Notes to the Consolidated Financial Statements

December 31, 2008
($ millions except where otherwise indicated)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Consolidation

The consolidated financial statements include the accounts of George Weston Limited ("GWL") and its subsidiaries (collectively the "Company") with provision for minority interest. The Company's interest in the voting share capital of its subsidiaries is 100% except for Loblaw Companies Limited ("Loblaw"), which is 61.9% (2007 – 61.9%). In addition, the Company consolidates variable interest entities ("VIEs") pursuant to the Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline 15, "Consolidation of Variable Interest Entities", ("AcG 15"), that are subject to control by Loblaw on a basis other than through ownership of a majority of voting interest. AcG 15 defines a variable interest entity as an entity that either does not have sufficient equity at risk to finance its activities without subordinated financial support or where the holders of the equity at risk lack the characteristics of a controlling financial interest. AcG 15 requires the primary beneficiary to consolidate VIEs and considers an entity to be the primary beneficiary of a VIE if it holds variable interests that expose it to a majority of the VIEs' expected losses or that entitle it to receive a majority of the VIEs' expected residual returns or both. The Company has two reportable operating segments: Weston Foods and Loblaw.

Fiscal Year

The Company's year end is December 31. Activities are reported on a fiscal year ending on the Saturday closest to December 31. As a result, the Company's fiscal year is usually 52 weeks in duration but includes a 53rd week every five to six years. The years ended December 31, 2008 and December 31, 2007 contained 53 weeks and 52 weeks, respectively.

Revenue Recognition

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

Earnings per Share ("EPS")

Basic EPS is calculated by dividing the net earnings available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted EPS is calculated using the treasury stock method, which assumes that all outstanding stock options with an exercise price below the average market price during the year are exercised and the assumed proceeds are used to purchase the Company's common shares at the average market price during the year.

Cash, Cash Equivalents and Bank Indebtedness

Cash equivalents consist primarily of highly liquid marketable investments with a maturity of 90 days or less. Cash equivalents are either designated as held-for-trading financial assets or classified as available-for-sale financial assets, and are carried at quoted market value. See note 2 for more information.

Short Term Investments

Short term investments consist primarily of government treasury bills and treasury notes, government-sponsored debt securities, corporate commercial paper and bank term deposits. Short term investments are either designated as held-for-trading financial assets or classified as available-for-sale financial assets, and are carried at quoted market value. See note 2 for more information.

Security Deposits

Security deposits consist primarily of government treasury bills and government-sponsored debt securities, and are included in other assets for balance sheet presentation purposes. Security deposits are either designated as held-for-trading financial assets or classified as available-for-sale financial assets, and are carried at quoted market values.

Credit Card Receivables

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

Allowance for Credit Losses

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

Securitization

PC Bank securitizes credit card receivables through the sale of a portion of the total interest in certain receivables to independent trusts and does not exercise any control over the trusts' management or assets. *PC* Bank does retain certain servicing and administrative responsibilities. The credit card receivables are removed from the consolidated balance sheet when *PC* Bank has surrendered control and are considered sold for accounting purposes pursuant to Accounting Guideline 12, "Transfers of Receivables". When *PC* Bank sells credit card receivables in a securitization transaction, it has a retained interest in the securitized receivables represented by the rights to future cash flows after obligations to investors have been met. Although *PC* Bank remains responsible for servicing all credit card receivables, it does not receive additional compensation for servicing those credit card receivables sold to the independent trusts and accordingly a service liability is recorded. The service liability is recorded at fair value upon initial recognition. In the absence of quoted market rates for servicing securitized assets, fees payable to a replacement servicer, in the event that a replacement servicer was to be appointed, formed the basis of determination of fair value of the servicing liability. Gains or losses on the sale of these receivables depends, in part, on the previous carrying amount of receivables involved in the securitization, allocated between the receivables sold and the retained interest, based on their relative fair values at the date of securitization. The fair value of the retained interests is determined as the best estimate of the net present value of expected future cash flows using management's best estimates of key assumptions such as monthly payment rates, weighted average life, expected annual credit losses and discount rates. Any gain or loss on a sale is recognized in operating income at the time of the securitization. Retained interests are designated as held-for-trading financial assets (see note 2) and are recorded at fair value on the consolidated balance sheet.

Vendor Allowances

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

Inventories (principally finished products)

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

Fixed Assets

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

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

Deferred Charges

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

Goodwill and Intangible Assets

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

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

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

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

Any impairment in the carrying value of goodwill or intangible assets is recognized in operating income. Additional disclosure regarding the results of the annual goodwill and indefinite life intangible assets impairment tests is provided in note 3.

Foreign Currency Translation

Self-Sustaining Foreign Operations

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

Other

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the foreign currency exchange rate in effect at the balance sheet date. Exchange gains or losses arising from the translation of these balances denominated in foreign currencies are recognized in operating income, except for Loblaw's cross currency swaps and available-for-sale cash and cash equivalents, short term investments and security deposits included in other assets denominated in United States dollars which are designated in a cash flow hedge and are deferred in accumulated other comprehensive loss and reclassified to net earnings when realized. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at the foreign currency exchange rates that approximate the rate in effect at the date when such items are recognized.

Derivative Instruments

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

All financial derivative instruments are recorded at fair value on the consolidated balance sheet in accordance with CICA Handbook Section 3855, "Financial Instruments – Recognition and Measurement" ("Section 3855"). Non-financial derivative instruments are recorded at fair value on the consolidated balance sheet unless they are exempt from this treatment based upon expected purchase, sale or usage requirements. Embedded derivative instruments are separated from their host contract and recorded on the consolidated balance sheet at fair value. Fair values are based on quoted market prices where available from active markets, otherwise fair values are estimated using valuation methodologies, primarily discounted cash flow analysis.

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

The Company formally identifies, designates and documents the relationships between hedging instruments and hedged items including: Loblaw's cross currency swaps and interest rate swaps as cash flow hedges against its exposure to fluctuations in the foreign currency exchange rate and variable interest rates on a portion of its United States dollar denominated cash and cash equivalents, short term investments and security deposits included in other assets; certain commodity futures as a cash flow hedge of anticipated future purchases; and Loblaw's cross currency swaps as cash flow hedges against its exposure to fluctuations in the foreign currency exchange rate on Loblaw's United States dollar private placement note. The Company assesses whether these derivative instruments continue to be highly effective in offsetting the change in the cash flows of hedged items. If and when a derivative instrument is no longer expected to be highly effective, hedge accounting is discontinued. Hedge ineffectiveness, if any, is included in current period net earnings.

Exchangeable Debentures

Prior to their redemption in 2008, GWL's 3% Exchangeable Debentures ("Debentures") were re-measured at each balance sheet date based on the market price of the underlying shares with any change in value recognized in operating income (see note 2).

Income Taxes

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

Employee Future Benefits

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

Defined Benefit Plans

The cost and accrued benefit plan obligations of the Company's defined benefit pension plans and other benefit plans, including post-retirement, post-employment and long term disability benefits, are based on actuarial valuations. The actuarial valuations for the defined benefit plans are determined using the projected benefit method prorated on service and management's best estimate of the discount rate, the expected long term rate of return on plan assets, the expected growth rate of health care costs, the rate of compensation increase, retirement ages, termination rates and mortality rates. Actuarial valuations are performed using a September 30 measurement date for accounting purposes. Market values used to value benefit plan assets are as at the measurement date. The discount rate used to value the accrued benefit plan obligation is based on market interest rates as at the measurement date, assuming a portfolio of Corporate AA bonds with terms to maturity that, on average, match the terms of the accrued benefit plan obligations.

Past service costs arising from plan amendments are amortized over the expected average remaining service period of the active employees. The unamortized net actuarial gain or loss that exceeds 10% of the greater of the accrued benefit plan obligation or the fair value of the benefit plan assets at the beginning of the year is amortized over the expected average remaining service period of the active employees for defined benefit pension and post-retirement benefit plans. The unamortized net actuarial gain or loss for post-employment and long term disability benefits is amortized over periods not exceeding three years. The expected average remaining service period of the active employees covered by the defined benefit pension plans ranges from 9 to 18 years, with a weighted average of 12 years. The expected average remaining service period of the employees covered by the post-retirement benefit plans ranges from 3 to 20 years, with a weighted average of 15 years.

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

Defined Contribution and Multi-Employer Pension Plans

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

Stock Option Plan and Share Appreciation Rights

The Company recognizes a compensation cost in operating income related to employee stock option grants that will be settled by issuing its common shares. The compensation cost is the fair value of the stock option on the grant date using an option pricing model and is recognized in operating income on a prescribed vesting basis. On the exercise of this type of stock option, the consideration paid by the employee and the related fair value accrual are credited to common share capital.

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

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

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

Executive Deferred Share Unit ("EDSU") Plan
In 2008, GWL and Loblaw approved the introduction of an EDSU plan. Under this plan, executives may elect to defer up to 100% of the Short Term Incentive Plan ("STIP") bonus earned by the executive in any year into the EDSU plan, subject to an overall cap of three times the executive's base salary. All EDSUs held by an executive will be paid out in cash by December 15 of the year following the year in which the executive's employment ceases for any reason. An election to participate in the plan in any year must be made before the beginning of the year and is irrevocable. The number of EDSUs granted in respect of any year will be determined by dividing the STIP bonus that is subject to the EDSU plan election by the value of the GWL or Loblaw common shares on the date the STIP bonus would otherwise be payable. For this purpose, and for purposes of determining the value of an EDSU upon conversion of the EDSUs into cash, the value of the EDSUs will be calculated by using the weighted average of the trading prices of the GWL or Loblaw common shares on the Toronto Stock Exchange for the five trading days prior to the valuation date.

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

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

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

Comparative Information
Certain prior year's information was reclassified to conform with the current year's presentation. In addition, results of the the fresh bread and baked goods business in the United States ("U.S. fresh bakery business") have been reclassified to discontinued operations (see note 10).

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

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

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

Future Accounting Standards

Goodwill and Intangible Assets

In November 2007, the CICA issued amendments to Section 1000, "Financial Statement Concepts", and Accounting Guideline 11, "Enterprises in the Development Stage", issued a new Section 3064, "Goodwill and Intangible Assets" ("Section 3064") to replace Section 3062, "Goodwill and Other Intangible Assets", withdrew Section 3450, "Research and Development Costs" and amended Emerging Issues Committee ("EIC") Abstract 27, "Revenues and Expenditures During the Pre-operating Period" to not apply to entities that have adopted Section 3064. These amendments provide guidance for the recognition of internally developed intangible assets, including assets developed from research and development activities, ensuring consistent treatment of all intangible assets, whether separately acquired or internally developed. The amendments are effective for annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008 and therefore the Company will implement them in the first quarter of 2009, retroactively with restatement of the comparative periods for the current and prior year. The impact of implementing these amendments on the Company's financial statements is currently being assessed.

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

On January 20, 2009, the Emerging Issues Committee issued EIC 173, "Credit Risk and the Fair Value of Financial Risks and Financial Liabilities". The committee reached a consensus that a company's credit risk and the credit risk of its counterparties should be considered when determining the fair value of its financial assets and financial liabilities, including derivative instruments, for presentation and disclosure purposes. The accounting treatment for this Abstract should be applied retrospectively without restatement of prior periods to all financial assets and financial liabilities measured at fair value in interim and annual financial statements ending on or after January 20, 2009. Retrospective application with restatement of prior periods is permitted but not required. The Company is assessing the impact of this Abstract on the financial statements and will implement this Abstract in the first quarter of 2009.

2. IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

Accounting Standards Implemented in 2008

Capital Disclosures and Financial Instruments – Disclosure and Presentation

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

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

Section 3862 and Section 3863 replaced Section 3861, "Financial Instruments – Disclosure and Presentation". Section 3862 requires increased disclosures regarding the risks associated with financial instruments such as credit risks, liquidity risks and market risks and the techniques used to identify, monitor and manage these risks. Section 3863 carries forward standards for the presentation of financial instruments and non-financial derivative instruments and provides additional guidance for the classification of financial instruments, from the perspective of the issuer, between liabilities and equity. For new disclosures, refer to notes 28 and 29. Comparative information about the nature and extent of risks arising from financial instruments is not required in the year Section 3862 is adopted. The adoption of Section 3862 and Section 3863 did not have an impact on the Company's results of operations or financial condition.

Inventories
Effective January 1, 2008, the Company implemented Section 3031, "Inventories" ("Section 3031"), issued by the CICA in June 2007, which replaces Section 3030 of the same title. Section 3031 requires inventories to be measured at the lower of cost and net realizable value. Costs such as storage costs and administrative overhead that do not contribute to bringing inventories to their present location and condition are specifically excluded from the cost of inventories and expensed in the period incurred. Reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories is now required. The cost of inventories should be based on a first-in, first-out or weighted average cost formula. Techniques used for the measurement of cost of inventories, such as the retail method, may be used if the results approximate cost. The new standard also requires additional disclosures including the accounting policies used in measuring inventories, the carrying amount of the inventories, amounts recognized as an expense during the period, write-downs below cost to net realizable value for inventories recorded at period end and the amount of any reversal of any write-downs recognized as a reduction in expenses.

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

The transitional adjustments resulting from the implementation of Section 3031 are recognized in the 2008 opening balance of retained earnings and prior periods have not been restated. Upon implementation of these requirements, a decrease in opening inventories of $67 and a corresponding decrease of $27 to opening retained earnings net of income taxes of $25 and minority interest of $15 were recorded on the consolidated balance sheet resulting mainly from the application by Loblaw of a consistent cost formula for all inventories having a similar nature and use.

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

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

Section 3855 establishes guidance for recognizing and measuring financial assets, financial liabilities and non-financial derivative instruments. All financial instruments must be classified into a defined category, namely, held-for-trading financial assets or financial liabilities, held-to-maturity investments, loans and receivables, available-for-sale financial assets, or other financial liabilities. The standard requires that financial instruments within scope, including derivative instruments, be included on the Company's balance sheet and measured at fair value, with the exception of loans and receivables, held-to-maturity financial assets and other financial liabilities which are measured at cost or amortized cost. Gains and losses on held-for-trading financial assets and financial liabilities are recognized in net earnings in the period in which they arise. Unrealized gains and losses, including changes in foreign exchange rates on available-for-sale financial assets, are recognized in other comprehensive income until the financial asset is derecognized or impaired, at which time any unrealized gains or losses are recorded in net earnings. Transaction costs, other than those related to financial instruments classified as held-for-trading, which are expensed as incurred, are amortized using the effective interest method.

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

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

Fair values are based on quoted market prices where available from active markets, otherwise fair values are estimated using valuation methodologies, primarily discounted cash flow analysis.

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

- Cash and cash equivalents and short term investments are designated as held-for-trading with the exception of certain Loblaw United States dollar denominated cash equivalents and short term investments designated in a cash flow hedging relationship, which are classified as available-for-sale financial assets.
- Accounts receivable and other receivables are classified as loans and receivables.
- Investments in equity instruments are classified as available-for-sale, with the exception of GWL's investment in exchangeable shares of Domtar (Canada) Paper Inc. prior to its sale in 2008, which is designated as held-for-trading.
- Bank indebtedness, commercial paper, accounts payable and certain accrued liabilities, short term bank loans, long term debt and capital lease obligations are classified as other financial liabilities.
- GWL's Debentures, which may be exchanged for common shares of Domtar Corporation, are re-measured at each balance sheet date based on the market price of the underlying shares. Prior to the implementation of Section 3855, the Debentures were accounted for in a hedging relationship, and the changes in fair value were deferred on the consolidated balance sheet. As the Debentures are no longer eligible for hedge accounting under the new standards, gains and losses resulting from the re-measurement are recognized in operating income.

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

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

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

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

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

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

3. GOODWILL AND INTANGIBLE ASSETS

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

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

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

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

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

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

4. RESTRUCTURING AND OTHER CHARGES

The following table summarizes the restructuring and other charges:

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

Weston Foods

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

Manufacturing Assets Restructuring

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

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

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

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

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

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

Distribution Network Restructuring

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

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

Operational Restructuring

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

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

Loblaw

Project Simplify

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

Store Operations

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

Supply Chain Network

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

5. INTEREST EXPENSE AND OTHER FINANCING CHARGES

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

(1) Other financing charges for 2008 include a non-cash charge of $11 (2007 – non-cash income of $141) related to the fair value adjustment of GWL's forward sale agreement for 9.6 million Loblaw common shares, which was entered into during 2001 and matures in 2031. The fair value adjustment of the forward contract is a non-cash item resulting from fluctuations in the market price of the underlying Loblaw common shares that GWL owns. GWL does not record any change in the market price associated with the Loblaw common shares it owns. Any cash paid under the forward contract could be offset by the sale of Loblaw common shares. Also included in other financing charges is forward accretion income of $43 (2007 – $42) net of the forward fee of $17 (2007 – $16) associated with GWL's forward sale agreement.

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

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

6. BUSINESS ACQUISITIONS

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

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

7. BUSINESS DISPOSITIONS

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

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

8. INCOME TAXES

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

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

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

The cumulative effects of changes in Canadian federal and certain provincial statutory income tax rates on future income tax assets and liabilities are included in the consolidated financial statements at the time of substantive enactment. Accordingly, in 2007 a $24 net reduction to the future income tax expense was recognized as a result of changes in the Canadian federal and certain provincial statutory income tax rates.

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

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

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

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

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

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

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

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

10. DISCONTINUED OPERATIONS

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

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

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

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

(1) In calculating earnings from discontinued operations, no general interest expense has been allocated to these operations.

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

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

The cash flows from discontinued operations were as follows:

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

11. CASH AND CASH EQUIVALENTS

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

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

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

12. ACCOUNTS RECEIVABLE

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

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

Credit Card Receivables

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

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

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

The following table displays the sensitivity of the current fair value of retained interests to an immediate 10% and 20% adverse change in the 2008 key economic assumptions. The sensitivity analysis provided in the table is hypothetical and should be used with caution. The sensitivities of each key assumption have been calculated independently of any changes in other key assumptions. Actual experience may result in changes in a number of key assumptions simultaneously. Changes in one factor may result in changes in another, which could amplify or reduce the impact of such assumptions.

		Change in Assumptions	
	2008	**10%**	**20%**
Carrying value of retained interests	**$ 14**		
Payment rate (monthly)	**41.56%**	**$ (1)**	**$ (2)**
Weighted average life (years)	**0.7**		
Expected credit losses (annual)	**5.35%**	**$ (2)**	**$ (4)**
Annual discount rate applied to residual cash flows	**7.65%**		
Net yield	**13.00%**	**$ (4)**	**$ (9)**
Cost of funds	**3.65%**	**$ (1)**	**$ (3)**

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

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

Credit card receivables that are past due of $7 as at year end 2008 are not classified as impaired as they are less than 90 days past due and most receivables are reasonably expected to remedy the past due status. Any credit card receivable balances with a payment that is contractually 180 days in arrears or where the likelihood of collection is considered remote are written off. Concentration of credit risk with respect to receivables is limited due to the Company's customer base being diverse. Credit risk on the credit card receivables is managed as described in note 29.

Other Receivables

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

13. ALLOWANCES FOR RECEIVABLES

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

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

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

14. INVENTORIES

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

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

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

15. FIXED ASSETS

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

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

16. OTHER ASSETS

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

During 2008, GWL sold its investment in Domtar (Canada) Paper Inc. for $144, and used these proceeds to settle its obligation under the related Exchangeable Debentures (see note 19). The Domtar (Canada) Paper Inc. investment was carried at fair value. The fair value of this investment was based on the market price of common shares of Domtar (Canada) Paper Inc.

Included in deferred charges and other are $21 (2007 – $9) of unrealized interest rate swap receivable and $7 (2007 – $5) related to an electricity forward contract (see note 27).

17. EMPLOYEE FUTURE BENEFITS

Pension and Other Benefit Plans

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

During 2007, Loblaw approved and announced the restructuring of its merchandising and store operations into more streamlined functions as part of Project Simplify, resulting in contractual and special termination costs recognized in restructuring and other charges (see note 4). Also in Canada, a national defined contribution pension plan for salaried employees was introduced by the Company during 2006. All eligible salaried employees were given the option to join this plan and convert their past accrued pension benefits or to remain in their existing defined benefit pension plans. All new salaried employees participate only in the national defined contribution pension plan.

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

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

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

Funding of Pension and Other Benefit Plans

The most recent actuarial valuations of the Canadian defined benefit pension plans for funding purposes ("funding valuations") were performed as at December 31, 2006 or December 31, 2007. The Company is required to file funding valuations at least every three years; the next funding valuations for two plans will be prepared as at December 31, 2008 and for the remainder no later than December 31, 2009 and 2010. The most recent funding valuations of the United States defined benefit pension plans were as at January 1, 2008. The Company is required to file United States funding valuations every year; accordingly, the next required funding valuations will be as at January 1, 2009.

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

During 2009, the Company expects to contribute approximately $118 to its funded defined benefit pension plans. This estimate may vary subject to actuarial valuations being completed, market performance and regulatory requirements. The Company also expects to make contributions in 2009 to defined contribution pension plans and multi-employer pension plans as well as benefit payments to the beneficiaries of the supplemental unfunded defined benefit pension plans and other benefit plans.

Pension and Other Benefit Plans Status

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

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

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

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

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

Funded Status of Plans in Deficit

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

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

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

Asset Allocations

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

Percentage of Plan Assets	2008		2007	
Asset Category	Pension Benefit Plans	Other Benefit Plans[(1)]	Pension Benefit Plans	Other Benefit Plans[(1)]
Equity securities	62%		63%	
Debt securities	37%	99%	36%	91%
Cash and cash equivalents	1%	1%	1%	9%
Total	100%	100%	100%	100%

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

Pension benefit plan assets include securities issued by GWL and by Loblaw having a fair value of nil and $2 (2007 – $6 and $1), respectively, as at September 30, 2008. Other benefit plan assets do not include any GWL or Loblaw securities.

Pension and Other Benefit Plans Cost

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

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

(1) Other benefit plans include post-retirement, post-employment and long term disability benefit plans.
(2) Contractual and special termination costs and curtailment losses resulted from Loblaw's 2007 Project Simplify to restructure and streamline its merchandising and store operations, and were recorded in restructuring and other charges in 2007 (see note 4).

Plan Assumptions

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

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

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

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

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

Sensitivity of Key Assumptions

The following table outlines the key assumptions for 2008 and the sensitivity of a 1% change in each of these assumptions on the accrued benefit plan obligations and on the benefit plan cost for defined benefit pension plans and other benefit plans. The table reflects the impact on the current service and interest cost components for the discount rate and expected growth rate of health care costs assumptions.

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

	Pension Benefit Plans		Other Benefit Plans[1]	
	Accrued Benefit Plan Obligations	Benefit Plan Cost[2]	Accrued Benefit Plan Obligations	Benefit Plan Cost[2]
Expected long term rate of return on plan assets		7.5%		5.0%
Impact of: 1% increase	n/a	$ (14)	n/a	n/a
1% decrease	n/a	$ 14	n/a	n/a
Discount rate	6.0%	5.5%	5.9%	5.4%
Impact of: 1% increase	$ (193)	$ (8)	$ (38)	$ (3)
1% decrease	$ 223	$ 8	$ 44	$ 3
Expected growth rate of health care costs[3]			9.5%	10.0%
Impact of: 1% increase	n/a	n/a	$ 32	$ 5
1% decrease	n/a	n/a	$ (29)	$ (4)

n/a – not applicable

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

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

(3) Gradually decreasing to 5.0% by 2015 (2007 – 5.0% by 2015) for the accrued benefit plan obligation and the benefit plan cost, remaining at that level thereafter.

18. SHORT TERM BANK LOANS

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

During 2008, Loblaw entered into an $800, 5-year committed credit facility provided by a syndicate of banks, which contains certain financial covenants (see note 24). This facility is the primary source of Loblaw's short term funding requirements and permits borrowings having up to a 180-day term. Interest is based on a floating rate, primarily the bankers' acceptance rate, and an applicable margin based on Loblaw's credit rating. This facility replaced a $500, 364-day committed credit facility. As at year end 2008, $190 was drawn on the new 5-year committed credit facility.

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

19. LONG TERM DEBT

	2008	2007
George Weston Limited		
Debentures		
Series B, current rate 3.06%, due on demand(i)	$ 263	$ 220
Series A, 7.00%, due 2031(i)	466	466
Exchangeable Debentures, 3.00%, due 2023, redeemable in 2005(ii)		157
Notes		
5.90%, due 2009	250	250
6.45%, due 2011	300	300
5.05%, due 2014	200	200
12.70%, due 2030		
Principal	150	150
Effect of coupon repurchase	(128)	(131)
7.10%, due 2032	150	150
6.69%, due 2033	100	100
Loblaw Companies Limited		
Notes		
6.00%, due 2008(iii)		390
5.75%, due 2009	125	125
7.10%, due 2010	300	300
6.50%, due 2011	350	350
5.40%, due 2013	200	200
6.00%, due 2014	100	100
7.10%, due 2016	300	300
6.65%, due 2027	100	100
6.45%, due 2028	200	200
6.50%, due 2029	175	175
11.40%, due 2031		
Principal	151	151
Effect of coupon repurchase	(55)	(44)
6.85%, due 2032	200	200
6.54%, due 2033	200	200
8.75%, due 2033	200	200
6.05%, due 2034	200	200
6.15%, due 2035	200	200
5.90%, due 2036	300	300
6.45%, due 2039	200	200
7.00%, due 2040	150	150
5.86%, due 2043	55	55
Private placement notes(iv)		
6.48%, due 2013 (USD $150)	180	
6.86%, due 2015 (USD $150)	181	
Other at a weighted average interest rate of 11.50%, due 2009 to 2043	9	17
VIE loans payable(v) (note 31)	152	153
Capital lease obligations(v) (note 21)	62	62
Total long term debt	5,986	6,146
Less – amount due within one year	(415)	(432)
– amount due on demand (note 18)	(263)	(220)
	$ 5,308	$ 5,494

The schedule of repayment of long term debt, inclusive of VIE and other debt, based on maturity, excluding the amount due on demand, is as follows: 2009 – $415; 2010 – $333; 2011 – $681; 2012 – $25; 2013 – $409; thereafter – $3,860.

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

(ii) In 1998, GWL sold its Forest Products business to Domtar for proceeds of $803, consisting of $435 of cash and $368 of Domtar common shares. The Domtar common share investment was recorded in other assets (see note 16). GWL subsequently issued $375 of 3% Exchangeable Debentures due June 30, 2023. On March 7, 2007, pursuant to a transaction whereby Domtar was combined with the fine paper business of Weyerhaeuser Inc., Domtar common shares were exchanged for an equal number of either non-voting exchangeable shares of Domtar (Canada) Paper Inc. or common shares of Domtar Corporation ("New Domtar"). The Company elected to receive exchangeable shares of Domtar (Canada) Paper Inc. in exchange for its Domtar common shares. See note 30 for further implications of this transaction to the Company.

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

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

During 2008, GWL exercised its right to redeem all of the remaining outstanding 3% Exchangeable Debentures pursuant to the trust indenture dated June 29, 1998 made between GWL and Computershare Trust Company of Canada by paying cash of $633.08 per each one thousand dollar principal amount of Exchangeable Debentures for $137 plus accrued but unpaid interest of approximately $3, for an aggregate amount including interest of approximately $140. GWL also sold its investment in Domtar (Canada) Paper Inc. for $144 (see note 16) and used these proceeds to settle its obligation under the Exchangeable Debentures. The Company recorded a gain of $7 in operating income in 2008.

During 2008, nil (2007 – $3) of the GWL 3% Exchangeable Debentures were exchanged for the underlying shares prior to their redemption. A corresponding reduction in the investment in Domtar (Canada) Paper Inc. was recorded.

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

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

(iv) During 2008, Loblaw issued USD $300 of fixed rate unsecured notes in a private placement debt financing which contains certain financial covenants (see note 24). The notes were issued in two equal tranches of USD $150 with 5 and 7 year maturities at interest rates of 6.48% and 6.86%, respectively. Loblaw entered into fixed cross currency swaps, a portion of which is designated in a cash flow hedge to manage the foreign exchange risk. As at year end 2008, $361 was recorded in long term debt on the consolidated balance sheet. For further information on the Company's policies with respect to cash flow hedges, refer to note 1.

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

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

20. OTHER LIABILITIES

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

Total accrued insurance liabilities are $153 (2007 – $138), of which $108 (2007 – $101) is included in other liabilities and $45 (2007 – $37) in accounts payable and accrued liabilities. Included in total accrued insurance liabilities of $153 (2007 – $138) are $99 (2007 – $87) of United States workers' compensation liabilities. The related cost and accrued workers' compensation liabilities are based on actuarial valuations which are dependent on assumptions determined by management. The discount rate used in determining the 2008 workers' compensation cost and liability was 4.0% (2007 – 5.0%). The total workers' compensation liability is equal to the ultimate actuarial loss estimate less any actual losses paid to date. Any change in the workers' compensation liability is recognized immediately in operating income.

The United States workers' compensation cost associated with the workers' compensation liability was $2 in 2008 (2007 – $4).

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

21. LEASES

As Lessee

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

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

As Lessor

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

Capital Leases

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

Sale-Leaseback

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

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

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

During 2008, Loblaw issued 9.0 million of the 12.0 million authorized 5.95% non-voting Second Preferred Shares, Series A, with a face value of $225 million for net proceeds of $218 million, which entitle the holder to a fixed cumulative preferred cash dividend of $1.4875 per share per annum which will, if declared, be payable quarterly. On or after July 31, 2013, Loblaw may, at its option, redeem for cash, in whole or in part, these outstanding preferred shares as follows:

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

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

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

23. SHARE CAPITAL

	2008	2007
Common share capital	**$ 133**	$ 133
Preferred shares, Series I	**228**	228
Preferred shares, Series III	**196**	196
Preferred shares, Series IV	**197**	197
Preferred shares, Series V	**196**	196
Share capital	**$ 950**	$ 950

Common Share Capital (authorized – unlimited)
The changes in the common shares issued and outstanding during the year were as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

Normal Course Issuer Bid ("NCIB")
GWL intends to file a NCIB to purchase on the Toronto Stock Exchange or enter into equity derivatives to purchase up to 5% of its common shares outstanding. In accordance with the rules and by-laws of the Toronto Stock Exchange, GWL may purchase its shares at the then market price of such shares. GWL did not purchase any shares under its NCIB during 2008 or 2007.

24. CAPITAL MANAGEMENT

The Company defines capital as net debt (excluding Exchangeable Debentures), capital securities and shareholders' equity.

The Company's objectives when managing capital are to:

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

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

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

The Company manages debt on a net basis, excluding capital securities, calculated as outlined below. The Company's internal guideline targets a net debt (excluding Exchangeable Debentures) to equity ratio of less than 1:1. Equity for the purpose of calculating the net debt (excluding Exchangeable Debentures) to equity ratio is defined by the Company as GWL's capital securities of $264 (2007 – $260) as at year end 2008 and shareholders' equity. This ratio is useful in assessing the amount of leverage employed. These ratios are also calculated from time to time on an alternative basis by management to approximate the methodology of debt rating agencies and other market participants.

Net Debt

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

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

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

During 2008, Loblaw filed a Short Form Base Shelf Prospectus ("Prospectus") allowing for the potential issue of up to $1 billion of unsecured debentures and/or preferred shares subject to the availability of funding by capital markets. During 2008, Loblaw issued preferred shares under the Prospectus (see note 22).

Dividends

The declaration and payment of dividends and the amount thereof are at the discretion of the Board of Directors, which takes into account the Company's financial results, capital requirements, available cash flow and other factors the Board of Directors considers relevant from time to time. Over the long term, GWL's objective is for its common dividend payment ratio to be in the range of 20% to 25% of the prior year's basic net earnings per common share from continuing operations, adjusted as appropriate for items which are not regarded to be reflective of ongoing operations, giving consideration to the year end cash position, future cash flow requirements and investment opportunities. During 2008, the Board of Directors declared quarterly dividends as follows:

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

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

Covenants and Regulatory Requirements

The committed credit facility which Loblaw entered into during 2008 is subject to certain covenants (see note 18). Under the USD $300 private placement notes, Loblaw is also subject to certain financial covenants (see note 19). As at year end 2008, Loblaw was in compliance with these covenants.

Loblaw is also subject to externally imposed capital requirements from the Office of the Superintendent of Financial Institutions ("OSFI"), as the primary regulator of *PC* Bank, and the Central Bank of Barbados, as the primary regulator of Glenhuron, both wholly owned subsidiaries of the Company. *PC* Bank's capital management objectives are to maintain a consistently strong capital position while considering the Bank's economic risks and to meet all regulatory capital requirements as defined by OSFI. A new regulatory capital management framework, Basel II, has been implemented in Canada that establishes regulatory capital requirements that are more sensitive to a bank's risk profile. *PC* Bank met all applicable capital targets as at year end 2008. Glenhuron is currently regulated under Basel I. Under Basel I, Glenhuron's assets are risk weighted and the minimum ratio of capital to risk weighted assets is 8.0%. Glenhuron's ratio of capital to risk weighted assets met the minimum requirements under Basel I as at year end 2008.

In addition, a wholly owned subsidiary of the Company that engages in insurance related activities exceeded the minimum regulatory capital and surplus requirements as at year end 2008.

25. STOCK-BASED COMPENSATION ($ except table)

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

Stock Option Plans

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

During 2008, GWL granted 222,362 (2007 – 693,327) stock options with a weighted average exercise price of $46.29 (2007 – $72.23) per common share under its existing stock option plan, which allows for settlement in shares or in the share appreciation value in cash at the option of the employee.

During 2008, the share appreciation value of nil (2007 – nominal) was paid on the exercise of nil (2007 – 21,965) stock options and 138,753 (2007 – 86,973) stock options were forfeited or cancelled.

In 2008 and 2007, GWL did not issue common shares or receive cash consideration on the exercise of stock options.

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

During 2008, Loblaw granted 3,431,432 (2007 – 4,368,980) stock options with a weighted average exercise price of $28.99 (2007 – $47.28) per common share under its existing stock option plan, which allows for settlement in shares or in the share appreciation value in cash at the option of the employee.

During 2008, the share appreciation value of nil (2007 – nominal) was paid by Loblaw on the exercise of nil (2007 – 108,000) stock options and 2,071,528 (2007 – 1,812,870) stock options were forfeited or cancelled.

In 2008 and 2007, Loblaw did not issue common shares or receive cash consideration on the exercise of stock options.

Share Appreciation Right Plan

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

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

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

Restricted Share Unit ("RSU") Plans

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

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

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

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

Deferred Share Unit ("DSU") Plans

Members of GWL's and Loblaw's Boards of Directors who are not management may elect annually to receive all or a portion of their annual retainer(s) and fees in the form of DSUs, the number of which is determined by the market price of GWL's or Loblaw's common shares at the time the director's annual retainer(s) or fees are earned. Upon termination of Board service, the common shares due to the director, as represented by the DSUs, will be purchased on the open market on the director's behalf. As at year end 2008, GWL had 59,787 (2007 – 41,023) and Loblaw had 79,939 (2007 – 56,082) DSUs outstanding. During 2008, a compensation cost of $2 (2007 – nominal) was recognized in operating income.

Executive Deferred Share Unit ("EDSU") Plan

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

Employee Share Ownership Plans ("ESOPs")

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

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

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

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

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

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

	2008				
	Outstanding Options/Rights			Exercisable Options/Rights	
Range of Exercise Prices ($)	Number of Options/ Rights Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price/Share	Number of Exercisable Options/ Rights	Weighted Average Exercise Price/Share
$46.24 – $49.88	219,162	6	$ 46.29		
$72.21 – $75.62	681,908	5	$ 72.23	136,381	$ 72.23
$93.35 – $111.02(1)	715,274	2	$ 102.12	563,009	$ 100.03

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

26. ACCUMULATED OTHER COMPREHENSIVE LOSS

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

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

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

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

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

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

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

27. FINANCIAL INSTRUMENTS

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

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

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

Cross Currency Swaps

Loblaw entered into cross currency swaps to exchange United States dollars for $1,181 (2007 – $1,100) Canadian dollars, which mature by 2017. Cross currency swaps totaling $320 (2007 – $560) are designated in a cash flow hedge and the remaining undesignated $861 (2007 – $540) are classified as held-for-trading financial assets. Currency adjustments receivable or payable arising from these swaps are settled in cash on maturity. As at year end 2008, a cumulative unrealized foreign currency exchange rate receivable of $36 (2007 – $270) was recorded in other assets.

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

Interest Rate Swaps

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

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

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

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

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

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

Loblaw futures contracts establish a fixed cost on a portion of Loblaw's fuel exposure and option contracts typically provide protection against a range of cost outcomes. As at December 31, 2008, Loblaw had $4 (2007 – nil) recorded in accounts payable and accrued liabilities related to the above contracts.

Loblaw entered into an electricity forward contract to minimize price volatility and to maintain a portion of its electricity costs in Alberta, Canada at approximately 2006 rates. This electricity forward contract has an initial term of five years and expires in December 2011. As at year end 2008, the fair value of this Loblaw forward contract of $7 (2007 – $5) was recorded in other assets (see note 16). During 2008, a gain in value of $2 (2007 – loss of $2) was recorded in operating income.

28. FAIR VALUES OF FINANCIAL INSTRUMENTS

Derivative Instruments
The fair value of derivative instruments is the estimated amount that the Company would receive or pay to terminate the instrument at the reporting date. The fair values have been determined by reference to prices available from the markets on which the instruments trade and prices provided by counterparties. The fair value of all derivative instruments approximated their carrying value and are recorded on the consolidated balance sheet.

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

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

As at December 31, 2008

	Financial derivatives designated in a cash flow hedge	Financial instruments required to be classified as held-for-trading	Financial instruments designated as held-for-trading	Available-for-sale instruments measured at fair value	Loans and receivables	Other financial liabilities	Total carrying amount	Total fair value
Cash and cash equivalents, short term investments and security deposits included in other assets			$ 2,427	$ 292			$ 2,719	$ 2,719
Derivatives included in accounts receivable	$ (5)	$ (33)					(38)	(38)
Other receivables			14		$ 982		996	996
Other financial assets included in other assets					40		40	40
Available-for-sale securities included in other assets				7			7	7
Derivatives included in other assets	98	442					540	540
Total financial assets	$ 93	$ 409	$ 2,441	$ 299	$ 1,022		$ 4,264	$ 4,264
Short term borrowings						$ 565	$ 565	$ 565
Derivatives included in accounts payable and accrued liabilities		$ 136					136	136
Other accounts payable and accrued liabilities						2,985	2,985	2,985
Long term debt						5,723	5,723	5,180
Derivatives included in other liabilities		80				7	87	87
Capital securities						483	483	479
Total financial liabilities		$ 216				$ 9,763	$ 9,979	$ 9,432

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

As at December 31, 2007

	Financial derivatives designated in a cash flow hedge	Financial instruments required to be classified as held-for-trading	Financial instruments designated as held-for-trading	Available-for-sale instruments measured at fair value	Loans and receivables	Other financial liabilities	Total carrying amount	Total fair value
Cash and cash equivalents, short term investments and security deposits included in other assets			$ 1,512	$ 444			$ 1,956	$ 1,956
Derivatives included in accounts receivable		$ 14					14	14
Other receivables			8		$ 963		971	971
Other financial assets included in other assets			157		75		232	232
Available-for-sale securities included in other assets				16			16	16
Derivatives included in other assets	$ 184	466					650	650
Total financial assets	$ 184	$ 480	$ 1,677	$ 460	$ 1,038		$ 3,839	$ 3,839
Short term borrowings						$ 919	$ 919	$ 919
Derivatives included in accounts payable and accrued liabilities		$ 140					140	140
Other accounts payable and accrued liabilities						3,044	3,044	3,044
Long term debt						5,926	5,926	5,870
Derivatives included in other liabilities		63				7	70	70
Capital securities						260	260	270
Total financial liabilities		$ 203				$ 10,156	$ 10,359	$ 10,313

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

During 2008, the net unrealized and realized gain on held-for-trading financial assets designated as held-for-trading, recognized in net earnings from continuing operations before income taxes and minority interest was $158 (2007 – loss of $119). In addition, the net unrealized and realized loss on held-for-trading financial assets and financial liabilities, including non-financial derivatives, required to be classified as held-for-trading, recognized in net earnings from continuing operations before income taxes and minority interest was $252 (2007 – gain of $120).

29. FINANCIAL RISK MANAGEMENT

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

Credit Risk

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

The Company may be exposed to losses if a counterparty to the Company's financial or non-financial derivative agreements fails to fulfill its obligations. The Company has sought to minimize potential counterparty risk and losses by conducting transactions for its derivative agreements with counterparties that have at minimum a long term "A" credit rating from a recognized credit rating agency and by placing risk adjusted limits on its exposure to any single counterparty for its financial derivative agreements. The Company has internal policies, controls and reporting processes, which require ongoing assessment and corrective action, if necessary, with respect to derivative transactions. In addition, net obligations and asset amounts on cross currency swaps and equity swaps and forwards are each netted by agreement with counterparties.

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

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

Loblaw's exposure to credit risk from *PC* Bank's credit card receivables and receivables from independent franchisees, associated stores and independent accounts results from the possibility that customers may default on their payment obligation. *PC* Bank manages the credit card receivable risk by employing stringent credit scoring techniques, actively monitoring its credit card portfolio and reviewing techniques and technology that can improve the effectiveness of the collection process. In addition, these receivables are dispersed among a large, diversified group of credit card customers. Loblaw accounts receivable from independent franchisees, associated stores and independent accounts are actively monitored on an ongoing basis and settled on a frequent basis in accordance with the terms specified in the applicable agreements.

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

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

Market Risk

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

Interest Rate Risk

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

The Company estimates that a 100 basis point increase (decrease) in interest rates, with all other variables held constant, would result in an increase (decrease) of $18 to interest expense and other financing charges.

Foreign Currency Exchange Rate Risk

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

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

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

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

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

Commodity Price Risk

Weston Foods costs are directly impacted by fluctuations in the price of commodities such as wheat, flour, sugar, vegetable oil, cocoa, natural gas and fuel. Loblaw is exposed to increases in the prices of commodities in operating its stores and distribution centres, as well as the indirect link of commodities to its consumer products. To manage this exposure, Loblaw uses purchase commitments for a portion of its needs for certain consumer products that may be commodities based and Loblaw expects to take delivery of these consumer products in the normal course of business. In addition, both Weston Foods and Loblaw use financial and non-financial derivative instruments in the form of futures contracts, option contracts and forward contracts to manage their current and anticipated exposure to fluctuations in commodity prices. The Company estimates that a 10% increase (decrease) in relevant commodity prices, with all other variables held constant, would result in a net gain (loss) of $13 in net earnings before income taxes and minority interest.

Common Share Price Risk

GWL and Loblaw enter into equity derivatives to manage exposure to fluctuations in stock-based compensation cost as a result of changes in the market prices of the respective underlying common shares. The equity derivatives allow for settlement in cash, common shares or net settlement. These derivatives change in value as the market prices of the respective underlying common shares change and provide a partial offset to fluctuations in stock-based compensation cost, including RSU plan expense. The partial offset between stock-based compensation costs, including RSU plan expense, and the equity derivatives is effective when the market price of the respective underlying common shares exceeds the exercise price of the related employee stock options. When the market price of the respective underlying common shares is lower than the exercise price of the related employee stock options, these equity derivatives will provide a partial offset only to the RSU plan expense. The amount of net stock-based compensation cost recorded in operating income is mainly dependent upon the number of unexercised stock options and RSUs and their vesting schedules relative to the number of respective underlying common shares on the equity derivatives and the level of and fluctuations in the market price of the respective underlying common shares. A one dollar increase (decrease) in the market value of the respective underlying shares of the equity swaps and forwards, with all other variables held constant, would result in a gain (loss) of $6 in net earnings before income taxes and minority interest.

In addition, the obligation of GWL under the equity forward sale agreement based on 9.6 million Loblaw common shares, which matures in 2031, is secured by the underlying Loblaw common shares. GWL entered into this forward to partially offset any repayment risk associated with its Series A, 7.00% and Series B Debentures. Further, if the market value of the underlying Loblaw common shares exceeds the obligation of the Company under this forward, a portion of the proceeds from a future sale of these shares may be used to satisfy the obligation under this forward contract upon termination or maturity. At maturity, if the forward price is greater than the market price of the Loblaw shares, GWL will receive a cash amount equal to the difference. If the forward price is less than the market price of the Loblaw shares, GWL will pay a cash amount equal to the difference. A one dollar increase (decrease) in the market value of the underlying shares of the equity forward, with all other variables held constant, would result in a loss (gain) of $10 in net earnings before income taxes and minority interest. Any cash paid under the forward contract could be offset by the sale of Loblaw common shares.

Liquidity Risk

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

Should the Company's financial performance and condition deteriorate or downgrades in the Company's credit ratings occur, the Company's ability to obtain funding from external sources may be restricted. In addition, credit and capital markets are subject to inherent global risks that may negatively affect the Company's access and ability to fund its short term and long term debt maturities. The Company mitigates these risks by maintaining appropriate levels of cash and cash equivalents and short term investments, by actively monitoring market conditions and by diversifying its sources of funding and maturity profile.

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

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

(1) Based on the pay fixed interest which will be partially offset by the floating interest received.
(2) Based on the average cost base as at December 31, 2008.
(3) Based on the maturing face values and annual interest for each instrument as well as annual payment obligations for VIEs, mortgages and capital leases.
(4) GWL's capital securities are included as subsequent to year end the Company provided notice to the holders that such securities will be redeemed on April 1, 2009. Loblaw's capital securities have been excluded as Loblaw is not currently contractually obligated to pay these amounts.

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

30. CONTINGENCIES, COMMITMENTS AND GUARANTEES

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

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

The Company establishes standby letters of credit used in connection with certain obligations mainly related to real estate transactions and benefit programs. The aggregate gross potential liability related to these standby letters of credit is approximately $413 (2007 – $398), a portion of which is recorded on the consolidated balance sheet. Other standby letters of credit related to the financing program for Loblaw's independent franchisees and securitization of *PC* Bank's credit card receivables have been identified as guarantees and are discussed further in the Guarantees section below.

Guarantees

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

Independent Funding Trust

Certain independent franchisees of Loblaw obtain financing through a structure involving independent trusts, which were created to provide loans to the independent franchisees to facilitate their purchase of inventory and fixed assets, consisting mainly of fixtures and equipment. These trusts are administered by a major Canadian chartered bank. During the first quarter of 2008, Loblaw was notified that an Event of Termination of the independent funding trust agreement for Loblaw's franchisees had occurred as a result of Loblaw's long term credit rating downgrade by Dominion Bond Rating Service to "BBB (high)" from "A (low)". As a result of the Event of Termination, during the second quarter of 2008, Loblaw finalized an alternative financing arrangement for the independent funding trust in the form of a $475, 364-day revolving committed credit facility provided by a syndicate of banks. The gross principal amount of loans issued to Loblaw's independent franchisees outstanding as at year end 2008 was $388 (2007 – $418) including $152 (2007 – $153) of loans payable by VIEs consolidated by the Company. Based on a formula, Loblaw has agreed to provide credit enhancement in the form of a standby letter of credit for the benefit of the independent funding trust equal to approximately 15% (2007 – 10%) of the principal amount of the loans outstanding at any point in time, $66 (2007 – $44) as at year end 2008. The standby letter of credit has not been drawn upon. This credit enhancement allows the independent funding trust to provide favourable financing terms to Loblaw's independent franchisees. As well, each independent franchisee provides security to the independent funding trust for its obligations by way of a general security agreement. In the event that an independent franchisee defaults on its loan and Loblaw has not, within a specified time period, assumed the loan, or the default is not otherwise remedied, the independent funding trust would assign the loan to Loblaw and draw upon this standby letter of credit. Loblaw has agreed to reimburse the issuing bank for any amount drawn on the standby letter of credit.

This new alternative financing structure has been reviewed and Loblaw determined there were no material implications with respect to the consolidation of VIEs. In accordance with Canadian GAAP, the financial statements of the independent funding trust are not consolidated with those of the Company.

Standby Letters of Credit
Standby letters of credit for the benefit of independent trusts with respect to the credit card receivables securitization program of *PC* Bank have been issued by major Canadian chartered banks. These standby letters of credit could be drawn upon in the event of a major decline in the income flow from or in the value of the securitized credit card receivables. Loblaw has agreed to reimburse the issuing banks for any amount drawn on the standby letters of credit. The aggregate gross potential liability under these arrangements, which represents 9% (2007 – 9%) on a portion of the securitized credit card receivables amount, is approximately $116 (2007 – $89) (see note 12).

Lease Obligations
In connection with historical dispositions of certain of its assets, the Company has assigned leases to third parties. The Company remains contingently liable for these lease obligations in the event any of the assignees are in default of their lease obligations.

The estimated amount for minimum rent, which does not include other lease related expenses such as property tax and common area maintenance charges, is in aggregate $63 (2007 – $79).

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

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

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

In 2007, pursuant to a transaction whereby Domtar was combined with the fine paper business of Weyerhaeuser Inc., Domtar common shares were exchanged for an equal number of either exchangeable shares of Domtar (Canada) Paper Inc. or common shares of New Domtar. The Company elected to receive exchangeable shares of Domtar (Canada) Paper Inc. in exchange for its Domtar common shares. See note 19 for a further discussion on the exchangeable shares. The Share Purchase Agreement governing the June 1998 sale by GWL of E.B. Eddy Paper, Inc. to Domtar (the "SPA") contains a price adjustment clause. The SPA provides, subject to certain limited exceptions, that if any person subsequently acquired more than 50% of the outstanding voting shares of Domtar, the price adjustment clause applies. GWL believes that a price adjustment in the amount of $110 is payable to it by Domtar and it has demanded payment of such amount from Domtar. Domtar's position is that the purchase price adjustment does not apply because of the application of an exception contained in the SPA. GWL has commenced an action against Domtar for $110. The parties have exchanged legal pleadings.

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

31. VARIABLE INTEREST ENTITIES ("VIEs")

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

Independent Franchisees

Loblaw enters into various forms of franchise agreements that generally require the independent franchisee to purchase inventory from Loblaw and pay certain fees in exchange for services provided by Loblaw and for the right to use certain trademarks and licenses owned by Loblaw. Independent franchisees generally lease the land and building from Loblaw, and when eligible, may obtain financing through a structure involving independent trusts to facilitate the purchase of the majority of their inventory and fixed assets, consisting mainly of fixtures and equipment (see note 30). These trusts are administered by a major Canadian chartered bank. Under the terms of certain franchise agreements, Loblaw may also lease equipment to independent franchisees. Independent franchisees may also obtain financing through operating lines of credit with traditional financial institutions or through issuing preferred shares or notes payable to Loblaw. Loblaw monitors the financial condition of its independent franchisees and provides for estimated losses or write-downs on its accounts and notes receivable or investments when appropriate.

As at year end 2008, 154 (2007 – 137) of Loblaw's independent franchise stores met the criteria for a VIE and were consolidated pursuant to AcG 15.

Warehouse and Distribution Agreements

Loblaw has warehouse and distribution agreements with third-party entities to provide to Loblaw distribution and warehousing services from dedicated facilities. Loblaw has no equity interest in these third-party entities; however, the terms of the agreement with the third-party entities are such that Loblaw has determined that the third-party entities meet the criteria for a VIE that requires consolidation by Loblaw. The impact of the consolidation of the warehouse and distribution entities was not material.

Accordingly, the Company has included the results of these independent franchisees and these third-party entities that provide distribution and warehousing services in its consolidated financial statements. The consolidation of these VIEs by the Company does not result in any change to its tax, legal or credit risks, nor does it result in the Company assuming any obligations of these third parties.

Independent Trust

Loblaw has also identified that it holds variable interests, by way of standby letters of credit, in independent trusts which are used to securitize credit card receivables for *PC* Bank. In these securitizations, *PC* Bank sells a portion of its credit card receivables to the independent trust in exchange for cash. Although these independent trusts have been identified as VIEs, it was determined that Loblaw is not the primary beneficiary and therefore these VIEs are not subject to consolidation by the Company. The Company's maximum exposure to loss as a result of its involvement with these independent trusts is disclosed in note 30.

32. RELATED PARTY TRANSACTIONS

The Company's majority shareholder, Wittington Investments, Limited ("Wittington"), and its affiliates are related parties. The Company, in the normal course of business, has routine transactions with these related parties, including the rental of office space at market prices from Wittington. Rental payments to Wittington amounted to approximately $3 (2007 – $3) in 2008.

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

33. SUBSEQUENT EVENTS

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

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

Weston Foods reorganized its remaining operations subsequent to the disposition of the U.S. fresh bakery business. The reorganization changed the composition of Weston Foods' reporting units for the purpose of goodwill impairment testing. As a result of this change, Weston Foods expects to record a write-down of a portion of the remaining goodwill related to the biscuits, cookies, cones and wafers business in an amount of up to USD $60 in the first quarter of 2009.

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

34. SEGMENT INFORMATION

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

The accounting policies of the reportable operating segments are the same as those described in the Company's summary of significant accounting policies. The Company measures each reportable operating segment's performance based on operating income. Neither reportable operating segment is reliant on any single external customer.

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

(1) 2008 includes restructuring and other charges of $5 (2007 – $215) comprised of a charge of $6 (2007 – income of $7) recognized by Weston Foods and income of $1 (2007 – charge of $222) recognized by Loblaw (see note 4).
(2) 2007 includes the investment in Domtar (Canada) Paper Inc. common shares of $157, which is economically hedged as a result of GWL issuing the 3% Exchangeable Debentures (see note 19).

The Company operates primarily in Canada and the United States.

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