George Weston Limited

Annual Report

1972

Financial Highlights

	1972	1971
Sales	$1,137,232,000	$1,036,578,000
Net Income	29,917,000	16,785,000
Income from Operations	18,577,000	15,113,000
Return on Shareholders' Equity	10.9%	10.2%
Cash Generated from Operations	37,972,000	31,311,000
Working Capital	102,014,000	99,664,000
Working Capital Ratio	1.65 to 1	1.74 to 1
Dividends	10,609,000	10,180,000
Shareholders' Equity	192,153,000	170,517,000
Total Assets	498,026,000	456,833,000
Per Common share		
Net Income	2.65	1.45
Income from Operations	1.61	1.29
Dividends	.88	.84

Contents

Annual Meeting

Royal York Hotel, Toronto
May 28, 1973 at 10:30 a.m.

Directors

W. GARFIELD WESTON
Chairman of the Board
George Weston Limited

W. GALEN WESTON
Vice-Chairman of the Board
George Weston Limited
Chief Executive Officer
Loblaw Companies Limited

G. E. CREBER
President and Managing Director
George Weston Limited

V. F. MACLEAN
President
Kelly, Douglas & Company, Limited

GEORGE C. METCALF
Chairman of the Board
Loblaw Companies Limited

R. I. NELSON
President
British Columbia Packers Limited

E. P. RATHGEBER
President
Westfair Foods Ltd.

FRANK A. RIDDELL
Vice-President
George Weston Limited
President
Weston Bakeries Limited
President
Interbake Foods Limited

R. C. SHROPSHIRE
President
William Neilson Limited

G. H. WESTON
Chairman
Associated British Foods Limited

Officers

W. GARFIELD WESTON
Chairman of the Board

W. GALEN WESTON
Vice-Chairman of the Board

G. E. CREBER
President and Managing Director

P. F. CONNELL
Vice-President, Finance

FRANK A. RIDDELL
Vice-President

JAMES A. WATSON
Vice-President

D. N. McPHIE
Controller

K. H. SMITH
Secretary

W. A. SLOAN
Treasurer

B. G. CHILDS
Manager of Special Projects

K. L. HARLOCK
Assistant Controller

D. W. CLARK
Assistant Treasurer

W. A. EASTON
Assistant Treasurer

Report to Shareholders

The year 1972 saw substantial gains for your Company. Sales increased 9.7% to $1,137,232,000. Consolidated net income increased from $16,785,000 to $29,917,000 (from $1.45 per share to $2.65 per share) and income from operations increased from $15,113,000 to $18,577,000 (from $1.29 per share to $1.61 per share).

The improved results reflect a concentrated program of reducing costs and increasing efficiency carried out in all divisions as well as expansion internally and through acquisitions. In 1972 over $50 million was spent on additions to fixed assets, investments and acquisitions.

All divisions showed improvement with the exception of the Forest Products Division whose earnings were about the same as in 1971. It is expected that this generally favourable trend will continue for 1973 and that the Forest Products Division will make a significant contribution to earnings in 1973.

Construction of your Company's sugar refinery in Oshawa, Ontario, is on schedule and is expected to commence operations in December of 1973.

One of the primary functions performed by your Company is to give employment to thousands of workers—to each and every one thanks is due for the performance of your Company.

On behalf of the Board

G. E. Creber
President and Managing Director
Toronto, Canada
April 23, 1973

Review of Operations

In 1972 continued emphasis was placed on improving the profitability of each of the operating divisions of the Company. A vigorous program for growth was followed which resulted in significant internal expansion as well as the addition of a number of profitable companies whose operations supplement or supply our food manufacturing and distribution divisions. Further information regarding the acquisitions is given in the section dealing with corporate changes. Net income was enhanced by a substantial gain made on the sale of a portion of the properties of the Forest Products Division at Hull, Quebec, to the National Capital Commission.

The various Divisions of the Company and their principal subsidiaries, facilities and products and services are outlined in the centrefold chart in this Report. Highlights of the operations of each Division are given in the following pages.

SALES

Consolidated net sales increased $101 million (9.7%) to $1,137 million. Of this amount, $39.6 million is attributable to companies acquired during the year. A chart located in the centre of this Report graphically illustrates the comparative sales figures by Division.

EARNINGS

Consolidated net income for the year amounted to $29.9 million or $2.65 per common share — an improvement of $13.1 million or $1.20 per share over 1971.

Income from operations of $18.6 million ($1.61 per common share) reflected an increase of $3.5 million or 23% (32¢ per common share). Return on shareholders' equity increased from 10.2% to 10.9%. All divisions except Forest Products showed significant improvement.

An extraordinary gain in the amount of $11.3 million was realized on the sale to the National Capital Commission of a portion of the properties of the Forest Products Division, including the sulphite and groundwood mills located at Hull, Quebec.

DIVIDENDS

The dividend rate was increased from 21¢ to 23¢ per share per quarter commencing with the October dividend. Dividends declared in 1972 were therefore 88¢ as compared to 84¢ in 1971. Regular dividends were paid on all series of preferred shares at their respective stated rates.

WORKING CAPITAL

Working capital of $102.0 million was marginally improved over the 1971 balance of $99.7 million. Subsequent to the year end, debt issues totalling $20 million by two subsidiaries had the effect of increasing working capital by a like amount. The ratio of current assets to current liabilities at the end of 1972 was 1.65 to 1 as compared to 1.74 to 1 at the close of 1971.

CAPITAL EXPENDITURES

Fixed asset expenditures in 1972 were $27.0 million as compared to $18.2 million in 1971. Capital moneys were directed generally to required replacement and selected cost reduction and modernization projects, with some expansion of distribution facilities. A notable exception is the commencement of construction of a sugar refinery at Oshawa, Ontario, at an estimated total cost of $9 million, of which $1.9 million had been expended in 1972. Depreciation charged to operations in 1972 was $19.0 million, and in 1971, $17.4 million.

LONG-TERM DEBT AND SHAREHOLDERS' EQUITY

Long-term debt (after classification of amounts due within one year as current liabilities), was increased in 1972 by $5.6 million. During the year the $26 million loan by a Canadian chartered bank to a subsidiary of Eddy Paper Company Limited was replaced by a loan of the same amount on the same terms to the Company. A further loan of $15 million was obtained from a Canadian chartered bank repayable in annual instalments of $750,000 with a final payment of $4,500,000 in 1987. Consolidated long-term debt also reflects debt of acquisitions during the year—a loan of $863,000 by a Canadian chartered bank to Bowes Company Limited, and $967,000 of First Mortgage Bonds of Westfair Properties Ltd., a subsidiary of Westfair Foods Ltd.

Two new series of 6% convertible preferred shares were created and issued under the Company's Executive Share Purchase Plan for the benefit of key executives: 20,000 Fifth Series Preferred Shares convertible into 100,000 common shares on the basis of $22.25 per common share were issued effective September 12, 1972, and 6,475

Sixth Series Preferred Shares convertible into 35,000 common shares on the basis of $18.50 per common share were issued effective December 29, 1972. During the year 5000 common shares were issued upon conversion of 1000 Third Series Preferred Shares.

CORPORATE CHANGES

In February, 1972, the Company purchased 80% of the equity shares of Stuart Limited of Montreal, a major producer of snack cakes, thus broadening the product base of the Bakery Division.

Donlands Dairy, Limited of Toronto (including Royal Dairy of Guelph, Ontario), was purchased from the Loblaws group in May 1972. Donlands and Royal are leading producers of milk and ice cream products in Ontario.

In a further move to rationalize divisional operations, Kambly (of Switzerland) Canada Limited, with biscuit manufacturing operations in Toronto, was acquired from the Loblaws Division as of April 29th, 1972, and is now included in the Biscuit & Confectionery Division.

Majority control of McCarthy Milling Company Limited, for many years a major supplier of bread flour to the Bakery Division, was acquired on June 1st, 1972.

In September—October, 1972 all of the shares of Bowes Company, Limited were acquired. Bowes with its various subsidiaries is engaged in the manufacture and/or supply of a wide variety of products to the baking, confectionery, food processing and food distribution industries.

SUBSEQUENT EVENTS

Two subsidiaries of the Company issued debentures to the public: $12 million at 8⅜% by Kelly, Douglas & Company, Limited on February 20, 1973, and $8 million at 8½% by Somerville Industries Limited on April 3, 1973.

BAKERY

Sales of this Division increased in 1972 by $13.8 million to $81.4 million (6.5% of consolidated net sales), an increase of 20.1% over 1971.

Profits were substantially improved over 1971 by reason of a better cost-price realization, and the addition of the sales and profits of Stuart Limited from February 1st and McCarthy Milling Company Limited from June 1st, 1972.

The impact of programs for containing cost increases and improving production in all areas of the business begun in prior years had a beneficial effect on profits in 1972. Further development of such programs is continuing in order to maintain leadership in this highly competitive industry.

On February 1, 1972, the Division was expanded by the acquisition of 80% control of Stuart Limited of Montreal, Quebec. Stuart is a major producer of snack cakes under both Stuart and Weston labels for distribution by Weston in many areas in Canada. When fully integrated, Stuart Limited is expected to make a substantial contribution in sales and profit to the Division.

For some years McCarthy Milling Company Limited of Streetsville has been a major supplier of flour to Weston bread plants in Ontario. On June 1, 1972, the Company acquired majority control of the outstanding capital stock of McCarthy in a further step in vertical integration within the Division.

BAKERY SUPPLIES AND SPECIAL PRODUCTS

This new Division had sales of $13.7 million (1.1% of consolidated net sales) in the period from date of acquisition of control and recorded a favourable level of earnings.

Control of Bowes Company, Limited was acquired on September 7, 1972, and as a result of an offer to the remaining shareholders, became a wholly-owned subsidiary of the Company.

Bowes and its subsidiaries are major producers of a wide variety of toppings and other products for the baking and confectionery industries, and also packages and distributes a full line of dried and glacé fruits, nuts, cereals and health foods.

BISCUIT & CONFECTIONERY

Net sales in 1972 amounted to $111.4 million, or 9.3% of consolidated net sales—an increase of $5.7 million, or 5.4%.

Intensive effort to reduce costs and improve productivity and a strong marketing program resulted in a substantial improvement in income from operations. This program is continuing in 1973.

Kambly (of Switzerland) Canada Limited was acquired on April 29, 1972, from the Loblaw division and its biscuit manufacturing facilities are being utilized to develop a greater volume of private label and export business.

In order to eliminate any confusion with the name of the Company, Weston Foods Limited was incorporated to carry on the business formerly conducted under the name of George Weston Limited—Operating Division.

CHOCOLATE & DAIRY

Sales of this Division at $66.1 million or 5.1% of consolidated net sales were greatly increased from the 1971 volume of $52.6 million by the addition during the year of Donlands Dairy, Limited, as well as by a significant improvement in other sales. Chocolate sales continued to increase and confectionery sales achieved a further gain in market share in the industry. Ice cream sales experienced a slight decline.

Improved marketing techniques and quality control, and integration and realignment of production facilities resulted in a marked increase in income from operations of all product groups within the Division.

FISHERIES

Total sales of the Division in 1972 amounted to $128.4 million or 11.0% of consolidated net sales, reflecting an increase of $15.5 million or 13.7%. 1972 income from operations was substantially improved from the previous year.

British Columbia Packers Limited surpassed their 1971 record levels in both sales and earnings. Increase in volume was the result of sales of new products and increased market values in the company's traditional market lines. Sales outside Canada slightly exceeded 50% of total sales. Salmon landings for the industry were substantially greater than average but markets for all salmon products remained firm. Volume in groundfish increased significantly though herring products continued to decline due to greatly reduced herring landings. Oyster sales volume increased 27% and after a number of disappointing years the economic aspects of this operation appear encouraging. The company is the largest harvester and marketer of oysters on the Pacific Coast of North America.

Capital expenditure of $3.3 million was made in 1972 in addition to the fishing fleet and in improvements to plant facilities in Canada and the United States.

Connors Bros. Limited experienced a 12.7% increase in sales and significant improvement in earnings. Most of the increase in sales was obtained from the Canadian market. Canned goods, groundfish and shell fish, by-products and retail and other services, all showed substantial gains. Increased production of canned sardines resulted in substantial inventories at year end which will contribute to increasing sales and earnings in 1973.

FOREST PRODUCTS DIVISION

Sales in 1972 were $116.5 million (10.1% of consolidated net sales), a decrease of only 2% despite the elimination of 6.5% of sales resulting from the shutdown of newsprint operations.

Income from operations improved slightly over 1971 but continued to be unsatisfactory due to depressed market conditions in the Canadian pulp and paper industry.

Lower prices, unfavourable exchange rates and new tariff barriers were the main factors adversely affecting the Division in both domestic and export markets.

The Eddy Forest pulpmill at Espanola, Ontario, completed its capital improvement program started in 1972. Construction of a sawmill at Nairn, near Espanola, was commenced in 1972, and it is expected that the operation will significantly improve the cost of wood to the Espanola pulpmill as well as provide a good return on the lumber produced.

The Eastern Fine Paper operation at Brewer, Maine, achieved another substantial profit improvement through a continuing program of better product mix and the successful development of coated paper sales.

The J. E. Boyle white pine sawmill turned in a fine year although production was stopped for two weeks due to a wood shortage.

The year 1972 in The E. B. Eddy Company was a period of reorganization of operations. The shutdown of the Sulphite, Newsprint and Groundwood facilities at Hull was completed during 1972.

The E. B. Eddy Company consumer products division had marginally improved sales and profits in 1972. Additional tissue converting capacity and a new towelling line were installed in late 1972 which will produce a top quality consumer towel. An evaluation of process computer control applications to all of our paper machines was instituted in 1972 and several computers will be installed by early 1973. These will increase production from the paper machines and improve quality control.

Stronger markets for all of the Division's products are anticipated in 1973 and should result in a major improvement in profits.

PACKAGING

The Packaging Division increased its sales $1.7 million or 3.6% to $47.5 million (4.0% of consolidated net sales). Major gains in volume were made in the Plastics and in the Games divisions while rigid and flexible packaging suffered some loss of sales due to intense competition.

Income from operations improved by 6.6% to $1.9 million. Major contributions to this improvement were made by the Automotive Products and the Games divisions. Return on shareholders' equity in 1972 was 14.1% as compared to 13.7% in 1971.

Capital expenditures in 1972 were modest. It is planned, however, that somewhat more than $2 million will be expended in 1973 in various projects to maintain leadership in efficiency and quality and to meet the price demands of the strongly competitive markets served by this Division.

WHOLESALE & RETAIL

Sales of this Division increased by $45 million or 8.0% to $608 million (52.9% of consolidated net sales). Income from operations was 9.0% greater than in 1971.

Kelly, Douglas & Company, Limited showed an increase of 12.3% in sales—largely in the Wholesale and Retail divisions, but with significant increase also in the Nabob food manufacturing, Foremost Foods dairy and ice cream and in the Meteor Meats operations. Improvement in operating income was obtained generally in all areas within the Kelly Douglas organization with the exception of slight declines in the catering and the paint manufacturing divisions. New wholesale facilities were opened in Cranbrook and Prince George and the Kamloops branch was enlarged; four new Super-Valu stores were added in shopping centres in Kelowna, B.C. Substantial remodelling and additional Super-Valu stores are planned for 1973.

Westfair Foods Ltd. recorded improvement of 4.5% in sales and a significant increase in earnings over 1971. Competitive conditions remain extremely strong in all areas in which this company operates. The retail price structure has not yet recovered from the severe discount war of 1971-72. Late in 1972 the company disposed of its Manitoba group of Mini-Mart convenience stores and its St. Joseph's Dairy operations.

LOBLAWS

The operations of the Loblaws Division are not reflected in the Company's consolidated financial statements except to the extent of dividends received. While the Company holds directly or indirectly 63.6% of the voting stock of Loblaw Companies Limited (the controlling company of the Division) it is considered that consolidation would not be appropriate or meaningful in view of the substantial minority interests both in Loblaw Companies Limited and in certain of its major subsidiaries.

Dividends received from Loblaws in the amount of $2,274,000 ($2,167,000 in 1971) are less than the Company's portion of Loblaws net income for the year ending April 1, 1972.

Since acquisition the Company's portion of Loblaws net income has exceeded dividends received by $33.8 million. Loblaws increased its consolidated net sales by $10.6 million to $2,592.7 million in its 1972 fiscal year.

FISHERIES

PRINCIPAL SUBSIDIARIES

British Columbia Packers Limited
- Nelson Bros. Fisheries Limited
- Rupert's Certi-Fresh Foods, Inc.

Connors Bros., Limited
- H. W. Welch, Limited
- Lewis Connors & Sons Limited

FACILITIES

British Columbia Packers Limited have extensive canning, freezing and processing facilities in British Columbia, Alaska, California and on the Atlantic coast.
Connors has similar facilities in the Bay of Fundy area including a can manufacturing plant.

PRODUCTS—SERVICES

British Columbia Packers group are major suppliers of Pacific coast salmon and a wide variety of fresh, frozen, canned and prepared fish, as well as fish meal and oil.
Connors group are Canada's leading packers of sardines and a large processor of Atlantic Ocean seafoods and fish products.

FOREST PRODUCTS

PRINCIPAL SUBSIDIARIES

Eddy Paper Company Limited
- The E. B. Eddy Company
- J. E. Boyle Limited
- Eddy Forest Products Limited
- Eastern Fine Paper, Inc. (U.S.)

FACILITIES

Extensive timber limits and wood harvesting facilities in Ontario and Quebec.
Pulp mill at Espanola, Ontario and paper mills at Espanola and at Hull, Quebec, and Brewer, Maine.
Sawmill at Davidson, Quebec.
Converting plant at Hamilton, Ontario.

PRODUCTS—SERVICES

Manufactures and distributes fine, specialty and kraft papers for printing, converting, packaging and wrapping; paper-board, newsprint, kraft pulps, lumber; tissue, other household and industrial paper products; flexible and rigid packaging.

PACKAGING

PRINCIPAL SUBSIDIARIES

Somerville Industries Limited
- Somerville Automotive Trim Limited
- Canadian Folding Cartons Limited

FACILITIES

Major packaging plants at London and Toronto, Ontario, Montreal, Quebec and Winnipeg, Manitoba.
Automobile trim component plants at Toronto and Windsor. Plastic moulding and point-of-purchase display plants in Toronto.

PRODUCTS—SERVICES

Folding cartons and set-up boxes, milk cartons, labels, games and puzzles; fibreboard, hardboard and compression moulded plastic automotive components; plastic cups, dishes and cutlery; custom injection moulding and vacuum forming; merchandising displays and exhibits.
Distribution across Canada and in the United States.

WHOLESALE & RETAIL

PRINCIPAL SUBSIDIARIES

Westfair Foods Ltd. and divisions
- Western Grocers Malkins
- Econo-Marts Mini Marts
- Dominion Fruit
- Shop Easy Stores

Kelly, Douglas & Company, Ltd.
- Nabob Foods Limited
- Super-Valu Stores (B.C.) Ltd.
- Calvan Canus Catering Services Ltd.
- Isaacs Pharmacy Limited
- Dickson Importing Co. Limited
- Foremost Foods Ltd.

FACILITIES

Westfair has food distribution warehouses and retail food outlets throughout Western Canada.
Kelly, Douglas has food manufacturing facilities at Burnaby, B.C. and Ajax, Ontario; food warehouses, retail food markets and drug stores in British Columbia.

PRODUCTS—SERVICES

Westfair wholesales and retails food and other products throughout Western Canada operating convenience stores, discount outlets and food markets.
Kelly, Douglas conducts food and drug distribution and catering operations in British Columbia and the Yukon and manufactures food products for sale across Canada.

George Weston Limited

BAKERY

PRINCIPAL SUBSIDIARIES

Weston Bakeries Limited
  Lane's Bakeries Limited
Stuart Limited
Wittich's Bread Limited
Soo Line Mills (1969) Limited
McCarthy Milling Company Limited

FACILITIES

Bakeries in Vancouver, Calgary, Edmonton, Regina, Winnipeg, Essex, Kitchener, Toronto, Sudbury, Kingston, Kirkland Lake, Montreal and Moncton.
Flour Mills in Winnipeg and Streetsville, Ontario.
Warehouses in principal cities in Canada.

PRODUCTS—SERVICES

Produces a wide variety of bread, rolls, cakes and other bakery products under national brand and private label for distribution to food stores and catering outlets in all provinces in Canada. Produces flour and mill feeds for internal use and domestic and export markets.

BAKERY SUPPLIES AND SPECIAL PRODUCTS

PRINCIPAL SUBSIDIARIES

Bowes Company, Limited
  Chocolate Products Limited
  McNair Products Company, Limited
  Rose & Laflamme Limited
  Saxonia Fruit Preserving Company, Limited
  Watt & Scott Limited

FACILITIES

Manufacturing and processing plants in Toronto, Montreal and Colborne, Ontario.
Warehouses in principal Canadian cities.

PRODUCTS—SERVICES

Manufactures a variety of toppings and other products for the baking and confectionery industries. Packages and distributes a full line of dried and glacé fruits, nuts, cereals and health foods.

BISCUIT & CONFECTIONERY

PRINCIPAL SUBSIDIARIES

InterBake Foods Limited
Weston Foods Limited
  (formerly George Weston Limited—Operating Division)
McCormick's Limited
  Imperial Cone Company
Paulin Chambers Co. Ltd.
Marven's Limited
Kambly (of Switzerland) Canada Limited
InterBake Foods Inc. (U.S.) and Divisions
  Southern Biscuit Company
  American Biscuit Company
  Johnson Biscuit Company

FACILITIES

Biscuit and confectionery plants at Winnipeg, Brantford, Toronto, London, Longueuil, Moncton in Canada and Richmond (Virginia), Passaic (New Jersey), Tacoma (Washington), Sioux City (Iowa) and Battle Creek (Michigan).
Sales branches and distributors in principal cities of Canada and United States.

PRODUCTS—SERVICES

Manufactures and distributes a broad range of sweet biscuits, crackers, ice cream cones, confections and candies throughout Canada and in the United States.

CHOCOLATE & DAIRY

PRINCIPAL SUBSIDIARIES

William Neilson Limited
Willards Chocolate Limited
Donlands Dairy Limited
  Royal Dairy

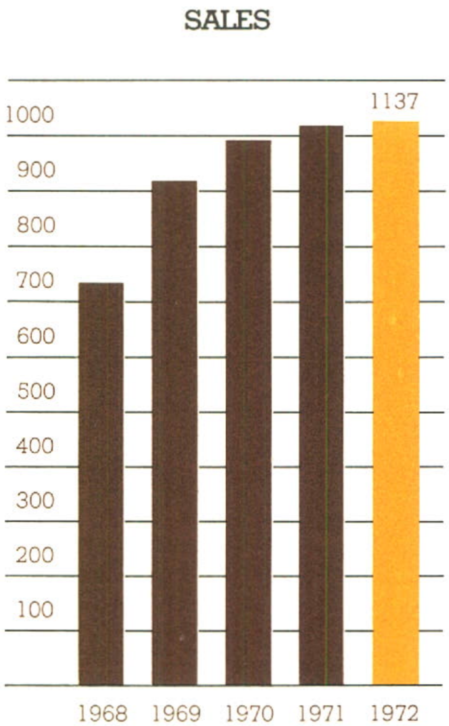
FACILITIES

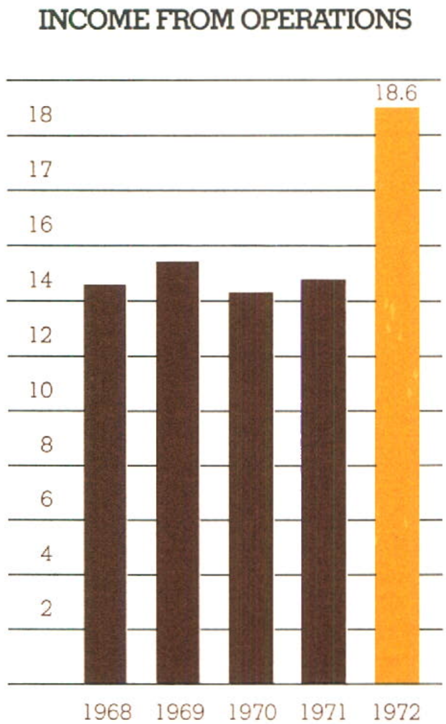
Chocolate production facilities in Toronto.
Ice cream plants in Toronto and Guelph, Ontario.
Dairies in Beachville, Guelph, and Toronto, Ontario.

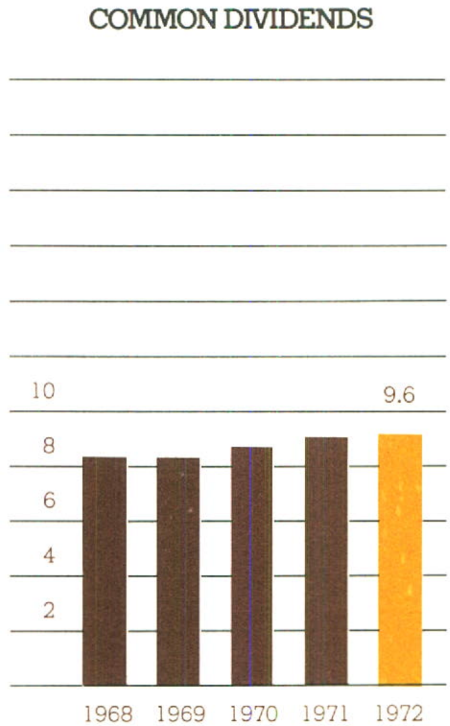
PRODUCTS—SERVICES

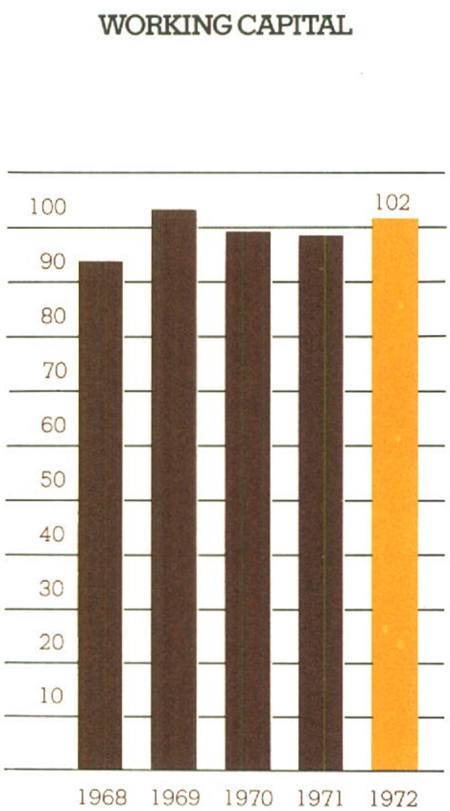
Produces and distributes throughout Canada and in the United States a wide range of chocolate bars and boxed chocolates, chocolate coatings and cocoa and specialty items. Also manufactures bulk and packaged ice cream and frozen novelties, and processes milk and associated products.

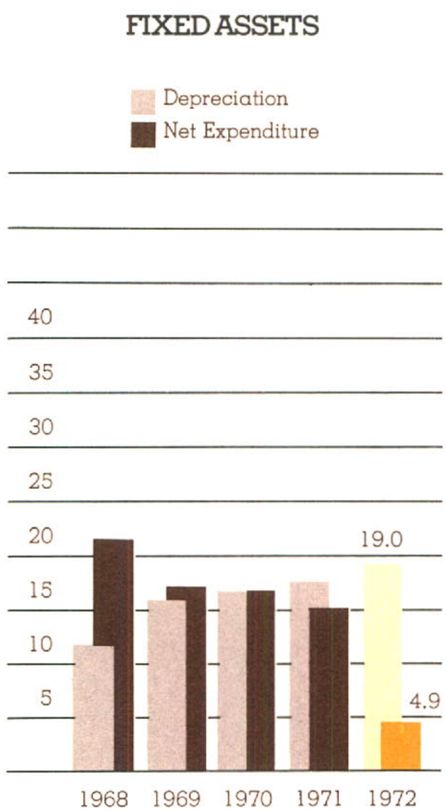
Financial Charts (in millions of dollars)

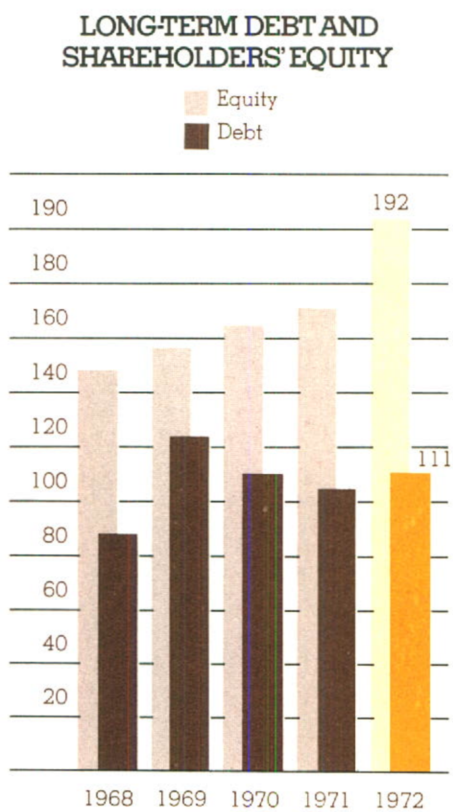












LOBLAWS (not consolidated)

PRINCIPAL SUBSIDIARIES

Loblaw Companies Limited
Loblaw Groceterias Co., Limited
Zehr's Markets Limited
Dionne Limited
The O.K. Economy Stores Limited
National Grocers Company Limited
Atlantic Wholesalers Limited
Sayvette Limited
York Trading Limited
G. Tamblyn, Limited
National Tea Co. (U.S.)
Loblaw Inc. (U.S.)

FACILITIES

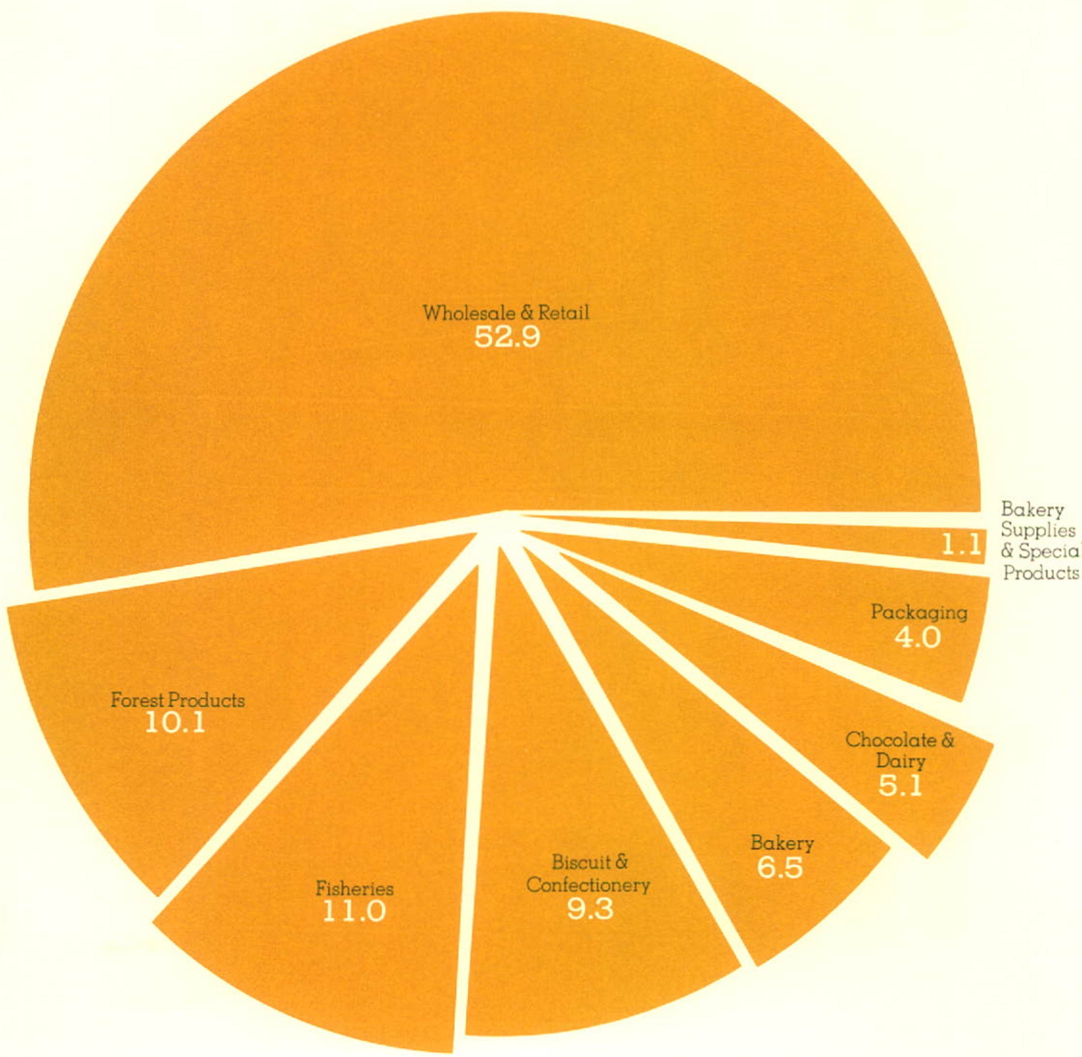
About 180 supermarkets in Canada and 725 in United States.
Grocery warehouses from Saskatchewan to Atlantic Coast.
Chain of drug stores across Canada and in United States.
Department stores in Toronto area.

PRODUCTS—SERVICES

Retail marketing of food, drug and other products in Canada and United States—wholesale food distribution in Canada.
Department store merchandising in Toronto area.

Sales by Division

	1972 ($ millions)	1971 ($ millions)
Bakery	81.4	67.6
Bakery Supplies & Special Products	13.7	—
Biscuit & Confectionery	111.4	105.7
Chocolate & Dairy	66.1	52.6
Fisheries	128.4	112.9
Forest Products	116.5	118.9
Packaging	47.5	45.8
Wholesale & Retail	608.0	563.0
Interdivision	(35.8)	(29.9)
Consolidated Net Sales	1,137.2	1,036.6



Consolidated Financial Statements

Consolidated Statement of Income

GEORGE WESTON LIMITED
Year ended December 31, 1972
(in thousands of dollars)

	1972	1971
SALES AND OTHER INCOME:		
Sales	$1,137,232	$1,036,578
Equity in income of George Weston Properties Limited (note 1a)	105	598
Dividends from Loblaw Companies Limited (note 1a)	2,274	2,167
Other investment income	1,616	1,605
	1,141,227	1,040,948
COSTS AND EXPENSES:		
Cost of sales, selling and administrative expenses (before the following items)	1,077,481	984,366
Depreciation	18,965	17,412
Interest on long-term debt	6,597	7,030
Other interest	3,562	3,268
	1,106,605	1,012,076
INCOME FROM OPERATIONS BEFORE INCOME TAXES, minority interests and extraordinary items	34,622	28,872
INCOME TAXES	13,664	11,353
	20,958	17,519
MINORITY INTERESTS	2,381	2,406
INCOME FROM OPERATIONS BEFORE EXTRAORDINARY ITEMS	18,577	15,113
EXTRAORDINARY ITEMS (note 2)	11,340	1,672
NET INCOME FOR THE YEAR	$ 29,917	$ 16,785
PER COMMON SHARE (note 7c):		
Income from operations before extraordinary items	$1.61	$1.29
Net income for the year	$2.65	$1.45

(See accompanying notes)

Consolidated Balance Sheet

GEORGE WESTON LIMITED
(Incorporated under the laws of Canada)
as at December 31, 1972
(in thousands of dollars)

ASSETS

	1972	1971
CURRENT ASSETS:		
Cash and deposit receipt	$ 6,253	$ 7,934
Demand loans to a non-consolidated subsidiary		1,359
Accounts receivable (note 3)	83,658	73,636
Inventories, at the lower of cost and net realizable value —		
Raw materials and supplies	41,075	40,569
Finished goods	121,843	106,228
Prepaid expenses	5,115	5,047
	257,944	234,773
INVESTMENTS and other assets, at cost:		
Shares in non-consolidated subsidiaries (note 4)	27,395	24,677
Secured loans and advances (note 4)	8,819	5,574
Sundry investments (note 4)	6,573	3,694
Properties held for sale	4,203	3,812
Excess of cost of shares of subsidiaries over fair value of net assets acquired (note 1c)	9,708	2,737
Deferred foreign exchange adjustment (note 1d)	715	568
	57,413	41,062
FIXED ASSETS, at cost:		
Land and buildings	117,136	105,164
Machinery and equipment	296,998	298,471
	414,134	403,635
Less accumulated depreciation	231,465	222,637
	182,669	180,998
	$498,026	$456,833

On Behalf of the Board:
W. Garfield Weston, Director
G. E. Creber, Director

LIABILITIES

	1972	1971
CURRENT LIABILITIES:		
Bank advances and notes payable (note 5)	$ 62,819	$ 53,759
Accounts payable	78,599	69,451
Taxes payable	8,129	7,273
Dividends payable	2,510	2,291
Long-term debt payable within one year	3,873	2,335
	155,930	135,109
LONG-TERM DEBT (note 6)	110,921	105,284
DEFERRED ITEMS:		
Deferred income taxes	11,401	16,855
Deferred real estate income	91	225
Excess of fair value of net assets acquired over cost of shares of subsidiaries (note 1c)	2,601	4,670
	14,093	21,750
MINORITY INTERESTS IN SUBSIDIARIES	24,929	24,173
SHAREHOLDERS' EQUITY:		
Preferred shares (note 7)	21,614	19,390
Common shares (note 7)	19,227	19,123
Retained earnings (note 8)	151,312	132,004
	192,153	170,517
	$498,026	$456,833

(See accompanying notes)

Consolidated Statement of Retained Earnings

GEORGE WESTON LIMITED
Year ended December 31, 1972
(in thousands of dollars)

	1972	1971
RETAINED EARNINGS at beginning of year	$132,004	$125,399
Add net income for the year	29,917	16,785
	161,921	142,184
Deduct:		
Dividends declared —		
Preferred shares:		
4½% first series	432	444
6% second series	470	470
6% third series	89	102
6% fourth series	16	
	1,007	1,016
Common shares (1972 — 88¢ per share; 1971 — 84¢ per share)	9,602	9,164
	10,609	10,180
RETAINED EARNINGS at end of year	$151,312	$132,004

(See accompanying notes)

Consolidated Statement of Source and Application of Funds

GEORGE WESTON LIMITED
Year ended December 31, 1972
(in thousands of dollars)

	1972	1971 (note 12)
SOURCE OF FUNDS:		
From operations —		
Income from operations before extraordinary items	$ 18,577	$15,113
Add (deduct):		
Depreciation	18,965	17,412
Deferred income taxes	60	(1,025)
Amortization of differences between cost of shares of subsidiaries acquired and net assets acquired	(1,352)	(1,387)
Deferred real estate income	(399)	(70)
Excess of dividends received from George Weston Properties Limited over equity in income	496	(473)
Minority interests in income (less dividends)	1,625	1,741
	37,972	31,311
Proceeds from disposal of fixed assets (less related provisions and costs involving working capital)	22,074	3,168
Proceeds from issue of long-term debt	46,543	29,639
Preferred and common shares issued	2,651	250
	109,240	64,368
APPLICATION OF FUNDS:		
Reduction in long-term debt	42,781	32,524
Purchase of fixed assets	27,003	18,190
Preferred shares purchased for cancellation	323	288
Dividends to shareholders	10,609	10,180
Purchase of minority interests	1,512	1,768
Net acquisition (disposal) of investments and other assets	10,225	(781)
Acquisition of subsidiary companies (net of working capital of $7,720 acquired) (note 1b)	14,437	
Income tax charges re prior years		1,725
	106,890	63,894
INCREASE IN WORKING CAPITAL	2,350	474
WORKING CAPITAL beginning of year	99,664	99,190
WORKING CAPITAL end of year	$102,014	$99,664

(See accompanying notes)

Notes to Consolidated Financial Statements

GEORGE WESTON LIMITED December 31, 1972

1. BASIS OF CONSOLIDATION AND ACCOUNTING PRESENTATION—

(a) The accompanying financial statements consolidate all subsidiary companies except (i) George Weston Properties Limited which is carried on the equity basis and (ii) Loblaw Companies Limited and its subsidiary companies ("Loblaws") which is carried at cost.

George Weston Properties Limited is not consolidated because of the different nature of its business — a separate financing vehicle for properties which might otherwise be lease financed with third parties. In 1972 this company earned $105,000 and at December 31, 1972 it had investments in properties of $3,975,000 and $1,660,000 due from Loblaws (for expenditures on a warehouse which is being constructed on behalf of Loblaws) financed substantially by bank borrowings.

George Weston Limited has voting control of Loblaws through ownership of 63.6% of that company's outstanding class B voting shares. The Weston holding of the combined class A non-voting shares and class B voting shares represents 55.2% of the total participating shares outstanding. Because of the large minority interests in Loblaws, as well as the substantial minority interests in the Loblaws subsidiary companies themselves, it is felt that consolidation of the Loblaws accounts with those of Weston's would not be appropriate or meaningful.

The following information has been extracted from the audited consolidated financial statements of Loblaws for the fifty-two weeks ended April 1, 1972 (with comparative figures for the previous year as restated by Loblaws):

	1972	1971
	(in thousands of dollars)	
Working capital	$ 99,894	$ 95,044
Total assets	547,920	562,398
Minority interests in subsidiaries	111,677	111,852
Shareholders' equity	119,592	117,946
Sales	2,592,748	2,582,126
Income before special items	4,308	2,412
Net income	7,758	4,477
Weston's share of the above consolidated earnings of Loblaws is as follows:		
Net income — total	3,432	1,709
— per share of Weston common stock	31¢	16¢
Weston's has reflected in its net income the dividends received from Loblaws as follows:		
Dividends received during the year ended December 31 —		
— total	2,274	2,167
— per share of Weston common stock	21¢	20¢

Weston's share of the undistributed earnings of Loblaws from date of acquisition to April 1, 1972 (after retained earnings adjustments) amounts to $33,507,000.

Unaudited results reported by Loblaws for the forty weeks ended January 6, 1973 (with comparative figures for the corresponding period in the previous year) are as follows:

	1973	1972
	(in thousands of dollars)	
Income (loss) before special items	$(1,374)	$ 2,795
Net income	527	11,258
Weston's share of above consolidated earnings of Loblaws is as follows:		
Net income (loss) — total	(157)	5,348
— per share of Weston common stock	(1¢)	49¢

(b) During the year the company and its subsidiaries acquired six companies. These transactions were accounted for as purchases, with the operating results of the acquired companies included in the consolidated statement of income from the effective dates of acquisition.

The acquisition equation based on unaudited financial statements at dates of acquisition is set out below:

		(in thousands of dollars)
Assets acquired—		
Net current assets		$ 7,720
Fixed assets at book value	10,447	
Adjustment to fair value	169	10,278
Investments		185
		18,183
Liabilities assumed—		
Long term debt at book value	1,963	
Adjustment to fair value	235	1,728
Deferred real estate income		265
Deferred income taxes		397
Minority interests		1,012
Preferred shares		681
		4,083
Net assets acquired		14,100
Excess of cost of shares over fair value of net assets acquired		8,057
Cash paid		$22,157

(c) The company follows the policy of amortizing, over periods not exceeding twenty years, the net difference between the cost of investment in subsidiaries and the estimated fair value of their net assets at date of acquisition. In the case of one subsidiary acquired during 1969, where the fair value of net assets exceeded the cost of the investment, the excess is being amortized and credited to income over five years, this being the estimated period necessary to achieve the full economies of integration.
Total amortization charges and credits resulted in a net credit to income of $1,352,000 in 1972 and $1,387,000 in 1971 (included in "Cost of sales, selling and administrative expenses").

(d) As in the preceding year, all U.S. balances have been translated at a rate approximating the current rate. The net difference on the translation of the company's equity in its U.S. subsidiaries and the long-term debt of its Canadian subsidiaries has been deferred until realized, and is shown on the balance sheet as "Deferred foreign exchange adjustment".

EXTRAORDINARY ITEMS—

	1972	1971
	(in thousands of dollars)	
Gain on sale of certain properties in Hull, Quebec, less provisions for related items	$11,340	
Gain on bond purchase		$3,397
Income tax charges		(1,725)
	$11,340	$1,672

During the year a subsidiary sold a portion of its Hull, Quebec properties to the Federal Government's National Capital Commission for $29,500,000 and recorded a gain in respect thereof of $11,340,000 calculated as follows:

Sale proceeds	$29,500,000
Deduct:	
Book value of properties sold and other costs and provisions relating to the sale	24,592,000
Less income taxes recoverable (net)	(6,432,000)
	18,160,000
Net gain	$11,340,000

ACCOUNTS RECEIVABLE—

Accounts receivable include a net amount of $1,834,000 (1971 — $1,447,000) arising from trade and other current transactions with subsidiaries not consolidated.

4. INVESTMENTS—

Shares in subsidiary companies not consolidated consist of the investment in George Weston Properties Limited carried at an equity amount of $116,000 and shares in Loblaw Companies Limited having a quoted market value of $36,758,000 carried at a cost of $27,279,000. Because of the number of Loblaw Companies Limited shares involved, and the fact that these securities represent control of the company, the amount that would be realized if these securities were to be sold may be considerably more or less than the market value indicated above.

Secured loans and advances include $333,500 owing by a director for the purchase of shares in British Columbia Packers Limited and $4,297,500 owing by directors and officers of the company and its subsidiaries arising out of the purchase of preferred shares of the company through a trustee as part of the company's incentive plan. These advances are secured by the shares purchased.

Sundry investments include shares and bonds costing $2,512,000 with quoted market values of $2,240,000 at December 31, 1972. Realizable value of the remainder of sundry investments is estimated to be not less than cost.

5. BANK ADVANCES AND NOTES PAYABLE—

Bank indebtedness of certain subsidiary companies of approximately $24,903,000 is secured by a pledge of accounts receivable and inventories of these companies.

6. LONG-TERM DEBT—

	Payable within one year	Total 1972	Total 1971
	(in thousands of dollars)		
George Weston Limited:			
Series C—5¼% Sinking fund debentures due May 15, 1982		$ 9,070	$ 9,681
Series D—5½% Sinking fund debentures due May 15, 1983		9,587	10,211
Series E—6¾% Sinking fund debentures due July 15, 1986		7,214	7,794
Series F—6¾% Sinking fund debentures due June 1, 1987		22,996	24,167
Bank loan from a Canadian chartered bank, bearing interest at ½% above the prime rate, repayable in annual instalments of $3,000,000 commencing in 1974, with a final payment of $17,000,000 in 1977		26,000	
Bank loan from a Canadian chartered bank, bearing interest at 2¼% above the prime rate, repayable in annual instalments of $750,000 with a final payment of $4,500,000 in 1987 (interest rate subject to reduction to 1% above the prime rate if loan repaid on or prior to December 29, 1977)	$ 750	15,000	
	750	89,867	51,853
Bowes Company, Limited:			
Bank loan from a Canadian chartered bank, bearing interest at 1% above the prime rate, secured by certain assets of the company and certain subsidiary companies, repayable in annual instalments of $150,000 with a final payment of $113,000 in 1978	150	863	
British Columbia Packers Limited:			
First Mortgage Bonds—			
Series B—6½% Sinking fund bonds due May 1, 1983 ($4,125,000 U.S.)	386	4,249	4,635
Series C—6½% Sinking fund bonds due May 1, 1983 ($1,375,000 U.S.)	129	1,416	1,545
	515	5,665	6,180

LONG-TERM DEBT — CONTINUED

	Payable within one year	Total 1972	Total 1971
		(in thousands of dollars)	
Eddy Paper Company Limited:			
Bank loan from a Canadian chartered bank			26,000
First Mortgage Bonds—			
1954 Series—4% Sinking fund bonds due Oct. 1, 1974		3,957	4,571
1955 Series—4% Sinking fund bonds due June 1, 1975		994	2,403
		4,951	32,974
Less funds deposited with trustee to meet all principal repayments to maturity		4,951	
		—	32,974
Kelly, Douglas & Company, Limited:			
Series A—6% Sinking fund debentures due November 1, 1977	87	1,487	1,583
Demand note payable, bearing interest at 1% above the prime rate with scheduled quarterly repayments of $125,000	375	2,500	2,125
Demand notes payable, bearing interest at 5½%, repayable $446,000 in 1973 and $2,973,000 in 1974 ($3,316,864 U.S.)	446	3,419	2,127
	908	7,406	5,835
Somerville Industries Limited:			
First Mortgage Bonds—			
Series A—5¼% Sinking fund bonds due October 15, 1973	234	234	449
Series B—6% Sinking fund bonds due June 15, 1977		683	713
	234	917	1,162
Westfair Properties Ltd.:			
First Mortgage Bonds—			
Series A—5¾% Sinking fund debentures due December 15, 1986 with annual redemptions of $93,000 (less bonds on hand of $120,000 and discount of $215,000)		967	
Notes, mortgages and other long-term debt	1,316	9,109	9,615
	3,873	114,794	107,619
Less payable within one year		3,873	2,335
Long-term debt		$110,921	$105,284

Instalments of long-term debt payable each year for the next five years are:

1973	—	$ 3,873,000
1974	—	15,524,000
1975	—	10,333,000
1976	—	8,551,000
1977	—	24,934,000

	Number of shares 1972	Number of shares 1971	Amount 1972 (in thousands of dollars)	Amount 1971 (in thousands of dollars)
7. CAPITAL STOCK—				
Preferred cumulative redeemable shares, par value $100 each, issuable in series: Authorized	352,497	354,497		
Issued and outstanding—				
4½% first series, redeemable at a premium of 4%	95,249	96,014	$ 9,525	$ 9,602
6% second series, redeemable at a premium of 5%	77,915	78,386	7,792	7,838
6% third series, redeemable at par after October 1, 1980, convertible into 5 common shares for each preferred share and $3.75. (Note 4)	14,000	17,000	1,400	1,700
6% fourth series, redeemable at par after October 1, 1980, convertible into 8 common shares for each preferred share and $12.00. Issued in 1971 (Note 4)	2,500	2,500	250	250
6% fifth series, redeemable at par after September 1, 1982, convertible into 5 common shares for each preferred share and $11.25. Issued in 1972. (Note 4)	20,000		2,000	
6% sixth series, redeemable at par after January 1, 1983, convertible into the number of common shares obtained by dividing the aggregate par value of such preferred shares by $18.50. Issued in 1972 (Note 4)	6,475		647	
	216,139	193,900	21,614	19,390
Common shares, without par value:				
Authorized (a)	16,950,000	16,950,000		
Issued (b)	10,914,357	10,909,357	19,227	19,123
			$40,841	$38,513

(a) 225,000 shares are reserved for the potential conversion of third, fourth, fifth and sixth series preferred shares.

(b) During the year 5,000 common shares were issued for $3,750 cash and conversion of 1,000 third series preferred shares.

(c) The exercise of the conversion privileges of preferred shares would not have a material effect on earnings per share.

8. RETAINED EARNINGS—
The trust indentures, under which long-term debt is outstanding, contain provisions whereby consolidated retained earnings must exceed certain amounts before payment of dividends. At December 31, 1972 consolidated retained earnings were substantially in excess of the minimum levels.

9. COMMITMENTS AND CONTINGENT LIABILITIES—

(a) The aggregate minimum rentals under long-term leases (extending beyond five years from the balance sheet date) in effect at December 31, 1972 are as follows for each of the five year periods shown:

1973—1977	$32,615,000	1988—1992	$11,260,000
1978—1982	$24,269,000	1993—1997	$ 3,837,000
1983—1987	$17,737,000	After 1997	$ 98,000

Rentals paid in 1972 under long-term leases amounted to $6,483,000.

(b) Contingent liabilities, relating mainly to third party guarantees, amount to approximately $6,400,000.

10. OTHER STATUTORY INFORMATION

(a) The aggregate direct remuneration to directors and officers was as follows:

Number of directors	12 (including one former director)
Number of officers	13 (including one former officer)
Number of officers who are also directors	5

	Directors' fees	Other remuneration
Paid by the company	Nil	$576,166
Paid by subsidiaries	$13,200	$376,658

(b) Sales by Division (in millions of dollars):

	1972	1971
Bakery	$ 81.4	$ 67.6
Bakery supplies and special products	13.7	—
Biscuit and confectionery	111.4	105.7
Chocolate and dairy	66.1	52.6
Fisheries	128.4	112.9
Forest products	116.5	118.9
Packaging	47.5	45.8
Wholesale and retail	608.0	563.0
Interdivision sales	(35.8)	(29.9)
	$1,137.2	$1,036.6

11. SUBSEQUENT EVENTS

(a) On February 20, 1973, Kelly, Douglas & Company, Limited, a subsidiary company, agreed to sell to underwriters $12,000,000, 8⅜% sinking fund debentures, and Somerville Industries Limited, a subsidiary company, filed a preliminary prospectus in February, 1973 for an $8,000,000 sinking fund debenture issue which is expected to be sold to underwriters on April 3, 1973.

(b) On February 19, 1973, the Directors of the Company authorized application for designation of 3,550 preferred shares as 6% cumulative, redeemable, convertible preferred Shares, seventh series, to be issued pursuant to the Company's Executive Share Purchase Plan.

12. STATEMENT OF SOURCE AND APPLICATION OF FUNDS

1971 comparative figures in the consolidated statement of source and application of funds have been restated to conform with the 1972 presentation.

Clarkson, Gordon & Co.
Chartered Accountants

AUDITORS' REPORT
To the Shareholders of George Weston Limited:

We have examined the consolidated balance sheet of George Weston Limited and consolidated subsidiary companies as at December 31, 1972, and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1972 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
March 8, 1973.

Clarkson, Gordon & Co.
Chartered Accountants

George Weston Limited Nine Year Review

(in thousands of dollars)

	1972	1971	1970	1969	1968	1967	1966	1965	1964
SALES AND INCOME									
Sales	$1,137,232	$1,036,578	$997,386	$931,857	$729,889	$622,435	$579,771	$485,919	$462,648
Depreciation	18,965	17,412	17,248	15,752	12,581	10,962	9,373	8,224	7,155
Interest	10,159	10,298	11,352	11,182	8,464	7,586	6,116	4,669	4,753
Taxes on Income	13,664	11,353	11,887	13,049	11,957	8,436	11,572	11,027	10,169
Income from Operations	18,577	15,113	14,396	15,432	13,076	12,983	14,254	12,558	11,281
—per common share	1.61	1.29	1.23	1.33	1.11	1.10	1.22	1.12	1.00
Extraordinary Items	11,340	1,672	1,249	57	10,085	6,789	1,022	1,036	1,093
Net Income	29,917	16,785	15,645	15,489	23,161	19,772	15,276	13,594	12,374
—per common share	2.65	1.45	1.35	1.33	2.04	1.72	1.31	1.21	1.09
Dividends									
—common shares	9,602	9,164	8,673	8,182	8,182	8,182	7,406	5,433	4,513
—preferred shares	1,007	1,016	945	931	950	961	974	982	984
FINANCIAL POSITION									
Current Assets	257,944	234,773	218,604	212,810	197,052	162,982	140,310	119,194	114,329
Current Liabilities	155,930	135,109	119,414	107,742	102,146	86,307	90,405	60,971	52,392
Working Capital	102,014	99,664	99,190	105,068	94,906	76,675	49,905	58,223	61,937
Fixed Assets—Net	182,669	180,998	183,388	183,391	158,427	136,649	120,043	107,751	93,933
Long-Term Debt	110,921	105,284	110,264	121,175	93,328	86,468	67,204	51,918	53,334
Shareholders' Equity	192,153	170,517	163,950	156,475	150,295	135,663	126,572	115,693	110,198
Total Assets	$ 498,026	$ 456,833	$442,412	$437,120	$396,954	$349,399	$321,663	$259,161	$244,022

The figures for years 1964 to 1967 have not been restated for changes in accounting principle or presentation adopted in 1969.

EXECUTIVE OFFICES
Commerce Court West, Toronto, Ontario

STOCK LISTINGS
Toronto, Montreal and Vancouver
Stock Exchanges

TRANSFER AGENTS
National Trust Company, Limited,
Toronto, Montreal, Winnipeg,
Edmonton and Vancouver;
The Detroit Bank and Trust Company,
Detroit, Michigan, U.S.A.

GENERAL COUNSEL
Smith, Lyons, Torrance, Stevenson and
Mayer

AUDITORS
Clarkson, Gordon & Co.

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