Management's Discussion and Analysis

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The following Management's Discussion and Analysis ("MD&A") for George Weston Limited ("GWL") and its subsidiaries (collectively, the "Company") should be read in conjunction with the consolidated financial statements and the accompanying notes on pages 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.

($ millions)	Quarter Ended December 31, 2008 Weston Foods	Quarter Ended December 31, 2008 Loblaw	Quarter Ended December 31, 2008 (unaudited) Consolidated	Year Ended December 31, 2008 Weston Foods	Year Ended December 31, 2008 Loblaw	Year Ended December 31, 2008 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