSOLIDATED RESULTS OF OPERATIONS[1]

($ millions except where otherwise indicated)	2008	2007	2006
Sales	**$ 32,088**	$ 30,607	$ 29,915
Operating income	**$ 1,192**	$ 875	$ 376
Gain on disposal of business	**$ 335**		
Interest expense and other financing charges	**$ 360**	$ 175	$ 263
Net earnings (loss) from continuing operations	**$ 645**	$ 374	$ (47)
Net earnings	**$ 832**	$ 563	$ 121
Basic net earnings (loss) per common share from continuing operations ($)	**$ 4.63**	$ 2.46	$ (0.78)
Basic net earnings per common share ($)	**$ 6.08**	$ 3.92	$ 0.52
EBITDA[2]	**$ 1,837**	$ 1,525	$ 1,047
EBITDA margin[2]	**5.7%**	5.0%	3.5%

(1) Results of Weston Foods' U.S. fresh bakery business have been reclassified as discontinued operations.
(2) See non-GAAP financial measures beginning on page 46.

Consolidated 2008 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.

In 2008, the Weston Foods operating segment achieved improved financial results from its continuing operations despite challenging market conditions. Inflationary commodity cost pressures continued in 2008 and consumer eating preferences and food shopping patterns continued to evolve. Industry price increases mitigated higher commodity costs, and cost and productivity improvements and growth in higher margin products resulted in positive earnings growth for the Weston Foods operating segment.

Loblaw's financial results for 2008 continued to edge forward, reflecting the benefits of its turnaround efforts. In 2007, the restructuring initiatives were completed, which has permitted Loblaw to make good progress in 2008 towards achieving its goal of conducting business as a centralized, national organization.

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

In 2008, which was a 53-week fiscal year, consolidated sales increased 4.8% to $32.1 billion from $30.6 billion in 2007, which was a 52-week fiscal year. In 2007, consolidated sales increased 2.3% from $29.9 billion in 2006. In 2008, consolidated net earnings from continuing operations increased $271 million to $645 million from $374 million in 2007 mainly due to the pre-tax gain of $335 million ($281 million, net of tax) on the disposal of Weston Foods' dairy and bottling operations. Consolidated net earnings increased $269 million to $832 million in 2008 from $563 million in 2007. In 2007, consolidated net earnings from continuing operations increased $421 million to $374 million from a net loss of $47 million in 2006. Consolidated net earnings increased $442 million to $563 million in 2007 from $121 million in 2006 primarily due to the inclusion in 2006 of a non-cash Loblaw goodwill impairment charge related to the goodwill established on the Loblaw acquisition of Provigo Inc. in 1998.

The 2008 basic net earnings per common share from continuing operations of $4.63 increased 88.2%, in line with the increase in consolidated net earnings from continuing operations, when compared to $2.46 in 2007. The 2008 basic net earnings per common share of $6.08 increased 55.1% when compared to $3.92 in 2007.

The Company's consolidated financial statements are expressed in Canadian dollars, however a portion of its Weston Foods business is in United States dollars through its investment in self-sustaining foreign operations in the United States ("U.S. net investment"). Changes in the exchange rate for the United States dollar affect the Company's reported sales, net earnings and the value of the Company's assets and liabilities on its consolidated balance sheet, either positively or negatively, as a result of translating United States dollar denominated transactions and the U.S. net investment into Canadian dollars. In 2008 and 2007, the impact of changes in the Canadian dollar relative to the United States dollar on sales and net earnings from continuing operations growth was minimal. Due to the weakening of the Canadian dollar relative to the United States dollar from year end 2007, the value of the Company's net assets at year end 2008 was positively impacted as a result of foreign currency translation. At year end 2007, due to the strengthening of the Canadian dollar relative to the United States dollar from year end 2006, the value of the Company's net assets was negatively impacted as a result of foreign currency translation.

Over the past two years, Weston Foods operated in a challenging marketplace, impacted by changing consumer eating preferences and food shopping patterns as well as inflationary cost pressures. Product rationalization and the planned exit of certain products have negatively impacted volume and sales. Additional factors affecting results over this two-year period include:

- changing consumer eating preferences, including a focus on health and diet, challenged Weston Foods sales growth of certain traditional products, primarily white bread. These challenges were largely offset by growth in the whole grain, whole wheat and higher-priced premium product categories, as well as the development and introduction of new and expanded health related product offerings, enhanced whole grain and whole wheat offerings, and Omega-3, no cholesterol, reduced fat and no trans fat products;
- consumer shopping patterns continue to shift toward alternate format retail channels over traditional, conventional supermarket formats. Weston Foods has penetrated these alternate channels while retaining its strong position in conventional supermarket formats; and
- inflationary cost pressures particularly for wheat, oils and fuel continued and have been volatile over the period. Weston Foods achieved sales price increases across many of its product categories, which helped to offset the impact of this cost inflation.

Management's Discussion and Analysis

Over the past two years, Weston Foods increased investment behind its brands, continued to introduce new products geared towards 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 2008, Loblaw continued to refine and simplify its processes and systems, initiated several innovation efforts and made measured progress on key growth opportunities. Some of Loblaw's key accomplishments in 2008 include:

- continued to improve price position by format and effectively embed pricing index management in the organization;
- leveraged national scale to negotiate cost of goods sold and goods not for resale reductions to offset planned margin investment;
- successfully piloted a food renewal and enhanced customer service program in 18 "Back to Best" Ontario great food stores;
- enhanced local merchandising focus by appointing a small number of local market merchants;
- initiated the revitalization and redesign of *President's Choice* and *no name* control label brands;
- commenced the western Canada store refurbishment program;
- continued to embed the new store operations model across the country to improve shrink, labour, store expenses and availability;
- progressed in efforts to rebuild supply chain and information technology infrastructure; and
- completed three key management changes, appointing a new President, Chief Merchandising Officer and a new Chief Financial Officer.

2007 marked the introduction of Loblaw's three to five year turnaround plan based on Simplify, Innovate and Grow. There were challenges, as would be expected, with an organizational change of such magnitude, but Loblaw made good progress in 2007. Net earnings in 2007 were pressured by Loblaw's investment in lower retail prices and increased costs including significant expenses in restructuring and consulting.

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 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.

The Company's 2007 consolidated sales increased 2.3% to $30.6 billion from $29.9 billion in 2006. The translation of United States dollar denominated sales in the Weston Foods operating segment reduced consolidated sales growth by approximately 0.1%.

Consolidated sales growth for 2007 was impacted by each reportable operating segment as follows:

- Negatively due to the sales decrease of 0.5% at Weston Foods, which included the negative impact of foreign currency translation of approximately 1.5%. Price increases across key product categories combined with changes in sales mix increased sales by 2.8% for 2007. Overall volume decreased 1.8% for 2007 and was negatively impacted by approximately 1.1% due to the combined effect of the exit from the United States frozen food service bagel business early in the third quarter of 2006 and the discontinuance of contract manufacturing of biscuits for certain customers during 2006. The remaining volume decline of 0.7% for the year was due to growth in certain higher margin categories being more than offset by declines in other categories.
- Positively by 2.5% due to the sales increase of 2.6% at Loblaw. Same-store sales increased 2.4%. Loblaw experienced sales growth in all of its regions and concentrated on driving comparable sales growth in its existing asset base. Net retail square footage decreased 0.1 million square feet or 0.2% in 2007 from year end 2006. Corporate store sales per average square foot increased to $591 in 2007 from $585 in 2006.

Operating Income
The Company's 2008 consolidated operating income increased $317 million, or 36.2%, to $1,192 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 35.4% due to an increase of 42.6% 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. The amount of net stock-based compensation cost recorded in operating income is mainly dependent upon the number of unexercised, vested stock options and restricted share units net of the number of common shares associated with the equity derivatives and the change in the market prices of the underlying common shares;
- a charge of $46 million (2007 – income of $9 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;
- 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 5.7% from 5.0% in 2007.

The Company's 2007 consolidated operating income increased $499 million, or 132.7%, to $875 million. The consolidated operating margin in 2007 was 2.9% compared to 1.3% in 2006. The Company's 2007 consolidated operating income was impacted positively by 13.8% due to an increase of 54.7% in operating income at Weston Foods, and positively by 118.9% due to an increase of 159.1% in operating income at Loblaw.

The year-over-year change in the following items influenced operating income and operating margin for 2007 compared to 2006:

- a charge of $215 million (2006 – $79 million) related to restructuring and other charges for restructuring plans undertaken by both Weston Foods and Loblaw;
- a charge of $108 million (2006 – $54 million) related to the effect of stock-based compensation net of equity derivatives of both GWL and Loblaw;
- income of $9 million (2006 – nil) related to the commodity derivatives fair value adjustment at Weston Foods;
- income of $48 million (2006 – $44 million) related to the income of Weston Foods' dairy and bottling operations;
- nil (2006 – a charge of $800 million) related to the non-cash Loblaw goodwill impairment charge;
- nil (2006 – a charge of $84 million) related to the Ontario collective labour agreement at Loblaw; and
- nil (2006 – a charge of $12 million) related to a departure entitlement charge at Loblaw.

Excluding the impact of these specific items, operating income for 2007 declined compared to 2006.

The Company's 2007 consolidated EBITDA margin[(1)] increased to 5.0% from 3.5% in 2006.

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

(1) See non-GAAP financial measures beginning on page 46.

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 representing the fair value adjustment of GWL's forward sale agreement for 9.6 million Loblaw common shares. See notes 5 and 27 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 United States dollar denominated cash, 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 the Company's 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).

In 2007, interest expense and other financing charges decreased $88 million, or 33.5%, to $175 million from $263 million in 2006.

The decrease was mainly due to:

- a decrease in interest expense on long term debt of $7 million, or 1.7%, to $396 million from $403 million in 2006 primarily as a result of lower average long term debt levels;
- interest on financial derivative instruments, which includes the net effect of the Company's interest rate swaps, cross currency swaps and equity derivatives, resulting in a charge of $21 million (2006 – $15 million). The change was due mainly to an increase in United States short term interest rates and the cumulative loss transferred from other comprehensive loss and subsequent change in fair market value of the interest rate swaps previously designated as a cash flow hedge of the variable interest rate exposure on commercial paper;
- non-cash income of $141 million (2006 – $73 million) recorded in other financing charges representing the fair value adjustment of GWL's forward sale agreement for 9.6 million Loblaw common shares. See notes 5 and 27 to the consolidated financial statements for additional information; and
- an increase in net short term interest income to $31 million (2006 – $18 million) primarily due to higher interest income on United States dollar denominated cash, cash equivalents and short term investments and lower average short term debt levels partially offset by an increase in Canadian short term interest rates.

The 2007 weighted average fixed interest rate on long term debt (excluding capital lease obligations and the Exchangeable Debentures) was 6.6% (2006 – 6.6%) and the weighted average term to maturity was 16 years (2006 – 16 years).

Income Taxes

The Company's effective income tax rate decreased in 2008 to 26.0% 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.

The Company's effective income tax rate decreased in 2007 to 28.0% from 214.2% in 2006. In 2006, a non-deductible Loblaw goodwill impairment charge was recorded. The effective income tax rate in 2006 before the impact of the non-deductible goodwill impairment charge was 26.5%. The 2007 effective income tax rate was impacted by the change in the proportion of taxable income earned across different tax jurisdictions and the income tax impact of the non-taxable amounts, and a $24 million net reduction to the future income tax expense recognized as a result of changes in the Canadian federal and certain provincial statutory income tax rates, the cumulative effect of which was included in the consolidated financial statements at the time of substantive enactment.

Net Earnings from Continuing Operations

Net earnings from continuing operations for 2008 increased $271 million, or 72.5%, to $645 million from $374 million in 2007. Basic net earnings per common share from continuing operations for 2008 increased $2.17, or 88.2%, to $4.63 from $2.46 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 GWL'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 re-measurement 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.

Net earnings from continuing operations for 2007 increased $421 million to $374 million from a net loss of $47 million in 2006. Basic net earnings per common share from continuing operations for 2007 increased $3.24 to $2.46 from a loss of $0.78 in 2006.

Basic net earnings per common share from continuing operations for 2007 were affected by the following factors compared to 2006:

- a $0.66 per common share charge (2006 – $0.31) related to restructuring and other charges for restructuring plans undertaken by both Weston Foods and Loblaw;
- a $0.62 per common share charge (2006 – $0.35) related to the effect of stock-based compensation net of equity derivatives of both GWL and Loblaw;
- $0.05 per common share income (2006 – nil) related to the commodity derivatives fair value adjustment at Weston Foods;
- $0.25 per common share income (2006 – $0.22) related to the income of Weston Foods' dairy and bottling operations;
- $0.81 per common share non-cash income (2006 – $0.40) related to the accounting for GWL's forward sale agreement for 9.6 million Loblaw common shares;
- a $0.05 per common share charge (2006 – nil) related to the income tax effect of the fair value adjustment of the Domtar (Canada) Paper Inc. shares, net of the re-measurement of the GWL 3% Exchangeable Debentures;
- $0.15 per common share income (2006 – $0.14) related to the adjustment to future income tax balances resulting from changes in the Canadian federal and certain provincial statutory income tax rates;
- nil per common share (2006 – $3.84 per common share charge) related to the non-cash Loblaw goodwill impairment charge;
- nil per common share (2006 – $0.26 per common share charge) related to the Ontario collective labour agreement at Loblaw; and
- nil per common share (2006 – $0.04 per common share charge) related to a departure entitlement charge at Loblaw.

Discontinued Operations

Net earnings from discontinued operations were $187 million in 2008 compared to $189 million in 2007, and $168 million in 2006.

For additional information, see note 10 to the consolidated financial statements.

Net Earnings

Net earnings for 2008 of $832 million increased $269 million compared to $563 million in 2007. Basic net earnings per common share for 2008 of $6.08 increased $2.16 compared to $3.92 in 2007, including basic net earnings per common share from discontinued operations of $1.45 compared to $1.46 in 2007.

Net earnings for 2007 of $563 million increased $442 million compared to $121 million in 2006. Basic net earnings per common share for 2007 of $3.92 increased $3.40 compared to $0.52 in 2006, including basic net earnings per common share from discontinued operations of $1.46 compared to $1.30 in 2006.

The new accounting standards implemented in 2008 and the resulting impact on the financial position and results of operations are outlined in the Accounting Standards Implemented in 2008 section of this MD&A and note 2 to the consolidated financial statements. Accounting Standards Implemented in 2007 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 as GWL's ownership of Loblaw has not changed over this period.

6.3 CONSOLIDATED FINANCIAL CONDITION

($ millions except where otherwise indicated)	2008	2007	2006
Total assets	**$ 19,664**	$ 18,434	$ 18,647
Total long term debt (excluding amount due within one year)	**$ 5,308**	$ 5,494	$ 5,918
Dividends declared per share ($) – Common share	**$ 1.44**	$ 1.44	$ 1.44
– Preferred share:			
Series I	**$ 1.45**	$ 1.45	$ 1.45
Series II	**$ 1.29**	$ 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	$ 0.83

The Company's total assets in 2008 were greater than in 2007 and 2006. The increase in 2008 was primarily due to weakening of the Canadian dollar relative to the United States dollar compared to 2007, causing an increase in the translated balances of United States 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 by Loblaw's on-shelf availability program. The decrease in total assets in 2007 compared to 2006 was primarily due to a significant strengthening of the Canadian dollar relative to the United States dollar, causing a decline in the translated balances of United States dollar denominated assets. On a foreign currency adjusted basis, the Company's total assets were higher in 2007 than in 2006, driven by increases in net credit card receivables and an increase in other assets due to the increase in fair value of GWL's forward sale agreement for 9.6 million Loblaw shares, partially offset by decreases in fixed assets.

Cash flows from operating activities have covered a large portion of the funding requirements for the Company over the past two years.

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

- capital investment programs;
- dividends paid on common and preferred shares; and
- repayment of long term debt.

In 2008, as a result of the depreciation of the Canadian dollar relative to the United States dollar, the change in the cumulative foreign currency translation adjustment positively impacted shareholders' equity by $677 million. In 2007, as a result of the strengthening of the Canadian dollar relative to the United States dollar, the change in the cumulative foreign currency translation adjustment negatively impacted shareholders' equity by $508 million.

Financial Ratios

The Company's 2008 return on average total assets[(1)] of 8.3% was higher than the 2007 return of 6.2%, and the Company's 2008 return on average common shareholders' equity of 13.3% was higher than the 2007 return of 7.9%. 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 GWL's forward sale agreement for 9.6 million Loblaw common shares.

The Company's 2007 return on average total assets[(1)] of 6.2% was higher than the 2006 return of 2.7%, and the Company's 2007 return on average common shareholders' equity of 7.9% was higher than the 2006 return of negative 2.4%. Both measures were negatively impacted in 2006 by the non-cash Loblaw goodwill impairment charge recorded in operating income, and the 2007 return on average

(1) See non-GAAP financial measures beginning on page 46.

common shareholders' equity was also positively impacted by lower interest expense and other financing charges in 2007, including the $141 million non-cash income (2006 – $73 million) related to the fair value adjustment of GWL's forward sale agreement for 9.6 million Loblaw common shares.

The Company's 2008 net debt (excluding Exchangeable Debentures)[1] to equity ratio was 0.58:1 compared to 0.96:1 in 2007. The change in the ratio was driven by the following:

- a decrease in short term borrowings funded by the proceeds from the sale of Weston Foods' dairy and bottling operations;
- an increase in cash and cash equivalents, short term investments and security deposits included in other assets, partially due to the depreciation of the Canadian dollar relative to the United States dollar; and
- an increase in shareholders' equity resulting from the translation of the Company's U.S. net investment due to the depreciation of the Canadian dollar relative to the United States dollar in 2008 and higher retained earnings.

The Company's 2007 net debt (excluding Exchangeable Debentures)[1] to equity ratio remained unchanged from 2006 at 0.96:1. The decrease in commercial paper and increase in cash and cash equivalents, short term investments and security deposits included in other assets were offset by the decrease in shareholders' equity resulting from the translation of the Company's U.S. net investment due to the appreciation of the Canadian dollar relative to the United States dollar in 2007, partially offset by higher retained earnings.

The 2008 interest coverage ratio decreased to 3.1 times compared to 4.4 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 include the non-cash charge of $11 million (2007 – non-cash income of $141 million) recorded in 2008 related to the fair value adjustment of GWL'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.

The 2007 interest coverage ratio increased to 4.4 times compared to 1.3 times in 2006 due to an increase in operating income and lower interest expense and other financing charges, including the non-cash income of $141 million (2006 – $73 million) recorded in 2007 related to the fair value adjustment of GWL's forward sale agreement for 9.6 million Loblaw common shares which positively impacted the change in the interest coverage ratio by approximately 1.6 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	129,074,526
Preferred shares – Series I	10,000,000	9,400,000
– Series II[1]	10,600,000	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) Preferred Shares, Series II are presented as capital securities and are included in current liabilities.

For preferred shares Series I, Series III, Series IV and Series V holders, GWL may, at its option, redeem for cash, in whole or in part, these 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 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. Further information on GWL's outstanding share capital is provided in note 23 to the consolidated financial statements.

Series II preferred shares are redeemable on or after April 1, 2009, at GWL's option, for cash of $25.00 per share, together with all accrued but unpaid dividends to but not including the redemption date, and are convertible on or after July 1, 2009, at the option of the holder, into that number of GWL's common shares determined by dividing $25.00, together with accrued and unpaid dividends to but not including the conversion date, by the greater of $2.00 and 95% of the then current market price of GWL's common shares. Subsequent to year end, GWL provided the holders of the Preferred Shares, Series II with notice that on April 1, 2009 the Company will redeem for cash the 10.6 million outstanding shares for $25.00 per share, or $265 million in aggregate, plus accrued and unpaid dividends to but excluding the date of redemption. These preferred shares are presented as capital securities and are included in current liabilities.

(1) See non-GAAP financial measures beginning on page 46.

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 2008. These preferred shares are presented as capital securities and are included in liabilities.

Further information on the Company's capital securities is provided in note 22 to the consolidated financial statements.

At year end, a total of 1,522,344 stock options were outstanding, representing 1.2% of GWL's issued and outstanding common shares, which was within GWL's guideline of 5%. Further information on GWL's stock-based compensation is provided in note 25 to the consolidated financial statements.

Dividends

The declaration and payment of dividends and the amount thereof are at the discretion of the Board, which takes into account the Company's financial results, capital requirements, available cash flow 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. During 2008, the Board declared quarterly dividends as follows:

($)	Declared per Share
Common shares	$ 0.36
Preferred shares – Series I	$ 0.36
– Series II	$ 0.32
– Series III	$ 0.32
– Series IV	$ 0.32
– Series V	$ 0.30

Dividends on the Preferred Shares, Series II are presented in interest expense and other financing charges in the consolidated statement of earnings.

Subsequent to year end, the Board declared a quarterly dividend of $0.36 per common share, payable April 1, 2009.

7. RESULTS OF REPORTABLE OPERATING SEGMENTS

The following discussion provides details of the 2008 results of operations of each of the Company's reportable operating segments.

7.1 WESTON FOODS OPERATING RESULTS FROM CONTINUING OPERATIONS[1]

($ millions except where otherwise indicated)	2008	2007	Change
Sales	$ 2,197	$ 2,088	5.2%
Operating income	$ 154	$ 147	4.8%
Operating margin	7.0%	7.0%	
EBITDA[2]	$ 214	$ 209	2.4%
EBITDA margin[2]	9.7%	10.0%	
Return on average total assets[2]	11.0%	10.5%	

(1) Results of Weston Foods' U.S. fresh bakery business have been reclassified as discontinued operations.
(2) See non-GAAP financial measures beginning on page 46.

Weston Foods 2008 sales include $543 million (2007 – $580 million) of sales from the Canadian dairy and bottling operations, which were sold on December 1, 2008. The remaining sales 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 2008 were impacted by the following trends:

- The shift in consumer eating preferences toward healthier and more nutritious offerings continued in 2008. 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 2009 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, as well as continued support of the licensed brand, *Weight Watchers®*.
- 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.
- Price increases in key product categories combined with a shift in sales mix to higher margin products had a positive impact on both sales and operating income. Continued efforts to focus on identifying and supporting key core brands and higher margin offerings contributed to the positive change in mix.
- Inflationary cost pressures related to certain ingredients and higher fuel costs continued in 2008.
- The continued focus on productivity and cost reduction contributed to the growth in operating income.

A detailed discussion on how these trends and other factors impacted sales and operating income in 2008 is set out below.

Sales

Weston Foods sales for 2008 of $2.2 billion increased 5.2% compared to 2007. 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%.

The following sales analysis inclusive of the 53rd week excludes the impact of foreign currency translation and the results of the dairy and bottling operations.

Fresh bakery sales, principally bread, rolls, bagels, tortillas and fresh-baked sweet goods, increased by approximately 11.9% in 2008 compared to 2007 and represented approximately 40% of total Weston Foods sales, up from approximately 39% in 2007. Sales growth was driven by price increases in key product categories combined with changes in sales mix. Overall volumes decreased in 2008, with declines in certain categories partially offset by branded volume growth, led by the *D'Italiano* brand. Sales growth in whole grain and whole wheat products exceeded the sales growth of white flour based products. The introduction of new products, such as *D'Italiano Thintini*, *Gadoua Vitalité*, *Wonder+ Headstart*, *Country Harvest Plus* and products under the *Weight Watchers®* licensed brand contributed positively to branded sales growth in 2008.

Frozen bakery sales, principally bread, rolls and sweet goods, increased by approximately 10.0% in 2008 compared to 2007 and represented approximately 40% of total Weston Foods sales in both 2008 and 2007. Sales growth was driven mainly by price increases combined with changes in sales mix. Volumes for the year were flat, with the positive impact of growth in certain higher margin categories being offset by declines in other categories.

Biscuit sales, principally wafers, ice-cream cones, cookies and crackers, increased by approximately 8.7% in 2008 compared to 2007 and represented approximately 20% of total Weston Foods sales, down from approximately 21% in 2007. Sales growth was due to higher sales volumes in Girl Scout cookie sales in 2008 compared to 2007.

Operating Income

Weston Foods operating income for 2008 increased $7 million, or 4.8%, to $154 million from $147 million in 2007. Operating margin was 7.0% in both 2008 and 2007.

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

- a charge of $6 million (2007 – income of $7 million) related to restructuring and other charges;
- income of $9 million (2007 – a charge of $36 million) related to the effect of stock-based compensation net of equity derivatives;
- a charge of $46 million (2007 – income of $9 million) related to the commodity derivatives fair value adjustment;
- income of $47 million (2007 – $48 million) related to the income of the dairy and bottling operations; 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.

Weston Foods is exposed to price fluctuations primarily as a result of anticipated 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 a specified percentage of 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 as cash flow hedges of anticipated future raw material purchases, therefore hedge accounting does not apply. Accordingly, the changes in 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. In 2008, due to significant volatility in the commodity markets, Weston Foods recorded a charge of $46 million (2007 – income of $9 million) related to the fair value adjustment of exchange traded commodity derivatives that were not designated within a hedging relationship. Despite the treatment of these commodity derivatives for accounting purposes, they have the economic impact of largely mitigating the associated risks arising from price fluctuations in the underlying commodities.

Excluding the specific items described above, operating income increased in 2008 compared to 2007. Operating income was positively impacted by sales growth primarily due to price increases combined with changes in sales mix, the additional week of operating results and the benefits realized from the continued focus on cost reduction initiatives and restructuring activities. Pricing and other actions mitigated the impact of higher fuel costs and the inflationary cost pressures related to certain ingredients, primarily flour, oils and sugar. Gross margin decreased in 2008 mainly as a result of the commodity derivatives fair value adjustment.

EBITDA[1] increased $5 million, or 2.4%, to $214 million in 2008 compared to $209 million in 2007. EBITDA margin[1] for 2008 decreased to 9.7% from 10.0% in 2007.

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.

Restructuring and Other Charges

The following table summarizes the restructuring and other charges by plan for 2008 and 2007:

($ millions)	Employee Termination Costs and Site Closing and Other Exit Costs	Accelerated Depreciation	(Gain) Loss on Sale of Assets	Total
Costs (income) recognized in 2008:				
Manufacturing asset restructuring:				
Fresh bakery operations	**$ 3**	**$ 2**	**$ (1)**	**$ 4**
	3	**2**	**(1)**	**4**
Distribution network restructuring			**(2)**	**(2)**
Operational restructuring	**4**			**4**
Total costs (income) recognized in 2008	**$ 7**	**$ 2**	**$ (3)**	**$ 6**
Costs (income) recognized in 2007:				
Manufacturing asset restructuring:				
Biscuit operations	$ 2		$ (6)	$ (4)
Ice-cream cone operations			(9)	(9)
Frozen bagel operations			1	1
	2		(14)	(12)
Distribution network restructuring	5			5
Total costs (income) recognized in 2007	$ 7		$ (14)	$ (7)

(1) See non-GAAP financial measures beginning on page 46.

Weston Foods continuously evaluates strategic and cost reduction initiatives with the objective of ensuring a low cost operating structure. In 2008 and 2007, Weston Foods recognized expenses related to restructuring activities involving its manufacturing assets, distribution networks and operating structure. Certain of these initiatives are in progress, are nearing completion or have been completed. Individual actions will be initiated as plans are finalized and approved.

Further information on Weston Foods restructuring and other charges is provided in note 4 to the consolidated financial statements.

Outlook[1]

As noted above, Weston Foods sold its dairy and bottling operations in 2008, and the sale of its U.S. fresh bakery business was completed in January 2009. The remaining Weston Foods operating businesses are expected to deliver satisfactory operating performance in 2009 despite challenging market conditions. Reported earnings will continue to be impacted by volatility in commodity markets.

7.2 LOBLAW OPERATING RESULTS

($ millions except where otherwise indicated)	**2008**	2007	Change
Sales	**$ 30,802**	$ 29,384	4.8%
Operating income	**$ 1,038**	$ 728	42.6%
Operating margin	**3.4%**	2.5%	
EBITDA[1]	**$ 1,623**	$ 1,316	23.3%
EBITDA margin[1]	**5.3%**	4.5%	
Return on average total assets[1]	**8.1%**	5.7%	

(1) See non-GAAP financial measures beginning on page 46.

Sales

Sales for 2008 increased $1.4 billion, or 4.8%, to $30.8 billion compared to $29.4 billion in 2007. The following factors further explain the major components in the change in sales over the prior year:

- same-store sales growth of 4.2% (2007 – 2.4%) including an increase in sales and same-store sales growth of 1.9% due to the extra selling week in 2008;
- on an equivalent 52 week basis:
  - total sales growth in both food and drugstore was moderate, with strong growth in the fourth quarter;
  - general merchandise sales growth was negative. Unseasonable weather, the mark down of merchandise to sell through seasonal inventory, and reductions in assortment and square footage contributed to the decline;
  - apparel sales growth was strong largely due to improvements in availability and product offering;
  - customer count growth increased marginally while item count growth remained flat versus 2007;
  - gas bar sales growth was strong as a result of fuel price inflation and volume growth;
- Loblaw's analysis indicated that internal retail food price inflation was higher than 2007, but lower than the national food price inflation of 4.0% (2007 – 2.7%) as measured by "The Consumer Price Index for Food Purchased from Stores" ("CPI"). This measure of inflation does not necessarily reflect the effect of inflation on the specific mix of goods sold in Loblaw stores; and
- 37 (2007 – 34) new stores, net of 37 (2007 – 79) store closures, each category including stores which underwent conversions and major expansions, increased net retail square footage 0.2 million square feet (2007 – net decrease of 0.1 million square feet) or 0.5%.

Sales of control label products for 2008 amounted to $7.4 billion compared to $6.9 billion in 2007. In 2008, Loblaw introduced over 800 new food and non food control label products and redesigned over 1,000 products. Loblaw's control label program, which includes *President's Choice*, *no name*, *President's Choice Organics*, *President's Choice Blue Menu*, *President's Choice G.R.E.E.N.*, *Joe Fresh Style* and *PC Home,* provides additional sales growth potential.

Operating Income

Operating income of $1,038 million for 2008 increased $310 million, or 42.6%, compared to $728 million in 2007 resulting in an increase in operating margin to 3.4% in 2008 from 2.5% in 2007.

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

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

- income of $1 million (2007 – charge of $222 million) related to lower than anticipated restructuring and other charges;
- a charge of $7 million (2007 – $72 million) related to the effect of stock-based compensation net of equity forwards; and
- income of $22 million (2007 – nil) related to the gain on the sale of Loblaw's food service business in the fourth quarter of 2008.

Included in 2008 operating income was a $14 million gain from the sale of financial investments by *President's Choice* Bank ("*PC* Bank"), a wholly owned subsidiary of Loblaw, and a $29 million fixed asset impairment charge. Included in 2007 operating income is an $11 million gain related to the sale of an office building in Calgary, Alberta, a $33 million fixed asset impairment charge, and a $24 million charge as a result of adjustments in estimates related to post-employment and long term disability benefits, deferred product development and information technology costs.

Excluding the impact of restructuring and other charges, the effect of stock-based compensation net of equity forwards, and the gain on sale of Loblaw's food service business, operating income was flat in 2008 compared to 2007.

In the third and fourth quarters of 2007, Loblaw made an investment in pricing in specific markets. These investments negatively impacted operating income and margins.

Loblaw's focus on cost reduction, including shrink initiatives, has improved margins in 2008 compared to 2007. Buying synergies and more disciplined vendor management are resulting in lower purchase costs for both merchandise and not-for-resale items.

Loblaw experienced higher store labour costs in 2008 as a result of higher sales. Labour productivity improved slightly in 2008 compared to 2007 despite investments in training and Loblaw's commitment to improve customer service.

Restructuring activities were substantially completed in 2007, which positively impacted operating income in 2008. Project Simplify charges in 2008 were $3 million (2007 – $197 million), which related to the restructuring and streamlining of merchandise and store operations. In 2008, as actual costs were less than the amounts estimated, income of $4 million (2007 – charge of $25 million) was included in operating income related to supply chain and store closure restructuring initiatives. Additional information is provided in note 4 to the consolidated financial statements.

2008 EBITDA[(1)] increased $307 million, or 23.3%, to $1,623 million compared to $1,316 million in 2007. EBITDA margin[(1)] increased to 5.3% compared to 4.5% in 2007. The increase is a result of the increase in operating income which is described above.

Outlook[(2)]

Loblaw remains confident in its approach and will continue to focus on making measured progress on its key transformation priorities, including food renewal, store enhancements, product innovation, infrastructure, and customer value. During 2009, Loblaw will step up investments in information technology and supply chain which will increase the associated expense by approximately $100 million. This investment, coupled with the continuing economic challenges and competitive pressures, are expected to challenge results in 2009.

8. LIQUIDITY AND CAPITAL RESOURCES

8.1 MAJOR CASH FLOW COMPONENTS

($ millions)	**2008**	2007	Change
Cash flows from operating activities of continuing operations	**$ 985**	$ 1,368	$ (383)
Cash flows used in investing activities of continuing operations	**$ (225)**	$ (966)	$ 741
Cash flows used in financing activities of continuing operations	**$ (792)**	$ (511)	$ (281)

Cash Flows from Operating Activities of Continuing Operations

In 2008, cash flows from operating activities of continuing operations were $985 million compared to $1,368 million in 2007. The decrease was primarily due to changes in both non-cash working capital and net earnings from continuing operations before minority interest, excluding the impact of the gain on sale of businesses, restructuring and other charges and the fair value adjustment of GWL's forward sale agreement. The change in cash flows in non-cash working capital compared to 2007 was primarily driven by changes in inventories at Loblaw.

(1) See non-GAAP financial measures beginning on page 46.

(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 2008 were $225 million compared to $966 million in 2007. The primary reasons for the decrease include the $467 million of proceeds from the disposition of Weston Foods' dairy and bottling operations, a decrease in the cash flows used in credit card receivables, after securitization and the sale of the Domtar (Canada) Paper Inc. investment, which funded the retirement of the GWL 3% Exchangeable Debentures, which is included in cash flows used in financing activities. Offsetting these changes was an increase in capital spending primarily associated with Loblaw's investment in its infrastructure, and reduced proceeds from asset sales when compared to 2007.

The Company's capital investment amounted to $807 million (2007 – $658 million). Weston Foods capital investment in 2008 was $57 million (2007 – $45 million). The capital was directed toward the construction of a new plant in Western Canada, as well as facility improvements and upgrades of production lines and distribution assets. Weston Foods capital investment benefited all of its operations to varying degrees and strengthened its processing and distribution capabilities.

Loblaw's capital investment amounted to $750 million (2007 – $613 million) for the year as Loblaw increased capital spending. Approximately 18% (2007 – 31%) of the capital investment was for new store development, expansions and land, approximately 36% (2007 – 43%) for store conversions and remodels, and approximately 46% (2007 – 26%) for infrastructure investment. The continued capital investment activity benefited all regions to varying degrees and strengthened the existing store base.

Loblaw is investing in its information technology and supply chain infrastructure and in renovations to its existing store base, with a focus on improving same-store sales. Loblaw expects to invest in 2009 approximately $750 million in capital expenditures. Approximately 50% of these funds are expected to be used in upgrading information technology and supply chain infrastructure and the remainder on retail operations.

Loblaw's 2008 corporate and franchised store capital investment program, which includes the impact of store openings and closures, resulted in an increase in net retail square footage of 0.5% compared to 2007. During 2008, 37 (2007 – 34) new corporate and franchised stores were opened and 115 (2007 – 73) underwent renovation. The 37 new stores, net of 37 (2007 – 79) store closures and stores which underwent conversions and major expansion, increased net retail square footage 0.2 million square feet (2007 – decrease of 0.1 million square feet). The 2008 average corporate store size increased 2.0% to 61,900 square feet (2007 – 60,800) and the average franchised store size remained relatively flat in 2008 at 28,400 square feet (2007 – 28,000).

At year end 2008, the Company had committed approximately $51 million (2007 – $114 million) with respect to capital investment projects such as the construction, expansion and renovation of buildings and the purchase of real property.

During 2008, the Company also generated $125 million (2007 – $237 million) from fixed asset sales.

Cash Flows used in Financing Activities of Continuing Operations

Cash flows used in financing activities of continuing operations in 2008 were $792 million compared to $511 million in 2007.

During 2008, GWL and Loblaw completed the following financing activities:

- Loblaw issued USD $300 million of fixed rate unsecured notes in a private placement debt financing;
- Loblaw repaid $390 million of 6.00% Medium Term Notes ("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. These cash flows were partially offset by an increase in short term bank loans of $203 million, which includes GWL's issuance of $43 million of Series B Debentures.

During 2007, GWL and Loblaw completed the following financing activities:

- consolidated commercial paper outstanding was reduced by $229 million. These cash flows were partially offset by an increase in short term bank loans of $72 million, which includes GWL's issuance of $42 million of Series B Debentures.

See notes 19, 22 and 23 to the consolidated financial statements for the terms and details of the debt and share capital transactions.

Subsequent to year end, Loblaw repaid its $125 million 5.75% MTN and GWL repaid its $250 million 5.90% MTN, both of which matured. Also subsequent to year end, GWL provided the holders of its Preferred Shares, Series II with notice that on April 1, 2009 it will redeem for cash the 10.6 million outstanding shares for $25.00 per share, or $265 million in aggregate, plus accrued and unpaid dividends to but excluding the date of redemption.

In 2008, 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 2008 or 2007. GWL intends to file a NCIB in 2009 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)]

The Company's net debt (excluding Exchangeable Debentures)[(1)] at December 31, 2008 was $3,569 million compared to $4,732 million at the end of 2007. Of the $1,163 million reduction, the proceeds from the sale of Weston Foods' dairy and bottling operations accounted for $467 million, the proceeds from the issuance of preferred shares by Loblaw accounted for $218 million and all other factors accounted for $478 million.

8.2 SOURCES OF LIQUIDITY

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

In the first quarter of 2008, Loblaw entered into an $800 million, 5-year committed credit facility, provided by a syndicate of banks, which contains certain financial covenants. 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. This facility replaced a $500 million, 364-day committed credit facility. At the end of the year, $190 million was drawn on the new 5-year committed credit facility.

During the second quarter of 2008, GWL entered into a $300 million, 5-year committed credit facility provided by a syndicate of banks. 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.

Securitization of credit card receivables provides *PC* Bank with an additional source of funds for the operation of its business. In 2008, *PC* Bank securitized an aggregate $300 million (2007 – $225 million) of credit card receivables. Under these securitization programs, a portion of the total interest in the credit card receivables is sold to independent trusts, one of which has a term of 364 days, subject to annual renewal. If the term of this facility is not renewed, collections will be accumulated prior to the expiry and the amount of that portion of the securitized receivables will be repaid to that trust. In the absence of securitization, Loblaw would be required to raise alternative financing by issuing additional debt or equity instruments. Subsequent to year end, Eagle Credit Card Trust ("Eagle") filed a base shelf prospectus which permits it to issue up to $1.5 billion of notes over a 25 month period, subject to the availability of credit markets. Further information about *PC* Bank's credit card receivables and securitization is provided in notes 1 and 12 to the consolidated financial statements and in the Off-Balance Sheet Arrangements section of this MD&A.

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.

Loblaw has equity forward contracts to buy its common shares at a cumulative average forward price which provide for settlement net of amounts owing in cash. At year end the cumulative interest net of dividends and unrealized market loss of $92 million (2007 – $91 million) is included in accounts payable and accrued liabilities. Loblaw is in discussions with a counterparty which may lead to the extinguishment of all or a portion of the liability.

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 or the redemption of its Preferred Shares, Series II.

In the normal course of business, the Company enters into certain arrangements, such as providing comfort letters to third-party lenders in connection with financing activities of certain franchisees, with no recourse liability to the Company. In addition, the Company establishes standby 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, real estate transactions and benefit programs. At year end, the aggregate gross potential liability related to the Company's standby letters of credit was approximately $595 million (2007 – $531 million), against which the Company had $616 million (2007 – $628 million) in credit facilities available to draw on.

(1) See non-GAAP financial measures beginning on page 46.

Loblaw's existing cash and cash equivalents, short term investments, future operating cash flows and the amounts available to be drawn against its credit facility are expected to enable Loblaw to finance its capital investment program and fund its ongoing business requirements including working capital and pension plan funding. Loblaw believes it has sufficient funding available to meet these requirements over the next 12 months. Given reasonable access to capital markets, Loblaw does not foresee any difficulty in securing financing to satisfy its long term obligations.

The Company's (excluding Loblaw's) existing cash and cash equivalents, short term investments, proceeds from the sale of Weston Foods' U.S. fresh bakery business and future operating cash flows are expected to be sufficient to satisfy its current intention to redeem its Preferred Shares, Series II, finance its capital investment program and fund the ongoing business requirements of its continuing operations, including working capital and pension plan funding, over the next 12 months. The Company (excluding Loblaw) does not foresee any difficulty in satisfying its long term obligations at this time.

During 2008, Loblaw's MTN, other notes and debentures and commercial paper ratings were downgraded twice by Dominion Bond Rating Service ("DBRS") and once by Standard & Poor's ("S&P"). On March 11, 2009, DBRS revised the trend on Loblaw's commercial paper rating 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	Negative
Medium term notes	BBB	Negative	BBB	Negative
Preferred shares	Pfd-3	Negative	P-3 (high)	
Other notes and debentures	BBB	Negative	BBB	Negative

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. As a result of the DBRS downgrade of its short term credit rating, Loblaw has limited access to commercial paper.

Loblaw's ability to obtain funding from external sources may be restricted by further downgrades in its 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 short term and long term debt requirements. Loblaw mitigates these risks by maintaining appropriate levels of cash and cash equivalents and short term investments, actively monitoring market conditions and diversifying its sources of funding and maturity profile. Loblaw also employs risk management strategies including forward-looking liquidity contingency plans.

On February 12, 2008, DBRS downgraded GWL's MTN and debentures to "BBB" from "BBB (high)", the short term credit rating to "R-2 (high)" from "R-1 (low)", Exchangeable Debentures to "BBB (low)" from "BBB" and the preferred shares to "Pfd-3" from "Pfd-3 (high)", all with a Stable trend. These ratings remained the same until December 12, 2008, when DBRS placed GWL's ratings "Under Review with Developing Implications" following the announcement that a subsidiary of GWL, Dunedin Holdings S.à r.l., had entered into an agreement with Grupo Bimbo, S.A.B. de C.V. to sell the U.S. fresh bakery business. On March 11, 2009, DBRS revised the trend on GWL's commercial paper, notes and debentures, and preferred shares ratings to "Stable" from "Under Review with Developing Implications".

During the second quarter of 2008, 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 "Negative". GWL was subsequently placed back on "CreditWatch with Negative Implications" by S&P on December 5, 2008, following the announcement that Dunedin Holdings S.à r.l. 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	CreditWatch with Negative Implications
Medium term notes	BBB	Stable	BBB	CreditWatch with Negative Implications
Preferred shares	Pfd-3	Stable	P-3 (high)	CreditWatch with Negative Implications
Other notes and debentures	BBB	Stable	BBB	CreditWatch with Negative Implications

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. As a result of the DBRS downgrade of its short term credit rating, GWL has limited access to commercial paper.

GWL's ability to obtain funding from external sources may be restricted by further downgrades in its 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 short term and long term debt requirements. The Company (excluding Loblaw) mitigates these risks by maintaining appropriate levels of cash and cash equivalents and short term investments, actively monitoring market conditions and diversifying its sources of funding and maturity profile. Given its significant holdings of cash and short term investments following the sale of the dairy and bottling operations and the U.S. fresh bakery business, the Company (excluding Loblaw) currently does not foresee any difficulty 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.

During the first quarter of 2008, Loblaw was notified that an Event of Termination of the independent funding trust agreement for Loblaw's franchisees had occurred as a result of Loblaw's long term credit rating downgrade by DBRS. As a result of the Event of Termination, during the second quarter of 2008, Loblaw finalized an alternative financing arrangement for the independent funding trust in the form of a $475 million, 364-day revolving committed credit facility provided by a syndicate of banks.

The gross principal amount of loans issued to Loblaw's independent franchisees outstanding at the end of 2008 was $388 million (2007 – $418 million), including $152 million (2007 – $153 million) 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% (2007 – 10%) of the principal amount of the loans outstanding at any point in time, $66 million (2007 – $44 million) as of the end of 2008. The standby letter of credit has never 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. This alternative financing arrangement will result in a higher relative financing cost to the franchisees, which in turn could adversely affect operating results. The alternative financing arrangement has been reviewed and Loblaw determined there were no material implications with respect to the consolidation of VIEs.

Loblaw is currently in the process of renewing the $475 million, 364-day revolving committed credited facility, which is expected to be completed during the second quarter of 2009. If this financing is not renewed, the franchisees who are currently obtaining financing from the independent funding trust will have 12 months to arrange the alternative financing. Upon renewal, this financing could result in higher financing costs to the franchisees, which in turn could adversely affect operating results. Although Loblaw anticipates that appropriate financing for the franchisees will continue to be secured in the future, any failure to do so could adversely affect Loblaw's franchise programs and may impact its operating results. In addition, any new financing structure which might be implemented would need to be reviewed to determine if there are any implications with respect to the consolidation of VIEs.

8.3 CONTRACTUAL OBLIGATIONS

The following illustrates certain of the Company's significant contractual obligations and discusses other obligations as at December 31, 2008:

Summary of Contractual Obligations

	Payments due by year						
($ millions)	2009	2010	2011	2012	2013	Thereafter	Total
Long term debt[1]	$ 415	$ 333	$ 681	$ 25	$ 409	$ 3,860	$ 5,723
Capital securities[2]	265						265
Operating leases[3]	216	196	172	149	131	810	1,674
Contracts for purchase of real property and capital investment projects[4]	50	1					51
Purchase obligations[5]	733	578	573	423	3		2,310
Total contractual obligations	$ 1,679	$ 1,108	$ 1,426	$ 597	$ 543	$ 4,670	$ 10,023

(1) Long term debt includes capital lease obligations.
(2) GWL's capital securities are included as subsequent to year end the Company provided notice to the holders that such securities will be redeemed on April 1, 2009. Loblaw's capital securities have been excluded as Loblaw is not currently contractually obligated to pay these amounts.
(3) Represents the minimum or base rents payable. Amounts are not offset by any expected sub-lease income.
(4) 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 transaction.
(5) 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 liability, future income tax liability, stock-based compensation liability, unrealized equity derivatives liability 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 liability, 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;
- future payments related to equity derivatives depend on the market price of GWL and Loblaw common shares; and
- future payments of insurance claims 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 the following off-balance sheet arrangements:

- standby letters of credit used in connection with certain obligations mainly related to real estate transactions and benefit programs, the aggregate gross potential liability of which was approximately $216 million (2007 – $221 million) at year end;
- guarantees; and
- the securitization of a portion of *PC* Bank's credit card receivables through independent trusts.

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 30 to the consolidated financial statements.

Securitization of Credit Card Receivables

Loblaw, through *PC* Bank, securitizes credit card receivables through independent trusts administered by major Canadian chartered banks and through Eagle, also an independent trust. In these securitizations, *PC* Bank sells a portion of its credit card receivables to the trusts in exchange for cash. The trusts fund these purchases by issuing debt securities in the form of asset-backed commercial paper and 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". As *PC* Bank does not control or exercise any measure of influence over the trusts, the financial results of the trusts have not been included in the Company's consolidated financial statements.

When *PC* Bank sells credit card receivables to the trusts, it no longer has access to the receivables but continues to maintain credit card customer account relationships, and certain servicing and administrative responsibilities. *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 issuing trusts' recourse to *PC* Bank's assets is limited to *PC* Bank's retained interests and is further supported through standby letters of credit provided by major Canadian chartered banks for 9% (2007 – 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. Loblaw has agreed to reimburse the issuing banks for any amounts drawn on the standby letters of credit. The subordinated notes issued by Eagle provide credit support to those notes which are more senior. The retained interests are recorded at fair value.

As at year end 2008, the total amount of securitized credit card receivables outstanding which *PC* Bank continues to service was $1.8 billion (2007 – $1.5 billion) and the associated retained interests amounted to $14 million (2007 – $8 million). The standby letters of credit supporting a portion of these securitized receivables amounted to approximately $116 million (2007 – $89 million). During 2008, *PC* Bank received income of $176 million (2007 – $141 million) in securitization revenue from the independent trusts relating to the securitized credit card receivables. In the absence of securitization, Loblaw would be required to raise alternative financing by issuing debt or equity instruments. Further disclosure regarding this arrangement is provided in notes 12 and 30 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 30 to the consolidated financial statements.

9. QUARTERLY RESULTS OF OPERATIONS

The 52-week reporting cycle followed by the Company is divided into four quarters of 12 weeks each except for the third quarter, which is 16 weeks in duration. When a fiscal year such as 2008 contains 53 weeks, the fourth quarter is 13 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[1] (UNAUDITED)

($ millions except where otherwise indicated)		First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total (audited)
Sales	**2008**	**$ 6,835**	**$ 7,324**	**$ 9,879**	**$ 8,050**	**$ 32,088**
	2007	$ 6,668	$ 7,214	$ 9,497	$ 7,228	$ 30,607
Net earnings from continuing operations	**2008**	**$ 84**	**$ 87**	**$ 118**	**$ 356**	**$ 645**
	2007	$ 66	$ 81	$ 117	$ 110	$ 374
Net earnings	**2008**	**$ 131**	**$ 118**	**$ 179**	**$ 404**	**$ 832**
	2007	$ 104	$ 129	$ 179	$ 151	$ 563
Net earnings per common share from continuing operations ($)						
Basic and diluted	**2008**	**$ 0.55**	**$ 0.60**	**$ 0.80**	**$ 2.68**	**$ 4.63**
	2007	$ 0.41	$ 0.53	$ 0.77	$ 0.75	$ 2.46
Net earnings per common share ($)						
Basic and diluted	**2008**	**$ 0.91**	**$ 0.84**	**$ 1.28**	**$ 3.05**	**$ 6.08**
	2007	$ 0.70	$ 0.90	$ 1.25	$ 1.07	$ 3.92

(1) Results of Weston Foods' U.S. fresh bakery business have been reclassified as discontinued operations.

Results by Quarter

Consolidated sales and sales growth in 2008 were impacted by various factors including the impact of Weston Foods foreign currency translation. For Loblaw, sales and same-store sales growth were positive in all four quarters of 2008 compared to 2007. Quarterly same-store sales growth for each of the four quarters of 2008 when compared to 2007 was 2.8%, 0.7%, 3.0% and 10.6%, respectively.

Internal retail food price inflation at Loblaw increased as the year progressed but was lower than the national food price inflation as measured by CPI. In the fourth quarter of 2008, national food price inflation had increased to 8.4% from 0.1% in the first quarter. This measure of inflation does not necessarily reflect the effect of inflation on the specific mix of goods sold in Loblaw stores.

Weston Foods 2008 quarterly sales were positively impacted by price increases across key product categories combined with changes in sales mix. Foreign currency translation negatively impacted sales growth in the first three quarters of 2008 as compared to the same periods in 2007, and positively impacted sales growth in the fourth quarter of 2008.

At Loblaw, fluctuations in quarterly net earnings during 2008 reflect the impact of a number of specific charges including restructuring and other charges and the net effect of stock-based compensation net of the equity forwards. Earnings in the third and fourth quarters of 2008 benefited from Loblaw's cost reduction initiatives, whereas earnings in the first and second quarters of 2008 and the fourth quarter of 2007 were pressured from investments in lower retail pricing. At Weston Foods, pricing, a shift in sales mix to higher margin products and the benefits realized from cost reduction and productivity initiatives more than offset the impact of inflationary cost pressures throughout 2008 and 2007. Quarterly net earnings are also impacted by seasonality and the timing of holidays. The impact of seasonality is greatest in the fourth quarter and least in the first quarter.

Interest expense and other financing charges fluctuate mainly as a result of the accounting for GWL'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 change in the effective income tax rates for 2008 over 2007 was primarily due to a change in the proportion of taxable income earned across different tax jurisdictions and lower Canadian federal and certain provincial statutory income tax rates relative to 2007, which were partially offset by an increase in income tax accruals relating to certain income tax matters and a 2007 cumulative adjustment of future taxes pursuant to a reduction in the Canadian federal and certain provincial statutory income tax rates. The change in effective tax rates in the fourth quarter of 2008 was also impacted by the impact of non-taxable amounts including capital gains and a charge related to tax on unrealized foreign exchange gains on short term investments.

9.2 FOURTH QUARTER RESULTS (UNAUDITED)

The following is a summary of selected unaudited consolidated financial information for the fourth quarter of 2008. 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 cash flows in the fourth quarter.

Selected Consolidated Information[1]
(unaudited)

($ millions except where otherwise indicated)	**2008**	2007
Sales	**$ 8,050**	$ 7,228
Operating income	**$ 345**	$ 139
Operating margin	**4.3%**	1.9%
Gain on disposal of business	**$ 335**	
Interest expense (income) and other financing charges	**$ 136**	$ (36)
Income taxes	**$ 112**	$ 43
Net earnings from continuing operations	**$ 356**	$ 110
Net earnings	**$ 404**	$ 151
Basic net earnings per common share from continuing operations ($)	**$ 2.68**	$ 0.75
Basic net earnings per common share ($)	**$ 3.05**	$ 1.07
EBITDA[2]	**$ 484**	$ 287
EBITDA margin[2]	**6.0%**	4.0%
Cash flows from (used in) continuing operations:		
Operating activities	**$ 602**	$ 530
Investing activities	**$ 21**	$ (300)
Financing activities	**$ (498)**	$ (197)

(1) Results of Weston Foods' U.S. fresh bakery business have been reclassified as discontinued operations.
(2) See non-GAAP financial measures beginning on page 46.

Sales

Sales in the fourth quarter of 2008 were $8.1 billion compared to $7.2 billion for the same period in 2007, an increase of 11.4%, and include the positive impact of approximately 7.8% due to reporting an additional week of results in 2008 (a 13-week period).

Operating Income

The Company's consolidated operating income for the fourth quarter of 2008 was $345 million compared to $139 million in the same period in 2007, an increase of 148.2%. Consolidated operating margin of 4.3% for the fourth quarter increased compared to 1.9% for the same period in 2007.

Year-over-year changes in the following items influenced the Company's operating income in the fourth quarter of 2008 compared to the same period in 2007:

- income of $4 million (2007 – a charge of $38 million) due to lower than anticipated restructuring and other charges for restructuring plans undertaken by both Weston Foods and Loblaw;
- income of $23 million (2007 – a charge of $79 million) related to the effect of stock-based compensation net of equity derivatives of both GWL and Loblaw. The amount of net stock-based compensation cost recorded in operating income is mainly dependent upon the number of unexercised, vested stock options and restricted share units net of the number of common shares associated with the equity derivatives and the change in the market prices of the underlying common shares;
- a charge of $5 million (2007 – income of $4 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;
- income of $9 million (2007 – $10 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
- a charge of nil (2007 – $1 million) related to the fair value adjustment of the Domtar (Canada) Paper Inc. shares, net of the re-measurement of the GWL 3% Exchangeable Debentures.

Excluding the impact of these specific items, operating income improved compared to the fourth quarter of 2007.

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 (Income) and Other Financing Charges

Interest expense and other financing charges for the fourth quarter of 2008 increased $172 million to $136 million from income of $36 million in the fourth quarter of 2007. This increase was primarily due to a non-cash charge relating to the accounting for GWL's forward sale agreement of 9.6 million Loblaw common shares of $52 million, compared to non-cash income of $110 million in 2007. Also impacting the year-over-year increase in the fourth quarter were dividends on capital securities offset by lower levels of net debt[(1)].

Income Taxes

The effective income tax rate decreased to 20.6% in the fourth quarter of 2008 compared to 24.6% in the fourth quarter of 2007. The decrease in the fourth quarter of 2008 when compared to the same period in 2007 was primarily due to non-taxable amounts including capital gains, a change in the proportion of taxable income earned across different tax jurisdictions, lower Canadian federal and certain provincial statutory income tax rates relative to the fourth quarter of 2007 and a decrease in income tax accruals relating to certain income tax matters, which were partially offset by a charge of $11 million related to tax on unrealized foreign exchange gains on short term investments and a 2007 cumulative adjustment of future taxes pursuant to a reduction in Canadian federal and certain provincial statutory income tax rates.

Net Earnings from Continuing Operations

Net earnings from continuing operations for the fourth quarter of 2008 increased $246 million, or 223.6%, to $356 million from $110 million in the same period in 2007. Basic net earnings per common share from continuing operations for the fourth quarter of 2008 increased $1.93, or 257.3%, to $2.68 from $0.75 in the same period in 2007.

Basic net earnings per common share from continuing operations were affected in the fourth quarter of 2008 compared to the fourth quarter of 2007 by the following factors:

- $0.02 per common share income (2007 – $0.12 per common share charge) due to lower than anticipated restructuring and other charges for restructuring plans undertaken by both Weston Foods and Loblaw;
- $0.08 per common share income (2007 – $0.41 per common share charge) related to the effect of stock-based compensation net of equity derivatives of both GWL and Loblaw;
- a $0.03 per common share charge (2007 – $0.02 per common share income) related to the commodity derivatives fair value adjustment at Weston Foods;
- $0.05 per common share income (2007 – $0.06) 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 $0.30 per common share non-cash charge (2007 – $0.64 per common share non-cash income) related to the accounting for GWL's forward sale agreement for 9.6 million Loblaw common shares;
- nil per common share (2007 – $0.01 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 re-measurement of the GWL 3% Exchangeable Debentures; 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 for the fourth quarter of 2008 were $48 million, compared to $41 million in the same period in 2007.

Net Earnings

Net earnings for the fourth quarter of 2008 of $404 million increased $253 million compared to net earnings of $151 million in the same period in 2007. Basic net earnings per common share for the fourth quarter of 2008 of $3.05 increased $1.98 compared to basic net earnings per common share of $1.07 in 2007, including earnings from discontinued operations per common share of $0.37 compared to $0.32 in the same period in 2007.

(1) See non-GAAP financial measures beginning on page 46.

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)	**2008**	2007
Sales	**$ 507**	$ 468
Operating income	**$ 30**	$ 7
EBITDA[1]	**$ 45**	$ 21

(1) See non-GAAP financial measures beginning on page 46.

Weston Foods sales for the fourth quarter of 2008 of $507 million increased 8.3% compared to the same period in 2007. The results of its dairy and bottling operations negatively impacted reported sales growth by approximately 14.4%, while the additional week of operating results in 2008 and foreign currency translation positively impacted sales by approximately 7.0% and 6.7%, respectively. Price increases across key product categories combined with changes in sales mix contributed positively to sales growth by 8.9% for the fourth quarter of 2008. Volume declined 11.5% for the fourth quarter of 2008 when compared to the same period in 2007 and was negatively impacted by 18.1% 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 6.5%.

In the fourth quarter, the following sales analysis inclusive of the 53rd week excludes the impact of foreign currency translation and the results of the dairy and bottling operations:

- fresh bakery sales, including fresh-baked sweet goods, increased by approximately 14.5% driven by price increases in key product categories combined with changes in sales mix. Volume increases were positively impacted by the additional week of operating results. Sales growth in whole grain and whole wheat products exceeded the sales growth of white flour based products. The introduction of new products, such as *D'Italiano Thintini*, *Gadoua Vitalité*, *Wonder+ Headstart*, *Country Harvest Plus* and products under the *Weight Watchers®* licensed brand contributed positively to branded sales growth;
- frozen bakery sales increased by approximately 18.2% driven mainly by price increases combined with changes in sales mix. Positive volume growth was driven by increases in certain categories and the additional week of operating results; and
- biscuit sales, principally wafers, ice-cream cones, cookies and crackers, increased by approximately 17.0% due to higher sales volumes in all categories.

Weston Foods operating income increased $23 million to $30 million in the fourth quarter of 2008 from $7 million in the same period in 2007. Operating margin was 5.9% for the fourth quarter of 2008 compared to 1.5% in 2007.

The year-over-year change in the following items influenced operating income for the fourth quarter of 2008 compared to the fourth quarter of 2007:

- a charge of $4 million (2007 – $2 million) related to restructuring and other charges;
- income of $6 million (2007 – a charge of $27 million) related to the effect of stock-based compensation net of equity derivatives;
- a charge of $5 million (2007 – income of $4 million) related to the commodity derivatives fair value adjustment;
- income of $9 million (2007 – $10 million) related to the income of the dairy and bottling operations; and
- a charge of nil (2007 – $1 million) related to the fair value adjustment of the Domtar (Canada) Paper Inc. shares, net of the re-measurement of the GWL 3% Exchangeable Debentures.

Excluding the specific items described above, operating income increased in the fourth quarter of 2008 compared to the same period in 2007. Operating income was positively impacted by sales growth primarily due to price increases combined with changes in sales mix, the additional week of operating results and the benefits realized from the continued focus on cost reduction initiatives and restructuring activities. Pricing and other actions mitigated the impact of higher fuel costs and the inflationary cost pressures related to certain ingredients, primarily flour, oils and sugar. Gross margin decreased in the fourth quarter of 2008 mainly as a result of the commodity derivatives fair value adjustment.

EBITDA[1] increased $24 million to $45 million in the fourth quarter of 2008 compared to $21 million in 2007. EBITDA margin[1] increased in the fourth quarter of 2008 to 8.9% from 4.5% in 2007.

(1) See non-GAAP financial measures beginning on page 46.

LOBLAW

(unaudited) ($ millions)	**2008**	2007
Sales	**$ 7,745**	$ 6,967
Operating income	**$ 315**	$ 132
EBITDA[1]	**$ 439**	$ 266

(1) See non-GAAP financial measures beginning on page 46.

Sales in the fourth quarter increased 11.2% to $7.7 billion compared to $7.0 billion in the fourth quarter of 2007. The following factors explain the major components in the change in sales for the fourth quarter of 2008 compared to the fourth quarter of 2007:

- same-store sales growth of 10.6% including an increase in sales and same-store sales growth of 7.9% due to the extra selling week in the fourth quarter of 2008;
- a shift of the Thanksgiving holiday to the fourth quarter of 2008 resulted in higher sales and same-store sales growth of approximately 0.8% during the fourth quarter of 2008;
- sales and same-store sales growth were negatively impacted by 1.0% due to a strike in certain *Maxi* stores in Quebec;
- on an equivalent 12-week basis, total sales growth in both food and drugstore was strong;
- on an equivalent 12-week basis, apparel sales growth was strong in the fourth quarter but this did not offset the decline in core general merchandise sales growth, which primarily declined due to reductions in assortment and square footage;
- on an equivalent 12-week basis, item count growth declined marginally, while customer count growth remained flat versus the fourth quarter of 2007;
- on an equivalent 12-week basis, gas bar sales growth was negative as a result of lower fuel prices;
- Loblaw's analysis indicated that internal retail food price inflation was higher than the year-to-date trend, but lower than the national food price inflation of 8.4% as measured by CPI. In the fourth quarter of 2007, Loblaw experienced internal retail food price deflation; and
- during the fourth quarter of 2008, 16 new corporate and franchised stores were opened and 10 were closed, resulting in a net increase of 0.2 million square feet or 0.5%.

Operating income of $315 million for the fourth quarter of 2008 increased $183 million, or 138.6%, compared to operating income of $132 million in 2007. Operating margin was 4.1% compared to 1.9% in the fourth quarter of 2007. The increase in operating income was mainly due to lower restructuring and net stock-based compensation costs, higher sales, and cost reduction initiatives.

The year-over-year change in the following items influenced operating income for the fourth quarter of 2008 compared to the fourth quarter of 2007:

- income of $8 million (2007 – a charge of $36 million) related to lower than anticipated restructuring and other charges;
- income of $17 million (2007 – a charge of $52 million) related to the effect of stock-based compensation net of equity forwards; and
- income of $22 million (2007 – nil) related to the gain on the sale of Loblaw's food service business.

Included in 2008 fourth quarter operating income is a fixed asset impairment charge of $29 million (2007 – $33 million). In the fourth quarter of 2007, an $11 million gain was realized related to the sale of an office building in Calgary, Alberta. On an equivalent 12-week basis and excluding the above items, operating income in the fourth quarter of 2008 improved compared to the fourth quarter of 2007.

Loblaw experienced higher store labour costs in the fourth quarter of 2008 as a result of higher sales. Labour productivity decreased slightly in the fourth quarter of 2008 compared to the same period in 2007 as a result of investments in training and Loblaw's commitment to improve customer service during the holiday season. Labour productivity has improved on a year-over-year basis.

EBITDA[1] increased $173 million, or 65.0%, to $439 million in the fourth quarter of 2008 compared to $266 million in the fourth quarter of 2007. EBITDA margin[1] increased in the fourth quarter of 2008 to 5.7% compared to 3.8% in 2007. The increases in EBITDA[1] and EBITDA margin[1] were due to lower restructuring charges, lower net stock-based compensation costs, higher sales and cost reduction initiatives.

(1) See non-GAAP financial measures beginning on page 46.

Liquidity and Capital Resources

Cash flows from operating activities of continuing operations

The Company's fourth quarter 2008 cash flows from operating activities of continuing operations were $602 million compared to $530 million in the comparable period in 2007. The increase for the fourth quarter was mainly due to an increase in net earnings from continuing operations before minority interest, excluding the impact of the gain on disposal of business, restructuring and other charges, and the fair value adjustment of GWL's forward sale agreement.

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

The Company's fourth quarter 2008 cash flows from investing activities of continuing operations were $21 million compared to cash flows used in investing activities of continuing operations of $300 million in 2007. The primary reasons for the change include the $467 million of proceeds from the fourth quarter 2008 disposition of Weston Foods' dairy and bottling operations and a decrease in the cash flows used in credit card receivables, after securitization. Offsetting these changes was an increase in capital spending primarily associated with Loblaw's investment in its infrastructure, and reduced proceeds from asset sales when compared to the same period in 2007. Capital investment for the fourth quarter amounted to $383 million (2007 – $185 million).

Cash flows used in financing activities of continuing operations

The Company's fourth quarter 2008 cash flows used in financing activities of continuing operations were $498 million compared to $197 million in 2007. This increase was primarily due to an increase in cash flows used in short term borrowings, largely driven by the reduction in GWL's committed credit facility, as well as an increase in dividends paid in the quarter, which was due to the timing of payment.

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, 2008.

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, 2008.

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 necessarily 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 quarter ended December 31, 2008 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

Each year, the Company performs an Enterprise Risk Assessment ("ERA"), which identifies the key risks facing the Company and evaluates the risk management effectiveness for each of these risks. The assessment is primarily carried out through interviews with senior management, who assess the potential impact of risks and the likelihood that a negative impact will occur. The results of the ERA and other business planning processes are used to prioritize risk management activities, allocate resources effectively and develop a risk-based internal audit plan. The identified risks are presented and discussed with the Audit Committee.

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 approved by the Board covering funding, investing, equity, commodity, foreign currency exchange and interest rate management. The Company's policies and guidelines prohibit the use of any financial derivative instrument for trading or speculative purposes.

The operating and financial 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 operating and financial risk management strategies including insurance programs, which help to mitigate the potential financial impact of these operating and financial risks. While the Company employs strategies to minimize these risks, these strategies do not guarantee that events or circumstances will not occur which could negatively affect the Company's financial condition and performance.

12.1 OPERATING RISKS AND RISK MANAGEMENT

Industry and Competitive Environment

The North American food processing and retail industries are evolving and operate in increasingly competitive markets. The Company completed the sale of its Canadian dairy and bottling operations in 2008 and its U.S. fresh bakery business in the first quarter of 2009, reducing its investment in the food processing industry. 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 segments will modify their operating strategies, including, but not limited to, relocating production facilities or stores, closing underperforming stores, relocating stores or reformatting them under a different banner, reviewing pricing and adjusting 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 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 a result of the continuing and accelerating cost pressures being experienced by the food processing industry and the difficult sales environment being experienced by many food retailers, 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. Loblaw is also subject to competitive pressures from new entrants into the marketplace and from the expansion of existing competitors, particularly those expanding into the grocery market. These competitors may have extensive resources which will allow them to compete effectively with Loblaw in the long term. Increased competition could adversely affect Loblaw's ability to achieve its objectives. Loblaw's inability to compete effectively with its current or any future competitors could result in, among other things, reduced market share and lower pricing in response to its competitors' pricing activities. Accordingly, Loblaw's competitive position and financial performance could be negatively impacted.

Economic Environment
In the last six months of 2008 and continuing into 2009, economic conditions in Canada and the United States deteriorated, which may impact the Company's operations negatively in the future as increased unemployment levels, changes in interest rates, reduced access to credit or changes in inflation could severely impact consumer spending and ultimately negatively impact sales and margins. The challenging economic conditions may also increase the risks associated with any deployment of the Company's significant holdings of cash and short term investments resulting from the sale of the Canadian dairy and bottling operations and the U.S. fresh bakery business. Management regularly monitors economic conditions and their impact on the Company's operations, and actively considers these factors in making short term operating and longer term strategic decisions.

Change Management and Execution
Significant initiatives in support of Loblaw's multi-year turnaround plan are underway or planned. These initiatives include the restructuring of Loblaw's supply chain and execution of its information technology strategic plan. While these changes are expected to bring benefits to Loblaw in the form of a more agile and consumer-focused business, success 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 the Company to implement and achieve its strategic objectives due to a lack of clear accountabilities or lack of requisite knowledge, which may cause employees to act in a manner which is inconsistent with Company objectives. Any of these events could negatively impact the Company's performance. The Company may not always achieve the expected cost savings and other benefits of its initiatives.

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 access current and potential customers. A significant restructuring of Loblaw's supply chain will continue for the next several 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.

Information Technology
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 the appropriate information for decision making, including its key performance indicators. Any significant failure or disruption of these systems could negatively affect the Company's reputation, revenues and financial performance.

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. These systems may not properly support the required business processes of Loblaw. An IT strategic plan was developed to guide the new systems environment that Loblaw requires. Implementation of this plan was initiated in 2008 and will continue throughout 2009, 2010 and 2011. 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.

Failure or disruption in the Company's IT systems may result in a lack of relevant and reliable information that enables management to effectively prioritize its products or balance its businesses in a strategic context, which may preclude the Company from optimizing its overall performance.

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.

Employee Development and Retention
The degree to which the Company is not effective in developing its employees and establishing appropriate succession planning processes and retention strategies could lead to a lack of requisite knowledge, skills and experience which could, in turn, affect the Company's ability to execute its strategies, efficiently run its operations and meet its goals for financial performance. The Company continues to focus on the development of employees at all levels and across all regions. Effective employee development and succession planning are essential to sustaining the growth and success of the Company. Although progress was made in 2008, these areas are not yet fully developed and efforts are ongoing.

Food Safety and Public Health

The Company is subject to risks associated with product defects, food safety and product handling. Such liabilities may arise in relation to the manufacturing, preparation, storage, distribution 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. Any event related to these matters has the potential to adversely affect the Company's reputation and its financial performance.

A majority of the Company's sales are generated from food products and the Company could be vulnerable in the event of a significant outbreak of food-borne illness or increased public health concerns in connection with certain food products. Such an event could negatively affect the Company's financial performance. Procedures are in place to manage such events, should they occur. These procedures identify risks, provide clear communication to employees and consumers and are aimed at ensuring that potentially harmful products are expeditiously removed from inventory. The Company has food safety procedures and programs, which address safe food handling and preparation standards. The Company endeavors to employ best practices for the storage and distribution of food products and also actively supports consumer awareness of safe food handling and consumption. The ability of these 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 these risks.

The Company strives to ensure its brands and Loblaw's control label products meet all applicable regulatory requirements including having nutritional labelling so that today's health conscious consumer can make informed choices.

Environmental, Health and Safety

Adverse environmental and health and safety events could negatively affect the Company's reputation and financial performance. 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.

The Company endeavors to be socially and environmentally responsible, and recognizes that the competitive pressures for economic growth and cost efficiency must be integrated with sound environmental stewardship and ecological considerations.

Loblaw participates in industry and government-led environmental initiatives aimed at reducing the environmental impact of its operations. Loblaw 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. Loblaw could be subject to increased or unexpected costs associated with the related remediation activities. In recent years, provincial and municipal governments have introduced legislation that imposes liabilities on retailers for costs associated with recycling and disposal of consumer goods packaging. This is a growing trend and Loblaw expects to be subject to increased costs associated with these laws.

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

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. 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. In 2008, 85 collective agreements affecting approximately 14,000 employees expired, with the single largest agreement covering approximately 3,100 employees. The Company also negotiated 78 collective agreements in 2008, which represented a combination of agreements expired in 2008, carried over from prior years and those negotiated early.

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.

Trademark or Brand Erosion

Erosion of a trademark or brand over time may threaten the demand for the Company's products or services and impair its ability to grow future revenue streams. Loblaw offers a strong control label program, including the *President's Choice*, *no name* and *Joe Fresh Style* brands, and Weston Foods has a strong branded product offering, including *Wonder*, *D'Italiano* and *Country Harvest*. The Company endeavors to have the appropriate contractual protections in Loblaw's arrangements with control label vendors and Weston Foods' arrangements with contract manufacturers, distributors and customers.

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. As at year end 2008, Weston Foods had entered into commodity future 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 minimize the short term impact on the Company's financial results, particularly if commodity prices continue to be volatile.

Legal, Taxation and Accounting
Changes to any of the laws, rules, regulations or policies related to the Company's business, including 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. 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 jurisdictions 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.

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 consumer tastes or habits, is priced at a level customers are not willing to pay, or meets a need, but is late in reaching the market that a competitor reached first. This may result from pervasive changes to customers' needs and wants without Loblaw's awareness or without Loblaw adequately adapting (e.g. increased demand for faster delivery or turnaround on products). Recent consumer trends that dominate the retail industry include customers' concerns for their own and their family's health, lack of time, increasing demand for value and premium products in one location, a willingness to buy certain general merchandise on food-focused shopping trips and an increasing demand that retailers source ethically and in a way that demonstrates care for the environment and the community.

It is also possible that a number of Loblaw's general merchandising programs will result in excess inventory that cannot be sold profitably through Loblaw's stores. Excess inventory may result in mark downs, shrink or the need to liquidate the inventory, all of which may negatively impact the Company's financial performance. In addition, Loblaw's current inventory management infrastructure, including its information technology systems, is not efficient in its tracking of inventory through all stages of the supply chain. Loblaw has implemented procedures and information technology workarounds which provide management with the ability to adequately detect and quantify excess and obsolete inventory.

Business Continuity
The Company's ability to continue critical operations and processes could be negatively impacted by a weather disaster, prolonged IT failure, food pandemic or other national/international catastrophe.

Vendor Management
Inefficient, ineffective or incomplete vendor 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. Loblaw has recently implemented practices and performance expectations with its vendor base, where vendors have been asked to support sales plans and cost reduction initiatives and to align with major program changes. Delays with the implementation of this program will have an impact on Loblaw's ability to realize the expected benefits.

Franchise Independence

A substantial portion of Loblaw's revenues and earnings come from amounts paid by franchisees. Franchisees are independent businesses and, as a result, their operations may be negatively affected by factors beyond Loblaw's control, which in turn may damage Loblaw's reputation and potentially affect revenues and earnings. Revenues and earnings would also be negatively affected and Loblaw's reputation could be harmed if a significant number of 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 laws and regulations 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 associated with these regulations, all of which could affect Loblaw's relationship with its franchisees.

Employee Future Benefit Contributions

The Company manages the assets in its defined benefit pensions plans by engaging professional investment managers who operate under prescribed investment policies and procedures in respect of permitted investments and asset allocations. The performance of the Company's pension plans will be negatively impacted where the plan assets underperform. If capital market returns continue to be negative, the Company will 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.

During 2008, the Company contributed $148 million (2007 – $83 million) to its funded defined benefit pension plans, including an additional voluntary contribution of $64 million in the fourth quarter of 2008 which partially offset the impact of the negative returns experienced by the plans during the year. In 2009, the Company expects to contribute approximately $118 million to these plans. This estimate may vary subject to actuarial valuations being completed, market performance and regulatory requirements. The Company regularly monitors and assesses plan experience and the impact of changes in participant demographics, capital markets and other economic factors on its funding requirements, employee future benefit costs and actuarial assumptions. The Company also expects to make contributions in 2009 to defined contribution pension plans and multi-employer pension plans, as well as benefit payments to the beneficiaries of the unfunded defined benefit pension and other benefit plans.

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 39% (2007 – 40%) 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.

The trustees of a multi-employer pension plan in which employees of Loblaw and those of its independent franchisees participate are involved in proceedings brought by Financial Services Commission of Ontario whereby it has been alleged that the trustees violated certain provisions of the Pension Benefits Act (Ontario) in their management of the plan's funds. One of the trustees, an officer of Loblaw, is entitled to indemnification from Loblaw.

Third-Party Providers

Certain aspects of the Company's business are significantly affected by third-party providers. Although appropriate contractual arrangements are put in place with these third parties, the Company has no direct influence over how such third parties are managed. It is possible that negative events affecting these third parties could in turn negatively impact the Company's operations and its financial performance.

A large portion of Loblaw's case-ready meat products are produced by a third party which operates facilities currently dedicated to Loblaw.

In addition, certain of Weston Foods products and Loblaw's control label products are manufactured under contract by third-party vendors. To preserve the brands' equity, these vendors are held to high standards of quality but there is no assurance that these standards will be achieved. The Company also uses third-party logistic services including those in connection with a dedicated warehouse and distribution centre in Pickering, Ontario, a warehouse and distribution centre in Ajax, Ontario, and third-party common carriers. Any disruption in these services could interrupt the flow of goods and therefore could negatively impact sales.

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 monitor a portion of credit and fraud for the *President's Choice Financial MasterCard*. To minimize operating risk, *PC* Bank and Loblaw actively manage and monitor their relationship 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 with regular reports on vendor management and risk assessment. *PC Financial* ceased soliciting for new home and automobile insurance business effective February 21, 2009; however, it will continue to provide customer service (including claims service) and renewal policies to existing customers.

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 the liquidity of the Company.

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 it to introduce new departments and services that could be precluded under third-party operating leases. At year end 2008, Loblaw owned 74% (2007 – 73%) of its corporate store square footage and owned 48% (2007 – 46%) of its franchise square footage. As part of ongoing review of performance of, and customer satisfaction with, Loblaw's stores, Loblaw from time to time undertakes store renovations and remodeling. In doing so, Loblaw could be negatively impacted if such renovations and remodeling are carried out in a manner that is disruptive to the ongoing store operations or results in a poor customer experience.

Seasonality

The Company's operations as they relate to food, specifically inventory levels, sales volumes and product mix, are impacted to some degree by certain holiday periods throughout the year. Both of the Company's reportable operating segments continuously monitor the impact holidays may have on their operations and adjust inventory levels and production and delivery schedules as required. Sales of certain general merchandise items at Loblaw are subject to more seasonal fluctuations.

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, and financial contracts to fix a portion of variable costs associated with heating oil requirements for 2009. Despite these arrangements, cost increases in these items could still negatively affect the Company's financial performance.

Ethical Business Conduct

The Company has adopted a Code of Business Conduct which employees and directors of the Company are required to acknowledge and agree to on a regular basis. The Company has in place an Ethics and Business Conduct Committee, comprised of senior management, 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. Any failure of the Company or its vendors to adhere to these 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.

Insurance

The Company attempts to limit its exposure to certain risks through a combination of appropriate levels of self-insurance and the purchase of various insurance coverages, including an integrated insurance program. The Company's insurance program is based on various lines and limits of coverage. Insurance is arranged on a multi-year basis with reliable, financially stable insurance companies as rated by A.M. Best Company, Inc. The Company combines comprehensive risk management programs and the active management of claims handling and litigation processes by using internal professionals and external technical expertise. These programs do not guarantee that any given risk will be mitigated in all circumstances.

Holding Company Structure

GWL is a holding company. As such, it does not carry on all of its 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

Following the sale of Weston Foods' U.S. fresh bakery business in January 2009 and the subsequent conversion of a portion of the proceeds into Canadian dollars, Dunedin Holdings S.à r.l. retains approximately USD $1.1 billion of cash and short term investments. The future net earnings of the Company will reflect translation gains and losses associated with these balances. A portion of Weston Foods' remaining business will continue to be in United States dollars, through its net investment in self-sustaining foreign operations, the assets and liabilities of which 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 which are recorded in other comprehensive income (loss). In addition, revenues and expenses of these self-sustaining foreign operations are translated into Canadian dollars at the foreign currency exchange rates that approximate the rate in effect at the date when such items are recognized. An appreciating Canadian dollar relative to the United States dollar will negatively impact year-over-year changes in reported sales, operating income and net earnings, while a depreciating Canadian dollar relative to the United States dollar will have the opposite impact.

Loblaw enters into cross currency swaps to manage its current and anticipated exposure to fluctuations in foreign currency exchange rates. Loblaw's cross currency swaps are transactions in which interest payments and principal amounts in United States dollars are exchanged against the receipt of interest payments and principal amounts in Canadian dollars. Loblaw is exposed to foreign currency exchange rate variability, primarily on its United States dollar denominated cash and cash equivalents, short term investments, security deposits included in other assets, foreign denominated purchases in accounts payable and accrued liabilities, and USD private placement notes included in long term debt.

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 included in other assets, pension assets held in the Company's defined benefit plans, amounts receivable from Weston Foods customers and suppliers, *PC* Bank's credit card receivables and other Loblaw receivables from 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. The Company has sought to minimize potential counterparty risk and losses by conducting transactions for its derivative agreements with counterparties that have at minimum a long term "A" credit rating from a recognized credit rating agency and by placing risk adjusted limits on its exposure to any single counterparty for its financial derivative agreements. The Company has internal policies, controls and reporting processes, which require ongoing assessment and corrective action, if necessary, with respect to its derivative transactions. In addition, net obligations and asset amounts on cross currency swaps and equity swaps and forwards are each netted by agreement with counterparties.

Credit risk associated with the Company's cash equivalents, short term investments and security deposits included in other assets results from the possibility that a counterparty may default on the repayment of a security. The Company attempts to mitigate this risk through policies and guidelines that require issuers of permissible investments to have at minimum a 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. The Company purchases and holds these investments directly in custody accounts, and has limited exposure to any 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.

Weston Foods performs ongoing credit evaluations to assess the financial condition of its new and existing suppliers and customers for amounts receivable from these counterparties.

Loblaw's exposure to credit risk from *PC* Bank's credit card receivables and receivables from independent franchisees, associated stores and independent accounts results from the possibility that customers may default on their payment obligation. *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. Loblaw accounts receivable from independent franchisees, associated stores and independent accounts are actively monitored on an ongoing basis and settled on a frequent basis in accordance with the terms specified in the applicable agreements.

Interest Rate

The Company is exposed to interest rate risk which it manages through the use of interest rate swaps. Interest rate swaps are transactions in which the Company exchanges interest flows with a counterparty on a specified notional amount for a predetermined period based on agreed-upon fixed and floating interest rates. Notional amounts are not exchanged. The Company's interest rate risk arises from the issuance of short term debt and equity derivatives, net of its cash and cash equivalents, short term investments and security deposits included in other assets. The Company manages fluctuations in its interest expense through its exposure to a mix of fixed and floating interest rates, by managing the duration of its financial instruments and by entering into interest rate swaps.

Commodity Price

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 consumer products. To manage 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 future contracts, option contracts and forward contracts to manage their current and anticipated exposure to fluctuations in commodity prices.

Common Share Market Price

GWL and Loblaw enter into equity derivatives to manage exposure to fluctuations in stock-based compensation cost as a result of changes in the market prices of the respective underlying common shares. 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 restricted share unit ("RSU") plan expense. The partial offset between stock-based compensation costs, including RSU plan expense, and the equity derivatives is effective when the market price of the respective underlying common shares exceeds the exercise price of the related employee stock options. When the market price of the respective underlying common shares is lower than the exercise price of the related employee stock options, these equity derivatives will 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 and their vesting schedules relative to the number of respective underlying common shares on the equity derivatives and the level of and 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, GWL entered into an equity forward sale agreement based on 9.6 million Loblaw common shares at an original forward price of $48.50 per Loblaw common share which, under the terms of the agreement, had increased to a forward price of $76.52 (2007 – $72.06) per Loblaw common share as at December 31, 2008. The forward matures in 2031 and will be settled in cash as follows: GWL will receive the forward price and will pay the market value of the underlying Loblaw common shares at maturity. The obligation of GWL under this forward is secured by the underlying Loblaw common shares. GWL entered into this forward to partially offset any repayment risk associated with its Series A, 7.00% and Series B Debentures. GWL recognizes a non-cash charge or income, which is included in consolidated interest expense and other financing charges, representing the fair value adjustment of GWL'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 GWL owns. GWL 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, GWL will receive a cash amount equal to the difference. If the forward price is less than the market price, GWL 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.

Derivative Instruments

As discussed above, the Company uses over-the-counter derivative instruments to manage certain risks and costs. The fair value of derivative instruments is subject to changing market conditions which could negatively impact earnings. The Company's policies and guidelines prohibit the use of any derivative instrument for trading or speculative purposes. See notes 1 and 27 to the consolidated financial statements for additional information about the Company's financial derivative instruments.

Liquidity

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 access and ability to fund its short term and long term debt maturities. The Company mitigates these risks by maintaining appropriate levels of cash and cash equivalents and short term investments, by actively monitoring market conditions and by diversifying its sources of funding and maturity profile.

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. Rental payments amounted to approximately $3 million in 2008 (2007 – $3 million). It is the Company's policy to conduct all transactions and settle balances with related parties on market terms and conditions. For a detailed description of the Company's related party transactions, see note 32 to the consolidated financial statements.

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. 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.

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 estimation or judgment 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.

In the first quarter of 2008, the Company implemented Section 3031, "Inventories" ("Section 3031"), which replaced Section 3030 of the same title. Section 3031 provides guidance with respect to the determination of cost and requires inventories to be measured at the lower of cost and net realizable value.

Additional information on inventories is provided in notes 2 and 14 to the consolidated financial statements.

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 ages, 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 2008 net cost for defined benefit pension and other benefit plans were 5.5% and 5.4%, respectively, on a weighted average basis, compared to 5.1% and 5.1%, respectively, in 2007. The discount rates used to determine the net 2009 defined benefit pension and other benefit plans costs increased to 6.0% and 5.7%, respectively, in Canada and increased to 7.0% and 7.0%, 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 on historical returns. The Company reduced the expected long term rate of return on plan assets in Canada to 7.25% and 7.75% on plan assets in the United States in calculating its defined benefit pension plans cost for 2009. The Company's defined benefit pension plan assets had a 10-year annualized return of 6.3% as at the 2008 measurement date. The actual annual returns within this 10-year period varied with market conditions.

The expected growth rate in health care costs for 2008 was based on external data and the Company's historical trends for health care costs. In 2009, the growth rate of health care costs is estimated at 9.5% 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 and 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 17 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 Indefinite Life 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. Any goodwill impairment will result in a reduction in the carrying value of goodwill on the consolidated balance sheet and in 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 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 the Board. 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 the fourth quarter of 2008, the Company performed its annual goodwill impairment test and determined that there was no impairment of the carrying value of goodwill. Subsequent to year end, Weston Foods reorganized its operations as a result of the disposition of the U.S. fresh bakery business. 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 expects to record a write-down of a portion of the remaining goodwill related to the biscuits, cookies, cones and wafers business in an amount of up to USD $60 million in the first quarter of 2009.

Intangible assets with indefinite useful lives, primarily consisting of certain Weston Foods trademarks and brand names, 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 Board 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.

During the fourth quarters of 2008 and 2007, the Company performed the annual indefinite life intangible assets impairment tests and determined that there was no impairment of the carrying values of indefinite life intangible assets.

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 regulatory 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.

Fixed Assets

Fixed assets to be held and used are reviewed for impairment annually and when events or circumstances indicate that their carrying value exceeds the sum of the undiscounted 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 their fair value. As discussed in note 15 to the consolidated financial statements, the Company reviewed certain fixed assets for impairment in the Weston Foods and Loblaw operating segments due to circumstances that indicated that their carrying values may not be recovered. The factor that most significantly influences the impairment assessments and calculations is estimates of future cash flows. The Company uses its internal plans in estimating future cash flows. These plans reflect the Company's current best estimate of future cash flows but may change in the future 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 statement of earnings.

Goods and Services Tax and Provincial Sales Taxes

During 2005, Loblaw recorded a charge relating to an audit and proposed assessment by the Canada Revenue Agency relating to GST on certain products sold on which GST was not appropriately charged and remitted. In light of this proposed assessment, the Company assessed and estimated the potential liabilities for GST and PST in other areas of its operations for various periods. The ultimate remaining amount paid will depend on the outcome of audits performed by or settlements reached with the various tax authorities, and therefore may differ from this estimate. Management will continue to assess the remaining accrual as progress towards resolution with the various tax authorities is made and will adjust the remaining accrual accordingly. Changes in this accrual may result in a charge or credit to operating income in the consolidated statement of earnings.

15. ACCOUNTING STANDARDS IMPLEMENTED IN 2008

Capital Disclosures and Financial Instruments – Disclosure and Presentation

In December 2006, the CICA issued three new accounting standards: Section 1535, "Capital Disclosures" ("Section 1535"), Section 3862, "Financial Instruments – Disclosures" ("Section 3862") and Section 3863, "Financial Instruments – Presentation" ("Section 3863").

Section 1535 establishes guidelines for the disclosure of information regarding a company's capital and how it is managed. Enhanced disclosures with respect to the entity's objectives, policies and processes for managing capital and quantitative disclosure about what the entity regards as capital are required. For new disclosures, refer to note 24 to the consolidated financial statements. The adoption of Section 1535 did not have an impact on the Company's results of operations or financial condition.

Section 3862 and Section 3863 replaced Section 3861, "Financial Instruments – Disclosure and Presentation". Section 3862 requires increased disclosures regarding the risks associated with financial instruments and how these risks are managed. Section 3863 carries forward standards for the presentation of financial instruments and non-financial derivative instruments and provides additional guidance for the classification of financial instruments, from the perspective of the issuer, between liabilities and equity. For new disclosures, refer to notes 28 and 29 to the consolidated financial statements. Comparative information about the nature and extent of risks arising from financial instruments is not required in the year Section 3862 is adopted. The adoption of Section 3862 and Section 3863 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"), which replaced Section 3030 of the same title. Section 3031 provides guidance with respect to the determination of cost and requires inventories to be measured at the lower of cost and net realizable value. Costs such as storage costs and administrative overhead that do not contribute to bringing inventories to their present location and condition are specifically excluded from the cost of inventories and expensed in the period incurred. Reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories is now required. The cost of the inventories should be based on a first-in, first-out or a weighted average cost formula. Techniques used for the measurement of cost of inventories, such as the retail method, may be used if the results approximate cost. The new standard also requires additional disclosures including the accounting policies used in measuring inventories, the carrying amount of the inventories, amounts recognized as an expense during the period, write-downs below cost to net realizable value for inventories recorded at period end and the amount of any reversal of any write-downs recognized as a reduction in expenses.

Upon implementation of Section 3031, a decrease in opening inventories of $67 million and a corresponding decrease of $27 million to opening retained earnings net of income taxes of $25 million and minority interest of $15 million 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. For further details of the specific accounting changes and related impacts, see notes 2 and 14 to the consolidated financial statements.

16. FUTURE ACCOUNTING STANDARDS

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

In 2009, the Company will be reviewing the implications of the following standards and implementing the recommendations as required.

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 Emerging Issues Committee Abstract 27, "Revenues and Expenditures During the Pre-operating Period" to not apply to entities that have adopted Section 3064. These amendments provide guidance for the recognition of internally developed intangible assets, including assets developed from research and development activities, ensuring consistent treatment of all intangible assets, whether separately acquired or internally developed. The amendments are effective for annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008 and therefore the Company will implement them in the first quarter of 2009, retroactively with restatement of the comparative periods for the current and prior years. The impact of implementing these amendments on the Company's financial statements is currently being assessed.

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

On January 20, 2009, the Emerging Issues Committee issued EIC 173, "Credit Risk and the Fair Value of Financial Risks 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, for presentation and disclosure purposes. The accounting treatment for this Abstract should be applied retrospectively without restatement of prior periods to all financial assets and financial liabilities measured at fair value in interim and annual financial statements ending on or after January 20, 2009. The Company is assessing the impact of this Abstract on the financial statements and will implement this Abstract in the first quarter of 2009.

International Financial Reporting Standards ("IFRS")

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. Companies will be required to provide IFRS comparative information for the previous fiscal year. The transition from Canadian GAAP to IFRS will be applicable for the Company for the first quarter of 2011, when the Company will prepare both the current and comparative financial information using IFRS.

The Company has completed a diagnostic impact assessment, has completed planning activities, including the establishment of a steering committee comprised of senior management, and is currently progressing through the detailed assessment and design of the overall implementation strategy.

The Company expects the transition to IFRS to impact accounting, financial reporting, internal control over financial reporting, information systems and business processes. The Company will continue to review all proposed and continuing projects of the International Accounting Standards Board to determine their impact on the Company, and will continue to invest in training and resources throughout the transition period to facilitate a timely conversion.

17. OUTLOOK[1]

The consolidated results of the Company for 2009 will continue to reflect the changes undertaken by both the Weston Foods and Loblaw operating businesses. With the divestitures of the dairy business in 2008 and the U.S. fresh bakery business in January 2009, the Company has significant holdings of cash and short term investments denominated in Canadian and United States currencies and will therefore be subject to earnings volatility caused by changes in short term interest rates and U.S. foreign exchange currency fluctuations. The Company will continue to assess its strategic options for the deployment of the proceeds of these divestitures.

The remaining Weston Foods operating businesses are expected to deliver satisfactory operating performance in 2009 despite challenging market conditions. Reported earnings will continue to be impacted by volatility in commodity markets.

Loblaw remains confident in its approach and will continue to focus on making measured progress on its key transformation priorities, including food renewal, store enhancements, product innovation, infrastructure, and customer value. During 2009, Loblaw will step up investments in information technology and supply chain which will increase the associated expense by approximately $100 million. This investment, coupled with the continuing economic challenges and competitive pressures, are expected to challenge results in 2009.

(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 reports its financial results in accordance with Canadian GAAP. It has historically also included in its Quarterly and Annual Reports certain non-GAAP financial measures and ratios. Over the past year, the Company has reviewed its practices with respect to the disclosure of non-GAAP financial measures. The Company considered the separate presentation of non-GAAP financial measures taking into account the discussion in the MD&A of the results of operations and the impact of specific events on these results of operations, the disclosure practices of its industry peers and best practices.

Based on this review, the Company decided that effective the first quarter of 2008 it would discontinue its use of the following non-GAAP financial measures: sales and sales growth excluding the impact of tobacco sales and VIEs, adjusted operating income and adjusted operating margin, adjusted EBITDA and adjusted EBITDA margin, and adjusted basic net earnings per common share from continuing operations. The Company will continue to discuss the impact of individual specific items that are important in understanding the ongoing operations including those that relate to sales, operating income and basic net earnings per common share.

The Company will continue to use the following non-GAAP financial measures: EBITDA and EBITDA margin, net debt, return on average total assets and free cash flow. 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, may not be comparable to similarly titled measures presented by other publicly traded companies, nor should they be construed as an alternative to other financial measures determined in accordance with Canadian GAAP.

EBITDA and EBITDA margin

The following tables reconcile earnings before interest, income taxes, depreciation and amortization ("EBITDA") to Canadian GAAP net earnings from continuing operations reported in the consolidated statement of earnings for the 13 (2007 – 12) and 53 (2007 – 52) 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, 2008 (unaudited)			Year Ended December 31, 2008		
($ millions)	Weston Foods	Loblaw	Consolidated	Weston Foods	Loblaw	Consolidated
Net earnings from continuing operations			$ 356			$ 645
Add (deduct) impact of the following:						
Minority interest			76			219
Income taxes			112			303
Interest expense and other financing charges			136			360
Gain on disposal of business			(335)			(335)
Operating income	$ 30	$ 315	$ 345	$ 154	$ 1,038	$ 1,192
Depreciation and amortization	14	124	138	58	585	643
Accelerated depreciation[(1)]	1		1	2		2
EBITDA	$ 45	$ 439	$ 484	$ 214	$ 1,623	$ 1,837

(1) Accelerated depreciation is included in restructuring and other charges in the consolidated statement of earnings as discussed in note 4 to the consolidated financial statements.

($ millions)	Weston Foods	Loblaw	Quarter Ended December 31, 2007 (unaudited) Consolidated	Weston Foods	Loblaw	Year Ended December 31, 2007 Consolidated
Net earnings from						
continuing operations			$ 110			$ 374
Add (deduct) impact of the following:						
Minority interest			22			130
Income taxes			43			196
Interest (income) expense and						
other financing charges			(36)			175
Operating income	$ 7	$ 132	$ 139	$ 147	$ 728	$ 875
Depreciation and amortization	14	134	148	62	588	650
EBITDA	$ 21	$ 266	$ 287	$ 209	$ 1,316	$ 1,525

($ millions)	Weston Foods	Loblaw	Year Ended December 31, 2006 Consolidated
Net loss from			
continuing operations			$ (47)
Add (deduct) impact of the following:			
Minority interest			(82)
Income taxes			242
Interest expense and			
other financing charges			263
Operating income	$ 95	$ 281	$ 376
Depreciation and amortization	64	590	654
Accelerated depreciation[1]	15	2	17
EBITDA	$ 174	$ 873	$ 1,047

(1) Accelerated depreciation is included in restructuring and other charges in the consolidated statement of earnings as discussed in note 4 to the consolidated financial statements.

Net Debt

The following table reconciles net debt excluding Exchangeable Debentures to Canadian GAAP measures reported in the consolidated balance sheet as at the years ended as indicated. The Company calculates net debt as the sum of long term debt and short term debt less cash, cash equivalents, short term investments and security deposits included in other assets, and believes this measure is useful in evaluating the amount of 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 as the Exchangeable Debentures could have been settled by the delivery of common shares of Domtar Corporation (see note 19 to the consolidated financial statements).

($ millions)	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2006
Bank indebtedness	**$ 112**	$ 60	$ 69
Commercial paper		609	838
Short term bank loans	**453**	250	178
Long term debt due within one year	**415**	432	27
Long term debt	**5,308**	5,494	5,918
Less: Cash and cash equivalents	**1,465**	1,076	1,090
Short term investments	**694**	461	314
Security deposits included in other assets	**560**	419	425
Net debt	**3,569**	4,889	5,201
Less: Exchangeable Debentures		157	220
Net debt excluding Exchangeable Debentures	**$ 3,569**	$ 4,732	$ 4,981

Total Assets

The following tables reconcile total assets used in the return on average total assets measure to Canadian GAAP measures reported in the consolidated balance sheet as at the years ended as indicated. The Company believes the return on average total assets ratio is useful in assessing the performance of operating assets and therefore excludes cash, cash equivalents, short term investments, security deposits included in other assets, assets of operations held for sale and the Domtar/Domtar (Canada) Paper Inc. investment (see note 19 to the consolidated financial statements) from the total assets used in this ratio.

				As at December 31, 2008
($ millions)	**Weston Foods**	**Loblaw**	**Discontinued Operations**	**Consolidated**
Total assets	**$ 2,951**	**$ 14,125**	**$ 2,588**	**$ 19,664**
Less: Cash and cash equivalents	**937**	**528**		**1,465**
Short term investments	**469**	**225**		**694**
Security deposits included in other assets	**123**	**437**		**560**
Current assets of operations held for sale			**2,588**	**2,588**
Total assets	**$ 1,422**	**$ 12,935**	**$ –**	**$ 14,357**

				As at December 31, 2007
($ millions)	Weston Foods	Loblaw	Discontinued Operations	Consolidated
Total assets	$ 2,502	$ 13,814	$ 2,118	$ 18,434
Less: Cash and cash equivalents	646	430		1,076
Short term investments	236	225		461
Security deposits included in other assets	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
Total assets	$ 1,366	$ 12,837	$ –	$ 14,203

As at December 31, 2006

($ millions)	Weston Foods	Loblaw	Discontinued Operations	Consolidated
Total assets	$ 2,469	$ 13,626	$ 2,552	$ 18,647
Less: Cash and cash equivalents	522	568		1,090
Short term investments	210	104		314
Security deposits included in other assets	101	324		425
Current assets of operations held for sale			283	283
Long term assets of operations held for sale			2,269	2,269
Domtar investment	215			215
Total assets	$ 1,421	$ 12,630	$ –	$ 14,051

Free Cash Flow

The following table reconciles free cash flow to Canadian GAAP measures reported in the consolidated cash flow statement for the quarters ended December 31, 2008 and December 31, 2007 and the years ended December 31 as indicated. The Company calculates free cash flow as cash flows from operating activities of continuing operations less fixed asset purchases and dividends. The Company believes free cash flow is a useful measure of the Company's cash available for additional funding and investing activities.

($ millions)	**Quarter ended Dec. 31, 2008 (unaudited)**	Quarter ended Dec. 31, 2007 (unaudited)	**Year ended Dec. 31, 2008**	Year ended Dec. 31, 2007	Year ended Dec. 31, 2006
Cash flows from operating activities of continuing operations	**$ 602**	$ 530	**$ 985**	$ 1,368	$ 1,280
Less: Fixed asset purchases	**383**	185	**807**	658	1,006
Dividends on share capital	**79**	3	**397**	331	304
Free cash flow	**$ 140**	$ 342	**$ (219)**	$ 379	$ (30)

19. ADDITIONAL INFORMATION

The following table provides additional financial information.

	As at December 31, 2008	As at December 31, 2007	As at December 31, 2006
Market price per common share ($)	**$ 59.90**	$ 54.08	$ 75.60
Actual common shares outstanding (in millions)	**129.1**	129.1	129.1
Weighted average common shares outstanding (in millions)	**129.1**	129.1	129.0

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

This Annual Report includes selected information on Loblaw Companies Limited, a 62%-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 23, 2009

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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. It also includes ensuring that the financial information presented elsewhere in the Annual Report is consistent with that in the consolidated financial statements.

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

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

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

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

Toronto, Canada
March 23, 2009

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, 2008 and 2007 and 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, 2008 and 2007 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

Chartered Accountants, Licensed Public Accountants

Toronto, Canada
March 23, 2009

Consolidated Statements of Earnings

For the years ended December 31 ($ millions except where otherwise indicated)	2008	2007
Sales	**$ 32,088**	$ 30,607
Operating Expenses		
Cost of sales, selling and administrative expenses (notes 2 & 14)	**30,248**	28,867
Depreciation and amortization	**643**	650
Restructuring and other charges (note 4)	**5**	215
	30,896	29,732
Operating Income	**1,192**	875
Gain on disposal of business (note 7)	**335**	
	1,527	875
Interest Expense and Other Financing Charges (note 5)	**360**	175
Earnings from Continuing Operations Before the Following:	**1,167**	700
Income Taxes (note 8)	**303**	196
	864	504
Minority Interest	**219**	130
Net Earnings from Continuing Operations	**645**	374
Discontinued Operations (note 10)	**187**	189
Net Earnings	**$ 832**	$ 563
Net Earnings per Common Share – Basic and Diluted ($)		
Continuing Operations (note 9)	**$ 4.63**	$ 2.46
Discontinued Operations	**$ 1.45**	$ 1.46
Net Earnings	**$ 6.08**	$ 3.92

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)	2008	2007
Share Capital		
Preferred Shares	$ 817	$ 817
Common Shares	133	133
Total Share Capital, Beginning and End of Year (note 23)	$ 950	$ 950
Retained Earnings, Beginning of Year	$ 4,726	$ 4,506
Cumulative impact of implementing new accounting standards (note 2)	(27)	(100)
Net earnings	832	563
Dividends declared		
Per common share ($) – $1.44 (2007 – $1.44)	(186)	(186)
Per preferred share ($) – Series I – $1.45 (2007 – $1.45)	(13)	(13)
– Series II – $1.29 (2007 – $1.29) (note 22)	(3)	(14)
– Series III – $1.30 (2007 – $1.30)	(10)	(10)
– Series IV – $1.30 (2007 – $1.30)	(10)	(10)
– Series V – $1.19 (2007 – $1.19)	(10)	(10)
Retained Earnings, End of Year	$ 5,299	$ 4,726
Accumulated Other Comprehensive Loss, Beginning of Year (note 2)	$ (999)	$ (503)
Cumulative impact of implementing new accounting standards (note 2)		9
Other comprehensive income (loss)	677	(505)
Accumulated Other Comprehensive Loss, End of Year (note 26)	$ (322)	$ (999)
Total Shareholders' Equity	$ 5,927	$ 4,677

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income

For the years ended December 31 ($ millions)	2008	2007
Net earnings	$ 832	$ 563
Other comprehensive income (loss), net of income taxes and minority interest		
Foreign currency translation adjustment	677	(508)
Net unrealized gain (loss) on available-for-sale financial assets	25	(35)
Reclassification of (gain) loss on available-for-sale financial assets to net earnings	(13)	20
	12	(15)
Net gain on derivatives designated as cash flow hedges	4	36
Reclassification of gain on derivatives designated as cash flow hedges to net earnings	(16)	(18)
	(12)	18
Other comprehensive income (loss)	677	(505)
Total Comprehensive Income	$ 1,509	$ 58

See accompanying notes to the consolidated financial statements.

Consolidated Balance Sheets

As at December 31 ($ millions)	2008	2007
ASSETS		
Current Assets		
Cash and cash equivalents (note 11)	**$ 1,465**	$ 1,076
Short term investments	**694**	461
Accounts receivable (notes 12 & 13)	**958**	985
Inventories (note 14)	**2,307**	2,145
Income taxes	**40**	133
Future income taxes (note 8)	**69**	76
Prepaid expenses and other assets	**75**	40
Current assets of operations held for sale (note 10)	**2,588**	238
Total Current Assets	**8,196**	5,154
Fixed Assets (note 15)	**8,542**	8,453
Goodwill and Intangible Assets (note 3)	**1,134**	1,128
Future Income Taxes (note 8)	**36**	
Other Assets (note 16)	**1,756**	1,819
Long Term Assets of Operations Held for Sale (note 10)		1,880
Total Assets	**$ 19,664**	$ 18,434
LIABILITIES		
Current Liabilities		
Bank indebtedness	**$ 112**	$ 60
Commercial paper		609
Accounts payable and accrued liabilities	**3,121**	3,184
Income taxes	**78**	
Future income taxes (note 8)		1
Short term bank loans (notes 18 & 19)	**453**	250
Long term debt due within one year (note 19)	**415**	432
Capital securities (note 22)	**264**	
Current liabilities of operations held for sale (note 10)	**620**	348
Total Current Liabilities	**5,063**	4,884
Long Term Debt (note 19)	**5,308**	5,494
Future Income Taxes (note 8)	**288**	296
Other Liabilities (note 20)	**615**	525
Capital Securities (note 22)	**219**	260
Minority Interest	**2,244**	2,132
Long Term Liabilities of Operations Held for Sale (note 10)		166
Total Liabilities	**13,737**	13,757
SHAREHOLDERS' EQUITY		
Share Capital (notes 23 & 25)	**950**	950
Retained Earnings	**5,299**	4,726
Accumulated Other Comprehensive Loss (note 26)	**(322)**	(999)
Total Shareholders' Equity	**5,927**	4,677
Total Liabilities and Shareholders' Equity	**$ 19,664**	$ 18,434

Contingencies, commitments and guarantees (note 30). Leases (note 21). Subsequent events (note 33).

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)	2008	2007
Operating Activities		
Net earnings from continuing operations before minority interest	**$ 864**	$ 504
Gain on disposal of business (note 7)	**(335)**	
Depreciation and amortization	**643**	650
Restructuring and other charges (note 4)	**5**	215
Future income taxes	**(14)**	(3)
Fair value adjustment of GWL's forward sale agreement (note 5)	**11**	(141)
Change in non-cash working capital	**(181)**	109
Other	**(8)**	34
Cash Flows from Operating Activities of Continuing Operations	**985**	1,368
Investing Activities		
Fixed asset purchases	**(807)**	(658)
Short term investments	**(114)**	(220)
Proceeds from fixed asset sales	**125**	237
Business acquisition (note 6)	**(10)**	
Proceeds from business disposition (note 7)	**467**	
Domtar investment (note 16)	**144**	
Credit card receivables, after securitization (note 12)	**82**	(238)
Franchise investments and other receivables	**(37)**	14
Other	**(75)**	(101)
Cash Flows used in Investing Activities of Continuing Operations	**(225)**	(966)
Financing Activities		
Bank indebtedness	**53**	(8)
Commercial paper	**(609)**	(229)
Short term bank loans (notes 18 & 19)	**203**	72
Long term debt (note 19) – Issued	**301**	25
– Retired	**(561)**	(39)
Capital securities (note 22) – Issued	**218**	
Dividends – To common shareholders	**(232)**	(186)
– To preferred shareholders	**(55)**	(57)
– To minority shareholders	**(110)**	(88)
Other		(1)
Cash Flows used in Financing Activities of Continuing Operations	**(792)**	(511)
Effect of Foreign Currency Exchange Rate Changes on Cash and Cash Equivalents (note 11)	**233**	(152)
Cash Flows from (used in) Continuing Operations	**201**	(261)
Cash Flows from Discontinued Operations (note 10)	**188**	247
Change in Cash and Cash Equivalents	**389**	(14)
Cash and Cash Equivalents, Beginning of Year	**1,076**	1,090
Cash and Cash Equivalents, End of Year (note 11)	**$ 1,465**	$ 1,076

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

December 31, 2008
($ 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 61.9% (2007 – 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, 2008 and December 31, 2007 contained 53 weeks and 52 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.

Earnings per Share ("EPS")

Basic EPS is calculated by dividing the net earnings available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted EPS is calculated using the treasury stock method, which 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.

Cash, Cash Equivalents and Bank Indebtedness

Cash equivalents consist primarily 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 are carried at quoted market value. See note 2 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 are carried at quoted market value. See note 2 for more information.

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 are carried at quoted market values.

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 and does not exercise any control over the trusts' management or assets. *PC* Bank does retain certain servicing and administrative responsibilities. 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 has a retained interest in the securitized receivables represented by 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 sold to the independent trusts and accordingly a service liability is recorded. The service 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 sale of these receivables depends, in part, on the previous carrying amount of receivables involved in the securitization, allocated between the receivables sold and the retained interest, based on their relative fair values at the date of securitization. The fair value of the retained interests 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 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 interests are designated as held-for-trading financial assets (see note 2) and are 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 sales, selling and administrative expenses 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 (principally finished products)

The Company values inventories at the lower of cost and net realizable value. Costs include the costs of purchase net of vendor allowances plus other costs, such as transportation, that are directly incurred to bring inventories to their present location and condition. Loblaw's seasonal general merchandise, Loblaw's inventories at distribution centres and Weston Foods inventories are measured at weighted average cost. Loblaw uses the retail method to measure the cost of 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 retail 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.

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 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.

Deferred Charges

Deferred charges are amortized over the related assets' estimated useful lives.

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 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 the Company's Board 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 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 Board 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 and indefinite life intangible assets impairment tests is provided in note 3.

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 rate in effect at the date 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 Loblaw's cross currency swaps and available-for-sale cash and cash equivalents, short term investments and security deposits included in other assets denominated in United States dollars 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 rate in effect at the date when such items are recognized.

Derivative Instruments

The Company uses derivative instruments in the form of cross currency swaps, interest rate swaps and equity swaps and forwards to manage its current and anticipated exposure to fluctuations in foreign currency exchange rates, interest rates, and the market prices of GWL and Loblaw common shares. The Company uses financial and non-financial derivative instruments in the form of futures contracts, option contracts and forward contracts to manage its current and anticipated exposure to fluctuations in commodity prices. The Company does not enter into derivative agreements for trading or speculative purposes.

All financial derivative instruments are recorded at fair value on the consolidated balance sheet in accordance with CICA Handbook Section 3855, "Financial Instruments – Recognition and Measurement" ("Section 3855"). Non-financial derivative instruments 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.

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: Loblaw's cross currency swaps and interest rate swaps as cash flow hedges against its exposure to fluctuations in the foreign currency exchange rate and variable interest rates on a portion of its United States dollar denominated cash and cash equivalents, short term investments and security deposits included in other assets; certain commodity futures as a cash flow hedge of anticipated future purchases; and Loblaw's cross currency swaps as cash flow hedges against its exposure to fluctuations in the foreign currency exchange rate on Loblaw's United States dollar private placement note. The Company assesses whether these derivative instruments continue to be highly effective in offsetting the change 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 ("Debentures") were re-measured at each balance sheet date based on the market price of the underlying shares with any change in value recognized in operating income (see note 2).

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 ages, 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. 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. The unamortized net actuarial gain or loss for post-employment and long term disability benefits is amortized over periods not exceeding three years. The expected average remaining service period of the active employees covered by the defined benefit pension plans ranges from 9 to 18 years, with a weighted average of 12 years. The expected average remaining service period of the employees covered by the post-retirement benefit plans ranges from 3 to 20 years, with a weighted average of 15 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 related to employee stock option grants that will be settled by issuing its common shares. The compensation cost is the fair value of the stock option on the grant date using an option pricing model and is recognized in operating income on a prescribed vesting basis. On the exercise of this type of stock option, the consideration paid by the employee and the related fair value accrual are credited to common share capital.

The Company recognizes a compensation cost in operating income on a prescribed vesting basis 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 date. The cumulative effect of the changes in market value is recognized in operating income in the period of the change.

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
In 2008, GWL and Loblaw approved the introduction of an EDSU plan. Under this plan, executives may elect to defer up to 100% of the Short Term Incentive Plan ("STIP") bonus earned by the executive 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 the GWL or Loblaw common shares on the Toronto Stock Exchange for the five trading days prior to the valuation date.

Employee Share Ownership Plan
GWL and Loblaw maintain Employee Share Ownership Plans for their employees, which allow employees to acquire GWL's and Loblaw's 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, indefinite life intangible assets, income taxes, Goods and Services Tax ("GST"), provincial sales taxes ("PST"), 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. In addition, results of the the fresh bread and baked goods business in the United States ("U.S. fresh bakery business") have been reclassified to discontinued operations (see note 10).

Security deposits, which were previously presented as cash and cash equivalents and short term investments on the consolidated balance sheet, are now included in other assets on the consolidated balance sheet and totaled $560 (2007 – $419) as at year end 2008. These securities represent government treasury bills and treasury notes and government-sponsored debt securities that wholly owned subsidiaries of the Company are required to place with counterparties as collateral to enter into and maintain outstanding swaps and forwards and insurance activities. The amount of the required security deposits will fluctuate.

GWL's Preferred Shares, Series II, which were previously presented as share capital on the consolidated balance sheet, are now presented as capital securities and are included in liabilities and totaled $264 (2007 – $260) as at year end 2008.

A portion of the Company's unrealized equity derivatives liability, which was previously presented as other long term liabilities on the consolidated balance sheet, is now included in accounts payable and accrued liabilities and totaled $136 (2007 – $140) as at year end 2008.

Future Accounting Standards

Goodwill and Intangible Assets

In November 2007, the CICA issued amendments to Section 1000, "Financial Statement Concepts", and Accounting Guideline 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 provide guidance for the recognition of internally developed intangible assets, including assets developed from research and development activities, ensuring consistent treatment of all intangible assets, whether separately acquired or internally developed. The amendments are effective for annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008 and therefore the Company will implement them in the first quarter of 2009, retroactively with restatement of the comparative periods for the current and prior year. The impact of implementing these amendments on the Company's financial statements is currently being assessed.

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

On January 20, 2009, the Emerging Issues Committee issued EIC 173, "Credit Risk and the Fair Value of Financial Risks 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, for presentation and disclosure purposes. The accounting treatment for this Abstract should be applied retrospectively without restatement of prior periods to all financial assets and financial liabilities measured at fair value in interim and annual financial statements ending on or after January 20, 2009. Retrospective application with restatement of prior periods is permitted but not required. The Company is assessing the impact of this Abstract on the financial statements and will implement this Abstract in the first quarter of 2009.

2. IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

Accounting Standards Implemented in 2008

Capital Disclosures and Financial Instruments – Disclosure and Presentation

In December 2006, the CICA issued three new accounting standards: Section 1535, "Capital Disclosures" ("Section 1535"), Section 3862, "Financial Instruments – Disclosures" ("Section 3862") and Section 3863, "Financial Instruments – Presentation" ("Section 3863").

Section 1535 establishes guidelines for the disclosure of information regarding a company's capital and how it is managed. The standard requires enhanced disclosures with respect to (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; and (iii) whether the entity has complied with any external capital requirements, and if it has not complied, the consequences of such non-compliance. For new disclosures, refer to note 24. The adoption of Section 1535 did not have an impact on the Company's results of operations or financial condition.

Section 3862 and Section 3863 replaced Section 3861, "Financial Instruments – Disclosure and Presentation". Section 3862 requires increased disclosures regarding the risks associated with financial instruments such as credit risks, liquidity risks and market risks and the techniques used to identify, monitor and manage these risks. Section 3863 carries forward standards for the presentation of financial instruments and non-financial derivative instruments and provides additional guidance for the classification of financial instruments, from the perspective of the issuer, between liabilities and equity. For new disclosures, refer to notes 28 and 29. Comparative information about the nature and extent of risks arising from financial instruments is not required in the year Section 3862 is adopted. The adoption of Section 3862 and Section 3863 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 replaces Section 3030 of the same title. Section 3031 requires inventories to be measured at the lower of cost and net realizable value. Costs such as storage costs and administrative overhead that do not contribute to bringing inventories to their present location and condition are specifically excluded from the cost of inventories and expensed in the period incurred. Reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories is now required. The cost of inventories should be based on a first-in, first-out or weighted average cost formula. Techniques used for the measurement of cost of inventories, such as the retail method, may be used if the results approximate cost. The new standard also requires additional disclosures including the accounting policies used in measuring inventories, the carrying amount of the inventories, amounts recognized as an expense during the period, write-downs below cost to net realizable value for inventories recorded at period end and the amount of any reversal of any write-downs recognized as a reduction in expenses.

The Company values inventories at the lower of cost and net realizable value. Costs include the costs of purchase net of vendor allowances plus other costs, such as transportation, that are directly incurred to bring inventories to their present location and condition. Loblaw's seasonal general merchandise, Loblaw's inventories at distribution centres and Weston Foods inventories are measured at weighted average cost. Loblaw uses the retail method to measure the cost of certain retail store inventories. The Company estimates net realizable value as the amount that inventories are expected to be sold less estimated costs necessary to make the sale. In addition, Loblaw estimates net realizable value by taking into consideration fluctuations in retail prices due to seasonality. 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 retail 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 these costs are incurred.

The transitional adjustments resulting from the implementation of Section 3031 are recognized in the 2008 opening balance of retained earnings and prior periods have not been restated. 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.

In addition to the disclosure of accounting policies used in measuring inventories, Section 3031 also requires additional disclosures. See note 14 for the amount of inventories recognized as an expense in the period, the amount of inventories written down below cost to net realizable value for inventories recorded at period end and the amount of any reversal of any previously recognized write-downs.

Accounting Standards Implemented in 2007

On January 1, 2007, the Company implemented the CICA Handbook Section 3855, "Financial Instruments – Recognition and Measurement" ("Section 3855"), Section 3865, "Hedges", Section 1530, "Comprehensive Income", Section 3251, "Equity" and Section 3861, "Financial Instruments – Disclosure and Presentation". These standards have been applied without restatement of prior periods, with the exception of the reclassification of unrealized foreign currency translation losses on net investments in self-sustaining foreign operations to accumulated other comprehensive loss. All other transitional adjustments resulting from these standards are recognized in the opening balances of retained earnings and accumulated other comprehensive loss.

Section 3855 establishes guidance for recognizing and measuring financial assets, financial liabilities and non-financial derivative instruments. All financial instruments must be 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. The standard requires that financial instruments within scope, including derivative instruments, be included on the Company's balance sheet and measured at fair value, with the exception of loans and receivables, held-to-maturity financial assets and other financial liabilities which are measured at cost or amortized cost. 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 changes in foreign exchange rates on available-for-sale financial assets, are recognized in other comprehensive income until the financial asset is derecognized or 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.

Section 3855 allows management to elect to measure financial instruments that would not otherwise be accounted for at fair value as held-for-trading instruments with changes in fair value recorded in net earnings provided they meet certain criteria.

Financial instruments must have been designated when the standard was implemented or when the new financial instrument was acquired and the designation is irrevocable.

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.

As a result of the implementation of Section 3855, the following classifications were assumed:

- Cash and cash equivalents and short term investments are designated as held-for-trading with the exception of certain Loblaw United States dollar denominated cash equivalents and short term investments 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 is designated as held-for-trading.
- Bank indebtedness, commercial paper, accounts payable and certain accrued liabilities, short term bank loans, long term debt and capital lease obligations are classified as other financial liabilities.
- GWL's Debentures, which may be exchanged for common shares of Domtar Corporation, are re-measured at each balance sheet date based on the market price of the underlying shares. Prior to the implementation of Section 3855, the Debentures were accounted for in a hedging relationship, and the changes in fair value were deferred on the consolidated balance sheet. As the Debentures are no longer eligible for hedge accounting under the new standards, gains and losses resulting from the re-measurement are recognized in operating income.

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

The above classifications resulted in the following re-measurement impacts:

- The re-measurement of financial assets classified as available-for-sale at fair value resulted in an increase in other assets of $9, with a corresponding decrease in accumulated other comprehensive loss of $4 net of income taxes and minority interest.
- As a result of classifying certain Loblaw United States dollar denominated cash equivalents and short term investments designated in a cash flow hedging relationship as available-for-sale, the net unrealized gain previously recognized in retained earnings was reclassified to accumulated other comprehensive loss for an amount of $9 net of income taxes and minority interest.
- The investment in common shares of Domtar Inc. ("Domtar", held by the Company prior to the March 7, 2007 transaction concerning Domtar Inc. as more fully described in note 19) and the retained interest held by *PC* Bank in securitized receivables have been designated as held-for-trading and have resulted in a decrease in other assets of $9 and a corresponding decrease in retained earnings of $8 net of income taxes and minority interest.
- The re-measurement of financial assets classified as loans and receivables and financial liabilities classified as other liabilities at amortized cost was insignificant, with the exception of the impact of the Debentures. Under the accounting treatment as described above, a transitional adjustment resulted in a decrease of $11 in long term debt, and a corresponding increase in opening retained earnings of $7, net of income taxes.

Non-financial derivative instruments must be recorded at fair value on the consolidated balance sheet unless they are exempt from derivative instrument treatment based upon expected purchase, sale or usage requirements. All changes in their fair value are recorded in net earnings unless cash flow hedge accounting is applied, in which case changes in fair value are recorded in other comprehensive income for the effective portion of the hedge. As a result of Loblaw re-measuring a non-financial derivative instrument at fair value, an increase in other assets of $7 and an increase in opening retained earnings of $3 net of income taxes and minority interest were recognized. The standard requires embedded derivative instruments to be separated from their host contract and fair valued if certain criteria are met. Under an election provided for by the standard, January 1, 2003 was elected as the transition date to apply this accounting treatment to embedded derivative instruments. The impact of this change in accounting treatment related to embedded derivative instruments was not significant.

Section 3855 also requires that obligations undertaken in issuing a guarantee that meets the definition of a guarantee pursuant to Accounting Guideline 14, "Disclosure of Guarantees" ("AcG 14"), be recognized at fair value at inception. No subsequent re-measurement at fair value is required unless the financial guarantee qualifies as a derivative instrument. As a result, a liability of $7 related to the fair value of the standby letter of credit issued by a major Canadian chartered bank for the benefit of an independent funding trust which provides loans to Loblaw's independent franchisees was recognized with a corresponding decrease of $4 net of income taxes and minority interest to opening retained earnings.

Section 3865 replaces Accounting Guideline 13, "Hedging Relationships". The requirements for identification, designation, documentation and assessment of effectiveness of hedging relationships remain substantially unchanged. Section 3865 addresses the accounting treatment of qualifying hedging relationships and the necessary disclosures and also requires all derivative instruments in hedging relationships to be recorded at fair value.

Upon implementation of these requirements with respect to cash flow hedges, an increase in other assets of $17 and an increase in other liabilities of $34 related to the fair value of the Loblaw interest rate swaps not previously recognized on the consolidated balance sheet and a decrease in accumulated other comprehensive loss of $6 net of income taxes and minority interest were recorded. A decrease of $9 in opening retained earnings net of income taxes and minority interest, resulting from the financing element of off-market Loblaw interest rate swaps, was also recorded. In addition, an increase in accumulated other comprehensive loss of $9 net of income taxes and minority interest was recorded related to the effective portion of the unrealized gains and losses on the Loblaw cross currency swaps previously recognized in retained earnings. A loss of $1, net of income taxes, was reclassified from accounts payable and accrued liabilities to accumulated other comprehensive loss representing the effective portion of the Company's commodity hedges. Also on transition, the deferred loss of $125 on GWL's forward sale agreement for 9.6 million Loblaw common shares, which was deferred in other assets, was reclassified to opening retained earnings, resulting in a decrease of $89 net of income taxes. The ineffective portion of the gains or losses on the derivative instruments within the hedging relationships was insignificant.

Section 1530, "Comprehensive Income" introduces a statement of comprehensive income, which is comprised of net earnings and other comprehensive income. Other comprehensive income represents the change in shareholders' equity resulting from transactions and other events from non-owner sources and includes unrealized foreign currency translation gains or losses arising from self-sustaining foreign operations, unrealized gains and losses on financial assets that are classified as available-for-sale, and changes in the fair value of the effective portion of cash flow hedging instruments. The Company has included in the consolidated financial statements a new consolidated statement of comprehensive income for the changes in these items, while the cumulative changes in other comprehensive income or loss are included in accumulated other comprehensive loss, which is presented as a new category of shareholders' equity on the consolidated balance sheet. See note 26 for further details of the accumulated other comprehensive loss balance. Implementation of the new standards resulted in the reclassification of $503 previously recorded in the cumulative foreign currency translation adjustment, to accumulated other comprehensive loss. Due to the transitional provisions of the standards, this reclassification was accounted for retroactively, with restatement of the comparative year.

Section 3251, "Equity", which replaced Section 3250, "Surplus", establishes standards for the presentation of equity and changes in equity during the reporting period and requires the Company to present separately equity components and changes in equity arising from (i) net earnings; (ii) other comprehensive income; (iii) other changes in retained earnings; (iv) changes in contributed surplus; (v) changes in share capital; and (vi) changes in reserves. New consolidated statements of changes in shareholders' equity are included in the consolidated financial statements.

The following tables summarize the transitional adjustments recorded to the affected balance sheet accounts upon implementation:

	Balance as Reported, Dec. 31, 2006	Transitional Adjustments	Opening Balance Jan. 1, 2007
Other assets	$ 1,459	$ (101)	$ 1,358
Accounts payable and accrued liabilities	$ 3,176	$ 1	$ 3,177
Long term debt	$ 5,918	$ (11)	$ 5,907
Future income taxes	$ 366	$ (41)	$ 325
Other liabilities	$ 688	$ 41	$ 729
Retained earnings	$ 4,506	$ (100)	$ 4,406
Accumulated other comprehensive loss	$ (503)	$ 9	$ (494)

	Retained Earnings		Accumulated Other Comprehensive Income/(Loss)	
	Gross	Net of Income Taxes and Minority Interest	Gross	Net of Income Taxes and Minority Interest
Classification of financial assets as available-for-sale	$ (14)	$ (9)	$ 23	$ 13
Classification of financial assets as held-for-trading	(9)	(8)		
Exchangeable Debentures	11	7		
Non-financial derivative instrument	7	3		
Guarantees	(7)	(4)		
Cash flow hedges	(9)		(9)	(4)
Reversal of deferred loss on GWL's forward sale agreement	(125)	(89)		
	$ (146)	$ (100)	$ 14	$ 9

3. GOODWILL AND INTANGIBLE ASSETS

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

			2008			2007
	Weston Foods	**Loblaw**	**Total**	Weston Foods	Loblaw	Total
Goodwill, beginning of year	**$ 157**	**$ 946**	**$ 1,103**	$ 186	$ 934	$ 1,120
Goodwill acquired during the year		**1**	**1**		8	8
Adjusted purchase price allocation[(1)]				(9)		(9)
Business disposition (note 7)	**(11)**		**(11)**			
Other					4	4
Impact of foreign currency translation	**23**		**23**	(20)		(20)
Goodwill, end of year	**169**	**947**	**1,116**	157	946	1,103
Trademarks and brand names[(2)]	**13**		**13**	14		14
Other intangible assets	**5**		**5**	11		11
Goodwill and intangible assets	**$ 187**	**$ 947**	**$ 1,134**	$ 182	$ 946	$ 1,128

(1) The 2007 Weston Foods adjusted purchase price allocation relates to the reversal of certain valuation allowances recorded as part of the Bestfoods Baking purchase equation, which has been included in the allocation of goodwill to the remaining businesses.
(2) Year end 2008 balance includes amortization of $1 (2007 – $1).

The trademarks and brand names and other intangible assets are being amortized over their estimated useful life ranging from 10 to 30 years.

During the fourth quarters of 2008 and 2007, the Company performed its annual goodwill and indefinite life intangible assets impairment tests and determined that there was no impairment of the carrying values of goodwill or indefinite life intangible assets.

Goodwill acquired during 2008 includes $1 (2007 – $8) related to Loblaw's acquisition of franchise stores (see note 6).

4. RESTRUCTURING AND OTHER CHARGES

The following table summarizes the restructuring and other charges:

			2008			2007
	Weston Foods	Loblaw	Total	Weston Foods	Loblaw	Total
Accelerated depreciation	$ 2		$ 2			
Gain on sale of fixed assets	(1)		(1)	$ (14)		$ (14)
Gain on sale of distribution rights	(2)		(2)			
Employee termination costs	7	$ (1)	6	3	$ 145	148
Site closing and other exit costs				4	77	81
Restructuring and other charges (income)	$ 6	$ (1)	$ 5	$ (7)	$ 222	$ 215

Weston Foods

Weston Foods management continues to undertake a series of cost reduction initiatives with the objective of ensuring a low cost operating structure. Certain of these initiatives are in progress, are nearing completion or have been completed. Individual actions will be initiated as plans are finalized and approved.

Manufacturing Assets Restructuring

During 2008, Weston Foods approved a plan to close a fresh bakery manufacturing facility in Ontario. This restructuring was substantially completed by the end of 2008. As a result of this restructuring plan, Weston Foods recognized $1 of accelerated depreciation and $1 of employee termination costs during 2008.

During 2008, Weston Foods approved a plan to close a fresh manufacturing facility in Quebec and consolidate its production with other existing manufacturing facilities. This restructuring was substantially completed by year end 2008. As a result of this restructuring plan, Weston Foods recognized $1 of accelerated depreciation during 2008.

During 2008, Weston Foods approved a plan to restructure its Western Canada fresh manufacturing network, which will result in the closure of two manufacturing facilities and a move into a new facility. This restructuring is expected to be completed by the end of 2009. Weston Foods recognized $2 of employee termination costs and a gain of $1 on the sale of fixed assets during 2008.

During 2006, Weston Foods approved a plan to close a frozen bagel plant in Nebraska, which was completed in that year. During 2007, Weston Foods completed the sale of this facility for proceeds of $1 and recognized a loss on sale of fixed assets of $1.

During 2006, Weston Foods approved a plan to close an ice-cream cone baking facility in Los Angeles, California and transfer the production to other existing Weston Foods facilities. This restructuring was completed in 2007. During 2007, Weston Foods completed the sale of this facility for proceeds of $11 and recognized a gain on sale of fixed assets of $9.

During 2005, Weston Foods approved a plan to restructure its United States biscuit operations. This plan included the closure of two biscuit facilities located in Elizabeth, New Jersey and Richmond, Virginia by the end of 2006 with the majority of the production relocated to a new facility in Virginia and an existing Weston Foods facility already operating in South Dakota. The sales of these two facilities were completed in 2005. All manufacturing activities ceased in these facilities by the end of 2006. During 2007, Weston Foods vacated the Elizabeth, New Jersey facility in accordance with the terms and conditions of the sale lease-back arrangement and accordingly, recognized the previously deferred gain on the sale of fixed assets of $6. In addition, during 2007, Weston Foods recognized $2 of employee termination costs and other exit related costs. By the end of 2007, total charges of $21 of accelerated depreciation and $40 of employee termination costs and other exit related costs had been recognized on a cumulative basis related to this restructuring plan, which is now complete.

Distribution Network Restructuring

During 2006, Weston Foods approved a plan to restructure a portion of its distribution network in Quebec. This restructuring was substantially completed by year end 2008. As a result of this restructuring plan, Weston Foods recognized a gain of $2 on the sale of distribution rights during 2008 and $2 of employee termination costs and other exit related costs during 2007.

During 2007, Weston Foods approved plans to restructure its Ontario frozen bakery distribution operations, to further restructure its Quebec fresh bakery distribution operations and to restructure the dairy distribution network. As a result of these restructuring plans, Weston Foods recognized $3 of employee termination costs and other exit related costs during 2007. This restructuring was substantially completed by year end 2008.

Operational Restructuring

During 2008, Weston Foods approved a plan to restructure the operating structure of the Canadian bakery business. The plan involves segregating certain functional departments between the fresh and frozen bakery businesses and centralization of other functions. As a result of this restructuring plan, Weston Foods recognized $4 of employee termination costs during 2008.

During 2008, employee termination costs and other exit related costs of approximately $3 (2007 – $17) were paid related to all Weston Foods restructuring activities. As at year end 2008, the accrued liabilities relating to restructuring activities were $7 (2007 – $3).

Loblaw

Project Simplify

During 2007, Loblaw approved and announced the restructuring of its merchandising and store operations into more streamlined functions as part of Project Simplify. The 2008 charge of $3 (2007 – $197) is comprised of $2 (2007 – $139) for employee termination costs including severance, additional pension costs resulting from the termination of employees and retention costs; and $1 (2007 – $58) of other costs, primarily consulting directly associated with the restructuring. Cash payments during 2008 were $36 (2007 – $149). As at year end 2008, a remaining liability of $1 (2007 – $33) was recorded on the consolidated balance sheet in respect of this initiative.

Store Operations

During 2007, Loblaw completed the previously announced restructuring of its store operations. In 2008, Loblaw recognized income of $3 (2007 – charge of $16) related to this plan. Cash payments during 2008 were $1 (2007 – $22). As at year end 2008, a remaining liability of nil (2007 – $3) was recorded on the consolidated balance sheet in respect of this initiative.

Supply Chain Network

During 2005, Loblaw approved a comprehensive plan to restructure its supply chain operations nationally. In 2008, Loblaw recognized income of $1 (2007 – charge of $9) comprised of income of $3 (2007 – charge of $7) for employee termination costs resulting from planned involuntary terminations and a charge of $2 (2007 – $2) for site closing and other costs. Cash payments during 2008 were $25 (2007 – $5). As at year end 2008, a remaining liability of $7 (2007 – $33) was recorded on the consolidated balance sheet in respect of this initiative.

5. INTEREST EXPENSE AND OTHER FINANCING CHARGES

	2008	2007
Interest on long term debt	**$ 396**	$ 396
Interest expense on financial derivative instruments (note 27)	**2**	21
Other financing charges[1]	**(15)**	(167)
Net short term interest income (note 11)	**(13)**	(31)
Interest income on security deposits	**(12)**	(22)
Dividends on capital securities	**22**	
Capitalized to fixed assets	**(20)**	(22)
Interest expense and other financing charges	**$ 360**	$ 175

(1) Other financing charges for 2008 include a non-cash charge of $11 (2007 – non-cash income of $141) related to the fair value adjustment of GWL's 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 GWL owns. GWL 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 $43 (2007 – $42) net of the forward fee of $17 (2007 – $16) associated with GWL's forward sale agreement.

During 2008, net interest expense of $407 (2007 – $374) was recorded related to the financial assets and financial liabilities not classified as held-for-trading. In addition, $37 (2007 – $64) of income from cash, cash equivalents and short term investments, the majority of which are denominated in United States dollars and are held or managed by Glenhuron Bank Limited ("Glenhuron"), a wholly owned subsidiary of Loblaw in Barbados, was recognized in net short term interest income. Interest income on security deposits were also earned by the Company.

Interest on debt and dividends on capital securities paid in 2008 was $561 (2007 – $548), and interest received on cash, short term investments and security deposits in 2008 was $167 (2007 – $171).

6. BUSINESS ACQUISITIONS

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 2008, Loblaw acquired 1 franchisee business (2007 – 4 franchisee businesses). The acquisitions were accounted for using the purchase method of accounting with the results of the business acquired included in the consolidated financial statements from the date of acquisition. The fair value of the net assets acquired consisted of fixed assets of nil (2007 – $3), other assets principally inventory of nil (2007 – $1) and goodwill of $1 (2007 – $8) for cash consideration of $1 (2007 – $9), net of accounts receivable due from the franchisees of nil (2007 – $3).

7. BUSINESS DISPOSITIONS

During 2008, Weston Foods sold the net assets of its Canadian 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).

8. 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:

	2008	2007
Weighted average basic Canadian federal and provincial statutory income tax rate	**30.9%**	32.6%
Net decrease resulting from:		
Earnings in jurisdictions taxed at rates different from the Canadian statutory income tax rates	**(2.8)**	(0.9)
Non-taxable amounts (including capital gains/losses and dividends)	**(4.5)**	
Impact of statutory income tax rate changes on future income tax balances		(3.4)
Impact of resolution of certain income tax matters from a previous year and other	**2.4**	(0.3)
Effective income tax rate applicable to earnings from continuing operations before income taxes and minority interest	**26.0%**	28.0%

Net income taxes paid in 2008 were $133 (2007 – $214).

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 2007 a $24 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:

	2008	2007
Accounts payable and accrued liabilities	**$ 71**	$ 67
Other liabilities	**163**	123
Losses carried forward (expiring 2015 to 2028)	**117**	96
Valuation allowances		(3)
Fixed assets	**(319)**	(285)
Goodwill and intangible assets	**(29)**	(24)
Other assets	**(203)**	(210)
Other	**17**	15
Net future income tax liabilities	**$ (183)**	$ (221)

	2008	2007
Recorded on the consolidated balance sheet as follows:		
Future income tax assets		
Current	**$ 69**	$ 76
Non-current	**36**	
	105	76
Future income tax liabilities		
Current		(1)
Non-current	**(288)**	(296)
	(288)	(297)
Net future income tax liabilities	**$ (183)**	$ (221)

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

	2008	2007
Net earnings from continuing operations	$ 645	$ 374
Prescribed dividends on preferred shares in share capital	(47)	(57)
Net earnings from continuing operations available to common shareholders	$ 598	$ 317
Weighted average common shares outstanding (in millions) (note 23)	129.1	129.1
Dilutive effect of stock-based compensation (in millions)[1]		
Diluted weighted average common shares outstanding (in millions)[2]	129.1	129.1
Basic and diluted net earnings per common share from continuing operations ($)	$ 4.63	$ 2.46

(1) The following stock options were outstanding but were not included in the computation of diluted net earnings per common share from continuing operations as the exercise prices for these options were greater than the average market prices of GWL's common shares for the year:

Option exercise price	2008	2007
$72.21 – $78.85	681,908	773,195
$93.35 – $111.02	621,274	665,540

(2) GWL's capital securities are excluded as the Company intends to redeem such securities in cash.

10. DISCONTINUED OPERATIONS

On December 10, 2008, Dunedin Holdings S.à r.l., a subsidiary of GWL, announced it had agreed to sell its U.S. fresh bakery business to Grupo Bimbo, S.A.B. de C.V. The transaction closed on January 21, 2009 (see note 33).

Certain financial information has been reclassified in 2007 to present this disposal group as discontinued operations on the consolidated statement of earnings, as assets and liabilities of operations held for sale on the consolidated balance sheet and as cash flows from discontinued operations on the consolidated cash flow statement. The results of the discontinued operations were previously reported in the Weston Foods segment.

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

	2008	2007
Sales	$ 2,422	$ 2,208
Operating income	218	219
Interest income and other financing charges[1]	(10)	(10)
Earnings before the following:	228	229
Income taxes	41	40
Earnings from discontinued operations	$ 187	$ 189

(1) 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 were as follows:

	2008	2007
Current assets of operations held for sale		
Accounts receivable	$ 219	$ 156
Inventories	40	27
Prepaid expenses and other assets	211	9
Fixed assets	618	
Goodwill and intangible assets	1,364	
Future income taxes	136	46
	$ 2,588	$ 238
Long term assets of operations held for sale		
Fixed assets		$ 507
Goodwill and intangible assets		1,112
Future income taxes		94
Other assets		167
		$ 1,880
Current liabilities of operations held for sale		
Bank indebtedness	$ 22	$ 25
Accounts payable and accrued liabilities	354	281
Income taxes	52	42
Future income taxes	2	
Other liabilities	190	
	$ 620	$ 348
Long term liabilities of operations held for sale		
Other liabilities		$ 166
		$ 166

The cash flows from discontinued operations were as follows:

	2008	2007
Cash flows from operations	$ 247	$ 305
Cash flows used in investing	(50)	(58)
Cash flows used in financing	(9)	
Cash flows from discontinued operations	$ 188	$ 247

11. CASH AND CASH EQUIVALENTS

The components of cash and cash equivalents as at December 31, 2008 and December 31, 2007 were as follows:

	2008	2007
Cash	$ 104	$ 110
Cash equivalents – short term investments with a maturity date of 90 days or less:		
Bank term deposits	101	119
Government treasury bills	656	456
Government-sponsored debt securities	107	177
Corporate commercial paper	450	214
Foreign bonds	47	
Cash and cash equivalents	$ 1,465	$ 1,076

The Company recognized an unrealized foreign currency exchange gain of $451 (2007 – loss of $303) as a result of translating its United States dollar denominated cash, cash equivalents, short term investments and security deposits included in other assets, of which a gain of $233 (2007 – loss of $152) related to cash and cash equivalents. Loblaw recognized an unrealized foreign currency exchange gain of $210 (2007 – loss of $155) as a result of translating its United States dollar denominated cash, cash equivalents, short term investments and security deposits included in other assets, of which a gain of $87 (2007 – loss of $60) related to cash and cash equivalents. The resulting Loblaw gain or loss on cash, cash equivalents, short term investments and security deposits included in other assets is partially offset in operating income and accumulated other comprehensive loss by the unrealized foreign currency exchange loss or gain on Loblaw's cross currency swaps as described in note 27. The remaining foreign currency exchange gain of $241 (2007 – loss of $148), of which a gain of $146 (2007 – loss of $92) related to the translation of cash and cash equivalents held by GWL's self-sustaining foreign operations, is recognized in accumulated other comprehensive loss.

12. ACCOUNTS RECEIVABLE

The components of accounts receivable as at December 31, 2008 and December 31, 2007 were as follows:

	2008	2007
Credit card receivables	$ 2,206	$ 2,023
Amount securitized	(1,775)	(1,475)
Net credit card receivables	431	548
Other receivables	527	437
Accounts receivable	$ 958	$ 985

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. These retained interests have been designated as held-for-trading and are carried at their fair value in accounts receivable. The fair value of these retained interests 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.

During 2008, $300 (2007 – $225) of credit card receivables were securitized through the sale of a portion of the total interest in these receivables to independent trusts. A portion of the securitized receivables are in an independent trust facility with a term of 364 days, subject to annual renewal. If the term of this facility is not renewed, collections will be accumulated prior to the expiry and the amount of that portion of the securitized receivables will be repaid to the independent trusts. The securitization yielded a $1 gain (2007 – $1) on the initial sale inclusive of $1 (2007 – nil) servicing liability. During 2008, *PC* Bank received income of $176 (2007 – $141) in securitization revenue from the independent trusts relating to the securitized credit card receivables. An increase in servicing liability of $1 (2007 – $2) was recognized during the year on securitization and the fair value as at year end 2008 of recognized servicing liabilities was $11 (2007 – $10). The trusts' recourse to *PC* Bank's assets is limited to *PC* Bank's retained interests and is further supported by Loblaw through standby letters of credit for $116 (2007 – $89) on a portion of the securitized amount (see note 30).

Net credit loss experience of $35 (2007 – $11) includes $99 (2007 – $57) of credit losses on the total portfolio of credit card receivables net of credit losses of $64 (2007 – $46) relating to securitized credit card receivables.

The following table displays the sensitivity of the current fair value of retained interests to an immediate 10% and 20% adverse change in the 2008 key economic 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	
	2008	**10%**	**20%**
Carrying value of retained interests	**$ 14**		
Payment rate (monthly)	**41.56%**	**$ (1)**	**$ (2)**
Weighted average life (years)	**0.7**		
Expected credit losses (annual)	**5.35%**	**$ (2)**	**$ (4)**
Annual discount rate applied to residual cash flows	**7.65%**		
Net yield	**13.00%**	**$ (4)**	**$ (9)**
Cost of funds	**3.65%**	**$ (1)**	**$ (3)**

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

	2008	2007
Proceeds from new securitizations	**$ 300**	$ 225
Net cash flows received on retained interests	**$ 177**	$ 143

Credit card receivables that are past due of $7 as at year end 2008 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 29.

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 $86 as at year end 2008, of which a nominal amount were more than 60 days past due.

13. 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 on the consolidated balance sheet. A continuity of the Company's allowances for receivables is as follows:

Credit Card Receivables	2008	2007
Allowances at beginning of year	$ (13)	$ (11)
Provision for losses	(35)	(11)
Recoveries	(14)	(7)
Write-offs	47	16
Allowances at end of year	$ (15)	$ (13)

Other Receivables	2008	2007
Allowances at beginning of year	$ (44)	$ (44)
Provision for losses	(84)	(82)
Write-offs	96	82
Allowances at end of year	$ (32)	$ (44)

14. INVENTORIES

	2008
Raw materials and supplies	$ 41
Finished goods	2,266
Inventories	$ 2,307

The cost of inventories recognized as an expense during 2008 was $24,576, which includes the effect of commodity derivatives that are entered into.

The Company recorded $16 as an expense for the write-down of inventories below cost to net realizable value for inventories as at December 31, 2008. There was no reversal of inventories written down previously that are no longer estimated to sell below cost.

15. FIXED ASSETS

	2008			2007		
	Cost	**Accumulated Depreciation**	**Net Book Value**	Cost	Accumulated Depreciation	Net Book Value
Properties held for development	**$ 556**		**$ 556**	$ 525		$ 525
Properties under development	**164**		**164**	89		89
Land	**1,773**		**1,773**	1,728		1,728
Buildings	**5,699**	**$ 1,541**	**4,158**	5,529	$ 1,348	4,181
Equipment and fixtures	**5,029**	**3,501**	**1,528**	4,903	3,334	1,569
Buildings and leasehold improvements	**562**	**260**	**302**	541	242	299
	13,783	**5,302**	**8,481**	13,315	4,924	8,391
Capital leases – buildings and equipment	**171**	**110**	**61**	165	103	62
Fixed assets	**$ 13,954**	**$ 5,412**	**$ 8,542**	$ 13,480	$ 5,027	$ 8,453

The following items were recognized in operating income during 2008: fixed asset impairment charge of $29 (2007 – $33), accelerated depreciation charge of $11 (2007 – $4) and restructuring and other charges of $2 (2007 – nil) (see note 4).

16. OTHER ASSETS

	2008	2007
Security deposits (note 1)	**$ 560**	$ 419
Unrealized equity forward receivable (note 27)	**397**	365
Accrued benefit plan asset (note 17)	**324**	220
Franchise investments and other receivables	**204**	221
Unrealized cross currency swaps receivable (note 27)	**107**	270
Domtar (Canada) Paper Inc. investment (note 19)		157
Deferred charges and other	**164**	167
Other assets	**$ 1,756**	$ 1,819

During 2008, GWL sold its investment in Domtar (Canada) Paper Inc. for $144, and used these proceeds to settle its obligation under the related Exchangeable Debentures (see note 19). 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 deferred charges and other are $21 (2007 – $9) of unrealized interest rate swap receivable and $7 (2007 – $5) related to an electricity forward contract (see note 27).

17. 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 a major Canadian chartered bank. The Company's defined benefit pension plans are predominantly non-contributory and these benefits are, in general, based on career average earnings.

During 2007, Loblaw approved and announced the restructuring of its merchandising and store operations into more streamlined functions as part of Project Simplify, resulting in contractual and special termination costs recognized in restructuring and other charges (see note 4). Also 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 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 or December 31, 2007. The Company is required to file funding valuations at least every three years; the next funding valuations for two plans will be prepared as at December 31, 2008 and for the remainder no later than December 31, 2009 and 2010. The most recent funding valuations of the United States defined benefit pension plans were as at January 1, 2008. The Company is required to file United States funding valuations every year; accordingly, the next required funding valuations will be as at January 1, 2009.

Total cash payments made by the Company during 2008, consisting of contributions to funded defined benefit pension plans, defined contribution pension plans, multi-employer pension plans, long term disability benefit plan and benefits paid directly to beneficiaries of the supplemental unfunded defined benefit pension plans and other benefit plans, were $232 (2007 – $203).

During 2009, the Company expects to contribute approximately $118 to its funded defined benefit pension plans. This estimate may vary subject to actuarial valuations being completed, market performance and regulatory requirements. The Company also expects to make contributions in 2009 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:

	2008			2007		
	Pension Benefit Plans	**Other Benefit Plans[(1)]**	**Total**	Pension Benefit Plans	Other Benefit Plans[(1)]	Total
Benefit Plan Assets						
Fair value, beginning of year	**$ 1,456**	**$ 36**	**$ 1,492**	$ 1,342	$ 48	$ 1,390
Actual (loss) return on plan assets	**(183)**	**2**	**(181)**	119	1	120
Employer contributions	**152**	**11**	**163**	88	11	99
Employee contributions	**3**	**1**	**4**	4	2	6
Benefits paid	**(105)**	**(27)**	**(132)**	(83)	(26)	(109)
Transfers to national defined contribution pension plan	**(25)**		**(25)**			
Other, including impact of foreign currency translation	**13**	**(2)**	**11**	(14)		(14)
Fair value, end of year	**$ 1,311**	**$ 21**	**$ 1,332**	$ 1,456	$ 36	$ 1,492
Accrued Benefit Plan Obligations						
Balance, beginning of year	**$ 1,563**	**$ 341**	**$ 1,904**	$ 1,608	$ 327	$ 1,935
Current service cost	**51**	**37**	**88**	58	45	103
Interest cost	**87**	**19**	**106**	82	17	99
Benefits paid	**(105)**	**(27)**	**(132)**	(83)	(26)	(109)
Actuarial gain	**(101)**	**(29)**	**(130)**	(89)	(18)	(107)
Contractual termination costs[(2)]				7		7
Special termination costs[(2)]				6		6
Curtailment gain[(3)]				(11)	(2)	(13)
Transfers to national defined contribution pension plan	**(25)**		**(25)**			
Other, including impact of foreign currency translation	**13**	**2**	**15**	(15)	(2)	(17)
Balance, end of year	**$ 1,483**	**$ 343**	**$ 1,826**	$ 1,563	$ 341	$ 1,904
Deficit of Plan Assets Versus Plan Obligations	**$ (172)**	**$ (322)**	**$ (494)**	$ (107)	$ (305)	$ (412)
Unamortized past service costs	**2**	**(1)**	**1**	4	1	5
Unamortized net actuarial loss	**430**	**105**	**535**	246	144	390
Net accrued benefit plan asset (liability)	**$ 260**	**$ (218)**	**$ 42**	$ 143	$ (160)	$ (17)
Recorded in the consolidated balance sheet as follows:						
Other assets (note 16)	**$ 324**		**$ 324**	$ 208	$ 12	$ 220
Other liabilities (note 20)	**(64)**	**$ (218)**	**(282)**	(65)	(172)	(237)
Net accrued benefit plan asset (liability)	**$ 260**	**$ (218)**	**$ 42**	$ 143	$ (160)	$ (17)

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

(2) Contractual and special termination costs resulted from Loblaw's 2007 Project Simplify to restructure and streamline its merchandising and store operations, and were recorded in restructuring and other charges in 2007 (see note 4).

(3) Certain defined benefit plans and other benefit plans affected by Loblaw's 2007 Project Simplify to restructure and streamline its merchandising and store operations were re-measured as at March 31, 2007 and costs subsequent to April 1, 2007 were determined using a discount rate of 5.0%. This resulted in a nominal impact to 2007 net earnings and curtailment gains which were offset against unamortized net actuarial losses for those 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:

	2008		2007	
	Pension Benefit Plans	**Other Benefit Plans[1]**	Pension Benefit Plans	Other Benefit Plans[1]
Fair Value of Benefit Plan Assets	**$ 1,234**	**$ 21**	$ 426	$ 36
Accrued Benefit Plan Obligations	**(1,407)**	**(343)**	(575)	(341)
Deficit of Plan Assets versus Plan Obligations	**$ (173)**	**$ (322)**	$ (149)	$ (305)

(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	2008		2007	
Asset Category	**Pension Benefit Plans**	**Other Benefit Plans[1]**	Pension Benefit Plans	Other Benefit Plans[1]
Equity securities	**62%**		63%	
Debt securities	**37%**	**99%**	36%	91%
Cash and cash equivalents	**1%**	**1%**	1%	9%
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 GWL and by Loblaw having a fair value of nil and $2 (2007 – $6 and $1), respectively, as at September 30, 2008. 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:

	2008		2007	
	Pension Benefit Plans	**Other Benefit Plans**[(1)]	Pension Benefit Plans	Other Benefit Plans[(1)]
Current service cost, net of employee contributions	**$ 48**	**$ 36**	$ 54	$ 43
Interest cost on plan obligations	**87**	**19**	82	17
Actual loss (return) on plan assets	**183**	**(2)**	(119)	(1)
Actuarial gain	**(101)**	**(29)**	(89)	(18)
Contractual termination costs[(2)]			7	
Special termination costs[(2)]			6	
Curtailment loss[(2)]			2	
Defined benefit plan cost (income), before adjustments to recognize the long term nature of employee future benefit costs	**217**	**24**	(57)	41
(Shortfall) excess of actual return over expected return on plan assets	**(291)**	**1**	15	(1)
Excess of amortized net actuarial loss over actual actuarial gain on accrued benefit obligation	**110**	**43**	104	30
Excess of amortized past service costs over actual past service costs	**1**		1	
Net defined benefit plan cost	**37**	**68**	63	70
Defined contribution plan cost	**15**		13	
Multi-employer pension plan cost	**54**		55	
Net benefit plan cost	**$ 106**	**$ 68**	$ 131	$ 70
Recognized in the consolidated statement of earnings as follows:				
Pension and other benefit plan costs	**$ 106**	**$ 68**	$ 116	$ 70
Restructuring and other charges[(2)]			15	
Net benefit plan cost	**$ 106**	**$ 68**	$ 131	$ 70

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

(2) Contractual and special termination costs and curtailment losses resulted from Loblaw's 2007 Project Simplify to restructure and streamline its merchandising and store operations, and were recorded in restructuring and other charges in 2007 (see note 4).

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:

	2008		2007	
	Pension Benefit Plans	**Other Benefit Plans[1]**	Pension Benefit Plans	Other Benefit Plans[1]
Accrued Benefit Plan Obligations				
Discount rate	**6.0%**	**5.9%**	5.5%	5.4%
Rate of compensation increase	**3.5%**		3.5%	
Net Defined Benefit Plan Cost				
Discount rate[2]	**5.5%**	**5.4%**	5.1%	5.1%
Expected long term rate of return on plan assets	**7.5%**	**5.0%**	7.8%	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.

(2) Certain defined benefit plans and other benefit plans affected by Loblaw's 2007 Project Simplify to restructure and streamline its merchandise and store operations were re-measured as at March 31, 2007 and costs subsequent to April 1, 2007 were determined using a discount rate of 5.0%. This resulted in a nominal impact to 2007 net earnings and curtailment gains which were offset against unamortized net actuarial losses for those plans.

The growth rate of health care costs, primarily drug and other medical costs for other benefit plans, was estimated at 10.0% (2007 – 10.0%) and is assumed to gradually decrease to 5.0% by 2015 (2007 – 5.0% by 2015), remaining at that level thereafter.

Sensitivity of Key Assumptions

The following table outlines the key assumptions for 2008 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		7.5%		5.0%
Impact of: 1% increase	n/a	$ (14)	n/a	n/a
1% decrease	n/a	$ 14	n/a	n/a
Discount rate	6.0%	5.5%	5.9%	5.4%
Impact of: 1% increase	$ (193)	$ (8)	$ (38)	$ (3)
1% decrease	$ 223	$ 8	$ 44	$ 3
Expected growth rate of health care costs[3]			9.5%	10.0%
Impact of: 1% increase	n/a	n/a	$ 32	$ 5
1% decrease	n/a	n/a	$ (29)	$ (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 (2007 – 5.0% by 2015) for the accrued benefit plan obligation and the benefit plan cost, remaining at that level thereafter.

18. SHORT TERM BANK LOANS

During 2008, GWL entered into a $300, 5-year committed credit facility provided by a syndicate of banks. This facility was the primary source of GWL's short term funding requirements. This facility replaced a $300, 364-day revolving committed credit facility. As at December 31, 2008, nil was drawn on the new 5-year committed credit facility and as at December 31, 2007, $30 was drawn on the $300, 364-day revolving committed credit facility. Following the sale of the U.S. fresh bakery business in 2009, GWL terminated the 5-year committed credit facility (see note 33).

During 2008, Loblaw entered into an $800, 5-year committed credit facility provided by a syndicate of banks, which contains certain financial covenants (see note 24). This facility is the primary 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. This facility replaced a $500, 364-day committed credit facility. As at year end 2008, $190 was drawn on the new 5-year committed credit facility.

Also included in short term bank loans are GWL's Series B debentures, due on demand, of $263 (2007 – $220) (see note 19).

19. LONG TERM DEBT

	2008	2007
George Weston Limited		
Debentures		
Series B, current rate 3.06%, due on demand[i]	**$ 263**	$ 220
Series A, 7.00%, due 2031[i]	**466**	466
Exchangeable Debentures, 3.00%, due 2023, redeemable in 2005[ii]		157
Notes		
5.90%, due 2009	**250**	250
6.45%, due 2011	**300**	300
5.05%, due 2014	**200**	200
12.70%, due 2030		
Principal	**150**	150
Effect of coupon repurchase	**(128)**	(131)
7.10%, due 2032	**150**	150
6.69%, due 2033	**100**	100
Loblaw Companies Limited		
Notes		
6.00%, due 2008[iii]		390
5.75%, due 2009	**125**	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
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	**(55)**	(44)
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[iv]		
6.48%, due 2013 (USD $150)	**180**	
6.86%, due 2015 (USD $150)	**181**	
Other at a weighted average interest rate of 11.50%, due 2009 to 2043	**9**	17
VIE loans payable[v] (note 31)	**152**	153
Capital lease obligations[v] (note 21)	**62**	62
Total long term debt	**5,986**	6,146
Less – amount due within one year	**(415)**	(432)
– amount due on demand (note 18)	**(263)**	(220)
	$ 5,308	$ 5,494

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: 2009 – $415; 2010 – $333; 2011 – $681; 2012 – $25; 2013 – $409; thereafter – $3,860.

(i) During 2008, GWL issued $43 (2007 – $42) of Series B Debentures due on demand, which are at a current weighted average interest rate of 3.06%. The Series A, 7.00% and Series B Debentures are secured by a pledge of 9.6 million Loblaw common shares.

(ii) In 1998, GWL sold its Forest Products business to Domtar for proceeds of $803, consisting of $435 of cash and $368 of Domtar common shares. The Domtar common share investment was recorded in other assets (see note 16). GWL subsequently issued $375 of 3% Exchangeable Debentures due June 30, 2023. On March 7, 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 non-voting exchangeable shares of Domtar (Canada) Paper Inc. or common shares of Domtar Corporation ("New Domtar"). The Company elected to receive exchangeable shares of Domtar (Canada) Paper Inc. in exchange for its Domtar common shares. See note 30 for further implications of this transaction to the Company.

Each one thousand dollar principal amount of the Debentures was exchangeable at the option of the holder for 95.2381 New Domtar common shares. The Debentures became redeemable at the option of GWL after June 30, 2005. Upon notice of redemption by GWL or within 30 days prior to the maturity date, the holder had the option to exchange each one thousand dollar principal amount for 95.2381 New Domtar common shares plus accrued interest payable in cash.

GWL's obligation on the exchange or redemption of the Debentures could have been satisfied by delivery of a cash amount equivalent to the current market price of the common shares of New Domtar at such time, the common shares of New Domtar or any combination thereof. Upon maturity, GWL at its option could have delivered cash, the New Domtar common shares or any combination thereof equal to 95.2381 New Domtar common shares for each one thousand dollar principal amount of these Debentures. During a transitional period in 2007, whereby New Domtar was awaiting certain regulatory approvals regarding the delivery of New Domtar shares in exchange for exchangeable shares of Domtar (Canada) Paper Inc., GWL offered on the exchange or redemption of these Debentures, the exchangeable shares of Domtar (Canada) Paper Inc. On June 25, 2007, regulatory approval was received.

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 16) 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, nil (2007 – $3) of the GWL 3% Exchangeable Debentures were exchanged for the underlying shares prior to their redemption. A corresponding reduction in the investment in Domtar (Canada) Paper Inc. was recorded.

The carrying amount of the Debentures was based on the market price of the underlying common shares.

(iii) During 2008, the Loblaw $390 6.00% medium term note ("MTN") due June 2, 2008 matured and was repaid.

(iv) During 2008, Loblaw issued USD $300 of fixed rate unsecured notes in a private placement debt financing which contains certain financial covenants (see note 24). The notes were issued in two equal tranches of USD $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 is designated in a cash flow hedge to manage the foreign exchange risk. As at year end 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.

(v) Pursuant to the requirements of AcG 15, the consolidated balance sheet as at December 31, 2008 includes $179 (2007 – $183) of loans payable and capital lease obligations of VIEs consolidated by the Company, $35 (2007 – $32) of which is due within one year.

See note 28 for the fair value of long term debt.

20. OTHER LIABILITIES

	2008	2007
Accrued benefit plan liability (note 17)	**$ 282**	$ 237
Accrued insurance liabilities	**108**	101
Asset retirement obligation	**14**	14
Goods and Services Tax and provincial sales taxes	**27**	23
Restructuring and other charges (note 4)		21
Stock-based compensation liability (note 25)	**14**	12
Unrealized equity swaps liability (note 27)	**29**	34
Unrealized interest rate swap liability (note 27)	**43**	28
Deferred vendor allowances (note 7)	**56**	
Other	**42**	55
Other liabilities	**$ 615**	$ 525

Total accrued insurance liabilities are $153 (2007 – $138), of which $108 (2007 – $101) is included in other liabilities and $45 (2007 – $37) in accounts payable and accrued liabilities. Included in total accrued insurance liabilities of $153 (2007 – $138) are $99 (2007 – $87) 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 2008 workers' compensation cost and liability was 4.0% (2007 – 5.0%). 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 $2 in 2008 (2007 – $4).

Included in other above is a guarantee of $7 (2007 – $7) which is a financial liability related to the standby letter of credit issued by a major Canadian chartered bank for the benefit of an independent funding trust.

21. LEASES

As Lessee

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

	Payments due by year							
	2009	2010	2011	2012	2013	Thereafter to 2046	**2008 Total**	2007 Total
Operating lease payments	$ 216	$ 196	$ 172	$ 149	$ 131	$ 810	**$ 1,674**	$ 1,475
Expected sub-lease income	(36)	(32)	(26)	(21)	(19)	(103)	**(237)**	(229)
Net operating lease payments	$ 180	$ 164	$ 146	$ 128	$ 112	$ 707	**$ 1,437**	$ 1,246

As Lessor

Fixed assets on the consolidated balance sheet include cost of properties held for leasing purposes of $603 (2007 – $571) and related accumulated depreciation of $173 (2007 – $163). Rental income for 2008 from these operating leases totaled $45 (2007 – $49) before income taxes and minority interest.

Capital Leases

Capital lease obligations of $62 (2007 – $62) are included in the consolidated balance sheet as at year end (see note 19). These Loblaw capital lease obligations are related primarily to equipment of the third-party VIE that provides distribution and warehousing services. The amount due within one year is $8 (2007 – $9).

Sale-Leaseback

In 2007, Loblaw completed a sale-leaseback transaction of property and a partially constructed building ("Property") for a total purchase price of $109, subject to a vendor take back mortgage of $35 (2007 – $27) which bears interest at 6% due in 2009. There was no gain or loss recorded on the sale of the Property. Loblaw has leased back the Property for a term of 20 years, with options to renew for an additional 20 years, and in turn subleased the Property to a third-party logistics provider. In 2008, the leaseback was accounted for as an operating lease. Loblaw also entered into a warehousing and distribution agreement with the third-party logistics provider, which will use this Property to provide services to Loblaw.

22. CAPITAL SECURITIES ($, except where otherwise indicated)

GWL has 10.6 million 5.15% non-voting Preferred Shares, Series II authorized and outstanding, with a face value of $265 million, which entitle the holder to a fixed cumulative preferred cash dividend of $1.2875 per share per annum which will, if declared, be payable quarterly. On and after April 1, 2009, GWL may, at its option, redeem for cash, in whole or in part, these outstanding preferred shares at $25.00 per share, together with all accrued but unpaid dividends to but not including the redemption date. On and after July 1, 2009, these outstanding preferred shares are convertible at the option of the holder, into that number of GWL's common shares determined by dividing $25.00, together with accrued and unpaid dividends to but not including the conversion date, by the greater of $2.00 and 95% of the then current market price of GWL's common shares. This option is subject to GWL's right to redeem the preferred shares for cash or arrange for their sale to substitute purchasers. 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. These preferred shares are classified as other financial liabilities, and measured using the effective interest method. These preferred shares are included in current liabilities as at year end 2008 as subsequent to year end GWL provided the holders of these preferred shares with notice that such securities will be redeemed on April 1, 2009 (see note 33).

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 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 5).

23. SHARE CAPITAL

	2008	2007
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 changes in the common shares issued and outstanding during the year were as follows:

	2008		2007	
	Number of Common Shares	**Common Share Capital**	Number of Common Shares	Common Share Capital
Issued and outstanding, beginning and end of year	**129,074,526**	**$ 133**	129,074,526	$ 133
Weighted average outstanding	**129,074,526**		129,074,526	

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.

Normal Course Issuer Bid (“NCIB”)

GWL intends to file a 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 2008 or 2007.

24. CAPITAL MANAGEMENT

The Company defines capital as net debt (excluding Exchangeable Debentures), 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:

	Dec. 31, 2008	Dec. 31, 2007
Interest coverage	**3.1**	4.4
Net debt (excluding Exchangeable Debentures) to equity	**0.58:1**	0.96:1

The Company manages debt on a net basis, excluding capital securities, calculated as outlined below. The Company's internal guideline targets a net debt (excluding Exchangeable Debentures) to equity ratio of less than 1:1. Equity for the purpose of calculating the net debt (excluding Exchangeable Debentures) to equity ratio is defined by the Company as GWL's capital securities of $264 (2007 – $260) as at year end 2008 and shareholders' equity. 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

The components of net debt (excluding Exchangeable Debentures) are as follows:

	Dec. 31, 2008	Dec. 31, 2007
Bank indebtedness	**$ 112**	$ 60
Commercial paper		609
Short term bank loans	**453**	250
Long term debt due within one year	**415**	432
Long term debt	**5,308**	5,494
Less: Cash and cash equivalents	**1,465**	1,076
Short term investments	**694**	461
Security deposits included in other assets	**560**	419
Net debt	**3,569**	4,889
Less: Exchangeable Debentures		157
Net debt (excluding Exchangeable Debentures)	**$ 3,569**	$ 4,732

The Company monitors its credit ratings as it seeks access to capital as part of the Company's goal to maintain financial capacity and access to capital markets. The Company's ability to obtain funding from external sources may be restricted by a downgrade in the Company's credit ratings, should the Company's financial performance and condition deteriorate. In addition, credit and capital markets are subject to inherent global risks that may negatively affect the Company's access and ability to fund its short term and long term debt requirements. The Company mitigates these risks by maintaining appropriate levels of cash and cash equivalents and short term investments, actively monitoring market conditions and diversifying its capital sources and maturity profile.

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 under the Prospectus (see note 22).

Dividends

The declaration and payment of dividends and the amount thereof are at the discretion of the Board of Directors, which takes into account the Company's financial results, capital requirements, available cash flow 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 2008, the Board of Directors declared quarterly dividends as follows:

($)	Declared per Share
Common shares	$ 0.36
Preferred shares – Series I	$ 0.36
– Series II	$ 0.32
– Series III	$ 0.32
– Series IV	$ 0.32
– Series V	$ 0.30

Dividends on the Preferred Shares, Series II are presented in interest expense and other financing charges in the consolidated statement of earnings (see note 5).

Covenants and Regulatory Requirements

The committed credit facility which Loblaw entered into during 2008 is subject to certain covenants (see note 18). Under the USD $300 private placement notes, Loblaw is also subject to certain financial covenants (see note 19). As at year end 2008, Loblaw was in compliance with 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. A new regulatory capital management framework, Basel II, has been implemented in Canada that establishes regulatory capital requirements that are more sensitive to a bank's risk profile. *PC* Bank met all applicable capital targets as at year end 2008. 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 2008.

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 2008.

25. STOCK-BASED COMPENSATION ($ except table)

The Company maintains six 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 seven million of its common shares; however, GWL has set a guideline which limits the number of stock option grants to a maximum of 5% of outstanding common shares at any time. Stock options have up to a seven-year term, vest 20% – 33% cumulatively on each anniversary of the 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 2008, GWL granted 222,362 (2007 – 693,327) stock options with a weighted average exercise price of $46.29 (2007 – $72.23) 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 2008, the share appreciation value of nil (2007 – nominal) was paid on the exercise of nil (2007 – 21,965) stock options and 138,753 (2007 – 86,973) stock options were forfeited or cancelled.

In 2008 and 2007, 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 seven-year term, vest 20% – 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 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 2008, Loblaw granted 3,431,432 (2007 – 4,368,980) stock options with a weighted average exercise price of $28.99 (2007 – $47.28) 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 2008, the share appreciation value of nil (2007 – nominal) was paid by Loblaw on the exercise of nil (2007 – 108,000) stock options and 2,071,528 (2007 – 1,812,870) stock options were forfeited or cancelled.

In 2008 and 2007, 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 seven-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 2008, 2,400 (2007 – 16,400) share appreciation rights were forfeited or cancelled.

Restricted Share Unit ("RSU") Plans

GWL and Loblaw 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 for a prescribed period preceding the end of the performance period for the RSUs multiplied by the number of RSUs held by the employee.

During 2008, GWL granted 58,179 (2007 – 36,099) RSUs to 39 (2007 – 40) employees, 6,921 (2007 – 4,285) RSUs were cancelled and 69,482 (2007 – 4,350) were settled in cash in the amount of $4 (2007 – nominal). In addition, during 2008, Loblaw granted 416,294 (2007 – 335,056) RSUs to 346 (2007 – 349) employees, 103,103 (2007 – 161,621) RSUs were cancelled and 252,479 (2007 – 154,700) were settled in cash in the amount of $9 (2007 – $8). As at year end 2008, a total of 151,769 (2007 – 169,993) GWL RSUs and 829,399 (2007 – 768,687) Loblaw RSUs were outstanding.

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)	**2008**	2007
Stock option plans/share appreciation right plan expense	**$ 8**	
Equity derivatives (gain) loss (note 27)	**(22)**	$ 100
Restricted share unit plan expense	**12**	8
Net stock-based compensation (income) expense	**$ (2)**	$ 108

Deferred Share Unit ("DSU") 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 number of which is determined by the market price of GWL's or Loblaw's 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 2008, GWL had 59,787 (2007 – 41,023) and Loblaw had 79,939 (2007 – 56,082) DSUs outstanding. During 2008, a compensation cost of $2 (2007 – nominal) was recognized in operating income.

Executive Deferred Share Unit ("EDSU") Plan

In 2008, GWL and Loblaw approved the introduction of an EDSU plan. Under this plan, executives may elect to defer up to 100% of the STIP bonus earned by the executive 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 2008, there were no EDSUs outstanding.

Employee Share Ownership Plans ("ESOPs")

GWL and Loblaw maintain ESOPs for their employees which allow employees to acquire GWL's and Loblaw's common shares through regular payroll deductions of up to 5% of their gross regular earnings. GWL and Loblaw contribute an additional 25% (2007 – 25%) of each employee's contribution to its plan. The ESOPs are administered through a trust which purchases GWL's and Loblaw's common shares on the open market on behalf of employees. During 2008, a compensation cost of $7 (2007 – $7) related to these plans was recognized in operating income.

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

	2008		2007	
	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	**1,535,135**	**$ 87.45**	967,146	$ 99.00
Granted	**222,362**	**$ 46.29**	693,327	$ 72.23
Exercised			(21,965)	$ 53.70
Forfeited/cancelled	**(141,153)**	**$ 85.69**	(103,373)	$ 100.65
Outstanding options/rights, end of year[1,2]	**1,616,344**	**$ 81.94**	1,535,135	$ 87.45
Options/rights exercisable, end of year[2]	**699,390**	**$ 94.61**	516,663	$ 96.28

(1) Options outstanding of 1,522,344 (2007 – 1,438,735) represented approximately 1.2% (2007 – 1.1%) of GWL's issued and outstanding common shares, which was within GWL's guideline of 5%.

(2) Included in the outstanding balance are 94,000 (2007 – 96,400) share appreciation rights at a weighted average exercise price of $101.25 (2007 – $101.05). Included in the exercisable balance are 77,200 (2007 – 57,280) share appreciation rights at a weighted average exercise price of $99.12 (2007 – $98.53).

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

	2008				
	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 – $49.88	219,162	6	$ 46.29		
$72.21 – $75.62	681,908	5	$ 72.23	136,381	$ 72.23
$93.35 – $111.02(1)	715,274	2	$ 102.12	563,009	$ 100.03

(1) Included in the outstanding balance are 94,000 share appreciation rights with a weighted average remaining contractual life of 2 years and a weighted average exercise price of $101.25. Included in the exercisable balance are 77,200 share appreciation rights with a weighted average exercise price of $99.12.

26. ACCUMULATED OTHER COMPREHENSIVE LOSS

The following tables provide further detail regarding the composition of accumulated other comprehensive loss for the years ended December 31, 2008 and December 31, 2007:

	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 recovered 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 $2 and minority interest of $11.

								December 31, 2007
		Foreign Currency Translation Adjustment		Cash Flow Hedges		Available-for-Sale Assets		Total
Balance, beginning of year	$	(503)					$	(503)
Cumulative impact of implementing new accounting standards[1] (note 2)			$	(4)	$	13		9
Foreign currency translation adjustment		(508)						(508)
Net unrealized loss on available-for-sale financial assets[2]						(35)		(35)
Reclassification of loss on available-for-sale financial assets[3]						20		20
Net gain on derivatives designated as cash flow hedges[4]				36				36
Reclassification of gain on derivatives designated as cash flow hedges[5]				(18)				(18)
Balance, end of year	$	(1,011)	$	14	$	(2)	$	(999)

(1) Net of income taxes recovered of $1 and minority interest of $6.
(2) Net of income taxes of $5 and minority interest of $21.
(3) Net of income taxes of nil and minority interest of $13.
(4) Net of income taxes of $2 and minority interest of $22.
(5) Net of income taxes of $2 and minority interest of $12.

An estimated net loss of $5 (2007 – net gain of $12), net of income taxes and minority interest, recorded in accumulated other comprehensive loss related to cash flow hedges as at December 31, 2008, is expected to be reclassified to net earnings during the next 12 months. This will be offset by the available-for-sale financial assets that are hedged. Remaining amounts will be reclassified to net earnings over periods up to 5 years.

During 2008, the change in the cumulative foreign currency translation adjustment decreased accumulated other comprehensive loss by $677 (2007 – increased accumulated other comprehensive loss by $508). This change was due to the positive (2007 – negative) impact of translating the Company's net investment in self-sustaining foreign operations due to the depreciation (2007 – appreciation) of the Canadian dollar relative to the United States dollar.

27. FINANCIAL INSTRUMENTS

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

	Notional Amounts Maturing in							
	2009	2010	2011	2012	2013	Thereafter	**2008 Total**	2007 Total
Cross currency swap receivable	$ 31	$ 199	$ 56	$ 166	$ 75	$ 654	**$ 1,181**	$ 1,100
Cross currency swap payable					$ 148	$ 148	**$ 296**	
Interest rate swaps receivable	$ 140	$ 50	$ 200				**$ 390**	$ 630
Interest rate swaps payable					$ 150		**$ 150**	$ 150
Equity swaps and forwards	$ 261	$ 82				$ 92	**$ 435**	$ 428
Equity forward associated with the forward sale of Loblaw common shares						$ 735	**$ 735**	$ 692
Electricity forward contract	$ 8	$ 9	$ 8				**$ 25**	$ 33

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

Loblaw entered into cross currency swaps to exchange United States dollars for $1,181 (2007 – $1,100) Canadian dollars, which mature by 2017. Cross currency swaps totaling $320 (2007 – $560) are designated in a cash flow hedge and the remaining undesignated $861 (2007 – $540) 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 2008, a cumulative unrealized foreign currency exchange rate receivable of $36 (2007 – $270) was recorded in other assets.

In 2008, Loblaw entered into fixed cross currency swaps to exchange $296 Canadian dollars for USD $300, which mature by 2015. A portion of these cross currency swaps is designated in a cash flow hedge to manage the foreign exchange risk related to a part of Loblaw's fixed rate USD private placement notes (see note 19).

Interest Rate Swaps

Loblaw's interest rate swaps convert a notional $390 (2007 – $630) of its floating rate available-for-sale cash and cash equivalents, short term investments and security deposits included in other assets to average fixed rate investments at 5.39% (2007 – 5.60%), which mature by 2011. As at year end 2008, the fair value of these interest rate swaps of $21 (2007 – $9) was recorded in other assets (see note 16) and the unrealized fair value gain of $13 (2007 – $6), net of income taxes and minority interest, related to these interest rate swaps was deferred in accumulated other comprehensive loss. When realized, these unrealized gains are reclassified to net earnings.

During 2007, Loblaw terminated hedge accounting for its interest rate swaps previously designated as a cash flow hedge of the variable interest rate exposure on commercial paper. These interest rate swaps converted a notional $150 of floating rate commercial paper debt to an average fixed rate debt of 8.37% which matures by 2013. As a result of this termination, the cumulative loss of $1, net of income taxes and minority interest, in accumulated other comprehensive loss was reclassified to net earnings in 2007. As at year end 2008, the fair value of these interest rate swaps of $43 (2007 – $28) was recorded in other liabilities (see note 20).

Equity Swaps and Forwards ($, except where otherwise indicated)
In 2008, GWL had cumulative outstanding equity swaps in its common shares of 1.7 million (2007 – 1.7 million) at an average forward price of $103.17 (2007 – $103.17). In 2008, Loblaw had cumulative outstanding equity forwards in its common shares of 4.8 million (2007 – 4.8 million) at a cumulative average forward price of $54.46 (2007 – $53.14) including $9.59 (2007 – $8.27) 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 Company and its counterparty in cash or common shares. As at year end 2008, the fair value of GWL's swaps of $44 (2007 – $49) and $29 (2007 – $34) was recorded in accounts payable and accrued liabilities and in other liabilities, respectively (see note 20). Cumulative interest net of dividends and unrealized market loss of these Loblaw forwards of $92 (2007 – $91) was recorded in accounts payable and accrued liabilities. During 2008, a fair value gain of $22 (2007 – loss of $100) was recorded in operating income related to these equity swaps and forwards (see note 25). Loblaw is in discussions with the counterparty which may lead to the extinguishment of all or a portion of the liability.

In 2001, GWL entered into an equity forward sale agreement based on 9.6 million Loblaw common shares at an original forward price of $48.50 per Loblaw common share which, under the terms of the agreement, had increased to a forward price of $76.52 (2007 – $72.06) per Loblaw common share as at December 31, 2008. The forward matures in 2031 and will be settled in cash as follows: GWL will receive the forward price and will pay the market value of the underlying Loblaw common shares at maturity. As at year end 2008, the fair value of this equity forward sale agreement based on 9.6 million Loblaw common shares of $397 (2007 – $365) was recorded in other assets (see note 16). During 2008, a fair value loss of $11 (2007 – gain of $141) was recorded in interest expense and other financing charges related to this forward (see note 5).

Commodity Derivatives
The Company uses commodity futures and options to manage its anticipated exposure to fluctuations in commodity prices.

As at year end 2008, the fair value of Weston Foods' commodity futures of negative $33 (2007 – positive $13) was recorded in accounts receivable. During 2008, a fair value loss of $40 (2007 – gain of $11) was recorded in operating income relating to futures which were not designated in a cash flow hedge while a fair value loss of $8 (2007 – gain of $1) was deferred in accumulated other comprehensive loss relating to futures which were designated in a cash flow hedge. As at year end 2008, the fair value of the commodity options of negative $5 (2007 – positive $2) was recorded in accounts receivable and a fair value loss of $7 (2007 – gain of $2) was recorded in operating income.

Loblaw 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 December 31, 2008, Loblaw had $4 (2007 – nil) recorded in accounts payable and accrued liabilities related to the above contracts.

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. As at year end 2008, the fair value of this Loblaw forward contract of $7 (2007 – $5) was recorded in other assets (see note 16). During 2008, a gain in value of $2 (2007 – loss of $2) was recorded in operating income.

28. 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. The fair value of all derivative instruments approximated their carrying value and are recorded on the consolidated balance sheet.

Other Financial Instruments
The fair values of cash and cash equivalents, short term investments and security deposits included in other assets, accounts receivable, short term borrowings, accounts payable and accrued liabilities and short term bank loans approximate their carrying values given their short term maturities. The fair value of long term debt issues excluding the Exchangeable Debentures was estimated based on the discounted cash flows of the debt at the Company's estimated incremental borrowing rates for debt of the same remaining maturities. Prior to their redemption in 2008, the fair value of the Exchangeable Debentures was estimated based on the market price of the underlying shares.

The following tables provide a comparison of carrying and fair values for each classification of financial instruments as at December 31, 2008 and December 31, 2007.

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 included in other assets			$ 2,427	$ 292			$ 2,719	$ 2,719
Derivatives included in accounts receivable	$ (5)	$ (33)					(38)	(38)
Other receivables			14		$ 982		996	996
Other financial assets included in other assets					40		40	40
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	$ 2,441	$ 299	$ 1,022		$ 4,264	$ 4,264
Short term borrowings						$ 565	$ 565	$ 565
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		80				7	87	87
Capital securities						483	483	479
Total financial liabilities		$ 216				$ 9,763	$ 9,979	$ 9,432

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.

As at December 31, 2007

	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 included in other assets			$ 1,512	$ 444			$ 1,956	$ 1,956
Derivatives included in accounts receivable		$ 14					14	14
Other receivables			8		$ 963		971	971
Other financial assets included in other assets			157		75		232	232
Available-for-sale securities included in other assets				16			16	16
Derivatives included in other assets	$ 184	466					650	650
Total financial assets	$ 184	$ 480	$ 1,677	$ 460	$ 1,038		$ 3,839	$ 3,839
Short term borrowings						$ 919	$ 919	$ 919
Derivatives included in accounts payable and accrued liabilities		$ 140					140	140
Other accounts payable and accrued liabilities						3,044	3,044	3,044
Long term debt						5,926	5,926	5,870
Derivatives included in other liabilities		63				7	70	70
Capital securities						260	260	270
Total financial liabilities		$ 203				$ 10,156	$ 10,359	$ 10,313

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.

During 2008, the net unrealized and realized gain 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 $158 (2007 – loss of $119). In addition, the net unrealized and realized loss 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 $252 (2007 – gain of $120).

29. FINANCIAL RISK MANAGEMENT

The Company is exposed to the following risks as a result of holding 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 included in other assets, pension assets held in the Company's defined benefit plans, amounts receivable from Weston Foods customers and suppliers, *PC* Bank's credit card receivables and other Loblaw receivables from 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. The Company has sought to minimize potential counterparty risk and losses by conducting transactions for its derivative agreements with counterparties that have at minimum a long term "A" credit rating from a recognized credit rating agency and by placing risk adjusted limits on its exposure to any single counterparty for its financial derivative agreements. The Company has internal policies, controls and reporting processes, which require ongoing assessment and corrective action, if necessary, with respect to derivative transactions. In addition, net obligations and asset amounts on cross currency swaps and equity swaps and forwards are each netted by agreement with counterparties.

Credit risk associated with the Company's cash equivalents, short term investments and security deposits included in other assets results from the possibility that a counterparty may default on the repayment of a security. The Company attempts to mitigate this risk through policies and guidelines that require issuers of permissible investments to have at minimum a 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. The Company purchases and holds these investments directly in custody accounts and has limited exposure to any third-party money market portfolios and funds.

Weston Foods performs ongoing credit evaluations to assess the financial condition of its new and existing suppliers and customers for amounts receivable from these counterparties.

Loblaw's exposure to credit risk from *PC* Bank's credit card receivables and receivables from independent franchisees, associated stores and independent accounts results from the possibility that customers may default on their payment obligation. *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. Loblaw accounts receivable from independent franchisees, associated stores and independent accounts are actively monitored on an ongoing basis and settled on a frequent basis in accordance with the terms specified in the applicable agreements.

The Company's maximum exposure to credit risk as it relates to derivative instruments is represented by the positive fair market value of the derivatives on the balance sheet (see note 28).

See note 12 for additional information on the credit quality performance of *PC* Bank's credit card receivables, Loblaw accounts receivable from independent franchisees, associated stores and independent accounts and Weston Foods customers.

Market Risk

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

Interest Rate Risk

The Company is exposed to interest rate risk, which it manages through the use of interest rate swaps. The Company's interest rate risk arises from the issuance of short term debt and equity derivatives, net of its cash and cash equivalents, short term investments and security deposits included in other assets. The Company manages fluctuations in its interest expense through its exposure to a mix of fixed and floating interest rates, by managing the duration of its financial instruments and by entering into 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 an increase (decrease) of $18 to interest expense and other financing charges.

Foreign Currency Exchange Rate Risk
As at year end 2008, the Company had $1.5 billion (2007 – $1.1 billion) in cash and cash equivalents, $694 (2007 – $461) in short term investments and $560 (2007 – $419) in security deposits included in other assets, the majority of which are denominated in United States dollars and are held or managed by Glenhuron.

Loblaw is exposed to foreign currency exchange rate variability, primarily on its United States dollar denominated cash and cash equivalents, short term investments, security deposits included in other assets, foreign denominated purchases in accounts payable and accrued liabilities, and USD private placement notes included in long term debt. To manage its foreign currency exchange rate exposure, Loblaw enters into cross currency swaps. As a result, a significant strengthening (weakening) of the Canadian dollar against the United States dollar, with all other variables held constant, would not have a significant impact on net earnings before income taxes and minority interest. To manage its foreign currency exchange rate risk, Loblaw designates a portion of its cross currency swaps in a cash flow hedge of the exposure to fluctuations in the foreign currency exchange rate on a portion of its United States dollar denominated cash and cash equivalents, short term investments and security deposits included in other assets. The remaining undesignated cross currency swaps economically hedge exposure to fluctuations in the foreign currency exchange rate on the remaining United States dollar denominated cash and cash equivalents, short term investments, security deposits included in other assets and the USD private placement notes.

During 2008, the unrealized foreign currency exchange gain of $50 (2007 – loss of $79) before income taxes and minority interest related to the cash and cash equivalents, short term investments and security deposits included in other assets classified as available-for-sale was recognized in accumulated other comprehensive loss and was partially offset by the unrealized foreign currency exchange rate loss of $51 (2007 – gain of $72) 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 gain of $160 (2007 – loss of $76) on the designated held-for-trading cash and cash equivalents, short term investments and security deposits included in other assets is partially offset in operating income by the unrealized foreign currency exchange rate loss of $157 (2007 – gain of $79) relating to the cross currency swaps which are not designated in a cash flow hedge. During 2008, Loblaw realized a foreign currency exchange gain of $26 (2007 – $46) relating to cross currency swaps that matured or were terminated.

During 2008, the Company recognized in operating income an unrealized foreign currency exchange loss of $65 related to Loblaw's USD $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 of 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.

The Company's consolidated financial statements are expressed in Canadian dollars, however a portion of its Weston Foods business is in United States dollars through its net investment in self-sustaining foreign operations in the United States ("U.S. net investment"). The U.S. net investment is 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 which are recorded in other comprehensive income (loss). During 2008, the Canadian dollar depreciated (2007 – appreciated) relative to the United States dollar, resulting in an increase (2007 – reduction) of the Company's U.S. net investment and a corresponding increase in other comprehensive income of $677 (2007 – increase in other comprehensive loss of $508). As a result of the sale of its U.S. fresh bakery business, the Company expects to recognize a portion of the cumulative foreign currency translation loss currently reflected in shareholders' equity associated with the U.S. net investment in net earnings in 2009. In addition, revenues and expenses of these self-sustaining foreign operations are translated into Canadian dollars at the foreign currency exchange rates that approximate the rate in effect at the date when such items are recognized. An appreciating Canadian dollar relative to the United States dollar will negatively impact year-over-year changes in reported sales, operating income and net earnings, while a depreciating Canadian dollar relative to the United States dollar will have the opposite impact.

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 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 $13 in net earnings before income taxes and minority interest.

Common Share Price Risk

GWL and Loblaw enter into equity derivatives to manage exposure to fluctuations in stock-based compensation cost as a result of changes in the market prices of the respective underlying common shares. 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 effective when the market price of the respective underlying common shares exceeds the exercise price of the related employee stock options. When the market price of the respective underlying common shares is lower than the exercise price of the related employee stock options, these equity derivatives will 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 and their vesting schedules relative to the number of respective underlying common shares on the equity derivatives and the level of and 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 swaps and forwards, with all other variables held constant, would result in a gain (loss) of $6 in net earnings before income taxes and minority interest.

In addition, the obligation of GWL 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. GWL entered into this forward to partially offset any repayment risk associated with its Series A, 7.00% and Series B Debentures. Further, if the market value of the underlying Loblaw common shares exceeds the obligation of the Company 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, GWL will receive a cash amount equal to the difference. If the forward price is less than the market price of the Loblaw shares, GWL 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 access and ability to fund its short term and long term debt maturities. The Company mitigates these risks by maintaining appropriate levels of cash and cash equivalents and short term investments, by actively monitoring market conditions and by diversifying its sources of funding and maturity profile.

The following are the undiscounted contractual maturities of significant financial liabilities as at December 31, 2008:

	2009	2010	2011	2012	2013	Thereafter	Total
Interest rate swaps payable[1]	$ 13	$ 13	$ 13	$ 13	$ 5		$ 57
Equity swaps and forwards[2]	261	82				$ 92	435
Long term debt including fixed interest payments[3]	742	638	953	257	596	7,650	10,836
Capital securities[4]	265						265
	$ 1,281	$ 733	$ 966	$ 270	$ 601	$ 7,742	$ 11,593

(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, 2008.
(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) GWL's capital securities are included as subsequent to year end the Company provided notice to the holders that such securities will be redeemed on April 1, 2009. Loblaw's capital securities have been excluded as Loblaw is not currently contractually obligated to pay these amounts.

The Company's bank indebtedness, short term bank loans and accounts payable and accrued liabilities are short term in nature, and as such are all due within the next 12 months.

30. 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 2008, the Company has committed approximately $51 (2007 – $114) 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 and benefit programs. The aggregate gross potential liability related to these standby letters of credit is approximately $413 (2007 – $398), 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. During the first quarter of 2008, Loblaw was notified that an Event of Termination of the independent funding trust agreement for Loblaw's franchisees had occurred as a result of Loblaw's long term credit rating downgrade by Dominion Bond Rating Service to "BBB (high)" from "A (low)". As a result of the Event of Termination, during the second quarter of 2008, Loblaw finalized an alternative financing arrangement for the independent funding trust in the form of a $475, 364-day revolving committed credit facility provided by a syndicate of banks. The gross principal amount of loans issued to Loblaw's independent franchisees outstanding as at year end 2008 was $388 (2007 – $418) including $152 (2007 – $153) 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% (2007 – 10%) of the principal amount of the loans outstanding at any point in time, $66 (2007 – $44) as at year end 2008. 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.

This new alternative financing structure has been reviewed and Loblaw determined there were no material implications with respect to the consolidation of VIEs. 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% (2007 – 9%) on a portion of the securitized credit card receivables amount, is approximately $116 (2007 – $89) (see note 12).

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 $63 (2007 – $79).

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

During 2007, GWL and Loblaw were two of 17 defendants served with an action brought in the Superior Court of Ontario by certain beneficiaries of a multi-employer pension plan in which Loblaw's employees and those of its independent franchisees participate. In their claim against the employers and the trustees of the multi-employer pension plan, the plaintiffs claimed that assets of the multi-employer pension plan had been mismanaged and were seeking, among other demands, damages of $1 billion. The action was framed as a representative action on behalf of all the beneficiaries of the multi-employer pension plan. During 2008, the Company received confirmation that the actions against the Company and against the plan trustees have been dismissed.

In addition to the civil proceedings described above, the trustees of this multi-employer pension plan are involved in proceedings brought by Financial Services Commission of Ontario whereby it has been alleged that the trustees violated certain provisions of the Pension Benefits Act (Ontario) in their management of the plan's funds. One of the trustees, an officer of Loblaw, is entitled to indemnification from Loblaw.

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. See note 19 for a further discussion on the exchangeable 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 is uncertain. However, based on information currently available, these claims, individually and in the aggregate, are not expected to have a material impact on the Company.

31. VARIABLE INTEREST ENTITIES ("VIEs")

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 30). 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 2008, 154 (2007 – 137) 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 30.

32. 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. Rental payments to Wittington amounted to approximately $3 (2007 – $3) in 2008.

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.

33. SUBSEQUENT EVENTS

On January 21, 2009, Dunedin Holdings S.à r.l., a subsidiary of GWL, completed the sale of its U.S. fresh bakery business for gross and net proceeds of approximately USD $2.5 billion, including approximately USD $125 for interest bearing assets. The Company expects to recognize a gain on the sale of this business in discontinued operations in the first quarter of 2009 of approximately USD $800, which is subject to normal post closing working capital and other adjustments. In addition, the Company expects to recognize a portion of the cumulative foreign currency translation loss currently reflected in shareholders' equity associated with the U.S. net investment in net earnings in the first quarter of 2009.

After the closing of the U.S. fresh bakery transaction in 2009, Dunedin Holdings S.à r.l. converted USD $2.4 billion of its cash and short term investments to approximately $3.0 billion Canadian dollars. The Company will recognize a foreign exchange loss of approximately $50 associated with this conversion in net earnings in the first quarter of 2009 due to the strengthening of the Canadian dollar relative to the U.S. dollar between the closing date and the dates on which the proceeds were converted to Canadian dollars.

Weston Foods reorganized its remaining operations subsequent to the disposition of the U.S. fresh bakery business. 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 expects to record a write-down of a portion of the remaining goodwill related to the biscuits, cookies, cones and wafers business in an amount of up to USD $60 in the first quarter of 2009.

Subsequent to year end, following the sale of the U.S. fresh bakery business, the Company terminated its $300, 5-year committed credit facility. In addition, GWL repaid its $250 5.90% MTN, and Loblaw repaid its $125 5.75% MTN, both of which matured in the first quarter of 2009. Subsequent to year end GWL also provided the holders of its Preferred Shares, Series II with notice that on April 1, 2009 the Company will redeem for cash the 10.6 million outstanding shares for $25.00 per share, or $265 in aggregate, plus accrued and unpaid dividends to but excluding the date of redemption.

34. 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 Companies Limited and its subsidiaries is Canada's largest food distributor and leading provider of general merchandise, drugstore 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.

	2008	2007
Sales		
Weston Foods	**$ 2,197**	$ 2,088
Loblaw	**30,802**	29,384
Intersegment	**(911)**	(865)
Consolidated	**$ 32,088**	$ 30,607
Operating Income[1]		
Weston Foods	**$ 154**	$ 147
Loblaw	**1,038**	728
Consolidated	**$ 1,192**	$ 875
Depreciation and Amortization		
Weston Foods	**$ 58**	$ 62
Loblaw	**585**	588
Consolidated	**$ 643**	$ 650
Total Assets		
Weston Foods[2]	**$ 2,951**	$ 2,502
Loblaw	**14,125**	13,814
Discontinued Operations	**2,588**	2,118
Consolidated	**$ 19,664**	$ 18,434
Fixed Assets and Goodwill Purchases		
Weston Foods	**$ 57**	$ 45
Loblaw	**751**	621
Consolidated	**$ 808**	$ 666

(1) 2008 includes restructuring and other charges of $5 (2007 – $215) comprised of a charge of $6 (2007 – income of $7) recognized by Weston Foods and income of $1 (2007 – charge of $222) recognized by Loblaw (see note 4).

(2) 2007 includes the investment in Domtar (Canada) Paper Inc. common shares of $157, which is economically hedged as a result of GWL issuing the 3% Exchangeable Debentures (see note 19).

The Company operates primarily in Canada and the United States.

	2008	2007
Sales (excluding intersegment)		
Canada	**$ 31,461**	$ 30,028
United States	**627**	579
Consolidated	**$ 32,088**	$ 30,607
Fixed Assets and Goodwill		
Canada	**$ 9,302**	$ 9,263
United States	**356**	293
Consolidated	**$ 9,658**	$ 9,556

Three Year Summary

CONSOLIDATED INFORMATION – CONTINUING OPERATIONS[1,2]

For the years ended December 31[3] ($ millions except where otherwise indicated)	2008	2007	2006
Operating Results			
Sales	**32,088**	30,607	29,915
EBITDA[4,5]	**1,837**	1,525	1,047
Operating income[5]	**1,192**	875	376
Interest expense and other financing charges[6]	**360**	175	263
Net earnings (loss) from continuing operations	**645**	374	(47)
Financial Position			
Working capital	**1,165**	380	671
Fixed assets	**8,542**	8,453	8,615
Goodwill	**1,116**	1,103	1,120
Total assets	**19,664**	18,434	18,647
Net debt[4]	**3,569**	4,889	5,201
Shareholders' equity	**5,927**	4,677	4,953
Cash Flows			
Cash flows from operating activities of continuing operations	**985**	1,368	1,280
Free cash flow[4]	**(219)**	379	(30)
Fixed asset purchases	**807**	658	1,006
Per Common Share ($)			
Basic net earnings (loss) from continuing operations	**4.63**	2.46	(0.78)
Basic net earnings	**6.08**	3.92	0.52
Common dividend rate at year end	**1.44**	1.44	1.44
Cash flows from operating activities of continuing operations	**7.27**	10.15	9.50
Fixed asset purchases	**6.25**	5.10	7.80
Book value	**39.58**	29.90	32.06
Market value at year end	**59.90**	54.08	75.60
Financial Ratios			
EBITDA margin (%)[4]	**5.7**	5.0	3.5
Operating margin (%)	**3.7**	2.9	1.3
Return on average total assets (%)[4]	**8.3**	6.2	2.7
Return on average common shareholders' equity (%)	**13.3**	7.9	(2.4)
Interest coverage	**3.1**	4.4	1.3
Net debt (excluding Exchangeable Debentures)[4] to equity	**0.58**	0.96	0.96
Cash flows from operating activities of continuing operations to net debt[4]	**0.28**	0.28	0.25
Price/net earnings (loss) from continuing operations ratio at year end	**12.9**	22.0	(96.9)
Market/book ratio at year end	**1.5**	1.8	2.4

(1) For financial definitions and ratios refer to the Glossary beginning on page 110.
(2) Certain prior years' information was reclassified to conform with the current year's presentation (see note 1 to the consolidated financial statements). Results of Weston Foods' U.S. fresh bakery business have been reclassified as discontinued operations.
(3) 2008 was a 53-week year.
(4) See non-GAAP financial measures beginning on page 46.
(5) 2008 includes restructuring and other charges of $5 (2007 – $215) comprised of a charge of $6 (2007 – income of $7) recognized by Weston Foods and income of $1 (2007 – charge of $222) recognized by Loblaw (see note 4 to the consolidated financial statements). In addition, 2006 includes a Loblaw goodwill impairment charge of $800.
(6) 2008 includes non-cash charge of $11 (2007 – non-cash income of $141) related to the fair value adjustment of GWL's forward sale agreement for 9.6 million Loblaw common shares (see note 5 to the consolidated financial statements).

SEGMENT INFORMATION – CONTINUING OPERATIONS[1,2]

For the years ended December 31[3]
($ millions except where otherwise indicated)

		2008	2007	2006
OPERATING RESULTS				
Sales	Weston Foods	**2,197**	2,088	2,098
	Loblaw	**30,802**	29,384	28,640
	Intersegment	**(911)**	(865)	(823)
	Consolidated	**32,088**	30,607	29,915
EBITDA[4,5]	Weston Foods	**214**	209	174
	Loblaw	**1,623**	1,316	873
	Consolidated	**1,837**	1,525	1,047
Operating Income[5]	Weston Foods	**154**	147	95
	Loblaw	**1,038**	728	281
	Consolidated	**1,192**	875	376
FINANCIAL POSITION				
Fixed Assets	Weston Foods	**497**	500	560
	Loblaw	**8,045**	7,953	8,055
	Consolidated	**8,542**	8,453	8,615
Total Assets	Weston Foods[6]	**2,951**	2,502	2,469
	Loblaw	**14,125**	13,814	13,626
	Discontinued Operations	**2,588**	2,118	2,552
	Consolidated	**19,664**	18,434	18,647
CASH FLOWS				
Fixed Asset Purchases	Weston Foods	**57**	45	69
	Loblaw	**750**	613	937
	Consolidated	**807**	658	1,006
FINANCIAL RATIOS				
EBITDA Margin (%)[4]	Weston Foods	**9.7**	10.0	8.3
	Loblaw	**5.3**	4.5	3.0
	Consolidated	**5.7**	5.0	3.5
Operating Margin (%)	Weston Foods	**7.0**	7.0	4.5
	Loblaw	**3.4**	2.5	1.0
	Consolidated	**3.7**	2.9	1.3
Return on Average Total Assets (%)[4]	Weston Foods	**11.0**	10.5	6.9
	Loblaw	**8.1**	5.7	2.2
	Consolidated	**8.3**	6.2	2.7

(1) For financial definitions and ratios refer to the Glossary beginning on page 110.
(2) Certain prior years' information was reclassified to conform with the current year's presentation (see note 1 to the consolidated financial statements). Results of Weston Foods' U.S. fresh bakery business have been reclassified as discontinued operations.
(3) 2008 was a 53-week year.
(4) See non-GAAP financial measures beginning on page 46.
(5) 2008 includes restructuring and other charges of $5 (2007 – $215) comprised of a charge of $6 (2007 – income of $7) recognized by Weston Foods and income of $1 (2007 – charge of $222) recognized by Loblaw (see note 4 to the consolidated financial statements). In addition, 2006 includes a Loblaw goodwill impairment charge of $800.
(6) Total assets include the following: 2008 – nil (2007 – $157, 2006 – $215) investment in Domtar common shares/Domtar (Canada) Paper Inc. exchangeable shares.

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.

Capital investment
Fixed asset purchases.

Capital investment per common share
Capital investment divided by the weighted average number of common shares outstanding during the year.

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 46).

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.

Dividend rate per common share at year end
Dividend per common share declared in the fourth quarter multiplied by four.

EBITDA
Operating income before depreciation and amortization (see non-GAAP financial measures beginning on page 46).

EBITDA margin
EBITDA divided by sales (see non-GAAP financial measures beginning on page 46).

Free cash flow
Cash flows from operating activities of continuing operations less fixed asset purchases and dividends (see non-GAAP financial measures beginning on page 46).

Gross margin
Sales less cost of sales and 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, commercial paper, short term bank loans, long term debt due within one year and long term debt less cash and cash equivalents, short term investments and security deposits included in other assets (see non-GAAP financial measures beginning on page 46).

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 46).

Net debt to equity
Net debt divided by total shareholders' equity adding back GWL's capital securities.

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 total assets
Operating income divided by average total assets excluding cash and cash equivalents, short term investments, security deposits included in other assets and assets of discontinued operations (see non-GAAP financial measures beginning on page 46).

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 31 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 includes 53 weeks every 5 to 6 years.

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(1)
Deputy Chairman of the Corporation; Deputy Chairman and President, Loblaw Companies Limited; Deputy Chairman, Selfridges & Co. Ltd.; former Chairman, Royal Mail Group; 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.

Stephen E. Bachand, B.A., M.B.A.(3,5)
Retired President and Chief Executive Officer, Canadian Tire Corporation, Limited; former Director, Canadian Pacific Railway Limited and Bank of Montreal; former Member, Board of Trustees of the Hospital for Sick Children.

A. Charles Baillie, O.C., B.A., M.B.A., LL.D.(2*,3)
Retired Chairman and Chief Executive Officer, Toronto Dominion Bank; Director, Canadian National Railway Company and TELUS Corporation; Chancellor Emeritus, Queen's University; President, Art Gallery of Ontario's Board of Trustees; former Chair, Canadian Council of Chief Executives.

Robert J. Dart, B. Comm., CA(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*)
Former Vice-Chairman and Director, Nesbitt Burns Inc.; former Executive, Nesbitt Burns Inc. and its predecessor companies; former Chairman, Olympic Trust; Director, Leon's Furniture Limited, Sixty Split Corporation, R. Split II Corporation and TD Asset Management USA Funds Inc.

Anne L. Fraser, C.M., B.Sc., LL.D.(5*)
Education Consultant, University of Victoria; Associate, Faculties of Management, Education, Engineering, Law and Fine Arts, University of Calgary; President, EnerG Enterprises Inc.; Director, Pier 21 Foundation and The Victoria Foundation; former syndicated broadcaster, CBC.

Anthony R. Graham(1,3,4*)
President and Director, Wittington Investments, Limited; President and Chief Executive Officer, Sumarria Inc.; former Vice-Chairman and Director, National Bank Financial; former Senior Executive Vice-President and Managing Director, Lévesque Beaubien Geoffrion Inc.; 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 and Selfridges & Co. Ltd.

Isabelle Marcoux, B.A., LL.B.(2)
Vice-Chair, Board of Directors and Vice-President, Corporate Development, Transcontinental Inc.; Board Member, Montreal Children's Hospital Foundation and Montreal Mayor's Foundation for Youth.

J. Robert S. Prichard, O.C., O.Ont., M.B.A., LL.M., LL.D.(3,4)
President and Chief Executive Officer and 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.

Thomas F. Rahilly, B.A., M.A., LL.B.(2,4,5)
Retired Vice-Chairman, RBC Capital Markets; former Chair, Board of Trustees of Trinity College, University of Toronto.

(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. (68 and 37 years)
Chairman and President

Allan L. Leighton (55 and 3 years)
Deputy Chairman

Robert G. Vaux (60 and 11 years)
Chief Financial Officer

Gordon A.M. Currie (50 and 4 years)
Executive Vice President and Chief Legal Officer

Louise M. Lacchin (51 and 25 years)
Executive Vice President,
Finance and Corporate Development

Robert A. Balcom (47 and 15 years)
Senior Vice President, General Counsel – Canada and Secretary

Roy R. Conliffe (58 and 27 years)
Senior Vice President, Labour Relations

Manny DiFilippo (49 and 17 years)
Senior Vice President,
Risk Management and Audit Services

J. Bradley Holland (45 and 15 years)
Senior Vice President, Tax

Lucy J. Paglione (49 and 25 years)
Senior Vice President, Pension and Benefits

Geoffrey H. Wilson (53 and 22 years)
Senior Vice President, Shared Services

Gabriel R. Crozzoli (46 and 5 years)
Vice President, Canadian Tax

David Farnfield (45 and 12 years)
Vice President, Commodities

Kirk W. Mondesire (48 and 23 years)
Vice President, Systems

Lisa R. Swartzman (38 and 15 years)
Vice President, Treasurer

Lina Taglieri (40 and 8 years)
Vice President, Financial Reporting

Adam Walsh (35 and 4 years)
Vice President, Legal Counsel

Walter H. Kraus (46 and 20 years)
Senior Director, Environmental Affairs

Swavek A. Czapinski (34 and 10 years)
Assistant Treasurer

Shareholder and Corporate Information

Executive Office
George Weston Limited
22 St. Clair Avenue East
Toronto, Canada M4T 2S7
Tel: 416.922.2500
Fax: 416.922.4395
www.weston.ca

Stock Exchange Listing and Symbols
The Company's common and preferred shares are listed on the Toronto Stock Exchange and trade under the symbols: "WN", "WN.PR.A", "WN.PR.B", "WN.PR.C", "WN.PR.D" and "WN.PR.E".

Common Shares
At year end 2008, there were 129,074,526 common shares outstanding, 943 registered common shareholders and 48,351,078 common shares available for public trading.

The average 2008 daily trading volume of the Company's common shares was 187,063.

Preferred Shares
At year end 2008, there were 9,400,000 preferred shares Series I, 10,600,000 preferred shares Series II, 8,000,000 preferred shares Series III, 8,000,000 preferred shares Series IV and 8,000,000 preferred shares Series V outstanding and 87 registered preferred shareholders. All outstanding preferred shares were available for public trading.

The average 2008 daily trading volume of the Company's preferred shares was:

Series I:	10,268
Series II:	13,417
Series III:	8,190
Series IV:	7,249
Series V:	9,923

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 2009 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 14, 2009, at 11:00 a.m. at Metro Toronto Convention Centre, South Building, Meeting Room 801, Toronto, 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, Shared Services 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%-owned public reporting subsidiary company with shares trading on the Toronto Stock Exchange.

Ce rapport est disponible en français.

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