CANADIAN COMPANIES A.R.
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Corporate Profile

Weston at a Glance >

George Weston Limited ("Weston") is a Canadian public company founded in 1882 and through its operating subsidiaries constitutes one of North America's largest food processing and distribution groups. Weston has two reportable operating segments: Weston Foods and Food Distribution, which is operated by Loblaw Companies Limited ("Loblaw"). The Weston Foods operating segment is primarily engaged in the baking and dairy industries within North America. Loblaw, the largest food distributor in Canada, concentrates on food retailing while increasing its offering of general merchandise products and services. Weston also operates a Fisheries segment, which is now reported as a discontinued operation.

Weston seeks long term, stable growth in its operating segments through continuous capital investment supported by a strong balance sheet, thereby providing sustainable returns to its shareholders through a combination of common share price appreciation and dividends. In order to be successful in delivering long term value to shareholders and to fulfill its long term objectives of security and growth, Weston employs various operating strategies. The Weston Foods operating segment concentrates on brand development, low operating costs and maintaining a broad customer base, with the objective of being the best provider of bakery solutions and fresh dairy products to its customers. The Food Distribution operating segment concentrates on food retailing, with the objective of providing Canadian consumers with the best in one-stop shopping for everyday household needs.

Weston is committed to creating value for its shareholders and participating along with its more than 149,000 employees in supporting the communities in which it operates.

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equal measures

Change is nothing new to Weston. In markets where the buying and eating habits of consumers can shift quickly, change is a constant factor that provides opportunities equal to its challenges. Experience has taught us what needs to be done to secure a solid leadership position. While constantly exploring new initiatives to meet evolving tastes in the marketplace, Weston sticks to strategies that work. It takes an artful blending of equal parts of leadership, experience, flexibility and innovation.

Weston Foods

Food Distribution

Our network of production facilities and retail stores spans North America, supporting our strong portfolio of national and regional brands and store formats.

Weston Foods

Baking Facilities

North America	65

Dairy Facilities

Canada	2

Food Distribution

Corporate	658
Franchised	400
Associated	519
Independent	6,669

Financial Highlights (1,2)

For the years ended December 31 ($ millions except where otherwise indicated)	2004	2003
Operating Results		
Sales	29,798	29,021
EBITDA (3, 4)	2,402	2,369
Operating income (4)	1,782	1,832
Interest expense	438	266
Net earnings from continuing operations	606	807
Cash Flows		
Cash flows from operating activities of continuing operations	1,576	1,294
Capital investment	1,425	1,502
Per Common Share ($)		
Basic net earnings from continuing operations	4.49	5.91
Dividend rate at year end	1.44	1.20
Cash flows from operating activities of continuing operations	12.02	9.61
Book value	30.19	30.46
Market value at year end	109.71	103.71
Financial Ratios		
EBITDA margin	8.1%	8.2%
Operating margin	6.0%	6.3%
Net earnings from continuing operations margin	2.0%	2.8%
Return on average total assets (3)	11.4%	12.3%
Return on average common shareholders' equity	14.8%	20.0%
Interest coverage	4.1:1	6.9:1
Net debt (3) to equity	1.35:1	1.24:1
Net debt (excluding Exchangeable Debentures) (3) to equity	1.26:1	1.16:1
Reportable Operating Segments		
Weston Foods		
Sales (5)	4,335	4,523
Operating income (4)	138	374
Operating margin	3.2%	8.3%
Return on average total assets (3)	3.6%	8.9%
Food Distribution		
Sales	26,209	25,220
Operating income (4)	1,644	1,458
Operating margin	6.3%	5.8%
Return on average total assets (3)	13.9%	13.6%

(1) For financial definitions and ratios refer to the Glossary on page 98.

(2) Certain prior year's information was reclassified to conform with the current year's presentation and was restated due to the implementation of Section 3110 and EIC 144 as discussed in note 1 to the consolidated financial statements and due to discontinuing the Fisheries segment (see note 7 to the consolidated financial statements).

(3) See Supplementary Financial Information beginning on page 57.

(4) 2004 includes restructuring and other charges of $136 (2003 – $64) made up of a $119 (2003 – $35) charge recognized by Weston Foods and a $17 (2003 – $29) charge recognized by Food Distribution (see note 2 to the consolidated financial statements).

(5) Includes intersegment sales.

George Weston Limited in 2004 continued its strategy of focusing primarily on two business segments: baking through Weston Foods and food and general merchandise distribution through Loblaw Companies Limited. To that end, during the fourth quarter of 2004 the Company decided to actively market for sale the Fisheries business. In addition, baking industry conditions have changed significantly over the past year and the Company continued to execute on opportunities to improve the long term competitive position of its North American baking operations.

2004 basic net earnings per common share were $3.11, compared to $5.80 in 2003, a decline of 46.4%. The decline is primarily attributable to the cumulative negative impact of $2.46 per share relating to the loss from discontinued Fisheries operations, the impairment and restructuring charges incurred by Weston Foods, and higher financing charges due to a non-cash adjustment relating to an accounting standard change. This negative impact was partially offset by improvements in Loblaw's operating performance. Sales for the 52-week year ended December 31, 2004 increased 2.7% to $29.8 billion from $29 billion in the 53-week fiscal year 2003. Sales adjusted for the extra week last year were up 4.7%.

Your Weston Foods Canadian operations and Loblaw Companies Limited again had strong performances, while the U.S. Baking sector is still transitioning out of a very challenging operating environment. I am confident that the strategic course that we have embarked upon will yield positive results in the future.

Weston Foods sales decreased 4.2% to $4.3 billion, negatively impacted by approximately 6% due to foreign currency translation and by approximately 2% due to the extra week in 2003. Adjusting for these two items, sales were up approximately 4% with improvements in volume and price increases contributing positively to sales growth. Growth in premium and whole grain products offset the continued shift away from white flour based products and lower sales of fresh-baked sweet goods.

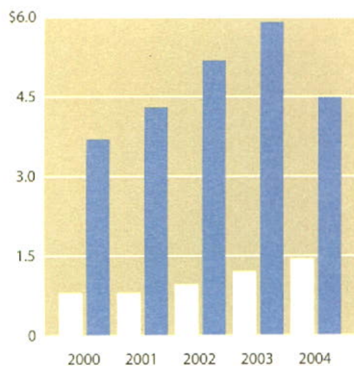
Weston Foods operating income of $138 million was 63.1% below 2003 including the negative impact of the $66 million charge related to the impairment of assets in the U.S. Entenmann's operation and the $53 million of restructuring and exit costs associated with certain cost reduction initiatives undertaken during the year. Weston Foods experienced significant cost inflation during the year, in particular due to higher ingredient, energy and employee related benefit costs. In addition, higher operating costs were incurred as the business transitions its product mix toward premium and whole grain products as the consumer continues to shift away from white flour based products.

On September 27, 2004, Weston purchased Boulangerie Gadoua Ltée, a profitable family-owned bakery business operating in Quebec, Canada with strong brands, productive baking facilities and an experienced employee base.

Loblaw continued its strong performance as Canada's largest and most successful merchandising company. Sales for the year were up 3.9% to $26.2 billion, including a 2% negative impact

Basic Earnings from Continuing Operations before Goodwill Charges and Unusual Item and Dividend Rate per Common Share[1]

($)



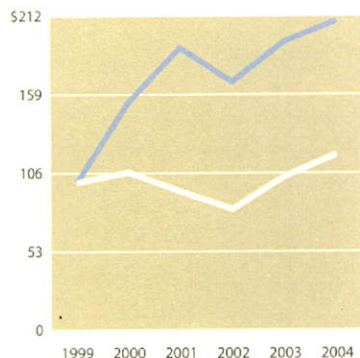
□ Dividend Rate per Common Share (year end)

■ Basic Earnings before Goodwill Charges (net of minority interest impact) and Unusual Item (net of tax)

(1) Certain prior year's information was restated due to discontinuing the Fisheries segment (see note 7 to the consolidated financial statements).

Total Return on $100 Investment (includes dividend reinvestment)

($)

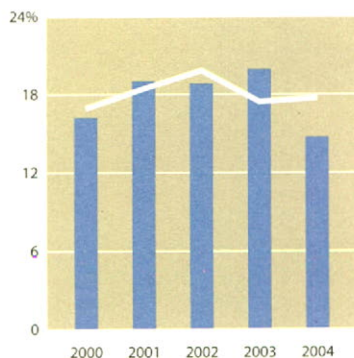


George Weston Limited

S&P/TSX Composite Index

Return on Average Common Shareholders' Equity[1]

(%)



■ Return on Average Common Shareholders' Equity

□ Five Year Average Return

(1) Certain prior year's information was restated due to the implementation of Section 3110 and EIC 144 as discussed in note 1 to the consolidated financial statements and due to discontinuing the Fisheries segment (see note 7 to the consolidated financial statements).

due to the 53rd week in fiscal 2003. Adjusted for the extra week, sales were up 5.9%. Operating income increased to a satisfactory $1.6 billion. Loblaw maintained its substantial investment program and during the next 12 months will have dramatically enhanced the quality and productivity of its asset base. Loblaw continued its strategic thrust into general merchandise, while continuing to focus on fresh food, its most important strength. Loblaw continued to invest in building the *PC* brand and announced a number of nutritious product lines for children and adults that have been approved by nutritionists and registered dieticians.

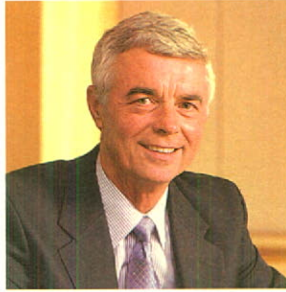
The Fisheries segment continued to experience challenges throughout 2004, including depressed fresh salmon market prices exacerbated by the significant appreciation of the Canadian dollar. The outlook for the Fisheries segment, given current market conditions, is for continued operating losses.

A great deal of good work is taking place at George Weston in the governance area in an effort to clarify our business strategies and communicate these to shareholders. 2004 was a difficult year at Weston Foods and there is more restructuring ahead of us. I am totally confident, however, that future growth will be forthcoming across all divisions of the Company and thank our more than 149,000 dedicated employees and our loyal customers for their commitment and support.

W. Galen Weston

W. Galen Weston

Chairman and President



Gary J. Prince
President

Ralph A. Robinson
President

John A. Lederer
President

Fraser J. Walsh
President

Gary J. Prince – *President*

Gary joined the Company in 1974 and served in various capacities with Weston Foods Canada. From 1992 to 1994, Gary served as President of Weston Foods Canada, and in 1995 he joined Stroehmann Bakeries in the United States as President. In 1996, Gary was appointed President of all Weston Foods United States operations. Gary is Chairman of the American Bakers Association and a member of the Board of Directors of Students In Free Enterprise.

Ralph A. Robinson – *President*

As President of Weston Foods Canada, Ralph is in charge of our Canadian bakery and dairy operations. He has served in a variety of positions in his 30-year career with the Company, starting in the Finance area. Ralph was appointed President of Neilson Dairy in 1989 and assumed responsibility for the bakery operations in 1994. Ralph holds a B.Sc. from McGill University and an MBA from York University.

John A. Lederer – *President*

John became President of Loblaw Companies Limited on January 1, 2001. He joined Loblaw in 1976 and spearheaded the development and implementation of a newly formed discount division, No Frills. In succeeding years, he assumed additional merchandising and operational responsibility throughout Loblaw including overseeing the reorganization and integration of Provigo Inc., acquired in 1998. John received a B.A. in economics from York University. He is a board member of the Food Marketing Institute and founder of the *President's Choice* Children's Charity.

Fraser J. Walsh – *President*

Fraser has been part of the Company's fishing and fish processing business for more than 30 years. Fraser's focus on creating results through leadership and team building has led the Fisheries operations, Heritage Salmon, to become a fully integrated company with operations on both the east and west coasts of North America. Fraser is currently a director of the New Brunswick Salmon Growers Association, the Canadian Aquaculture Industry Alliance and the Huntsman Marine Science Centre, and is a member of the Association of Professional Engineers of New Brunswick. Fraser holds a B.Sc. in electrical engineering from the University of New Brunswick.

Operating Directory

(includes age and years of service)

WESTON FOODS

Gary J. Prince
53 and 31 years
President, United States

Raymond A. Baxter
60 and 17 years
Interbake Foods

Robert Chernoff
43 and 19 years
Information Systems

Steven A. Cucinotta
53 and 9 years
Business Development

Anthony M. Gavin
45 and 22 years
Southeast Market Area

Richard M. Lee
45 and 11 years
Taxation

Antonio L. Leta
48 and 13 years
Stroehmann Bakeries

John C. Lorenzen
54 and 12 years
Corporate Development

Louis A. Minella
48 and 7 years
Labour Relations

Fred F. Penny
49 and 24 years
Entenmann's

Bill Petersen
55 and 31 years
Finance

Peter E. Rollins
50 and 21 years
Greenwich Market Area

Shelly W. Seligman
47 and 19 years
General Counsel

John A. Speaker
52 and 5 years
Midwest Market Area

Carl H. Taylor
51 and 17 years
Human Resources and Integration

David G. Winiger
45 and 14 years
Maplehurst Bakeries

Kurt R. Wissehr
58 and 20 years
Bread and Rolls

Ralph A. Robinson
56 and 30 years
President, Canada

Lorena M. Ferino
41 and 18 years
Information Technology and Systems

Pieter J. Fontein
50 and 16 years
Corporate Development

Wayne W. Greer
48 and 4 years
Food Service

Chuck T. Gyles
54 and 9 years
Human Resources and Labour Relations

Edward J. Holik
46 and 16 years
Baking Operations

Craig R. Hutchison
39 and 3 years
Marketing

John T. Koster
62 and 38 years
Business Development

Maria Liang
51 and 15 years
Finance and Logistics

Judith A. McCrie
49 and 11 years
Dairy Operations

Henry Penner
55 and 3 years
Manufacturing

FOOD DISTRIBUTION

John A. Lederer
49 and 28 years
President, Loblaw Companies Limited

Robert A. Balcom
43 and 11 years
General Counsel

David K. Bragg
56 and 21 years
Real Estate

Roy R. Conliffe
54 and 23 years
Labour Relations

Carmen Fortino
46 and 20 years
Ontario Operations

David R. Jeffs
47 and 26 years
Western Operations and Non-Food Sourcing and Procurement

Violet Konkle
51 and 11 years
Atlantic Operations

Richard P. Mavrinac
52 and 22 years
Treasury, Tax, Risk Management and Investor Relations

Bernard J. McDonell
50 and 11 years
Quebec Operations

Paul D. Ormsby
53 and 22 years
Supply Chain, Information Technology, Food Sourcing and Procurement

Donald G. Reid
55 and 25 years
President's Choice Bank

Pietro Satriano
42 and 3 years
Control Label Development

Stephen A. Smith
47 and 19 years
Financial Control and Reporting, Employee Development and Services and Loss Prevention

Galen G. Weston
32 and 7 years
Corporate Development

FISHERIES OPERATIONS

Fraser J. Walsh
57 and 34 years
President, Heritage Salmon

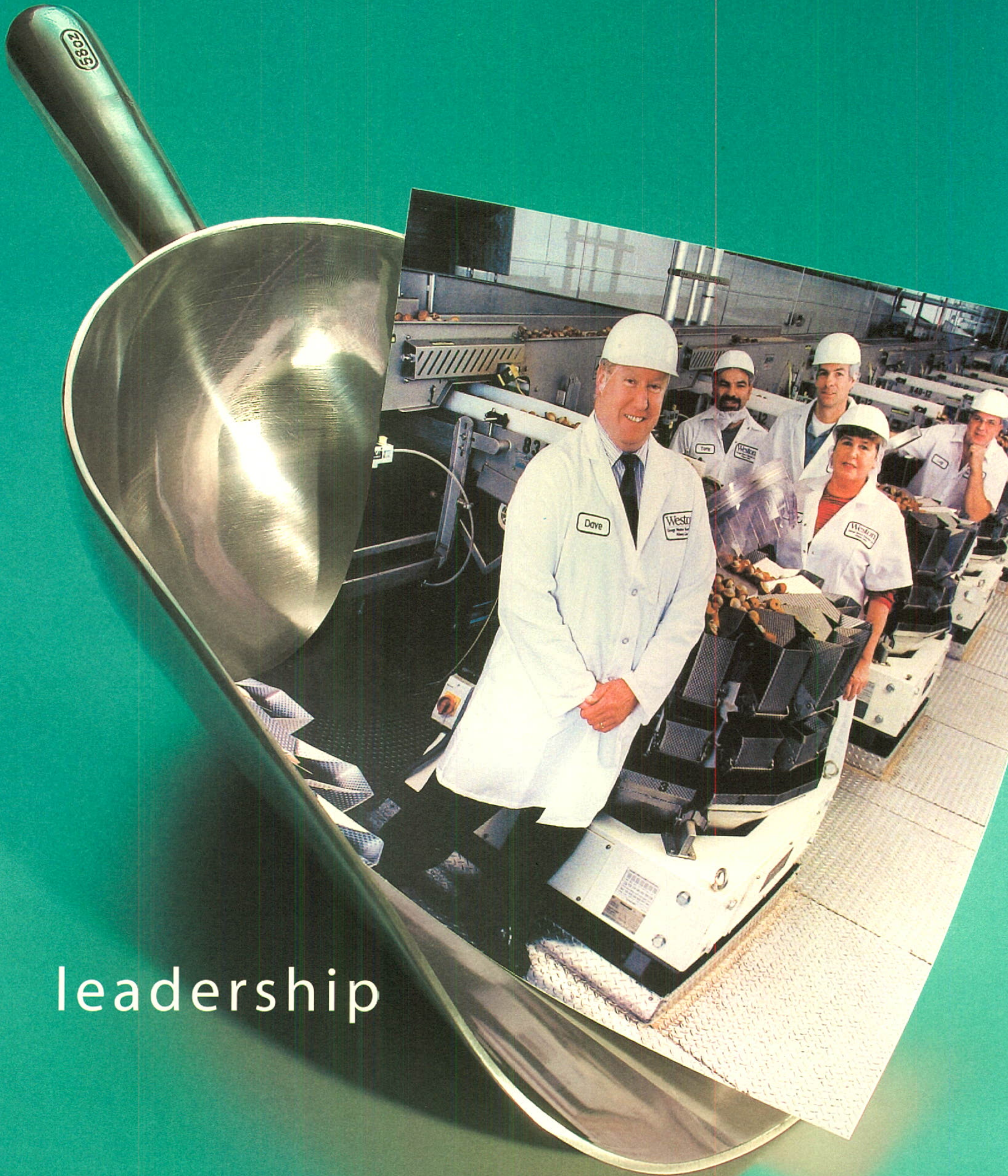
Gordon J. Dixon
39 and 6 years
Finance

Ken D. Hirtle
59 and 26 years
Sales and Marketing

Ted A. Needham
61 and 15 years
West Coast Operations

William D. Robertson
44 and 16 years
East Coast Operations

Gary V. Wadden
47 and 3 years
Human Resources



leadership

The introduction of *Whole Grain Classics* continues to strengthen the George Weston leadership position in healthier breads. Whole grains, the foundation of a healthy diet, are the primary ingredients in this delicious and healthy product offering.

As the only line of 100% whole grain breads with Omega-3, *Country Harvest* leads the whole grain bread market in Canada. Eating healthier is as simple as eating 3 slices of *Country Harvest* 100% Whole Grains a day. With the launch of Healthyslices.com and Countryharvest.com, consumers can now find easy recipes and healthy living tips online.

people with **vision**

Weston has the experienced leadership it takes to succeed in a constantly evolving environment. While our industries face a variety of challenges, the know-how and vision of our leaders enable us to confidently move forward on our own path.

Leadership development, through various programs, is a key strategic initiative for our operating divisions which ensures that succession plans are in place and strategic initiatives are developed.

At Weston, we believe that "baking in" excellence results in excellence in baking. This means making sure that we have effective systems and capable, trained leaders who can address strategic issues and bring real change to the organization. For example, the Weston Foods segment employs leading manufacturing processes such as Integrated Process Management, which significantly increases the consistency of production quality through statistical analysis and drives process decision-making at the line operator level. At Loblaw, the belief that "leadership means business" has resulted in initiating a leadership training program directed to leaders at all operational levels of the business. Loblaw is committed to investing in programs that are tailored to suit the changing retail environment.

experience
CAFÉ GOURMET
Entenmann's
Marble Cake
Little Bites
Blueberry
COUNTRY HARVEST
Whole Wheat
6 BAGELS
Neilson

75+ years and still going strong! *Wonder* underwent a face lift this year, transforming it from an old favourite to a Fresh contemporary brand. As the leader in kids' bakery, *Wonder* is also leading in the fight against childhood obesity with an active fitness program in schools across Canada.

Dutch Country Family Grains combines the softness of white bread with the goodness and nutrition of whole grains. Appealing to the whole family, these products are a good source of calcium and fibre, enriched with folic acid and made with no trans fats.

focus on execution

In a highly competitive market, execution is essential to profitability. Weston Foods' ongoing commitment to streamlined and focused production reduces manufacturing costs, eliminates waste, improves quality and increases our capacity to meet growing demand. As with all of Loblaw's initiatives, success is based on sound long term strategies and a focus on day-to-day execution. Loblaw's strategy is to leverage key support functions across its national retail store base.

Optimizing our supply chain in both operating segments is critical to execution. This means making sure that all processes within the Company work together seamlessly with those of our vendor relationships so that customers and consumers get the right products and quality, at the lowest delivered cost, when they want them.

At Weston, cost containment is one facet of executing this strategy. We continually find ways to reduce waste through process control, automation and customizing product-focused facilities. At Loblaw, investment in warehouse facilities and a move towards a more integrated national network will ensure that the right product is delivered to the right store at the right time. On a daily basis, this commitment to execution means supplying more than 50,000 line items to more than 1,000 stores.

flexibility

Weston Foods is leveraging the equity of well-known brands to bring innovation to its market categories and differentiate its products. Weight Watchers® bakery products, Kellogg's® breakfast breads and PowerBar® protein shakes are prime examples of the strategy.

Loblaw's *Photolab* department offers customers great quality photos from their digital cameras at in-store kiosks. Our one-stop shop strategy provides customers with a wide assortment of products and services under one roof.

multiple **formats**

Loblaw continues to set the standard in food retailing within a changing Canadian retail landscape, presenting customers with a superior value proposition. Multiple formats give us the flexibility to maximize market share over the long term, strengthening our competitive position. Weston continues to focus on route and warehouse optimization and technological advancements to ensure a worry-free source of supply for our customers.

Weston uses a variety of strategies to meet the ever-changing needs of our customers. For instance, in areas where the lack of market density doesn't allow for dedicated production, many Weston plants have the flexibility to produce a range of products in a single location. For distribution, Weston Foods has the option of meeting the needs of the various customer channels it services through its direct-to-store delivery network or its direct-to-warehouse drop system.

The introduction of *The Real Canadian Superstore* format into Ontario reflects Loblaw's strategy of providing shoppers with a one-stop shopping destination at a tremendous value proposition. In fact, approximately 1,500 new products have been introduced this year through Loblaw's superior control label program, strengthening consumer loyalty and enhancing price competitiveness across food and general merchandise categories alike.

innovation
Entenmann's
Little Bites
WONDER
Fresh!
President's Choice
BLUE MENU
Neilson
Dairy Oh!
DUTCH COUNTRY
Family Grains
Source of Omega-3
COUNTRY HARVEST
100% WHOLE GRAIN • CÉRÉALES ENTIÈRES
THOMAS'
HEARTY GRAINS
READY BAKE
ZÉRO TRANS FAT GRAS TRANS
ARNOLD
Whole Grain
CLASSICS
President's Choice
FINANCIAL
fresh financial thinking.

Weston Foods built a new bakery in Langley, British Columbia, which includes computer-based shipping technology. This investment in technology improves efficiency in shipping and distribution.

The *President's Choice ("PC") Blue Menu* line of great-tasting, lower-fat products demonstrates our dedication to providing consumers with the opportunity to eat healthier without sacrificing the foods and flavours they love.

brand loyalty and **growth**

In an environment where consumers have unprecedented choice, the value of the brand has never been as strategically important to building loyalty. With many of the most recognized and trusted brands in North America in our portfolio, Weston is in the enviable position of being able to leverage brand equity to gain consumer acceptance of new and innovative product offerings and continually fuel growth.

At Weston, we are building recognizable brands, products and services that meet the specific needs and earn the trust of customers and consumers. *Thomas' Hearty Grains*, *Dutch Country Family Grains* and *Arnold Whole Grain Classics* breads are examples of offerings that reflect consumers' preferences for whole grains and more fibre. *Entenmann's* Little Bites and *Thomas'* mini bagels respond to consumers' choices shifting towards convenient hand-held products. Health-conscious consumers will find healthy alternatives such as Neilson *Dairy Oh!* milk and *Country Harvest* Omega-3 bread.

Loblaw maintains its focus on the *PC* brand, which provides a wide range of food, general merchandise and specialty service offerings, including home and auto insurance available through *PC Financial*. *PC* continues to delight customers with great-tasting products that offer exceptional value, such as lower-calorie, lower-fat *PC Blue Menu* items. In addition, the growing assortment of general merchandise products available under one roof makes Loblaw the ideal one-stop shop destination.

Corporate Social Responsibility

George Weston Limited and its subsidiaries are committed to responsible corporate citizenship. This includes not only contributing to their local communities, but respecting the environment, promoting health and safety, and offering products that provide meaningful choices to consumers.

These commitments are instilled throughout the organization and are overseen by the Environmental, Health and Safety Committees of the George Weston Limited and Loblaw Companies Limited Boards of Directors and by the full Boards themselves. They review and monitor policies, procedures, practices and compliance in these fields.

Initiatives in these areas are undertaken through any combination of four approaches – by the Weston group of companies itself, in conjunction with other industry members, as part of industry-government partnerships, and in direct cooperation with governments.

Respecting the environment in a sustainable way: The commitment to the environment is demonstrated through measures in such areas as environmental awareness and management, energy efficiency, waste management and packaging.

Environmental awareness management: Measures in this area are driven by an Environmental Management System designed to achieve the structured integration of environmental programs into the Company's operations. This system also focuses on ensuring the control of high-risk activities, the management of hazardous wastes, the control and reduction of ozone-depleting substances and promoting waste water load reduction and treatment. Key environmental performance indicators in these and other areas are identified, measured, monitored and evaluated against internal and external benchmarks. Environmental risk assessments and audits of ongoing and newly acquired or established operations are conducted on a regular basis by in-house environmental staff as well as by external parties. In addition, employees receive education and training that enable them to recognize and minimize environmental risks and to respond to any incidents that might occur.

Energy efficiency: Ongoing efforts are directed towards improving energy efficiency throughout the Weston companies. The areas in which these efficiencies are pursued include the lighting used in and outside stores, energy-efficient refrigeration, the use of energy in corporate facilities, and the fuels used in the Company's transportation and other operations.

Waste management and packaging: Waste management programs follow a three-stage process – source reduction, diversion to re-use or recycling and, finally, disposal. The Weston companies are long-standing supporters of, and financial contributors to, such industry-sponsored programs as Corporations Supporting Recycling and the Composting Council of Canada. This commitment is evident throughout the Company's operations. Bakeries and Dairies utilize re-usable shipping containers. In-store photo labs recycle disposable cameras, processing fluids and even film cuttings. Post-consumer recycled material is used in private label packaging to the greatest extent possible without compromising the safety or quality of the product. Packaging is labelled as appropriate with the symbols that help customers identify materials that can be recycled through local municipal programs. As well, customers are offered a choice in grocery checkout packaging, including conventional plastic shopping bags, re-usable plastic bags, recyclable corrugated containers and re-usable bins.

Promoting health and safety: The commitment to food health and safety is reflected in the Company's participation in standard-setting initiatives, in its operations, in its dealings with suppliers, and in the information provided to customers.

The Company supports international initiatives designed to promote food health and safety. It works to ensure that products meet or exceed the food safety requirements of the Canadian Food Inspection Agency and the U.S. Food and Drug Administration. It also participates in national joint industry-government programs in the development of food safety procedures for different parts of the food supply system. Suppliers are informed of the standards to which they must adhere and are expected to observe them. Manufacturing, refrigeration and handling procedures, employee education and training programs, compliance systems and independent audits are among the measures used to promote food health and safety within the Company's stores and other operations. Through packaging and labelling, customers are informed of manufacturing ingredients and whether certain products made and processed in in-store departments may have come in contact with one or more allergens. This allows consumers to make more fully informed purchasing decisions.

Offering products that provide meaningful choices: The Weston group of companies provides a wide range of product offerings to meet an equally wide range of consumer preferences. This includes the provision of alternative food products that provide customers with meaningful choices.

The expanding collection of *President's Choice* GREEN products, the hundreds of *President's Choice Organics* and other organic products have been developed to satisfy customers' environmental or health preferences. The organic products are third-party certified as organic, are in packages containing high levels of recycled materials, and are priced to be competitive with similar national brands. The *Natural Value* department in many stores is a one-stop source for health food needs, offering a selection of healthy and nutritious alternative foods, vitamins and home remedies.

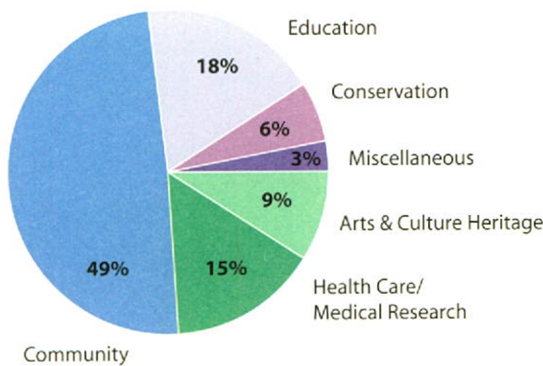
The focus on healthy and nutritious food products is further demonstrated by two recent product initiatives under the *President's Choice* label. The line of *PC Mini Chefs* products has been designed to fit into a healthy eating plan for young children consistent with the federal government's "Nutrition Recommendations for Canadians." These products have been approved by a team consisting of prominent nutrition researchers and registered dieticians. The *PC Blue Menu* line of products offers adults an alternative with fewer hydrogenated oils and calories as well as more nutrients in the foods they eat.

George Weston Limited and its subsidiaries are committed to improving the quality of life in their local communities, and believe that business should partner with its employees to make a positive contribution to community organizations.

As a member of the Imagine Caring Company program, Weston is committed to contributing a minimum of 1% of pre-tax profits to charitable organizations in Canada and encouraging employee volunteerism.

Contributions to voluntary organizations, of both cash and in-kind donations, are made by George Weston Limited, Loblaw Companies Limited, their operating divisions in Canada and the United States, the *President's Choice* Children's Charity and The W. Garfield Weston Foundation, a private Canadian charitable foundation associated with the Weston group of companies.

George Weston Limited Group Donations by Category



Here are just a few of the ways in which George Weston Limited and its subsidiaries support communities and people:

Food banks across Canada: The Weston group of companies has a strong record of providing support to non-profit organizations that procure, warehouse and distribute food to members of the Canadian Association of Food Banks. This assistance is provided on an ongoing basis as well as through participation in seasonal food drives. Strict procedures ensure that the food donated meets all health and safety requirements.

***President's Choice* Children's Charity:** In 1989, Loblaw Companies Limited established this charity to assist physically and developmentally challenged children and their families. The goal is to support children's independence and dignity by removing some of the obstacles that make everyday living difficult for them. The Charity does this by providing direct financial assistance for the purchase of costly mobility equipment, environmental modifications and physical therapy. To date, the *President's Choice* Children's Charity has raised in excess of $9 million and assisted more than 2,000 Canadian families.

The Craig R. Williams and Glenn Grieve Scholarship Funds: Weston recognizes that its employees are its greatest strength. Therefore it provides many training and educational opportunities for employees and their families. These Funds provide scholarships that enable current employees, their spouses and children to attend post-secondary programs in Canada. To date, more than 450 scholarships totalling over $1.2 million have been awarded to students across the country.

THE W. GARFIELD WESTON FOUNDATION

Garfield Weston Merit Scholarships: The Canadian Merit Scholarship Foundation awards post-secondary scholarships to the next generation of our country's leaders – motivated young Canadians who make positive contributions to their communities. Since 1998, The W. Garfield Weston Foundation has sponsored these scholarships for college and university students. These innovative awards have recognized more than 350 exceptional students from across the country.

The Waterton Park Front project: From coast to coast, The W. Garfield Weston Foundation has worked with the Nature Conservancy of Canada to protect critical habitat. In 2004, the successful completion of the largest private conservation initiative in Canadian history was announced. Over the past eight years, the Foundation has played a leading role in preserving more than 100 square kilometres (27,000 acres) of magnificent and ecologically significant lands adjacent to Waterton Lakes National Park in Alberta.

Waterton Park Front by Nature Conservancy of Canada

Alberta's Waterton Park Front initiative has been one of The W. Garfield Weston Foundation's major commitments.

Summary of Corporate Governance Practices

The Board of Directors (the "Board") and management of George Weston Limited (the "Company") believe that sound corporate governance practices contribute to the effective management of the Company and its achievement of strategic and operational plans, goals and objectives. The Company's approach to corporate governance is in compliance with the Guidelines for Corporate Governance adopted by the Toronto Stock Exchange ("TSX").

The Company seeks to attain high standards of corporate governance and believes that it has adopted best practices in developing its approach to corporate governance. The Governance, Human Resource, Nominating and Compensation Committee (the "Governance Committee") continues to monitor the TSX Guidelines and changes to other applicable laws to ensure that its commitment to exemplary corporate governance practices is maintained. A report with specific reference to each of the TSX Guidelines is contained in the Company's Management Proxy Circular.

Board of Directors

Independence

The Governance Committee reviews the circumstances and relationships of each director to determine whether he or she is related or unrelated within the meaning of the TSX Guidelines.

A majority of the Board are unrelated and independent. The Board believes this benefits the interests of all shareholders.

Responsibilities and Duties

The Board, directly and through its committees, supervises the management of the business and affairs of the Company with the goal of enhancing long term shareholder value. The Board has adopted a formal mandate and makes major policy decisions, delegating to management the authority and responsibility in day-to-day affairs, and reviews management's performance and effectiveness. The Board's expectations of management are communicated directly to management and through committees of the Board.

The Board approves the Company's operating budgets, which take into account the opportunities and risks of the business. Members of the Board attend an annual all-day strategy session with management to discuss and review the Company's strategic plans and opportunities. Through the Audit Committee, the Board oversees the Company's risk management framework and assesses the integrity of the Company's internal control over financial reporting and management information systems. Through the Governance Committee, the Board oversees succession planning and compensation for senior management.

At each Board meeting, the Board meets without management present to ensure that the Board is able to discharge its responsibilities independently of management. In appropriate circumstances, a director may retain an outside advisor with the approval of the Chairman of the Governance Committee.

The Board is also responsible for having in place a process that ensures the effectiveness and accountability of the Board as a whole as well as that of the committees of the Board. Through the Governance Committee, the Board assesses the performance of directors and the adequacy and form of compensation paid to them. Each year, the Governance Committee benchmarks directors' compensation against that of their peers in other major Canadian public companies in order to ensure that their compensation reflects the responsibilities involved in being a director.

The Board requires that management seek directors' review and approval of:

- strategic corporate direction and corporate performance objectives;
- multi-year and annual business, capital and operating plans and budgets;
- material capital expenditures, acquisitions and divestitures, and restructurings; and
- investment outside the ordinary business.

These matters are in addition to those matters which are required by law to receive Board consideration and approval.

The Board regularly receives reports on the operating activities of the Company, as well as timely reports on certain non-operational matters including insurance, pensions, corporate governance, health and safety, and treasury matters.

Code of Business Conduct

The Board has adopted a Code of Business Conduct applicable to all directors, officers and employees. The Audit Committee receives regular compliance reports.

Committee Structure and Mandates

There are five committees of the Board: the Audit Committee; the Governance Committee; the Pension and Benefits Committee; the Environmental, Health and Safety Committee; the Executive Committee. With the exception of the Executive Committee, all of these committees are comprised solely of non-management directors. As well, the Audit Committee is comprised solely of independent

and unrelated directors. The Board believes that the composition of its committees ensures that they operate independently of management such that shareholders' interests are protected. Each of the committees has a formal charter established by the Board, which is reviewed annually. The committee memberships of the directors are listed in the Company's Management Proxy Circular.

The following is a brief summary of the committees' responsibilities:

Audit Committee

The Audit Committee, whose members are all financially literate and include at least one individual with accounting or related financial experience, is responsible for:

- recommending the appointment of the external auditor;
- reviewing the arrangements for and scope of the audit by the external auditor;
- reviewing the independence of the external auditor;
- considering and reviewing with management the adequacy and effectiveness of the internal accounting controls and reviewing any proposed corrective actions;
- reviewing with management disclosure controls and procedures;
- reviewing and monitoring the Company's policies relating to ethics and conflicts of interest;
- reviewing the integrity of the Company's management and information systems;
- establishing a procedure for the receipt, retention and follow-up of complaints regarding the Company's accounting, internal controls and auditing matters;
- reviewing and monitoring the Company's internal audit function;
- discussing and reviewing with management and the external auditor the Company's annual and interim consolidated financial statements, key reporting matters and Management's Discussion and Analysis;
- approving the Company's annual and interim consolidated financial statements and Management's Discussion and Analysis;
- reviewing and approving the audit fees paid to the external auditor and pre-approving the non-audit related fees to the external auditor; and
- reviewing the proposed risks of the Company's business.

Governance, Human Resource, Nominating and Compensation Committee

The Governance Committee is responsible for:

- identifying candidates for membership on the Board;
- assisting in educating directors and assessing their performance on an ongoing basis;
- shaping the Company's approach to corporate governance and recommending to the Board corporate governance principles to be followed by the Company; and
- discharging the Board's responsibilities relating to compensation and succession planning for the Company's senior executives.

Pension and Benefits Committee

The Pension and Benefits Committee is responsible for:

- reviewing the performance of the Company's and its subsidiaries' pension funds;
- reviewing and recommending managers for the fund portfolios;
- reviewing the performance of pooled pension fund managers;
- reviewing and approving the funding assumptions of, the funded status of and amendments to the Company's and its subsidiaries' pension plans; and
- receiving reports regarding level, type and cost of employee benefit plans.

Environmental, Health and Safety Committee

The Environmental, Health and Safety Committee is responsible for reviewing and monitoring environmental, workplace health and safety and food safety policies, procedures, practices and compliance.

Executive Committee

The Executive Committee possesses all of the powers of the Board except the power to declare common dividends and certain other powers specifically reserved by applicable law to the Board. The Executive Committee acts only when it is not practical for the full Board to meet.

Disclosure Policy

The Company has adopted a disclosure policy, which provides for interaction with analysts, shareholders and the public to ensure compliance with regulatory requirements and the disclosure of information on a timely basis to all shareholders.

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The following Management's Discussion and Analysis ("MD&A") for George Weston Limited ("Weston") and its subsidiaries (collectively, the "Company") should be read in conjunction with the consolidated financial statements and the accompanying notes on pages 61 to 93 of this Annual Report. The consolidated financial statements and the accompanying notes have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are reported in Canadian dollars. A Glossary of terms and ratios used throughout this Annual Report can be found on page 98. The information in this MD&A is current to March 11, 2005, unless otherwise noted.

FORWARD-LOOKING STATEMENTS

This Annual Report, including this MD&A, contains forward-looking statements which reflect management's expectations regarding the Company's objectives, plans, goals, strategies, future growth, results of operations, performance and business prospects and opportunities. Forward-looking statements are typically identified by words or phrases such as "anticipates", "expects", "believes", "estimates", "intends" and other similar expressions.

These forward-looking statements are not facts, but only predictions. Although the Company believes that these statements are based on information and assumptions, which are current, reasonable and complete, these statements are necessarily subject to a number of factors that could cause actual results to vary significantly from the estimates, projections and intentions. Such differences may be caused by factors which include, but are not limited to, changes in consumer spending, preferences and consumers' nutritional and health related concerns, changes in the competitive environment including changes in pricing and market strategies of the Company's competitors and the entry of new competitors and expansion of current competitors, the ability to realize anticipated cost savings, the Company's relationship with its employees, results of labour negotiations including the terms of future collective bargaining agreements, changes to the regulatory environment in which the Company operates now or in the future, performance of third party service providers, the ability of the Company to attract and retain key executives, the success rate of the Company in developing and introducing new products and entering new markets and supply and quality control issues with vendors. A discussion of these and other risks and uncertainties is included in the Operating and Financial Risks and Risk Management sections of this MD&A. The Company cautions that the list of factors is not exhaustive.

Potential investors and other readers are urged to consider these factors carefully in evaluating these forward-looking statements and are cautioned not to place undue reliance on them. The forward-looking statements included in this Annual Report, including this MD&A, are made only as of the date of this Annual Report and the Company does not undertake to publicly update these forward-looking statements to reflect new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events contained in these forward-looking statements may or may not occur. The Company cannot assure that projected results or events will be achieved.

OVERVIEW

Weston is a Canadian public company, founded in 1882 and is one of North America's largest food processing and distribution companies. Weston has two reportable operating segments: Weston Foods and Food Distribution. The Weston Foods operating segment is primarily engaged in the baking and dairy industries within North America. The Food Distribution operating segment, which is operated by Loblaw Companies Limited and its subsidiaries ("Loblaw"), is Canada's largest food distributor and is expanding into certain general merchandise categories and services. Weston also operates a Fisheries business which is now reported as a discontinued operation.

VISION

Weston seeks long term, stable growth in its operating segments while accepting prudent operating risks through continuous capital investment supported by a strong balance sheet, thereby providing sustainable returns to its shareholders through a combination of common share price appreciation and dividends.

The Company believes, to be successful over the long term, it must deliver on what its customers and consumers want, today and in the future. The Company also believes it must provide consumers with the best in one-stop shopping and continually introduce innovative products and convenient services that meet consumers' everyday household needs.

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

OPERATING AND FINANCIAL STRATEGIES

In order to be successful in delivering long term value and to fulfill its long term objectives of security and growth, the Company employs various operating and financial strategies. Although a few of them may carry some short term risk, the Company employs these various strategies in order to achieve its long term vision. Each of the Company's two reportable operating segments has its own risk profile and operating risk management strategy.

Weston Foods' long term operating strategies include:

- focusing on core brands, products, customers and markets;
- focusing on the development of new products to grow market share and penetration;
- ensuring its range of products are meeting the nutritional and dietary concerns of consumers;
- ongoing cost reduction initiatives to ensure a low cost operating structure and economies of scale;
- simplifying and removing complexity from both manufacturing and distribution processes;
- targeting strategic acquisitions and relationships to broaden market penetration and expand geographic presence; and
- continuous capital investment to strategically position production facilities across North America to support growth and enhance productivity and efficiencies.

Food Distribution's long term operating strategies include:

- using the cash flow generated in its business to invest in its future;
- owning its real estate, where possible, to maximize flexibility for product and business opportunities in the future;
- using a multi-format approach to maximize market share over the longer term;
- focusing on food but serving the consumer's everyday household needs;
- creating customer loyalty and enhancing price competitiveness through a superior control label program;
- implementing and executing plans and programs flawlessly; and
- constantly striving to improve its value proposition.

The Company's financial strategies include:

- maintaining a strong balance sheet;
- minimizing the risks and costs of its operating and financing activities;
- reinvesting cash flow in the business; and
- maintaining liquidity and access to capital markets.

The Company believes that if it successfully implements and executes its various operating and financial strategies, plans and programs and continues to focus on flawless execution, it will be well positioned to continue to provide sustainable returns to its shareholders over the long term.

KEY PERFORMANCE INDICATORS

The Company reviews and monitors its activities and key performance indicators which it believes are important to measuring whether the implementation of its operating and financial strategies and plans and programs are successful. Some of the Company's key financial performance indicators are set out below.

Key Financial Performance Indicators	2004	2003(2)
Sales growth	2.7%	6.5%
Basic net earning from continuing operations per common share growth	(24.0)%	13.9%
Net debt (excluding Exchangeable Debentures) (1) to equity ratio	1.26:1	1.16:1
Return on average common shareholders' equity	14.8%	20.0%
Common dividend payout ratio	24.4%	23.1%

(1) See Supplementary Financial Information beginning on page 57.

(2) Certain prior year's information was reclassified to conform with the current year's presentation and was restated due to the implementation of Section 3110 and EIC 144 as discussed in note 1 to the consolidated financial statements and due to discontinuing the Fisheries segment (see note 7 to the consolidated financial statements).

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

OVERALL FINANCIAL PERFORMANCE

Consolidated Results of Operations

($ millions except where otherwise indicated)		2004		2003 (1)		2002 (1)
Sales	$	29,798	$	29,021	$	27,239
Net earnings from continuing operations	$	606	$	807	$	708
Net earnings	$	428	$	792	$	690
Net earnings from continuing operations per common share ($)						
Basic	$	4.49	$	5.91	$	5.19
Diluted	$	4.48	$	5.89	$	5.16
Net earnings per common share ($)						
Basic	$	3.11	$	5.80	$	5.05
Diluted	$	3.10	$	5.78	$	5.02

(1) Certain prior year's information was restated due to discontinuing the Fisheries segment (see note 7 to the consolidated financial statements).

The Company continued to compete successfully in very challenging markets during 2004. Although Loblaw reported strong results with earnings per share up 15%, the consolidated operating performance was negatively impacted by two significant non-operational events. Baking industry conditions have changed significantly over the past year and the Company's North American bakery operations have faced a challenging marketplace impacted by changing consumer eating preferences and food shopping patterns, a difficult sales pricing environment as well as continued inflationary cost pressures. The Company continued to respond to these challenging conditions and execute on opportunities to improve the long term competitive position of its North American baking operations, which has resulted in restructuring charges taken by the Company during 2004. In addition, consistent with Weston's strategy of focusing primarily on its core business segments of baking and food and general merchandise distribution, the Company decided to actively market for sale the Fisheries business. This resulted in a non-cash impairment charge for this now discontinued operation. The financial results for the Fisheries segment have been classified and reported separately as discontinued operations and the Fisheries segment results for prior periods have been restated accordingly.

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

The 52-week reporting cycle followed by the Company periodically necessitates a 53-week fiscal year, which occurred in 2003.

In 2004, consolidated sales increased 2.7% to $29.8 billion from $29.0 billion in 2003. Sales growth for 2004 includes a 2% negative impact from the 53rd week in 2003. On a comparable 52-week basis, sales growth for 2004 was approximately 4.7%. In 2003, consolidated sales increased 6.5% from $27.2 billion in 2002. Sales growth for 2003 includes a 2% positive impact from the 53rd week. On a comparable 52-week basis, sales growth for 2003 was approximately 4.5%. Consolidated net earnings from continuing operations decreased $201 million, or 24.9%, to $606 million from $807 million in 2003. In 2003, consolidated net earnings from continuing operations increased $99 million, or 14.0%, from $708 million in 2002. Consolidated net earnings decreased $364 million, or 46.0%, to $428 million in 2004 from $792 million in 2003. In 2003, consolidated net earnings increased $102 million, or 14.8%, from $690 million in 2002.

The 2004 basic net earnings from continuing operations per common share of $4.49 decreased 24.0% in line with the decrease in consolidated net earnings from continuing operations. The 2004 basic net earnings per common share of $3.11 declined by 46.4% compared to $5.80 in 2003. The decline is primarily attributable to the negative impact of $2.46 relating to the combined impact of the Fisheries loss from discontinued operations, the impairment and restructuring charges incurred by the Weston Foods operating segment and higher interest expense and other financing charges due to the change in the accounting standard relating to Weston's 2001 forward sale agreement of Loblaw common shares.

The Company's consolidated financial statements are expressed in Canadian dollars but a significant portion of its Weston Foods business is carried on in United States dollars through its investment in self-sustaining foreign operations in the United States ("U.S. net investment"). Changes in the exchange rate for United States dollars will affect the Company's sales, net earnings and the value of the Company's assets and liabilities on its consolidated balance sheet, either positively or negatively as a result of translating the U.S.

net investment into Canadian dollars. In 2003 and 2004, due to the significant appreciation in the Canadian dollar relative to the United States dollar, sales, net earnings and the value of the Company's net assets were negatively impacted as a result of foreign currency translation.

Over the past two years, the Weston Foods bakery operations have operated in a challenging market place impacted by changing consumer eating preferences and food shopping patterns, a difficult pricing environment as well as continued inflationary cost pressures. The changing consumer eating preferences, including a focus on health and diet, have negatively impacted Weston Foods' sales of traditional white flour based products, in particular white bread and fresh-baked sweet goods. In addition, consumer shopping patterns continued to shift toward alternate format retail channels over traditional, conventional supermarket formats. These continuing trends are more fully discussed under Weston Foods operating results in the Results of Reportable Operating Segments section of this MD&A.

During this period, Weston Foods' sales have been positively impacted by its focus on:

- penetrating new sales channels, particularly with alternate format retailers;
- strong sales growth in the bakery whole grain and higher-priced premium product categories including growth in low carbohydrate products ("low-carb"); and
- the development and introduction of new and expanded convenience and health related product offerings including "On the Go" individual portioned products as well as Omega-3, no cholesterol, reduced fat, no trans fat and organic products.

In the second half of 2004, sales price increases were implemented that were more significant and across more product categories than in prior years. These increases helped to partially mitigate the impact of the continued cost inflation experienced across the baking industry. Over the last two years, Weston Foods has restructured its asset base to reduce costs and operate more efficiently. Management continues to review cost reduction and other strategic initiatives, including manufacturing asset and distribution network optimization, to ensure a low cost operating structure and continual improvement in its competitive cost position.

Food Distribution sales increased 3.9% in 2004, including a 2% negative impact from the 53rd week in 2003. On a comparable 52-week basis, sales were 5.9% ahead of last year. The 2004 sales increase resulted from increased same-store sales on an equivalent 52-week basis and increased net retail square footage. Sales in 2003 increased 9.3%, including a 2% positive impact from the 53rd week. On a comparable 52-week basis, sales growth for 2003 was approximately 7.3%. The 2003 sales increase also resulted from increased same-store sales on an equivalent 52-week basis and increased net retail square footage. Sales for 2003 were impacted by the investment in lower pricing and a delay in new store construction. Food Distribution sales may be influenced by a number of factors, including changes in net retail square footage, same-store sales, inflation, expansion into new services and/or departments and the activities of competitors. Over the past two years, Food Distribution has invested approximately $1.3 billion in capital annually, resulting in an increase in net retail square footage of approximately 5.3 million square feet or 13%. In addition to the net increase in retail square footage, corporate store sales per average square foot rose from $588 in 2002 (restated to conform with the current year's presentation) to $592 in 2004. The amount of new net retail square footage and the timing of store openings and closures within any given year may vary; there have not been significant variances in the annual increase in weighted average net retail square footage. The increase in weighted average net retail square footage was 6.4% in 2004 and 5.6% in 2003. Growth in same-store sales was 1.5% in 2004 and 4.7% in 2003 on an equivalent 52-week basis. National food price inflation remained relatively low in 2003, increasing to between 1% to 2% in 2004. The launch of *The Real Canadian Superstore* ("*The RCSS*") in Ontario, Canada has had an impact on same-store sales in that region by replacing mature, well performing stores that were previously included in same-store sales, and by creating pricing pressures on other Company stores located within the respective trading areas. In pursuit of improving its value proposition, Food Distribution has established price leadership in specific markets by adopting everyday low pricing strategies. Consistent with its strategy of focusing on food but serving the consumer's everyday household needs, Food Distribution has expanded its general merchandise offerings over this period and the retail sales growth realized in those categories continues to surpass the retail sales growth of food. Competitor activity varied by market. During the past two years, unprecedented levels of retail square footage, mainly associated with food offerings, have been introduced into certain markets, resulting in pressure on prices and customer retention. Initiatives to reduce retail operating costs were successful in the areas of inventory shrinkage and labour efficiency, and complemented buying synergies and cost minimizing initiatives within the warehouse and distribution network and administrative functions. Food Distribution's capital investment program resulted in new, larger stores replacing older, smaller stores, which dampened short term earnings growth as sales developed and leveraged lower variable costs off the new fixed cost base.

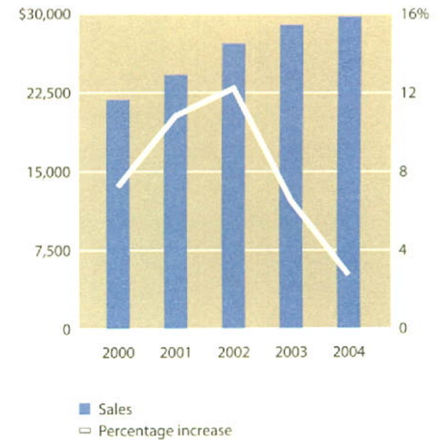
The following analysis details factors that have impacted the Company's consolidated sales and net earnings over the past two years.

Sales The Company's 2004 consolidated sales increased 2.7% to $29.8 billion from $29.0 billion in 2003, including a 2% negative impact from the 53rd week in 2003 and a 1% negative impact from the foreign currency translation of the Weston Foods operating segment. Consolidated sales growth for 2004 was impacted by each reportable operating segment as follows:

- Negatively by 0.6% due to the sales decline of 4.2% at Weston Foods, which includes a negative impact of foreign currency translation of approximately 6% and a negative impact of approximately 2% due to the additional week in 2003.
- Positively by 3.4% due to the sales increase of 3.9% at Food Distribution, including the negative impact of 2% due to the additional week in 2003, partially offset by same-store sales growth of 1.5% on an equivalent 52-week basis.

The Company's 2003 consolidated sales increased 6.5% including a 2% positive impact from the 53rd week and a 2% negative impact from the foreign currency translation of the Weston Foods operating segment. Consolidated sales growth for 2003 was impacted by each reportable operating segment as follows:

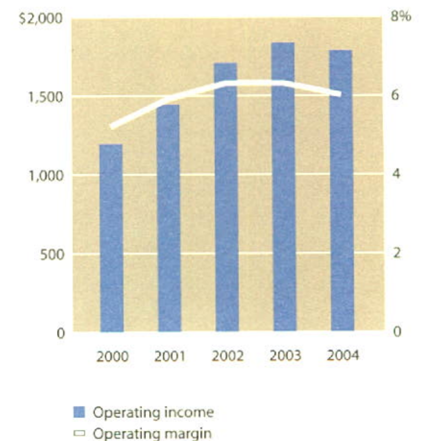
- Negatively by 1.0% due to a sales decline of 5.6% at Weston Foods, primarily due to the negative impact of foreign currency translation of approximately 9% partially offset by the positive impact of the additional week.
- Positively by 7.8% due to sales growth of 9.3% at Food Distribution. The Food Distribution sales growth, inclusive of the effects of the investment in lower pricing, resulted from the impact of the 53rd week and increased same-store sales and net retail square footage, but was negatively impacted by a delay in new store construction.



Operating Income The Company's 2004 consolidated operating income decreased $50 million, or 2.7%, to $1.8 billion. The Company's 2003 consolidated operating income increased $128 million, or 7.5%, to $1.8 billion from $1.7 billion in 2002.

The Company's 2004 consolidated operating income was impacted by each of its reportable operating segments as follows:

- Negatively by 12.9% due to an operating income decline of 63.1% at Weston Foods, primarily due to a $66 million charge related to the impairment of fixed assets and intangible assets of the *Entenmann's* operation in the United States and $53 million of restructuring and exit costs associated with cost reduction initiatives approved during the year, compared to a restructuring and exit cost charge of $35 million in 2003. In addition, Weston Foods' 2003 operating income was negatively impacted by foreign currency translation as a result of the significant appreciation of the Canadian dollar relative to the United States dollar. Operating margins were lower in 2004, including the negative impact of higher stock-based compensation cost net of the impact of the related equity derivatives.
- Positively by 10.2% due to an operating income increase of 12.8% at Food Distribution, primarily due to improvements in operating margins offset by higher stock-based compensation cost net of the impact of the related equity derivatives. In addition, operating income for 2004, included fixed asset impairment charges of $16 million compared to $4 million in 2003. Operating income in 2003 included an extra week of earnings and a $25 million charge from the voluntary early retirement offer accepted by employees in Ontario, Canada affected by *The RCSS* labour arrangement.



(1) 2004 includes restructuring and other charges of $136 (2003 – $64) (see note 2 to the consolidated financial statements).

The Company's 2004 consolidated operating margins declined to 6.0% from 6.3% in 2003, and consolidated EBITDA (see Supplementary Financial Information beginning on page 57) margins declined to 8.1% from 8.2% in 2003. Consolidated margins declined in 2004 primarily due to the impairment of fixed assets and intangible assets within the Weston Foods' *Entenmann's* operation in the United States and the restructuring and exit costs associated with cost reduction initiatives undertaken within the Weston Foods operating

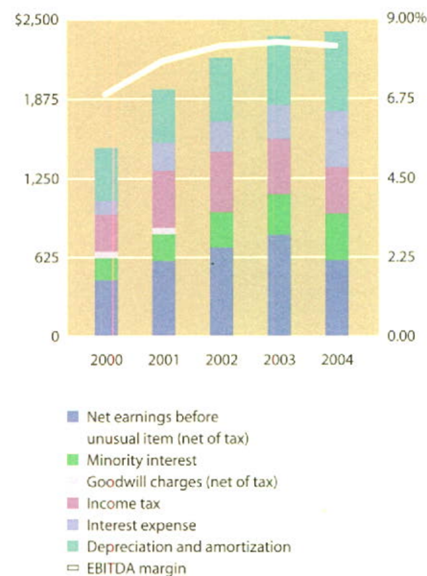
segment partially offset by improved margins in Food Distribution due to buying synergies, a continued focus on administrative cost control and the efficiency resulting from improvements in supply chain operations.

The Company's 2003 consolidated operating income was impacted by each of its reportable operating segments as follows:

- Negatively by 2.1% due to an operating income decline of 8.6% at Weston Foods, primarily due to the inclusion of a restructuring charge of $35 million recognized as a result of the closure of two bakery facilities in Canada and the rationalization of certain bakery production lines in the United States. In addition, Weston Foods' 2003 operating income was negatively impacted by foreign currency translation as a result of the significant appreciation of the Canadian dollar relative to the United States dollar.
- Positively by 9.6% due to an operating income increase of 12.6% at Food Distribution, primarily due to higher sales, offset by a $25 million charge recognized as a result of the voluntary early retirement offer accepted by Ontario employees affected by *The RCSS* labour arrangement.

The Company's 2003 consolidated operating margins of 6.3% was consistent with 2002, and consolidated EBITDA margins improved to 8.2% from 8.1% in 2002. Consolidated margins continued to improve in 2003 due in part to a continued focus on administrative cost control and operating efficiencies, the maturing of new stores opened in the past few years in Food Distribution, the realized synergies from the George Weston Bakeries integration and reduced net stock-based compensation cost, partially offset by the negative impact of the restructuring and other charges noted above.

Analysis of EBITDA[1,2] and EBITDA Margin
($ millions)



(1) 2004 includes restructuring and other charges of $136 (2003 – $64) (see note 2 to the consolidated financial statements).
(2) See Supplementary Financial Information beginning on page 57.

Interest Expense and Other Financing Charges Interest expense and other financing charges consist primarily of interest on short and long term debt, the amortization of deferred financing costs, the interest and other financing charges on financial derivative instruments and interest earned on short term investments net of interest capitalized to fixed assets.

In 2004, interest expense and other financing charges increased $172 million, or 64.7%, to $438 million from $266 million in 2003. The increase is explained as follows:

- Interest expense on long term debt increased $15 million, or 3.8%, to $412 million from $397 million in 2003 as a result of an increase in average borrowing levels offset by lower weighted average interest rates and the impact of the 53rd week in 2003.
- Interest on financial derivative instruments includes the net positive effect of the Company's interest rate swaps, cross currency basis swaps and equity derivatives and amounted to income of $28 million (2003 – $84 million). The decrease in interest income was mainly due to the termination of currency and interest derivatives in late 2003 and the maturity of interest rate swaps during 2004.
- During 2004, a non-cash expense of $101 million was recorded in other financing charges representing the fair value adjustment of Weston's forward sale agreement for 9.6 million Loblaw common shares (the "underlying Loblaw shares"). The Company began recognizing this charge prospectively during the third quarter of 2004 due to the implementation of the amendment to Emerging Issues Committee ("EIC") Abstract 56, "Exchangeable Debentures" ("EIC 56"), which became effective at the beginning of the third quarter of 2004. This fair value adjustment is based on the fluctuations in the market price of the underlying Loblaw shares and is a non-cash item that will ultimately be offset by the recognition of any gain on Weston's disposition of the underlying Loblaw shares (see the Accounting Standards Implemented in 2004 section below and note 3 to the consolidated financial statements).
- Net short term interest income of $7 million compared to interest expense of $6 million in 2003 due in part to interest income on income tax refunds received in 2004 and lower floating Canadian interest rates, partially offset by lower United States dollar denominated cash, cash equivalents and short term investments.
- During 2004, $21 million (2003 – $33 million) of interest expense was capitalized to fixed assets. Food Distribution capitalizes interest incurred on debt related to real estate properties under development.

In 2003, interest expense and other financing charges increased $28 million, or 11.8%, to $266 million from $238 million in 2002. The increase is explained as follows:

- Interest expense on long term debt increased $34 million, or 9.4%, to $397 million from $363 million in 2002 as a result of the impact of the 53rd week combined with an increase in average long term debt levels.
- Interest on financial derivative instruments amounted to income of $84 million (2002 – $57 million).
- Net short term interest expense of $6 million compared to interest income of $18 million in 2002 due to higher average short term Canadian borrowing levels and lower average short term United States investment rates.
- During 2003, $33 million (2002 – $30 million) of interest expense was capitalized to fixed assets.

The 2004 weighted average interest rate of fixed long term debt (excluding capital lease obligations and the Exchangeable Debentures) was 6.7% (2003 – 6.8%) and the weighted average term to maturity was 16 years (2003 – 16 years). The 2005 interest expense and other financing charges, excluding the impact of any non-cash charge relating to the fair value adjustment of Weston's forward sale agreement for 9.6 million Loblaw common shares, is expected to increase marginally due to higher weighted average debt levels and interest rates.

Income Taxes The Company's 2004 effective income tax rate decreased to 27.4% from 27.8% in 2003. The decrease was the result of the following factors:

- declining Canadian federal statutory income tax rate;
- Loblaw's successful resolution in 2004 of certain income tax matters from a previous year of $14 million;
- the income tax impact related to stock-based compensation and the associated equity derivatives;
- the $7 million charge in 2003 for an adjustment to future income tax balances due to the increase in corporate income tax rates in Ontario, Canada; and
- a reduction in 2003 of $34 million to the income tax expense due to the favourable resolution of an income tax issue previously accrued for by the Company.

The Company's 2003 effective income tax rate decreased to 27.8% compared to 32.5% in 2002. The decrease was the result of the following factors:

- declining Canadian federal statutory income tax rate;
- the favourable resolution of an income tax issue, previously accrued for by the Company, which related to the disposition of the Company's Forest Products business in 1998; the reversal of this accrual resulted in a reduction of $34 million to the income tax expense and a decrease of 2.2% in the Company's effective income tax rate in 2003; and
- an adjustment to future income tax balances caused by the increase in corporate income tax rates by the Ontario provincial government; in 2003, the Ontario government enacted a 1.5% increase in corporate income tax rates from 12.5% in 2003 to 14% in 2004, and repealed the scheduled 2004 to 2006 income tax rate reductions of 1.5% per annum; the adjustment to the future income tax balances resulted in a $7 million charge to future income tax expense in 2003.

The Company's 2005 effective income tax rate is expected to be reasonably consistent with the 2004 effective tax rate before the positive impact of the $14 million accrual reversal discussed above. However, the Company's effective income tax rate also varies as the proportion of taxable income by tax jurisdictions changes from year to year.

Net Earnings from Continuing Operations Net earnings from continuing operations for 2004 decreased $201 million, or 24.9%, to $606 million from $807 million in 2003. Basic net earnings from continuing operations per common share for 2004 decreased $1.42, or 24.0%, to $4.49 from $5.91 in 2003. The 2004 basic net earnings from continuing operations per common share of $4.49 included a negative impact of $1.08 per common share as a result of the following factors:

- a charge of $0.31 per common share related to the impairment of fixed assets and intangible assets associated with the Weston Foods *Entenmann's* operation in the United States;
- a further charge of $0.27 per common share related to restructuring and exit activities and accelerated depreciation for other Weston Foods bakery facilities;
- a non-cash charge of $0.51 per common share relating to the accounting for Weston's 2001 forward sale agreement of Loblaw common shares; and
- income of $0.01 per common share related to net stock-based compensation compared to a corresponding income of $0.08 per common share in 2003.

Net earnings from continuing operations for 2003 increased $99 million, or 14.0%, to $807 million from $708 million in 2002. Basic net earnings from continuing operations per common share for 2003 increased $0.72, or 13.9%, to $5.91 from $5.19 in 2002.

Discontinued Operations The Fisheries segment continued to experience challenges throughout 2004 including depressed fresh salmon market prices and demand impacted by the negative publicity directed toward the farmed salmon industry earlier this year, continued supply volatility in the market and the significant appreciation of the Canadian dollar as compared to the United States dollar. The outlook for the Fisheries segment, given current market conditions, is for continued operating losses. During 2004, Weston sold all of the Fisheries operations in Chile for cash proceeds of $20 million, which resulted in a loss of $9 million. Also during 2004, management and the Board of Directors approved a strategic plan to actively market for sale the remaining Fisheries operations. Accordingly, the results of the Fisheries segment have been classified and reported separately as discontinued operations in the audited consolidated financial statements and the Fisheries segment results for prior years have been restated accordingly. The loss from discontinued operations for 2004, net of income taxes, was $178 million, compared to $15 million in 2003, including the charge related to the impairment of assets and the loss on the sale of the operations in Chile incurred in 2004. The loss from discontinued operations for 2002, net of income taxes, was $18 million.

Net Earnings Changes in the Company's net earnings over the past two years were impacted by the factors described above. In addition, the Company implemented several new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA") that impacted the financial results over the past two years. The following standards were implemented prospectively in 2003:

- AcG 14, "Disclosure of Guarantees";
- Section 3475, "Disposal of Long-lived Assets and Discontinued Operations";
- EIC Abstract 134, "Accounting for Severance and Termination Benefits"; and
- EIC Abstract 135, "Accounting for Costs Associated with Exit and Disposal Activities (Including Costs Incurred in a Restructuring)".

The implementation of these standards did not have a material impact on the Company's financial position or results of operations in 2003.

The new accounting standards implemented in 2004 and the resulting impact on the financial position and results of operations are outlined in the Accounting Standards section of this MD&A.

Minority interest did not have a significant impact on the Company's net earnings growth rates over the past two years as Weston's ownership of Loblaw has not significantly changed over this period.

Consolidated Financial Condition

($ millions except where otherwise indicated)	2004	2003(1)	2002(1)
Total assets	$ 17,904	$ 17,386	$ 16,802
Total long term debt (excluding amount due within one year)	$ 6,004	$ 5,829	$ 5,387
Dividends declared per share ($) – Common share	$ 1.44	$ 1.20	$ .96
– Preferred share:			
– Series I	$ 1.45	$ 1.45	$ 1.49
– Series II	$ 1.29	$ 1.29	$ .93

(1) Certain prior year's information was reclassified to conform with the current year's presentation and was restated due to the implementation of Section 3110 and EIC 144 as discussed in note 1 to the consolidated financial statements and due to discontinuing the Fisheries segment (see note 7 to the consolidated financial statements).

The Company's total assets have increased over the past two years. Fixed assets have grown as a result of the capital investment program net of annual depreciation of both operating segments and the impairment and restructuring charges taken within the Weston Foods and Food Distribution operating segments. In addition, Weston Foods acquired Boulangerie Gadoua Ltée ("Gadoua") with total assets the Company valued at $79 million. As a result of the annual impairment test of indefinite life intangible assets, Weston Foods has taken an impairment charge of $18 million related to the *Entenmann's* trademarks and brand names. Food Distribution inventory level growth parallels that of the growth in new stores and the required supply chain inventory investment to support new stores. Food Distribution's inventory turns of general merchandise categories are lower than those of food categories, resulting in higher aggregate levels of investment in general merchandise inventory. Food Distribution's accounts receivable from franchised stores, associated stores and independent accounts have also grown consistently with that business. A substantial portion of credit card receivables of President's Choice Bank

("PC Bank"), a wholly owned subsidiary of Loblaw, is sold to an independent trust and the unsecuritized balance net of loss provision has increased by $37 million since 2002. The increase in other assets resulted mainly from an increase in the accrued benefit plan assets due to increased funding, an increase in the unrealized equity derivative receivable as a result of the increase in the market price of Weston's and Loblaw's common shares and an increase in Loblaw's unrealized cross currency basis swap receivable due to the appreciation of the Canadian dollar relative to the United States dollar. In 2004 and 2003, the Company's total assets were reduced by the translation of the Company's U.S. net investment in self-sustaining operations due to the significant strengthening of the Canadian dollar relative to the United States dollar.

In December of 2004, the Company decided to renew its search for a buyer of the Fisheries operations and has therefore recorded the assets and liabilities relating to this business at the lower of cost or fair value less costs to sell, resulting in an after-tax impairment charge of $147 million recognized in discontinued operations. The remaining Fisheries assets have been classified as held for sale on the consolidated balance sheets.

Although cash flows from operating activities have covered a large portion of the funding requirements for the Company over the past two years, external funding was also required. Incremental long term debt issued in 2004 was well below that of 2003 mainly due to improved cash flows from operating activities. The amount of fixed rate debt issued in any given year is intended to continue to preserve the Company's liquidity.

Cash flows from operating activities cover a large portion of the Company's funding requirements and in 2004, exceeded the Company's capital investment program of $1.4 billion. Over the past two years, the Company's funding requirements resulted primarily from:

- the capital investment program;
- defined benefit pension plan contributions;
- non-cash working capital requirements; and
- purchases of Weston and Loblaw common shares pursuant to their respective Normal Course Issuer Bids ("NCIB").

In 2004, as a result of the significant strengthening of the Canadian dollar relative to the United States dollar, the change in the cumulative foreign currency translation adjustment decreased shareholders' equity by $213 million (2003 – $253 million). This net change was due to the negative impact of translating the Company's U.S. net investment (see note 19 to the consolidated financial statements).

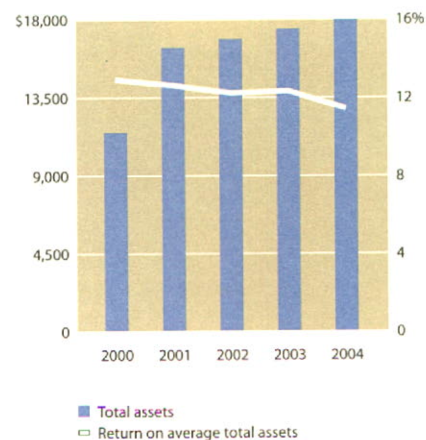
Financial Ratios In 2004, the Company's financial position as measured by its financial ratios, balance sheet and cash flow, continued to support the Company's credit rating. This position is expected to continue in 2005.

The Company's 2004 return on average total assets (see Supplementary Financial Information beginning on page 57) of 11.4% was slightly lower than the 2003 return of 12.3%. This was primarily due to lower operating income in 2004 including the negative impact of higher restructuring and other charges in 2004 compared to 2003. The Company's 2003 return on average total assets of 12.3% increased slightly compared to the 2002 return of 12.2%. This return increased after accounting for the significant capital investment and business acquisitions over the past several years.

The Company's 2004 return on average common shareholders' equity of 14.8% decreased compared to the 2003 return of 20.0%, primarily due to lower net earnings from continuing operations, which includes the impact of lower Weston Foods operating results, and higher interest expense and other financing charges including the $101 million non-cash charge related to the fair value adjustment of Weston's forward sale agreement for 9.6 million Loblaw common shares. The Company's 2003 return on average common shareholders' equity was 20.0% compared to the 2002 return of 18.9%. This increase in 2003 was mainly due to higher net earnings from continuing operations and the repurchase for cancellation of Weston's common shares in 2003. The five year average annual return on common shareholders' equity was 17.8%.

Total Assets and Return on Average Total Assets[1]

($ millions)

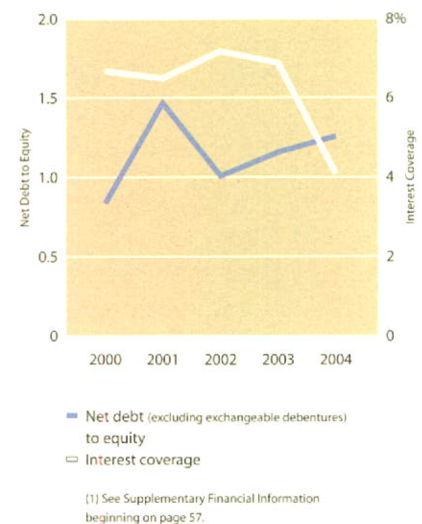


(1) See Supplementary Financial Information beginning on page 57.

The Company's 2004 net debt (excluding the Exchangeable Debentures) (see Supplementary Financial Information beginning on page 57) to equity ratio was 1.26:1 compared to the 2003 ratio of 1.16:1. The increase in 2004 in this ratio from 2003 was the result of the following factors:

- higher average debt levels;
- a decrease in United States dollar denominated cash, cash equivalents and short term investments resulting from foreign currency translation and the decrease in shareholders' equity resulting from the translation of the Company's U.S. net investment due to the significant appreciation of the Canadian dollar relative to the United States dollar in 2004;
- increased funding requirements, primarily due to defined benefit pension plan contributions and working capital requirements;
- the purchase for cancellation of Weston common shares; and
- lower net earnings primarily due to:
  - the restructuring and other charges incurred by Weston Foods in 2004;
  - the $101 million non-cash charge related to the fair value adjustment of Weston's forward sale agreement for 9.6 million Loblaw common shares; and
  - the loss from discontinued operations.

Net Debt[1] to Equity and Interest Coverage



(1) See Supplementary Financial Information beginning on page 57.

The 2005 ratio is expected to improve as a result of retained earnings growth offset by a marginal increase in debt levels. The Company's 2003 net debt (excluding the Exchangeable Debentures) to equity ratio was 1.16:1 compared to the 2002 ratio of 1.01:1. The increase in this ratio resulted partially from the decrease in United States dollar denominated cash, cash equivalents and short term investments resulting from foreign currency translation and the decrease in shareholders' equity resulting from the translation of the Company's U.S. net investment. Both of these decreases were due to the significant appreciation of the Canadian dollar relative to the United States dollar in 2003. Increased funding requirements, primarily due to defined benefit pension plan contributions and working capital along with the purchase for cancellation of Weston common shares, also negatively impacted the net debt to equity ratio in 2003.

The 2004 interest coverage ratio declined to 4.1 times compared to 6.9 times in 2003 due to lower operating income, higher interest expense and other financing charges, including the $101 million non-cash charge related to the fair value adjustment of Weston's forward sale agreement for 9.6 million Loblaw common shares. Adjusting for the impact of the non-cash charge related to the fair value adjustment of Weston's forward sale agreement for 9.6 million Loblaw common shares, the 2004 interest coverage ratio was 5.3 times. The 2003 interest coverage ratio declined to 6.9 times compared to 7.2 times in 2002 due mainly to higher interest expense and other financing charges.

Dividends The Company's common dividend policy is to maintain a common dividend payment equal to approximately 20% to 25% of the prior year's normalized basic net earnings from continuing operations per common share, giving consideration to the year end cash position, future cash flow requirements and investment opportunities. During 2004, Weston's Board of Directors (the "Board") declared quarterly common dividends of $0.36 per common share, quarterly preferred dividends of $0.36 per preferred share, Series I and quarterly preferred dividends of $0.32 per preferred share, Series II. The 2004 annualized dividend per common share of $1.44 was equal to 24.4% of the 2003 normalized basic net earnings from continuing operations per common share and was within Weston's common dividend policy range. Subsequent to year-end, the Board declared a quarterly dividend of $0.36 per common share, payable April 1, 2005 which, on an annualized basis, maintains the 2004 dividend rate per common share.

Outstanding Share Capital The Company's outstanding share capital is comprised of common shares and preferred shares. An unlimited number of common shares is authorized and, at year end, 128,913,579 common shares were outstanding. An unlimited number of preferred shares Series I and Series II are authorized and, at year-end, 9,400,000 preferred shares Series I and 10,600,000 preferred shares Series II were outstanding. For preferred shares Series I and Series II holders, Weston may at any time after issuance, 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 Weston on a share-for-share basis on a date specified by Weston. In addition, for preferred shares Series II holders, on or after July 1, 2009, these outstanding preferred shares are convertible, at the option of the holder, into a number of Weston common shares determined by dividing $25.00 by the greater of $2.00 and 95% of the then current market price of Weston common

shares. During 2004, Weston issued from treasury, 58,733 common shares as partial consideration for the acquisition of Gadoua. Further information on the Company's outstanding share capital is provided in note 16 to the consolidated financial statements.

RESULTS OF REPORTABLE OPERATING SEGMENTS

The following discussion details the 2004 results of operations of each of the Company's reportable operating segments.

Weston Foods Operating Results

($ millions except where otherwise indicated)		2004		2003	Change
Sales	$	4,335	$	4,523	(4.2)%
Operating income (1)	$	138	$	374	(63.1)%
Operating margin		3.2%		8.3%	
EBITDA (1, 2)	$	285	$	518	(45.0)%
EBITDA margin		6.6%		11.5%	
Return on average total assets (2, 3)		3.6%		8.9%	

(1) 2004 includes restructuring and other charges of $119 (2003 – $35). See note 2 to the consolidated financial statements.

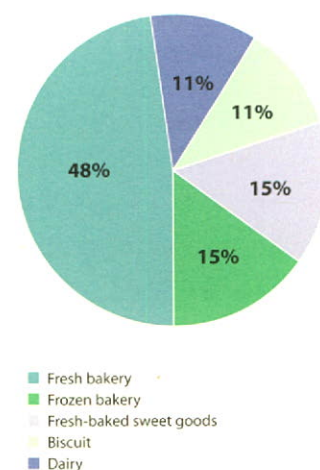
(2) See Supplementary Financial Information beginning on page 57.

(3) Certain prior year's information was reclassified to conform with the current year's presentation and was restated due to the implementation of Section 3110 as discussed in note 1 to the consolidated financial statements.

Sales Weston Foods sales decreased 4.2% to $4.3 billion from $4.5 billion in 2003. The additional week of operating results in 2003 negatively impacted 2004 sales growth by approximately 2%. A significant portion of Weston Foods business is carried on through its U.S. net investment. Sales growth for 2004 was negatively impacted by approximately 6%, as a result of translating the U.S. net investment and the significant appreciation in the Canadian dollar relative to the United States dollar in 2003. Adjusted for the impact of the extra week in 2003, overall sales volume increased by approximately 1% with changes in sales mix and price increases contributing approximately 3% to sales growth.

Fresh bakery sales, which represent approximately 48% of total Weston Foods sales, contributed positively to overall sales growth in 2004. This sales growth was driven by the introduction of new products, volume growth in premium and whole grain products as well as sales price increases offset by volume declines in white flour based products and the exit of the *Thomas'* waffle category. Premium bread brands, such as *Arnold*, *Brownberry* and *Country Harvest*, had impressive sales growth. These brands included a strong low-carb product entry and capitalized on the whole grain heritage built up over a number of years. The *Friehofer* and *Dutch Country* brands were expanded to include the *Family Grains* line of whole grain breads and the *Country Harvest* Omega-3 bread was introduced. *Thomas'* branded sales continued to enjoy strong market share positions in English muffins and bagels. Despite the exit of the waffle category at the end of 2004, *Thomas'* branded sales contributed positively to overall sales growth in 2004 on a comparative 52-week basis, due to the introduction of new and expanded on trend products. *Thomas'* introduced its *Hearty Grains* line which includes a variety of whole grain English muffins.

Weston Foods 2004 Sales



Sales in the fresh-baked sweet goods category, which represent approximately 15% of total Weston Foods sales, declined in 2004 driven by volume decreases, partially offset by sales price increases. This category, primarily sold under the *Entenmann's* brand, continues to experience a challenging sales environment particularly in the full-size cake and danish products. Individual portioned products such as doughnuts and *Little Bites* continued to experience growth in 2004. In 2005, management will continue to evaluate all options related to its fresh-baked sweet goods category including exiting certain markets and product categories.

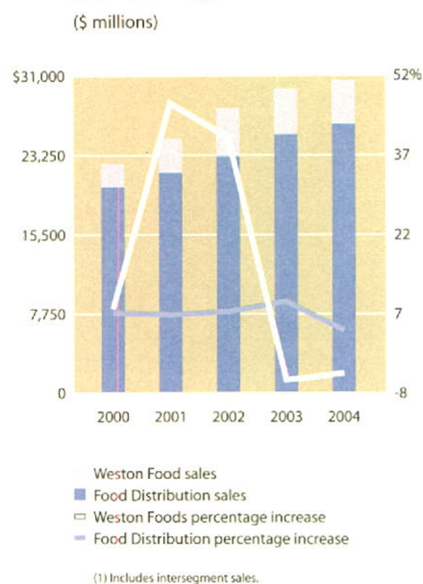
During 2004, Weston Foods launched several low-carb Atkins® endorsed products primarily sold under the *Arnold*, *Brownberry* and *Entenmann's* brand names. However, during the second half of 2004, Weston Foods discontinued most of the Atkins® endorsed *Entenmann's* products launched earlier in the year due to disappointing sales performance. The *Arnold/Brownberry* Atkins® endorsed breads enjoy a strong position in the low-carb market share but sales growth in these products slowed during the second half of 2004.

Frozen bakery sales, which represent approximately 15% of total Weston Foods sales, contributed positively to overall sales growth in 2004 through the introduction of new products and growth with existing and new customers.

Weston Foods' United States biscuit category represents approximately 11% of total Weston Foods sales. Biscuit sales contributed negatively to overall sales growth in 2004 primarily due to lower cone, wafer and Girl Scout cookie sales.

Dairy sales, which represent approximately 11% of total Weston Foods sales, continued their momentum in 2004, with growth in the value-added category, a favourable sales mix and the successful launch of Neilson *Dairy Oh!* milk enriched with DHA and Power Bar® protein beverages, exclusively manufactured and distributed in Canada by Weston Foods.

Additionally, sales growth in 2004 has been affected by the following:



- **Changing consumer eating preferences**: While price continues to be important, today's busy consumer is also placing value on convenience and products that can be consumed away from the home. In addition, consumer food choices continue to be impacted by a focus on better health and diet, which has increased consumer demand for products that offer healthy alternatives and negatively impacted Weston Foods sales of traditional white flour based products. Weston Foods continues to respond to these trends by introducing and expanding products such as *Thomas'* bagels and English muffins, *Entenmann's* Little Bites, *Country Harvest* Omega-3 bread, *Arnold Whole Grain Classics* breads and Neilson *Dairy Oh!* milk enriched with DHA, an essential Omega-3 fatty acid.
- **Changing consumer food shopping patterns**: Consumer food shopping patterns continue to shift toward alternate format retail channels over traditional, conventional supermarket formats. The growth in alternate format retailers has also resulted in new sales channels as drug and dollar stores begin to expand their food offerings. Weston Foods has participated in the alternate format retailer channel growth in 2004 and expects continued success in 2005. The difficulty experienced by traditional food retailers will challenge Weston Foods sales growth since they remain a significant sales channel for Weston Foods products. However, Weston Foods expects to continue to manage this consumer shift in shopping patterns and ensure its products are distributed to consumers with the quality and freshness they expect.
- **A difficult sales pricing environment**: Recovering core product cost inflation through sales price increases remains challenging in the North American baking industry as a result of competitive and customer forces. Weston Foods increased sales prices across most fresh product categories in 2004 more aggressively than in 2003. This contributed positively to sales growth but was somewhat offset by volume declines in certain categories as a result of the pricing action.

In 2005, Weston Foods will continue to execute its operational plans and strategies as it believes they will provide sustainable sales growth over the long term.

Operating Income Weston Foods operating income decreased $236 million, or 63.1%, to $138 million from $374 million in 2003. In 2004, operating results include the impact of a $66 million charge related to the impairment of fixed assets and intangible assets employed in the fresh-baked sweet goods category primarily sold under the *Entenmann's* brand name and $53 million (2003 – $35 million) of restructuring and exit costs associated with certain cost reduction initiatives approved during 2004. Both of these charges are included in restructuring and other charges and are discussed in more detail below.

Operating margin for the year decreased to 3.2% from 8.3% in 2003 and EBITDA margin for the year decreased to 6.6% from 11.5% in 2003, inclusive of the 2.0% negative impact due to higher restructuring and other charges incurred during 2004 as compared to 2003. The net combined impact of foreign currency translation and higher net stock-based compensation cost net of the related equity derivatives negatively impacted Weston Foods operating income growth by approximately 2% in 2004.

Weston Foods 2004 operating income was disappointing and operating income margin declined due to higher restructuring and other charges as well as a series of factors which contributed to a very challenging operating environment for Weston Foods. These factors are discussed below.

Sales growth during 2004, including volume and sales price improvements, particularly in the second half of the year, positively impacted 2004 operating income and margin. This was more than offset by the negative impact of significant inflation in ingredient, energy and employee related benefit costs, as well as higher spending in consumer promotions. Also, 2004 operating margin was negatively impacted by higher ingredient, production, distribution and product launch costs, incurred as a result of the complexities associated with many of the new low-carb product introductions and the ongoing change in product sales mix. In the near term, the contribution from the new products introduced in 2004 and the growth in whole grain premium products is not expected to fully compensate for the operating income declines experienced in 2004.

In 2004, Weston Foods experienced a positive sales mix shift as consumers shifted consumption from traditional white flour based bakery products to higher priced whole grain and premium products. However, this product shift added more variety into the product sales mix and has created certain complexities that have negatively impacted operating income. In addition, the introduction of new products to meet consumer demands resulted in higher product return costs as market presence for the new products was established.

The new whole grain and premium products introduced to meet consumer trends generally require more ingredients and processing which add cost to the manufacturing process. Further, the introduction of these new products has resulted in an increased number of shorter production runs, resulting in more production line changeovers and reduced cost efficiencies in certain production facilities. In 2004, Weston Foods experienced these production inefficiencies as a result of its shifting product sales mix. Weston Foods continues to work on optimizing its long term operating strategy of simplifying and removing complexity from its manufacturing processes. This includes focusing manufacturing capacity for longer production runs and where appropriate, outsourcing shorter run products to contract manufacturers. The increased use of contract manufacturers and focused manufacturing facilities generally increases distribution complexity and costs.

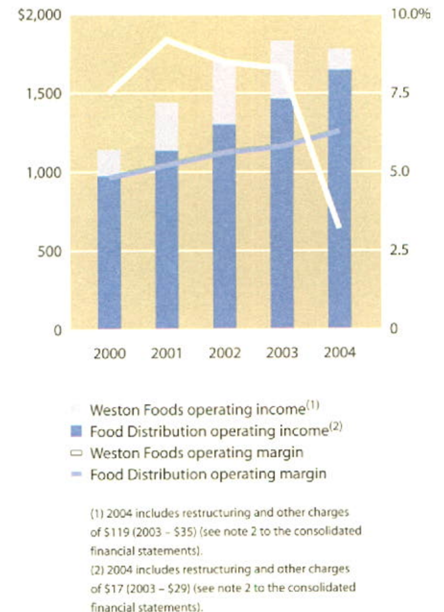
The product sales mix shift experienced in 2004 resulted in volume declines in certain core fresh-baked categories as discussed above. This volume decline had a negative impact on Weston Foods' ability to efficiently leverage the fixed costs incurred in manufacturing and distribution. Weston Foods continually evaluates its assets with the objective of ensuring the most competitive fixed cost structure.

Weston Foods continues to evaluate cost reduction and other strategic initiatives, particularly related to the fresh-baked sweet goods category in the United States and reducing administrative costs, to ensure a low cost operating structure and an improving competitive cost position. Initiatives currently being evaluated include manufacturing asset and distribution network optimization. Certain of these initiatives have been initiated and are in progress or nearing completion while others are still in the planning stages. Individual actions will be initiated and additional charges may be taken as plans are finalized and approved. During 2004, major actions implemented included:

- completion of the Northlake, Illinois and Buffalo, New York bakery facility closures;
- exiting of the fresh waffle business in the United States;
- closure of the frozen bakery goods production facility in St. Louis, Missouri completed during the first quarter of 2005; and
- closure of three production facilities and one distribution centre in Canada.

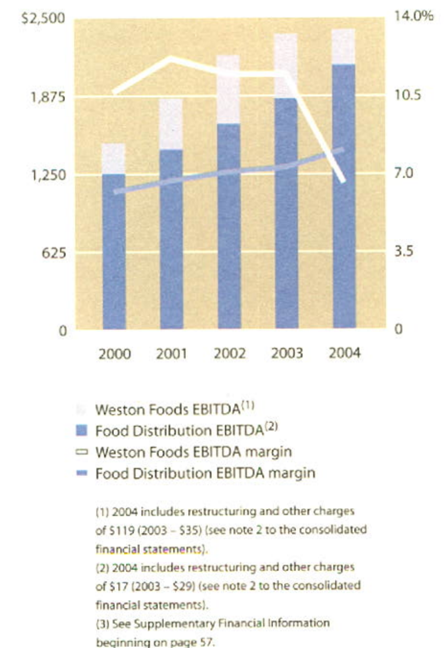
Core Segments Operating Income and Operating Margin

($ millions)



Core Segments EBITDA[3] and EBITDA Margin

($ millions)



Restructuring and Other Charges

($ millions)		2004		2003
Fixed assets	$	84	$	41
Restructuring and other exit costs		17		(6)
Intangible assets		18		
Restructuring and other charges	$	119	$	35

As a result of these initiatives and other distribution outsourcing and overhead reduction projects, Weston Foods recorded total restructuring charges of approximately $53 million. These charges consisted of $36 million of fixed asset write-downs and $17 million of employee severance and other exit related costs.

On March 4, 2005 the Company announced a plan to restructure its United States biscuit operations operated by Weston Foods. The plan will result in the closure of two biscuit facilities located in Elizabeth, New Jersey and Richmond, Virginia over the next 12 to 18 months. Employment at both facilities will be phased down as the majority of the production is relocated to a new facility in Virginia and an existing Weston Foods facility already operating in South Dakota. Once completed, this initiative is anticipated to result in lowering annual manufacturing costs and strengthening Weston Foods' competitive position within its biscuit operations in the United States.

As a result of this restructuring, Weston Foods expects to recognize certain one-time exit and start-up costs of approximately $50 million over the next 12 to 18 months including employee related severance and benefit costs, production equipment relocations, training and other facility start-up related costs. In addition, Weston Foods expects to recognize accelerated depreciation on assets currently held-for-use of approximately $25 million over the next 12 to 18 months.

During 2004, an impairment review of the production assets employed in Weston Foods fresh-baked sweet goods category in the United States, which relate primarily to products sold under the *Entenmann's* brand name, was performed as a result of the significant decline in the profitability of this category in 2004. The production assets reviewed included land, buildings, machinery and equipment associated with three of Weston Foods' bakery facilities located in Bayshore and Albany, New York and Carlisle, Pennsylvania. Weston Foods' profitability in the United States fresh-baked sweet goods category remains challenged and continues to be negatively affected by:

- changing consumer eating and shopping preferences;
- a high fixed cost manufacturing and distribution structure;
- continuing commodity and people related cost pressures; and
- a difficult pricing environment for products in the category.

As a result of the impairment review, it was determined that the carrying value exceeded the estimated undiscounted cash flows expected from the use and eventual disposition of these production assets. Accordingly, a $48 million non-cash pre-tax impairment charge was recognized in 2004 which was measured as the excess of the impaired assets carrying value over their estimated fair value. Fair value was determined using appraised values based on prices for similar assets. The impaired assets are primarily related to production assets held in the Bayshore, New York facility.

Also during 2004, Weston Foods completed its annual impairment assessment of its indefinite life intangible assets. As described in the Critical Accounting Estimates section of this MD&A, the assessment required management to make assumptions regarding projected future sales, terminal growth rates, royalty rates and discount rates to determine the estimated fair value of the intangible assets and compare them to their carrying value. As part of the annual impairment assessment of the *Entenmann's* brand name, management reduced its previous estimate of the royalty rate used in the calculation of the estimated fair value of the brand name, as Weston Foods' profitability in the fresh-baked sweet goods category has declined significantly and remains challenged as a result of the factors described above. As a result, the Company recorded an $18 million non-cash pre-tax impairment loss to reduce the carrying value of Weston Foods' *Entenmann's* brand name to estimated fair value. On a combined basis, the impairment charges related to the fresh-baked sweet goods category in the United States represented approximately 25% of the carrying value of the assets reviewed.

On September 27, 2004, Weston purchased all of the issued and outstanding common shares of Boulangerie Gadoua Ltée, a bakery business operated in Quebec, Canada, for $59 million consisting of cash consideration of $46 million, $6 million in Weston common shares issued from treasury and assumed debt of $7 million, subject to certain adjustments. The acquisition was accounted for using the purchase method. During the fourth quarter of 2004, Weston completed the Gadoua valuation analysis and recorded the assets and liabilities at their fair values, including intangible assets of $27 million and goodwill of $21 million (see note 4 to the consolidated financial statements for further details). Operating results of Gadoua have been included in the Company's consolidated financial statements since September 27, 2004 and did not have a significant impact on Weston Foods results for 2004.

Weston Foods will continue to review additional opportunities for restructuring and cost reduction initiatives in 2005 in order to ensure that its long term competitive position remains strong. These initiatives are expected to require certain costs to be incurred in order to realize cost savings opportunities going forward. A return to operating income growth for 2005 is expected as the benefits of restructuring and cost reduction activities initiated during 2004 begin to be realized.

Food Distribution Operating Results

($ millions except where otherwise indicated)	2004	2003	Change
Sales	$ 26,209	$ 25,220	3.9%
Operating income (1)	$ 1,644	$ 1,458	12.8%
Operating margin	6.3%	5.8%	
EBITDA (1, 2)	$ 2,117	$ 1,851	14.4%
EBITDA margin	8.1%	7.3%	
Return on average total assets (2, 3)	13.9%	13.6%	

(1) 2004 includes restructuring and other charges of $17 (2003 – $29). See note 2 to the consolidated financial statements.
(2) See Supplementary Financial Information beginning on page 57.
(3) Certain prior year's information was restated due to the implementation of Section 3110 and EIC 144 as discussed in note 1 to the consolidated financial statements.

Food Distribution enjoyed another strong year in 2004 with sales growth of 3.9% and operating income growth of 12.8%. These results were realized during a year of ongoing change in the Canadian retail environment, driven by the changing profile of the average consumer and the resulting response by Canadian retailers.

While low prices continue to be an important attribute for consumers, today's consumer is also more knowledgeable about products, more selective in buying patterns and more time-constrained than ever before. The overall result is an increased demand from retailers for value, choice and convenience. The continued focus on health, diet and food safety has increased the demand for products that offer healthy alternatives. As the hectic pace of life continues to accelerate, consumers look more to convenience in their shopping experience. Therefore, while offering competitive prices, retailers must also focus on convenience, innovative product and service offerings and positive customer experiences.

The Canadian grocery industry's response to this new age consumer has been a shift from traditional, conventional supermarket formats to discount stores, fresh format stores and large format stores. Unprecedented levels of capital investment over the past few years have resulted in increased retail square footage, and a broader choice of retail locations at which consumers can shop. Over the past several years, there has been an increase in the number of retail outlets that traditionally exclusively featured general merchandise or food items that now offer a selection of both, resulting in what is commonly referred to in the industry as "channel blurring". This evolution of the retail landscape presents a number of issues for traditional grocers: the need to re-position conventional supermarkets to either expand or, conversely, better focus their offerings; the reality of lower prices offered by the discount models and the obvious need to reduce operating and labour costs in order to maintain earnings in light of lower prices and increased competition.

Food Distribution has demonstrated its ability to anticipate these changes in the marketplace by strategically positioning discount models, market formats and larger combination stores under various banners across the country, focusing on pricing strategies and cost effectiveness initiatives, providing innovative solutions to lifestyle trends and working collaboratively with labour in order to maintain its commitment to offering the consumer value, choice and convenience.

Sales Sales increased 3.9% to $26.2 billion from $25.2 billion in 2003, including a 2% negative impact from the 53rd week in 2003. On a comparable 52-week basis, sales increased 5.9%. All regions across the country experienced sales growth, which gained momentum in the last two quarters of 2004.

The following factors explain the year-over-year change in sales:

- same-store sales growth of 1.5% including the impact of the repositioning being undertaken in certain markets where Loblaw holds relatively larger market shares; the launch of *The RCSS* banner in Ontario, Canada impacted same-store sales in that region by replacing mature stores that were previously included in same-store sales and by creating expectations of lower prices by consumers in other Loblaw stores located within the respective trading areas;
- national food price inflation which ranged from 1% to 2% in 2004;
- retail sales growth in general merchandise categories which continues to surpass that of food reflecting Loblaw's expansion in its breadth of offering; strong sales increases over the prior year were experienced in certain items such as barbecues, patio sets and small appliances;
- strong gas bar sales;
- an increase of 8% in net retail square footage related to the opening of 86 new corporate and franchise stores and the closure of 71 stores; the weighted average net retail square footage increased 6.4%, which is below the absolute increase due to the timing of store closures and openings;
- average annual sales per corporate store increased to $31 million in 2004 from $29 million in 2003 on a comparable 52-week basis reflecting the introduction of larger stores which are expected to become ultimately more productive;
- sales per average square foot of corporate stores of $592 in 2004 compared to $593 in 2003 on a comparable 52-week basis; new, larger stores introduced into the marketplace require time to mature, and as a result, have a negative short term impact on average sales per square foot; and
- an increase in control label penetration to 22.2% in 2004 from 21.7% in 2003.

In early 2004, Loblaw changed the basis on which it reports retail sales of control label products for internal purposes to exclude sales of products prepared exclusively for sale by Loblaw, but which do not bear any of Loblaw's trademarks. The new approach captures only those retail sales of products sold under trademarks which Loblaw owns or licenses. Under this new definition, the control label retail sales for 2004 amounted to $5.6 billion compared to $5.2 billion in 2003, restated from $5.6 billion reported in the prior year. Control label penetration, which is measured as control label retail sales as a percentage of Food Distribution's total retail sales, was 22.2% for 2004, compared to 21.7% in 2003, restated from the 24.2% reported in the prior year. Food Distribution introduced approximately 1,500 new control label products in 2004, including 1,100 new general merchandise products. Food Distribution's control label program, which includes *President's Choice, PC, President's Choice Organics, PC Mini Chefs, PC Blue Menu, no name, Club Pack, GREEN, EXACT, Teddy's Choice* and *Life@Home*, provides additional sales growth potential.

Food Distribution expects that the following initiatives, coupled with continued pricing investment where appropriate, will generate continued sales growth over the next few years:

- capital investment in its store network including the planned opening, expansion or renovation of more than 150 corporate and franchise stores across Canada;
- additional emphasis on food offerings of great quality and value;
- expansion of general merchandise offerings and continued improvement in the execution of its general merchandise program; and
- continued focus on control label products including the development of new products in strategic categories, such as *PC Mini Chefs* and *PC Blue Menu* product lines recently launched, increased marketing exposure and improved time to market.

Operating Income Food Distribution operating income increased $186 million, or 12.8%, to $1,644 million from $1,458 million in 2003. Operating margin improved to 6.3% from 5.8% in 2003. EBITDA margin improved to 8.1% from 7.3% in 2003.

The year-over-year increase in operating income was impacted by the following factors:

- gross margins in 2004 improved in comparison to 2003 mainly due to buying synergies;
- operating margins improved as a result of the continued focus on administrative cost control as well as the efficiencies resulting from improvements in supply chain operations, and from leveraging off a higher sales base; and
- *President's Choice Financial* services, which includes President's Choice Bank, a wholly owned subsidiary of Loblaw, contributed to the increase in operating income for the year; the income associated with the credit card portfolio and other financial offerings was partially offset by increased loyalty program and other operating expenses.

These results were achieved during a year in which a number of significant initiatives had been undertaken. The emphasis on improving Food Distribution's value proposition by becoming more price competitive pressured both sales and earnings.

It has been a long established practice of Food Distribution to pursue a strategy of enhancing profitability on a market-by-market basis using a multi-format approach. This strategy was further supported by the introduction of *The RCSS*, a large format combination store that originated in Western Canada, into Ontario, Canada. The rollout into Ontario, which began in 2003, continued during 2004 resulting in 13 stores being opened and operating in this region by year end.

The RCSS introduction to the Ontario market resulted in retail labour savings, which were somewhat offset by the short term impact of accelerated employee turnover in the existing store base and a reinvestment of those savings back into lower prices. Occupancy costs as a percentage of sales increased due to longer maturation time required for these new, larger stores, and fixed asset impairment and accelerated depreciation charges of $22 million (2003 – $4 million), mainly related to the repositioning of the Ontario banner portfolio with the addition of *The RCSS* banner, were absorbed in 2004. In 2003, operating income included a $25 million charge related to the voluntary early retirement offer accepted by the Ontario employees affected by *The RCSS* labour arrangement.

Food Distribution has well established discount formats that continue to contribute favourably to sales and operating results. In certain markets, discount format stores came under pressure because of the amount of this type of footage added to the market by Loblaw and its competitors during the past two years.

Initiatives associated with the transition of Food Distribution's supply chain to common national processes and systems continued in 2004. The flow of products to the stores continues to improve and Food Distribution has already begun to realize the positive impact of this improvement on operations and earnings.

Food Distribution expects operating income to grow at rates consistent with those of the past few years through:

- sales growth;
- cost reduction initiatives; and
- continued rollout of *President's Choice Financial* services and products.

Initiatives involving the optimization of Food Distribution's warehouse and distribution network, information systems and procurement functions and the consolidation of various merchandising, marketing, operating and procurement activities are expected to provide significant future opportunities. However, in the short term, these initiatives may require costs to be incurred which will be quantified over the next few months as options are assessed.

LIQUIDITY AND CAPITAL RESOURCES

Major Cash Flow Components

($ millions)	2004	2003(1)	Change
Cash flows from operating activities of continuing operations	$ 1,576	$ 1,294	21.8%
Cash flows used in investing activities of continuing operations	$ (1,335)	$ (1,367)	n/a
Cash flows (used in) from financing activities of continuing operations	$ (87)	$ 138	n/a

n/a – change not relevant

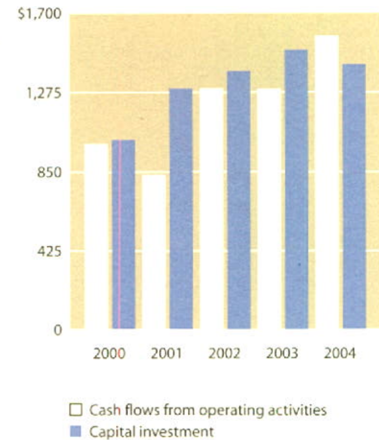
(1) Certain prior year's information was restated due to discontinuing the Fisheries segment (see note 7 to the consolidated financial statements).

Cash Flows from Operating Activities of Continuing Operations Cash flows from operating activities increased in 2004 to $1,576 million from $1,294 million in 2003. The increase over last year is primarily attributable to the improvement in the change in non-cash working capital, primarily from leveraging accounts payable and accrued liabilities combined with the Company's decrease in defined benefit pension plan contributions of $46 million primarily due to higher voluntary lump sum contributions made in 2003.

The Company's 2005 cash flows from operating activities are expected to increase at a rate consistent with net earnings growth and are expected to fund a large portion of the Company's anticipated 2005 funding requirements, including its planned capital investment activity of approximately $1.5 billion.

Cash Flows used in Investing Activities of Continuing Operations Cash flows used in investing activities in 2004 were $1.3 billion compared to $1.4 billion in 2003. During 2003, as a result of the significant strengthening of the Canadian dollar, the Company terminated currency derivatives that were identified as a hedge against its exposure to currency exchange rate fluctuations primarily resulting from the acquisition of George Weston Bakeries in 2001. Also in 2003, the Company terminated interest rate derivatives that were related to these currency derivatives. In respect of both transactions, the Company received, and included in cash flows used in investing activities, cash proceeds of $338 million ($317 million on termination of the currency derivatives and $21 million on termination of the interest rate derivatives), which were used to purchase common shares of Weston and repay short term debt (see notes 16 and 18 to the consolidated financial statements).

Cash Flows from Operating Activities and Capital Investment
($ millions)



Capital investment amounted to $1.4 billion (2003 – $1.5 billion), reflecting the Company's continuing commitment to maintain and renew its asset base and invest for growth across North America. Weston Foods' capital investment was $167 million (2003 – $231 million). The capital was directed toward the construction of a new plant, facility improvements and the upgrade of production lines and distribution assets. Weston Foods' capital investment benefited all of its operations to varying degrees and strengthened its processing and distribution capabilities. Food Distribution's capital investment amounted to $1.3 billion (2003 – $1.3 billion). Approximately 83% (2003 – 80%) of Food Distribution's capital investment was for new stores, renovations or expansions and the remaining 17% (2003 – 20%) was primarily directed toward its warehouse and distribution network, information systems and other infrastructure required to support store growth. Food Distribution's continued capital investment activity benefited all regions in varying degrees and strengthened its existing store base. Some of the new, larger stores replaced older, smaller, less efficient stores that did not offer the broad range of products and services demanded by today's consumer. In 2004, Food Distribution opened two new distribution centres in Vancouver and Quebec City, Canada that resulted in the closure of several smaller distribution centres. Food Distribution's 2004 corporate and franchised store capital investment program, which includes the impact of store openings and closures, resulted in an increase in net retail square footage of 8.0% over 2003. During 2004, 86 (2003 – 63) new corporate and franchised stores were opened and 82 (2003 – 87) underwent renovation or minor expansion. The 86 new stores, net of 71 (2003 – 61) store closures, added 3.4 million square feet of retail space (2003 – 1.9 million). The 2004 average corporate store size increased 6.1% to 53,600 square feet (2003 – 50,500) and the average franchised store size increased 6.6% to 26,000 square feet (2003 – 24,400).

The Company also generated $118 million from fixed asset sales, including proceeds of $44 million related to two sale-leaseback transactions involving two warehouses.

The Company expects to continue its capital investment pace in 2005. Capital investment in 2005 is estimated at $1.5 billion (approximately $200 million for Weston Foods and $1.3 billion for Food Distribution). Weston Foods' 2004 capital investment will focus on a new fresh bakery facility in the United States as well as streamlining production and distribution assets to be more efficient. Food Distribution plans to open, expand or renovate more than 150 corporate and franchised stores throughout Canada in a geographic investment pattern similar to that of 2004 and is expected to result in a net increase of approximately 3.0 million square feet, which should generate additional sales growth.

Cash Flows used in/from Financing Activities of Continuing Operations Cash flows used in financing activities were $87 million in 2004 compared to cash flows from financing activities of $138 million in 2003. The change in the year is due to issuing less debt in 2004 offset by the repurchase of less Weston common shares relative to 2003. The reduction in a portion of the United States dollar denominated cash, cash equivalents and short term investments, held by Loblaw, resulted in a corresponding decrease in a portion of Loblaw's outstanding cross currency basis swaps and in a minimal net earnings impact. During 2004, Weston and Loblaw completed the following financing activities:

- issued a total of $400 million of Medium Term Notes ("MTN");
- Weston issued $35 million of Series B Debentures;
- Weston repaid $200 million of Series A Debentures;

- Loblaw repaid $100 million of Series 1997 Provigo Inc. Debenture;
- Weston purchased for cancellation 587,200 of its common shares for $59 million, pursuant to its NCIB; and
- Loblaw purchased for cancellation 576,100 of its common shares for $35 million, pursuant to its NCIB.

During 2003, Weston and Loblaw completed the following financing activities:

- issued a total of $755 million of MTN;
- Weston issued $34 million of Series B Debentures;
- Loblaw repaid $100 million of MTN as they matured;
- Weston purchased for cancellation 852,100 of its common shares for $83 million, pursuant to its NCIB;
- Weston purchased for cancellation 2,013,092 of its common shares for $192 million pursuant to an offer received from Wittington Investments, Limited ("Wittington"), Weston's majority shareholder; and
- Loblaw purchased for cancellation 1,282,900 of its common shares for $76 million, pursuant to its NCIB.

See notes 4, 14 and 16 to the consolidated financial statements for the terms and details of the debt and share capital transactions.

Weston intends to renew its NCIB to purchase on the Toronto Stock Exchange or enter into equity derivatives to purchase up to 5% of its common shares outstanding. Weston believes that the market price of its common shares could be such that their purchase may be an attractive and appropriate use of funds in light of potential benefits to remaining shareholders. Weston intends, subject to appropriate approvals, to file a new base shelf prospectus for its MTN program in 2005.

Subsequent to year-end, Loblaw issued $300 million of 5.90% MTN due 2036 to refinance the $100 million of 6.35% Provigo Inc. Debenture which matured in the fourth quarter of 2004 and the $200 million of 6.95% Loblaw MTN which matured in the first quarter of 2005. Loblaw currently has $45 million of MTN capacity available to be issued pursuant to its 2003 Base Shelf Prospectus. Loblaw intends, subject to appropriate approvals, to file a new base shelf prospectus for its MTN program in 2005.

The following tables present the amounts of MTN available to issue under the Weston and Loblaw programs:

Weston Medium Term Notes Program

($ millions)	Base Shelf Prospectus dated May 16, 2003
MTN issue limit	$ 750
MTN issued in 2004 (1)	200
MTN capacity available, year end 2004	$ 550

(1) In 2003, an additional $100 of MTN was issued pursuant to a Base Shelf Prospectus dated October 4, 2001.

Loblaw Medium Term Notes Program

($ millions)	Base Shelf Prospectus dated May 12, 2003
MTN issue limit	$ 1,000
MTN issued in 2003 (1)	455
MTN issued in 2004	200
MTN capacity available, year end 2004	$ 345

(1) In 2003, an additional $200 of MTN was issued pursuant to a Base Shelf Prospectus dated May 24, 2001.
(2) Subsequent to year end 2004, an additional $300 of MTN was issued, resulting in the Company having $45 of MTN capacity available for issue.

Sources of Liquidity

The Company obtains its short term financing through a combination of cash generated from operating activities, cash, cash equivalents, short term investments, bank indebtedness and commercial paper programs. Weston's cash, cash equivalents and short term investments, as well as $269 million in uncommitted credit facilities and $300 million in committed credit facilities extended by several banks, support Weston's $500 million commercial paper program. Loblaw's cash, cash equivalents and short term investments, as well as $845 million in uncommitted operating lines of credit extended by several banks, support its $1.2 billion commercial paper program. Weston's and Loblaw's commercial paper borrowings generally mature less than three months from the date of issuance, although the term can be up to 364 days.

Securitization of credit card receivables provides PC Bank with an additional source of funds for the operation of its business. Under PC Bank's securitization program, a portion of the total interest in the credit card receivables is sold to an independent trust. PC Bank securitized $227 million (2003 – $202 million) of credit card receivables during 2004. Information on PC Bank's credit card receivables and securitization is provided in notes 9 and 18 to the consolidated financial statements and in the Off-Balance Sheet Arrangements section of this MD&A.

The Company obtains its long term financing primarily through MTN programs. The Company plans to refinance existing long term debt as it matures and may obtain additional long term financing for other operating uses or strategic reasons.

In the normal course of business, the Company enters into certain arrangements such as providing comfort letters to third party lenders in connection with financing activities of certain franchisees with no recourse liability to the Company. In addition, the Company establishes standby letters of credit used in connection with certain obligations related to the financing program for Loblaw's franchisees, securitization of PC Bank's credit card receivables, real estate transactions and benefit and insurance programs. At year end, the aggregate gross potential liability related to the Company's standby letters of credit was approximately $463 million (2003 – $391 million), against which the Company had $628 million (2003 – $606 million) in credit facilities available to draw on.

The Company has the following sources from which it can fund its 2005 cash requirements: cash, cash equivalents, short term investments, bank indebtedness, cash flows generated from operating activities, commercial paper programs, MTN programs and additional credit card receivable securitizations from future growth in the PC Bank credit card operations. In 2005, the Company anticipates no difficulty in obtaining external financing in view of its current credit ratings, its past experience in the capital markets and general market conditions.

Credit Ratings (Canadian standards)	Dominion Bond Rating Service ("DBRS")	Standard & Poor's ("S&P")
Commercial paper	R-1 (low)	A-1 (low)
Medium term notes	A (low)	A–
Exchangeable debentures	BBB (high)	
Preferred shares	Pfd-2 (low)	P-2
Other notes and debentures	A (low)	A–

The rating organizations listed above base their ratings on quantitative and qualitative considerations which are relevant for Weston. These ratings are intended to give an indication of the risk that Weston will not fulfill its obligations in a timely manner and do not take certain factors into account, such as market or pricing risk, since these must be considered by investors as factors in their investment process.

Contractual Obligations

The following illustrates certain of the Company's significant contractual obligations and discusses other obligations as at December 31, 2004:

Summary of Contractual Obligations	Payments due by year						
($ millions)	2005	2006	2007	2008	2009	Thereafter	Total
Long term debt (including capital lease obligations)	$ 222	$ 328	$ 5	$ 392	$ 378	$5,003	$ 6,328
Operating leases (1)	215	195	172	151	130	663	1,526
Contracts for purchase of real property and capital investment projects (2)	336	13	8				357
Purchase obligations (3)	727	683	597	520	355	202	3,084
Total contractual obligations	$1,500	$1,219	$ 782	$1,063	$ 863	$5,868	$11,295

(1) Represents the minimum or base rents payable. Amounts are not offset by any expected sublease income.

(2) These obligations include agreements for the purchase of real property. These agreements may contain conditions that may or may not be satisfied. If the conditions are not satisfied, it is possible the Company will no longer have the obligation to proceed with the transaction.

(3) These include material contractual obligations to purchase goods and services where the contract prescribes fixed or minimum volumes to be purchased or payments to be made within a fixed period of time for a set or variable price. These amounts include certain contracts with variable price provisions. While estimates of anticipated financial commitments were made for the purpose of this disclosure, the amount of actual payments may vary.

Other contractual obligations not reflected in the table above are discussed below.

The purchase obligations presented in the above table do not include purchase orders issued in the ordinary course of business for goods which are meant for resale, nor do they include any contracts which may be terminated on relatively short notice with insignificant costs or liability to the Company. Also excluded are purchase obligations related to commodities for which an active, highly liquid market for resale exists. The Company believes such contracts do not have a material impact on its liquidity.

In connection with the purchase of Provigo, Loblaw committed to support Quebec small business and farming communities as follows: for a period of seven years commencing in 1999 and, subject to business dispositions, the aggregate amount of goods and services purchased from Quebec suppliers in the normal course of business will not fall below those of 1998. Loblaw has fulfilled its commitment in each year from 1999 to and including 2004.

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

- future payments of accrued benefit plans liability, principally post-retirement benefits, depend on when and if retirees submit claims;
- future payments of income taxes depend on the levels of taxable earnings and income tax rates;
- future payments of the share appreciation value on employee stock options depend on whether employees exercise their stock options, the market prices of Weston and Loblaw common shares on the exercise date and the manner in which they exercise those stock options;
- future payments of insurance claims can extend over several years and depend on the timing of anticipated settlements and results of litigation; and
- future payments relating to the settlement of the equity forward obligation based on 9.6 million Loblaw common shares which matures in 2031 (see note 18 to the consolidated financial statements) will depend on the market price of Loblaw common shares; further, the market value of the 9.6 million Loblaw common shares that Weston has used to secure this obligation exceeds the amount owing under the forward contract, and a portion of the proceeds from a future sale of these shares can be used to satisfy the obligation under this forward contract upon termination or maturity.

Off-Balance Sheet Arrangements

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

- standby letters of credit used in connection with certain obligations mainly related to real estate transactions and benefit and insurance programs, the aggregate gross potential liability of which is approximately $104 million;
- guarantees;
- the securitization of a portion of PC Bank's credit card receivables through an independent trust;
- a standby letter of credit to an independent funding trust which provides loans to Loblaw's franchisees for their purchase of inventory and fixed assets; and
- financial derivative instruments in the form of interest rate swaps and an electricity forward contract.

Guarantees The Company has entered into various guarantee agreements, including standby letters of credit in relation to the securitization of PC Bank's credit card receivables and in relation to third party financing made available to the Company's franchisees and obligations to indemnify third parties in connection with leases, business dispositions and other transactions in the normal course of the Company's business. For a detailed description of the Company's guarantees, see note 20 to the consolidated financial statements.

Securitization of Credit Card Receivables Loblaw, through its wholly owned subsidiary PC Bank, securitizes credit card receivables through an independent trust administered by a major Canadian bank. In these securitizations, PC Bank sells a portion of its credit card receivables to the trust in exchange for cash. The trust funds these purchases by issuing debt securities in the form of commercial paper to third party investors. The securitizations are accounted for as asset sales only when PC Bank transfers control of the transferred assets and receives consideration other than beneficial interests in the transferred assets. All transactions between the trust and PC Bank have been, and are expected to continue to be, accounted for as sales as contemplated by Accounting Guideline ("AcG") 12, "Transfers of Receivables". As PC Bank does not control or exercise any measure of influence over the trust, the financial results of the trust have not been included in the Company's consolidated financial statements.

When Loblaw sells credit card receivables to the trust it no longer has access to the receivables but continues to maintain credit card customer account relationships and servicing responsibilities. Loblaw does not receive an explicit servicing fee from the trust for its servicing responsibilities. When a sale occurs, PC Bank may retain subordinated interests consisting of rights to future cash flows after obligations to the investors in the trust have been met and credit enhancement deposits in the form of a cash reserve account have been made, both of which are considered to be a retained interest. The trust's recourse to PC Bank's assets is limited to PC Bank's retained interests and is further supported through a standby letter of credit provided by a major Canadian bank for 15% of the securitized amount. This standby letter 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, after the cash reserve account established pursuant to the securitization agreement has been depleted. Loblaw has agreed to reimburse the issuing bank for any amount drawn on the standby letter of credit. The carrying value of the retained interests is periodically reviewed and when a decline in value is identified that is other than temporary, the carrying value is written down to fair value.

As at year-end 2004, the total amount of securitized credit card receivables outstanding which PC Bank continues to service was $785 million (2003 – $558 million) and the associated retained interests amounted to $12 million (2003 – $9 million). The standby letter of credit supporting these securitized receivables amounted to approximately $118 million (2003 – $84 million). During 2004, PC Bank received income of $83 million (2003 – $53 million) in securitization revenue from the independent trust relating to the securitized credit card receivables.

In the absence of securitization, Loblaw would be required to raise alternative financing by issuing debt or equity instruments. Further disclosure regarding this arrangement is provided in notes 9 and 20 to the consolidated financial statements.

Funding Trust Franchisees of Loblaw may obtain financing through a structure involving independent trusts that was created to provide loans to the franchisees to facilitate their purchase of inventory and fixed assets, consisting mainly of fixtures and equipment. These trusts are administered by a major Canadian bank. The independent funding trust within the structure finances its activities through the issuance of short term asset-backed notes to third party investors. The total amount of loans issued to Loblaw's franchisees outstanding as at year end 2004 was $394 million (2003 – $343 million). Based on a defined 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 for approximately 10% of the principal amount of the loans outstanding at any given point in time, or $42 million (2003 – $35 million) as of year end 2004. This credit enhancement allows the independent funding trust to provide favourable financing terms to Loblaw's franchisees. In the event that a franchisee defaults on its loan and Loblaw has not, within a specified time period, assumed the loan, or the default is not otherwise remediated, the independent funding trust may 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. No amount has ever been drawn on the letter of credit. Loblaw is confident it would be able to fully recover from the franchisee any amounts it had reimbursed to the issuing bank. Neither the independent funding trust nor Loblaw can voluntarily terminate the agreement prior to December 2009, and only upon 6 months' prior notice following that date. Automatic termination of the agreement can only occur if specific, pre-determined events occur and are not cured within the time periods required. If the arrangement is terminated, the franchisees would be required to replace the loans provided by the independent funding trust with alternative financing. The Company is under no obligation to provide funding to franchisees under such circumstances.

In accordance with current accounting standards issued by the CICA, the financial statements of the independent funding trust are not consolidated with those of the Company.

The discussion in the Future Accounting Standards section of this MD&A includes a discussion concerning the possible application of AcG 15, "Consolidation of Variable Interest Entities" to the independent funding trust and to the independent trust through which credit card receivables are securitized.

Derivative Instruments The Company uses off-balance sheet financial derivative instruments to manage its exposure to changes in interest rates and in electricity prices in Ontario, Canada. For a detailed description of the Company's off-balance sheet derivative instruments and the related accounting policies, see notes 1 and 18 to the consolidated financial statements.

During 2004, Weston entered into interest rate swap contracts with a notional value of $200 million, which mature in 2014. These interest rate swaps were designated as a fair value hedge of the $200 million of 5.05% MTN due 2014. Under the terms of the interest rate swaps, Weston will receive a fixed interest rate of 4.8% and pay a floating interest rate. Subsequent to year end, Weston terminated these interest rate swaps and the gain realized on the termination will be deferred over the remaining term of the initial hedge and recognized in interest expense and other financing charges.

QUARTERLY RESULTS OF OPERATIONS

The 52-week reporting cycle followed by the Company is divided into equal quarters of 12 weeks each except for the third quarter, which is 16 weeks in duration. When a fiscal year such as 2003 contains 53 weeks, the fourth quarter is 13 weeks in duration. The following is a summary of selected consolidated financial information derived from the Company's unaudited interim consolidated financial statements for each of the eight most recently completed quarters. This information was prepared in accordance with Canadian GAAP and is reported in Canadian dollars.

Quarterly Financial Information (1) (unaudited)

($ millions except where otherwise indicated)		First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total (audited)
Sales	2004	$ 6,551	$ 6,915	$ 9,260	$ 7,072	$ 29,798
	2003	$ 6,355	$ 6,708	$ 8,721	$ 7,237	$ 29,021
Net earnings from continuing operations	2004	$ 125	$ 142	$ 185	$ 154	$ 606
	2003	$ 140	$ 193	$ 216	$ 258	$ 807
Net earnings (loss)	2004	$ 121	$ 140	$ 168	$ (1)	$ 428
	2003	$ 134	$ 193	$ 213	$ 252	$ 792
Net earnings from continuing operations per common share ($)						
Basic	2004	$ .91	$ 1.06	$ 1.37	$ 1.15	$ 4.49
	2003	$ 1.01	$ 1.42	$ 1.56	$ 1.92	$ 5.91
Diluted	2004	$ .91	$ 1.06	$ 1.37	$ 1.14	$ 4.48
	2003	$ 1.01	$ 1.42	$ 1.55	$ 1.91	$ 5.89
Net earnings (loss) per common share ($)						
Basic	2004	$ .88	$ 1.04	$ 1.24	$ (.05)	$ 3.11
	2003	$ .96	$ 1.42	$ 1.55	$ 1.87	$ 5.80
Diluted	2004	$ .88	$ 1.04	$ 1.24	$ (.06)	$ 3.10
	2003	$ .96	$ 1.42	$ 1.54	$ 1.86	$ 5.78

(1) Certain prior year's information was restated due to discontinuing the Fisheries segment (see note 7 to the consolidated financial statements).

Results by Quarter 2004 quarterly sales growth was impacted by various factors including Food Distribution sales and same-store sales growth and the impact of Weston Foods foreign currency translation. Sales for the fourth quarter of 2004 decreased 2.3% including an approximate 7.5% negative impact due to the 53rd week in 2003. Adjusting for the quarterly impacts of foreign currency translation, Weston Foods 2004 quarterly sales were impacted positively by volume increases as a result of the introduction of new products and the product mix shift to higher-priced premium products throughout the year as well as sales price increases that were more significant in the second half of 2004. During the fourth quarter of 2004, the incremental sales as a result of the acquisition of Gadoua positively impacted Weston Foods fourth quarter sales growth. Food Distribution 2004 sales growth, on an equivalent 52-week basis, gained momentum during the second half of the year with same-store sales growth reasonably consistent during the year, varying between 1.2% and 2.0%. Overall food price inflation during the first half of 2004 was nominal and included the effects of food price deflation in certain markets. Inflation trended upwards in the latter half of the year. Holidays such as Easter, Thanksgiving and Christmas impact the Company's sales volumes and have fallen within the same quarters year over year. In addition, Weston Foods is impacted by the timing of seasonal sales items such as pies, buns, rolls, Girl Scout cookies and ice cream cones and wafers. The sales timing of these seasonal items generally occur in the same quarters year over year.

2004 quarterly operating income was impacted by lower operating margins at Weston Foods due to the negative impact of higher ingredient, energy and employee related benefit costs, offset by sales price increases that were more significant in the second half of the year. Higher operating margins at Food Distribution due to cost control and operating efficiency improvements and buying synergies and fluctuations in the Company's stock-based compensation net of the impact of the related equity derivatives as a result of changes in the market price of Weston's and Loblaw's common shares impacted 2004 quarterly operating income. In addition, the third and fourth quarters of 2004 included charges for the impairment of fixed assets and intangible assets employed in the Weston Foods fresh-baked sweet goods category primarily sold under the *Entenmann's* brand name, restructuring and other exit costs associated with certain Weston Foods cost reduction initiatives as well as Food Distribution fixed asset impairment charges as a result of repositioning the Ontario, Canada banner portfolio. Operating income for the fourth quarter of 2003 included restructuring and

exit costs in the Weston Foods operating segment and a charge from the voluntary early retirement offer accepted by employees in Ontario, Canada affected by *The RCSS* labour arrangement in the Food Distribution operating segment.

Interest expense and other financing charges incurred on a quarterly basis in 2004 over the prior year have generally been impacted by increases in average long term borrowing levels outstanding and lower positive impact of interest on financial derivative instruments as a result of Weston terminating its cross currency basis swaps and certain interest rate swaps in the third quarter of 2003. In addition, effective the third quarter of 2004, interest expense and other financing charges included a non-cash charge relating to the adoption of the new accounting standard which changes prospectively the accounting for Weston's 2001 forward sale agreement of Loblaw common shares.

The effective income tax rate for 2004 declined over last year primarily as a result of the 2% reduction in the Canadian federal statutory income tax rate and each quarter was also impacted by various factors, including the taxable income by jurisdiction as well as the income tax impact related to stock-based compensation and the associated equity derivatives. In addition, the income tax expense for the first quarter of 2004 included a reversal of $14 million due to Loblaw's successful resolution of certain income tax matters from a previous year. The income tax expense for the fourth quarter of 2003 included a reversal of $34 million related to the favourable resolution of an income tax issue previously accrued for by the Company and a $7 million charge for an adjustment to future income tax balances due to the increase in corporate income tax rates in Ontario, Canada.

Net earnings were impacted by the items described above as well as the negative impact from discontinuing the Fisheries segment including the impairment charge related to Fisheries assets held for sale.

Throughout fiscal 2004 and 2003 Weston purchased common shares for cancellation pursuant to its NCIB. The weighted average common shares outstanding has not been significantly impacted by these purchases.

Fourth Quarter Results

The Company's 2004 fourth quarter results of operations, financial condition and cash flows were affected as follows:

- Sales growth on a comparable 12-week basis of 5.2% was impacted positively by same-store growth of 1.4% and an increase of 1.2 million square feet in net retail space at Food Distribution and impacted negatively by 1% due to foreign currency translation in Weston Foods.
- Operating income included a $66 million charge related to the impairment of fixed assets and intangible assets within the Weston Foods *Entenmann's* operation in the United States and $9 million (2003 – $35 million) of restructuring and exit costs associated with certain cost reduction initiatives approved during the fourth quarter of 2004 in the Weston Foods operating segment (see note 2 to the consolidated financial statements).
- Operating income growth was impacted positively by approximately 2% due to lower stock-based compensation costs net of the impact of the related equity derivatives.
- Interest expense and other financing charges increased 110.3%, primarily as a result of the non-cash charge of $83 million due to the adoption of the new accounting standard which prospectively changed the accounting for Weston's 2001 forward sale agreement of Loblaw common shares.
- The effective income tax rate for the fourth quarter was relatively unchanged from the same period last year.

Further discussion and analysis on the fourth quarter results is provided in the Company's 2004 Preliminary Report to Shareholders.

OPERATING RISKS AND RISK MANAGEMENT

In the normal course of its business, the Company's reportable operating segments are exposed to operating risks that have the potential to negatively affect its financial performance. Each operating segment has insurance programs and its own operating and risk management strategies to help minimize these operating risks.

Industry The North American food industry is a changing and competitive market. Consumers' needs drive changes in the industry, which is impacted by changing demographic and economic trends such as changes in disposable income, increasing ethnic diversity, nutritional awareness and time availability. Over the past several years, consumers have demanded more value, choice and convenience. If the Company is ineffective in responding to these demands, its financial performance could be negatively impacted.

All operating segments evaluate the markets they operate in and will enter new markets and review potential acquisitions when opportunities arise, and will also exit a particular market and reallocate assets elsewhere when there is a strategic advantage to

doing so. With any acquisition, there is inherent risk related to the Company's ability to integrate the acquired business and to achieve the anticipated operating improvements. Weston Foods' strategy to operate on a North American scale allows it to effectively manage and minimize its exposure to industry risk.

Food Distribution pursues a strategy of enhancing profitability on a market-by-market basis by using a multi-format approach. By operating across Canada through corporate stores, franchised stores and associated stores and by servicing independent accounts, Food Distribution strategically minimizes and balances its exposure to industry risk.

Competitive The Company reviews and monitors operating plans and results including market share in its reportable operating segments. When necessary, the segments will modify their operating strategies including relocating production facilities or stores, reviewing pricing and adjusting product offerings, brand positioning and/or marketing programs to take into account competitive activity. A significant competitive advantage the Company has developed is its brands. All segments focus on brand development and building upon their core brand equity.

Weston Foods' brands provide it with a strategic advantage over its competitors. Its premium and popular brands provide Weston Foods with strong core brands and product lines that enhance consumer loyalty, trusted as they are for quality, great taste and freshness. As a result of the difficult sales environment being experienced by United States traditional food retailers, coupled with the continuing cost pressures being experienced by the industry, Weston Foods anticipates that competitive business restructuring will continue in 2005. Although the outcome and the impact, if any, on the Company's consolidated financial results from this anticipated restructuring is uncertain, Weston Foods will closely monitor the United States food retail market and, if required, adjust its strategies and programs as necessary.

Food Distribution's control label program enhances customer loyalty by offering superior value and provides some protection against national brand pricing strategies. Food Distribution faces increasing competition from many types of non-traditional competitors, such as mass merchandisers, warehouse clubs, drug stores, limited assortment stores, convenience stores and specialty stores, all of which continue to increase their offerings of products typically associated with traditional supermarkets. In order to compete effectively and efficiently, Food Distribution is developing and operating new departments and services that complement the traditional supermarket layout, as well as enhancing its product and service offerings. Food Distribution is also subject to competitive pressures from new entrants into the marketplace and from the potential consolidation of existing competitors. These new entrants may have extensive resources which will allow them to compete effectively with Food Distribution in the long term.

In order to remain competitive by having an optimal cost structure, the Company continuously evaluates and implements various cost saving initiatives. The Company may not always achieve the expected cost savings and other benefits of the initiatives. Accordingly, the Company's competitive position and financial results could be negatively impacted.

Increased competition could affect the Company's ability to achieve its objectives. The Company's inability to compete effectively with its current or any future competitors could result in, among other things, lessening of market share and lower pricing in response to competitors' pricing activities.

Food Safety The Company is subject to potential liabilities connected with its business operations, including potential exposures associated with product defects, food safety and product handling. Such liabilities may arise in relation to the manufacturing, preparation, storage, distribution and display of products and, with respect to Food Distribution's control label products, in relation to the production, packaging and design of products. The occurrence of an event giving rise to such a liability could have a material impact on the Company's financial performance and results.

A majority of the Company's sales are generated from food products and the Company could be vulnerable in the event of a significant outbreak of food-borne illness or increased public health concerns in connection with certain food products. Such an event could materially affect the Company's financial performance. Procedures are in place to manage food crises, should they occur. These procedures identify risks, provide clear communication to employees and consumers and ensure that potentially harmful products are removed from inventory immediately. Food safety related liability exposures are insured by the Company's insurance program. In addition, the Company has food safety procedures and programs which address safe food handling and preparation standards. The Company employs best practices for storage and distribution of food products and is intensifying the campaign for consumer awareness on safe food handling and consumption.

Labour A significant portion of the Company's workforce is unionized. Renegotiating collective agreements might result in work stoppages or slowdowns, which could materially affect the Company's financial performance, depending on their nature and duration. The Company is willing to accept the short term costs of labour disruption in order to negotiate competitive labour costs and operating conditions for the longer term. Significant labour negotiations took place across the Company in 2004 as 113 collective agreements expired and another 117 collective agreements were successfully negotiated which represented a combination of agreements expiring in 2004 and those carried over from prior years. Food Distribution experienced a labour disruption at four *Provigo* stores in Quebec, Canada, which was settled after 28 weeks, resulting in a six year collective agreement. In 2005, 77 collective agreements affecting approximately 7,400 employees will expire, with the single largest agreement covering approximately 1,600 employees. The Company will also continue to negotiate the 50 collective agreements carried over from 2002 to 2004 and anticipates no labour disruption with respect to these negotiations. The Company has good relations with its employees and unions and, although it is possible, does not anticipate any unusual difficulties in renegotiating agreements.

Several of the Company's competitors operate in a non-union environment. These competitors may benefit from lower labour costs, making it more difficult for the Company to compete.

Commodity Prices Weston Foods operating results are directly impacted by fluctuations in the price of commodities such as wheat, flour, sugar, vegetable oil and cocoa. Increases in prices of these commodities could continue to adversely affect the Company's financial performance. In order to minimize the effect of these fluctuations on current operating results and to lessen the resulting uncertainty of future financial results, the Company hedges a portion of its anticipated commodity purchases to help mitigate the impact of its exposure to fluctuations in commodity prices. As at year end 2004, Weston Foods had entered into commodity future contracts, which mitigate price fluctuations on some commodities for approximately 6 months, on average, into 2005.

Third Party Service Providers Certain aspects of the Company's operations are provided by third parties. While appropriate contractual arrangements are put in place with these third parties, the Company has no direct influence over how such third parties are managed. It is possible that negative events affecting these third parties could in turn negatively impact the Company's operations and its financial performance.

In addition, certain of Weston Foods' products and Food Distribution's control label products, which are among the most recognized brands in Canada, are manufactured under contract by third party vendors, and in order to preserve the brands' equity, these vendors are held to high standards of quality. Food Distribution also uses third party logistics services including those in connection with a dedicated distribution centre in Pickering, Ontario and third party common carriers. Any disruption in these services could interrupt the delivery of merchandise to the stores and therefore could negatively impact sales.

President's Choice Financial banking services are provided by Amicus Bank, a member of the CIBC group of companies. PC Bank uses third party service providers to process credit card transactions, operate call centres and monitor credit and fraud for the *President's Choice Financial* MasterCard. In order to minimize operating risk, PC Bank and Loblaw actively manage and monitor their relationship with all third party service providers. PC Bank has developed a vendor management policy, approved by its Board of Directors, and provides its Board with regular reports on vendor management and risk assessment. *PC Financial* insurance products are provided by companies within the Aviva Canada group, the Canadian subsidiary of a major international property and casualty insurance provider.

Pension Contributions While the Company's registered funded defined benefit pension plans are currently adequately funded and returns on defined benefit pension plan assets are in line with expectations, there is no assurance that this will continue. An extended period of depressed capital markets and low interest rates could require the Company to make significant contributions to its registered funded defined benefit pension plans, which in turn could have a material effect on its financial performance.

The poor performance of financial markets in recent years combined with interest rates at 40 year lows have negatively impacted the funding of the Company's registered funded defined benefit pension plans in recent years. During 2004, the Company contributed $85 million (2003 – $131 million) to its registered funded defined benefit pension plans including a voluntary lump sum contribution amounting to $37 million (2003 – $64 million). During 2005, the Company expects to contribute approximately $100 million to these plans.

In addition to the Company-sponsored pension plans, the Company participates in various multi-employer pension plans, providing pension benefits in which approximately 41% (2003 – 41%) of employees of the Company and of its franchisees participate. The administration of these plans and the investment of their assets are legally controlled by a board of independent trustees generally consisting of an equal number of union and employer representatives. In some circumstances, the Company may have

a representative on the board of trustees of these multi-employer pension plans. The Company's responsibility to make contributions to these plans is limited by the amounts established pursuant to its collective agreements. Pension cost for these plans is recognized as contributions are paid.

Real Estate The availability and conditions affecting the acquisition and development of real estate properties may impact Food Distribution's ability to execute its planned real estate program on schedule and therefore, its ability to achieve its sales targets. As Food Distribution expands its general merchandise offering, on-time execution of the real estate program becomes increasingly important due to significantly longer lead times required for ordering this merchandise. Food Distribution maintains a significant portfolio of owned retail real estate and, whenever practical, pursues a strategy of purchasing sites for future store locations. This enhances Food Distribution's operating flexibility by allowing it to introduce new departments and services that could be precluded under operating leases. At year end 2004, Food Distribution owned 70% (2003 – 67%) of its corporate store square footage.

Seasonality The Company's operations as they relate to food, specifically inventory levels, sales volumes and product mix, are impacted to some degree by certain holiday periods throughout the year. Each of the Company's reportable operating segments continuously monitors the impact holidays may have on their operations and adjusts inventory levels and production and delivery schedules as required. As Food Distribution expands its general merchandise offering, it may increase the number of seasonal products offered and, therefore, its operations may be subject to more seasonal fluctuations.

Leadership Development and Employee Retention Effective leadership is essential to sustaining the growth and success of the Company. The Company continues to focus on the development of leaders at all levels and across all regions, by executing tailored leadership development programs that provide the knowledge and skills necessary to drive positive change and ensure effective execution. The degree to which the Company is effective in developing its leaders and retaining key employees could affect its ability to execute its strategies, efficiently run its operations and meet its goals for financial performance.

Food Distribution is scheduled to open a new office facility in Brampton, Ontario in the third quarter of 2005 which will allow for the combination of several administrative and operating offices from across southern Ontario. In addition, in 2005, Food Distribution's internal reorganizations involving the merchandising, procurement and operations groups will take effect, including the transfer of the general merchandise operations from Calgary, Alberta to the new office facility. These initiatives may result in some short term employee turnover and disruption as certain employees may assume new roles and responsibilities.

Utility and Fuel Prices The Company is a significant consumer of electricity, other utilities and fuel. Unanticipated cost increases in these items could affect the Company's financial performance. In 2002, the government of Ontario, Canada deregulated the electricity market in that province. In order to minimize the risk of higher electricity prices, the Company entered into a three year initial term electricity forward contract, which expires in May 2005. This contract maintains a portion of the Company's electricity costs at approximately 2001 rates. In light of the pending expiry of the electricity forward contract, the Company is presently reviewing alternate arrangements under current market conditions.

Insurance The Company effectively limits its exposure to risk through a combination of appropriate levels of self-insurance and the purchase of various insurance coverages, including an integrated insurance program. The Company's insurance program is based on various lines and limits of coverage which provide the appropriate level of retained and insured risks. Insurance is arranged on a multi-year basis with reliable, financially stable insurance companies as rated by A.M. Best Company, Inc. The Company combines comprehensive risk management programs and the active management of claims handling and litigation processes by using internal professionals and external technical expertise to reduce and manage the risk it retains.

Environmental, Health and Safety The Company has effective environmental programs in place and has established policies and procedures aimed at ensuring compliance with applicable environmental legislative requirements. To this end, the Company employs environmental risk assessments and audits using internal and external resources together with effective employee awareness programs throughout its operating locations.

The Company endeavours to be socially and environmentally responsible, and recognizes that the competitive pressures for economic growth and cost efficiency must be integrated with environmental stewardship and ecological considerations. Environmental protection requirements do not and are not expected to have a material effect on the Company's financial performance. The Company also has a health and safety program designed to address health and wellness, workplace safety and compliance with internal and regulatory guidelines for workplace health and safety.

The Environmental, Health and Safety Committee of the Board receives regular reporting from management addressing current and potential future issues identifying new legislative concerns and related communication efforts.

Legal, Tax and Accounting Changes to any of the laws, rules, regulations or policies related to the Company's business, including the production, processing, preparation, distribution, packaging and labelling of its products could have a significant impact on its financial and operational performance. In the course of complying with such changes, the Company may incur significant costs. Failure by the Company to fully comply with applicable laws, rules, regulations and policies may subject it to civil or regulatory actions or proceedings, including fines, assessments, injunctions, recalls or seizures, which may have a material adverse effect on the Company's financial performance. There can be no assurance that the tax laws and regulations in the jurisdictions affecting the Company will not be changed in a manner which could adversely affect the Company. New accounting pronouncements introduced by the appropriate authoritative bodies may also impact the Company's financial performance.

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

FINANCIAL RISKS AND RISK MANAGEMENT

In the normal course of its business, the Company is exposed to financial risks that have the potential to negatively affect its financial performance. The financial risks relate to changes in interest rates, foreign currency exchange rates, the market prices of Weston and Loblaw common shares and electricity prices in Ontario, Canada. The Company is also exposed to credit and counterparty risks on certain of its financial instruments. These risks and the actions taken to minimize them are discussed below.

Derivative Instruments The Company uses over-the-counter derivative financial instruments, specifically cross currency basis swaps, interest rate swaps, equity forwards and equity swaps, to minimize the risks and costs associated with its financing activities and its stock-based compensation plans. The Company has also entered into an electricity forward contract to partially offset electricity price volatility in Ontario, Canada. The Company maintains treasury centres that operate under policies and guidelines approved by the Board, covering funding, investing, equity, foreign currency exchange and interest rate management. The Company's policies and guidelines prevent it from using any derivative instrument for trading or speculative purposes. See notes 1 and 18 to the consolidated financial statements for additional information on the Company's derivative instruments.

Foreign Currency Exchange Rate The Company enters into currency derivative agreements to manage its current and anticipated exposure to fluctuations in foreign currency exchange rates. Loblaw's cross currency basis swaps are transactions in which floating interest payments and principal in United States dollars are exchanged against the receipt of floating interest payments and principal in Canadian dollars. These cross currency basis swaps limit Loblaw's exposure to foreign currency exchange rate fluctuations on a portion of its United States dollar denominated assets, principally cash, cash equivalents and short term investments.

During 2003, as a result of the significant strengthening of the Canadian dollar, Weston terminated cross currency basis swaps that previously limited its exposure to foreign currency exchange rate fluctuations on its U.S. net investment. As a result, foreign currency exchange rate adjustments on the translation of Weston's U.S. net investment that are recognized within the cumulative foreign currency translation adjustment included in shareholders' equity will no longer be offset. Weston continues to monitor its current and anticipated exposure to fluctuations in foreign currency exchange rates, specifically those related to its U.S. net investment, and may consider entering into currency derivative agreements as appropriate to manage this exposure.

Interest Rate The Company enters into interest rate derivative agreements to manage its current and anticipated exposure to fluctuations in interest rates and market liquidity. Interest rate swaps are transactions in which the Company exchanges interest flows with a counterparty on a specified notional amount for a predetermined period based on agreed-upon fixed and floating interest rates. Notional amounts are not exchanged. The Company monitors market conditions and the impact of interest rate fluctuations on its fixed and floating interest rate exposure mix on an ongoing basis.

Common Stock Market Price The Company enters into equity derivative agreements to manage its current and anticipated exposure to fluctuations in its stock-based compensation cost as a result of changes in the market prices of Weston and Loblaw common shares. These equity derivative agreements change in value as the market price of the underlying common shares changes, which effectively results in a partial offset to fluctuations in the Company's stock-based compensation cost. The partial offset between the Company's stock-based compensation costs and the equity derivatives is effective as long as the market prices of Weston and Loblaw

common shares exceed the exercise price of the related employee stock options. The fair value of Weston's equity forward sale agreement based on 9.6 million Loblaw common shares is based on fluctuations in the market price of Loblaw common shares, and is a non-cash item that will ultimately be offset by the recognition of any gain on Weston's disposition of the 9.6 million Loblaw common shares.

Electricity Prices The Company entered into an electricity forward contract to minimize volatility in the price of electricity in Ontario, Canada. The forward contract changes in value as the price of electricity changes, has an initial term of three years and expires in May 2005. In light of the pending expiry, the Company is presently reviewing alternate arrangements under current market conditions.

Counterparty Over-the-counter derivative financial instruments are subject to counterparty risk. Counterparty risk arises from the possibility that market changes may affect a counterparty's position unfavourably and that the counterparty defaults on its obligation to the Company. The Company has sought to minimize potential counterparty risk and losses by implementing a policy that allows such transactions only with counterparties that have, at a minimum, a long term A rating by S&P, DBRS or equivalent from another recognized credit rating agency, placing risk adjusted limits on its exposure to any single counterparty and having master netting agreements with its counterparties. These netting agreements mitigate counterparty risk to the extent that unfavourable contracts with the same counterparty can be legally netted against the settlement of favourable contracts.

Credit The Company's exposure to credit risk relates to the Company's cash equivalents and short term investments, Weston Foods' trade accounts receivables and Food Distribution's credit card receivables and accounts receivable from franchisees, associates and independent accounts.

Credit risk associated with the Company's cash equivalents and short term investments results from the possibility that a counterparty may default on the repayment of a security. This risk is mitigated by the Company's policies and guidelines that require issuers of permissible investments to have a minimum A credit rating from a recognized credit rating agency and specify minimum and maximum exposures to specific issuers.

Weston Foods performs ongoing credit evaluations of new and existing customers' financial condition and reviews the collectibility of its trade accounts receivables in order to mitigate any possible credit losses.

Food Distribution's exposure to credit risk relates to PC Bank's credit card receivables. PC Bank manages the *President's Choice Financial* MasterCard. PC Bank grants credit to its customers on the *President's Choice Financial* MasterCard with the intention of increasing the loyalty of Food Distribution customers and Food Distribution profitability. Credit risk results from the potential for loss due to those customers defaulting on their payment obligations. In order to minimize the associated credit risk, PC Bank employs stringent credit scoring techniques, actively monitors its credit card portfolio and reviews techniques and technology that can improve the effectiveness of its collection process. In addition, these receivables are dispersed among a large, diversified group of credit card customers. Food Distribution also has accounts receivable from its franchisees, associates and independent accounts, mainly as a result of sales to these customers. Food Distribution actively monitors the balances on an ongoing basis and collects funds from its franchisees on a weekly basis in accordance with terms specified in the applicable agreements.

RELATED PARTY TRANSACTIONS

Weston's majority shareholder, Wittington, and its affiliates are related parties. Weston, in the normal course of business, has routine transactions with these related parties, including the rental of office space at market rates from Wittington. Rental payments amounted to approximately $4 million in 2004 as well as a one time payment of $8 million for a property designated for future development. It is Weston's policy to conduct all transactions and settle balances with related parties on normal trade terms. For a detailed description of the Company's related party transactions, see note 21 to the consolidated financial statements.

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

In 2003 Weston purchased for cancellation 2,013,092 of its common shares (representing approximately 1.5% of Weston's outstanding common shares) at an agreed price of $95.58 per common share pursuant to an offer received from Wittington, thereby reducing Wittington's beneficial ownership to 62%. The agreed upon price of $95.58 was equal to the lesser of 96% of the volume weighted average price for Weston's common shares for the last 20 business days and 96% of the volume weighted average closing price for the three business days immediately prior to the closing of the purchase and was subject to the price not being less than $95 per common share. Weston and the Board of Directors concluded that it was in the best interest of Weston to purchase its common shares and this

transaction represented an opportunity to purchase a significant number of its common shares at a price below market price. This offer was reviewed and approved by an independent committee of directors established by Weston's Board of Directors. Weston has obtained an exemption from the issuer bid rules in connection with this purchase from the Ontario Securities Commission.

CRITICAL ACCOUNTING ESTIMATES

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

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

Valuation of Inventories Food Distribution retail inventories are stated at the lower of cost and estimated net realizable value less normal gross profit margin. Food Distribution is required to make significant estimation or judgment in the determination of (i) discount factors used to convert inventory to cost after physical count at retail has been completed and (ii) estimated inventory losses, or shrinkage, occurring between the last physical inventory count and the balance sheet date.

Inventories counted at retail are converted to cost by applying a discount factor to retail selling prices. This discount factor is determined at a department level, is calculated in relation to historical gross margins and is reviewed on a regular basis for reasonableness. As Food Distribution continues to expand its general merchandise offerings, the mix of product within certain departments and historical gross margins may change and the resulting discount factors may be adjusted accordingly.

Inventory shrinkage, which is calculated as a percentage of sales, is evaluated throughout the year and provides for estimated inventory shortages from the last physical count to the balance sheet date. To the extent that actual losses experienced vary from those estimated, both inventories and operating income may be materially impacted.

Changes or differences in these estimates may result in changes to inventories on the consolidated balance sheet and a charge or credit to operating income in the consolidated statement of earnings.

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

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

The discount rate is based on market interest rates, as at the Company's measurement date of September 30 on a portfolio of Corporate AA bonds with terms to maturity that, on average, match the terms of the accrued benefit plan obligations. The discount rates used to determine the 2004 net cost for defined benefit pension and other benefit plans were 6.3% and 6.1% respectively on a weighted average basis, compared to 6.6% and 6.4% respectively in 2003. The discount rates used to determine the net 2005 defined benefit pension and other benefit plans cost remained relatively unchanged from 2004 and as a result, the Company does not expect a significant impact on this cost in 2005.

The expected long term rate of return on plan assets is based on historical returns, on the asset mix and on the active management of its defined benefit pension plan assets. The Company's defined benefit pension plan assets had a 10 year annualized return of 9.0% in 2004 as at the measurement date. The actual annual returns per annum within this 10 year period varied with market conditions. Consistent with 2003 and 2004, the Company has assumed an 8.0% expected long term rate of return on plan assets for use in calculating its defined benefit pension plans cost for 2005.

The expected growth rate in health care costs for 2004 was based on external data and the Company's historical trends for health care costs, and was relatively consistent with that of 2003.

Since the three key assumptions discussed above are forward-looking and long term in nature, they are subject to uncertainty and actual results may differ. Differences between actual experience and the assumptions and changes in the assumptions could have a material impact on the accrued benefit plan asset and liability presented in the consolidated balance sheet and the defined benefit pension and other benefit plans cost recognized in the consolidated statement of earnings.

In accordance with GAAP, the difference between actual results and assumptions are accumulated in net actuarial gain or loss. The magnitude of any immediate impact to the Company's operating income is mitigated by the fact that the excess net accumulated actuarial gain or loss over 10% of the greater of the accrued benefit plan obligation and the fair value of the plan assets at the beginning of the year is amortized on a straight-line basis over the expected average remaining service period of the active employees. As at September 30, 2004, the unamortized net actuarial loss was $283 million (2003 – $290 million) for defined benefit pension plans and $119 million (2003 – $137 million) for other benefit plans.

Additional information regarding the accounting for the Company's pension and other benefit plans, including a sensitivity analysis for changes in key assumptions, is provided in note 13 to the consolidated financial statements and the Pension Contributions discussion in the Operating Risks and Risk Management section of this MD&A.

Goodwill and Indefinite Life Intangible Assets Goodwill is not amortized and is assessed for impairment at the reporting unit level at least annually. Any potential goodwill impairment is identified by comparing the fair value of a reporting unit to its carrying value. If the fair value of the reporting unit exceeds its carrying value, goodwill is considered not to be impaired. If the carrying value of the reporting unit exceeds its fair value, a more detailed goodwill impairment assessment would have to be undertaken. A goodwill impairment loss would be recognized to the extent that, at the reporting unit level, the carrying value of goodwill exceeds the implied fair value. Fair value of goodwill is estimated in the same manner as goodwill is determined at the date of acquisition in a business acquisition, that is, the excess of the fair value of the reporting unit over the fair value of the identifiable net assets of the reporting unit. Any goodwill impairment will result in a reduction in the carrying value of goodwill on the consolidated balance sheet and in the recognition of a non-cash impairment charge in operating income.

The Company determines the fair value of its reporting units by using a discounted cash flow model corroborated by other valuation techniques such as market multiples. The process of determining these fair values requires management to make estimates and assumptions of a long term nature including, but not limited to, projected future sales, earnings and capital investment, discount rates and terminal growth rates. Projected future sales, earnings and capital investment are consistent with strategic plans presented to the Board 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 indefinite lives, primarily consisting of Weston Foods' trademarks and brand names, are assessed for impairment at least annually. Any potential intangible asset impairment is identified by comparing the fair value of the indefinite life intangible asset to its carrying value. If the fair value of the intangible asset exceeds its carrying value, the intangible asset is not considered 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 assets on the consolidated balance sheet and in the recognition of a non-cash impairment charge in operating income.

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 Weston's Board and discount rates are based on an industry after-tax cost of equity. These estimates and assumptions may change in the future due to uncertain competitive and economic market conditions or changes in business strategies.

During the fourth quarter of 2004, the Company performed the annual goodwill and indefinite life intangible assets impairment tests and determined that there was no impairment to the carrying value of the goodwill or indefinite life intangible assets except for the *Entenmann's* brand name (see notes 2 and 11 to the consolidated financial statements) and the Fisheries goodwill and intangible assets (see note 7 to the consolidated financial statements).

Income Taxes Future income tax assets and liabilities are recognized for the future income tax consequences attributable to temporary differences between the financial statement carrying values of assets and liabilities and their respective income tax bases. Future income tax assets or liabilities are measured using enacted or substantively enacted income tax rates expected to apply to

taxable income in the years in which those temporary differences are expected to be recovered or settled. The calculation of current and future income taxes requires management to make estimates and assumptions and to exercise a certain amount of judgment regarding the financial statement carrying values of assets and liabilities which are subject to accounting estimates inherent in those balances, the interpretation of income tax legislation across various jurisdictions, expectations about future operating results and the timing of reversal of temporary differences and possible audits of tax filings by the regulatory authorities. Management believes it has adequately provided for income taxes based on current available information.

On an ongoing basis, future income tax assets are reviewed to determine if a valuation allowance is required and if it is deemed more likely than not that the future income tax assets will not be realized based on taxable income projections, a valuation allowance is recorded. As at December 31, 2004, total valuation allowances amounted to $54 million.

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

Fixed Assets Fixed assets to be held and used are reviewed for impairment when events or circumstances indicate that their carrying value exceeds the sum of the undiscounted cash flows expected from their use and eventual disposition. An impairment loss is measured as the amount by which the fixed assets carrying value exceeds the fair value. As discussed in note 2 to the consolidated financial statements, the Company reviewed certain fixed assets for impairment in the Weston Foods and Food Distribution operating segments due to circumstances that indicated that their carrying values may not be recovered. The Company made assumptions about the sum of the undiscounted cash flows of certain fixed assets and determined they were less than their carrying value resulting in the recognition of an impairment loss. The Company uses its internal plans in estimating future cash flows. These plans reflect the Company's best estimate but may change in the future due to uncertain competitive and economic market conditions or changes in business strategies.

ACCOUNTING STANDARDS IMPLEMENTED IN 2004

Effective January 1, 2004, the Company implemented the new accounting standards concerning long-lived assets, derivative instruments and asset retirement obligations issued by the CICA as discussed below:

- Section 3063, "Impairment of Long-lived Assets", addresses the recognition, measurement and disclosure of impairment of long-lived assets held-for-use. Long-lived assets are reviewed for impairment when events or circumstances indicate that their carrying value exceeds the sum of the undiscounted cash flows expected from their use and eventual disposal. An impairment loss is measured as the amount by which the long-lived assets' carrying value exceeds the fair value. Accordingly, the Company reviews long-lived assets for impairment annually. Asset groups are reviewed for impairment at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. For purposes of annually reviewing Weston's long-lived assets for impairment, manufacturing assets are grouped together by major production category where cash flows are largely dependent on each other. For purposes of annually reviewing Loblaw's store assets for impairment, 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 Loblaw operates a number of store formats within close proximity to one another. If an indicator of impairment exists, such as sustained negative operating cash flows in the respective asset group, then an estimate of undiscounted future cash flows of each such major production category for Weston or store for Loblaw 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 respective net cash flows from the stores they service. An impairment in the store network serviced by the distribution centre would indicate an impairment in the distribution centre assets as well. If Weston's manufacturing assets or Loblaw's store or distribution centre assets are determined to be impaired, the impairment loss is measured as the excess of the carrying value over its fair value. In addition, the Company evaluates the carrying value of Weston's and Loblaw's long-lived assets whenever events or changes in circumstances indicate that the carrying value of assets may not be recoverable. These events or changes in circumstances include a commitment to close, retire or transfer manufacturing assets for Weston and to close a Loblaw store or distribution centre or relocate or convert a Loblaw store where the carrying value of the assets is greater than the expected future cash flows.

  The standard was applied prospectively during 2004. During 2004, the Company recognized asset impairment charges (see notes 2 and 7 to the consolidated financial statements).

- Accounting guideline ("AcG") 13, "Hedging Relationships", addresses the identification, designation, documentation and effectiveness of hedging relationships for the purposes of applying hedge accounting and provides guidance with respect to the discontinuance of hedge accounting. Financial derivative instruments not designated within an AcG 13 compliant hedging relationship are measured at fair value with changes in fair value recorded in the consolidated statement of earnings in accordance with the EIC Abstract 128, "Accounting for Trading, Speculative or Non-Hedging Derivative Financial Instruments".

  Pursuant to the requirements of AcG 13, the Company has formally identified, designated and documented the following hedging relationships: Weston's 3% Exchangeable Debentures as a hedge of the anticipated disposal of the Domtar investment; cross currency basis 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 assets, principally cash equivalents and short term investments held by Loblaw; Loblaw's interest rate swaps as a cash flow hedge of the variable interest rate exposure on commercial paper; commodity futures as a hedge of anticipated commodity purchases; and the electricity forward contract as a cash flow hedge of price volatility of the Company's electricity costs in Ontario, Canada. During 2004, Weston entered into interest rate swaps designated as a fair value hedge of the $200 million of 5.05% MTN due 2014. Effectiveness tests are performed to evaluate the hedge effectiveness at inception and on an ongoing basis, both retrospectively and prospectively.

  Hedging relationships that ceased to be eligible for hedge accounting under AcG 13 were discontinued as of January 1, 2004 except for Weston's forward sale agreement for 9.6 million Loblaw common shares as discussed below. The financial derivative instruments in these hedging relationships which were previously recorded on an accrual basis were fair valued as of January 1, 2004 and the resulting fair value loss was deferred and is being amortized over the original hedge term of approximately three years. The resulting impact on the Company's financial condition and results of operation was not material. Subsequent changes in the fair value of these financial derivative instruments will be recognized in interest expense and other financing charges prospectively.

  Effective the third quarter of 2004, hedge accounting is no longer permissible for Weston's forward sale agreement for 9.6 million Loblaw common shares as a result of the March 2004 amendment to EIC 56, "Exchangeable Debentures". EIC 56 was amended to conform with the provisions of AcG 13, which deal with items ineligible for hedge accounting, by rescinding, effective the first fiscal period commencing after July 1, 2004, the ability to use hedge accounting if an entity's investment in the underlying shares is consolidated or is accounted for by the equity method. As a result of adopting this amendment to EIC 56, during 2004, Weston recognized a non-cash charge, which was included in consolidated interest expense and other financing charges, representing the fair value adjustment of Weston's forward sale agreement for 9.6 million Loblaw common shares from the beginning of the third quarter. The fair value adjustment is based on fluctuations in the market price of the underlying Loblaw shares and is a non-cash item that will ultimately be offset by the recognition of any gain on Weston's disposition of the 9.6 million Loblaw common shares. Prior to the amendment to EIC 56, the fair value adjustment was deferred and recorded in the consolidated balance sheet in other assets and other liabilities. According to the transitional provisions, the non-cash fair value adjustment as of the effective date of the amendment to EIC 56, of $125 million, will remain deferred and included in other assets on the consolidated balance sheet and will be recognized in net earnings at maturity or upon termination of the forward sale agreement.

  The accounting policies of the Company concerning derivative instruments are included in note 1 to the consolidated financial statements.

- Section 3110, "Asset Retirement Obligations", establishes standards for the recognition, measurement and disclosure of legal obligations associated with the cost to retire long-lived assets. A liability associated with the retirement of long-lived assets is recorded at its estimated fair value in the period in which the legal obligation is incurred and a corresponding asset is capitalized as part of the related asset and depreciated over its estimated useful life. Subsequent to the initial measurement of the asset retirement obligation, the obligation is adjusted to reflect the passage of time and changes in the estimated future costs underlying the obligation.

  Accordingly, the Company has recognized a discounted liability associated with obligations arising from provisions in certain lease agreements regarding the exiting of leased properties at the end of the respective lease terms. As well, the Company has recognized a discounted liability associated with environmental decommissioning and remediation as required by environmental regulations that specify the manner in which certain assets must be decommissioned and/or remediated. The standard was implemented retroactively with restatement of the prior year's consolidated financial statements. The cumulative effect of implementation was a decrease to opening retained earnings for 2003 of $9 million (net of future income taxes recoverable

of $5 million and minority interest of $1 million), an increase in fixed assets of $3 million and an increase in other liabilities of $17 million. The impact on net earnings for each of 2003 and 2004 was not material.

In 2004, subsequent to the implementation of the aforementioned accounting standards, the CICA issued the following new accounting standards:

- EIC Abstract 144, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor" ("EIC 144"), provides that cash consideration received from a vendor is presumed to be a reduction in the cost of the vendor's products or services and should, therefore, be characterized as a reduction in the cost of sales and the related inventory when recognized in the customer's income statement and balance sheet. Certain exceptions apply if the consideration is a payment for assets or services delivered to the vendor or for reimbursements of selling costs incurred to promote the vendor's products, provided that certain conditions are met. EIC 144 requires retroactive application to all financial statements for annual and interim periods ending after August 15, 2004. Accordingly, in the third quarter of 2004, the Company implemented EIC 144 retroactively with restatement of the comparative periods for the current and the prior year.

  The Company receives allowances from certain of its vendors whose products it purchases for resale. 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. As a result of implementing EIC 144 the timing of recognition of certain vendor allowances has changed. Upon retroactive implementation of EIC 144, the Company recorded a decrease to opening retained earnings for 2003 of $24 million (net of current future income taxes recoverable of $11 million and minority interest of $14 million), a decrease to inventories of $32 million and an increase in accounts payable and accrued liabilities of $17 million. Current and prior annual and quarterly net earnings were not materially impacted.

- Section 3461, "Employee Future Benefits", was amended to enhance disclosure requirements relating to pension, post-retirement and post-employment benefit plans. The new annual and interim disclosures are effective for fiscal years and interim periods ending on or after June 30, 2004. Accordingly, the Company implemented the additional interim disclosures in the second quarter of 2004 and the additional annual disclosures are provided in notes 1 and 13 to the consolidated financial statements.

FUTURE ACCOUNTING STANDARDS

The Company closely monitors new accounting pronouncements and changes in current accounting standards to assess the impact, if any, on its consolidated financial statements. In 2005, the Company will be required to implement the following pronouncements issued by the CICA:

- AcG 15, "Consolidation of Variable Interest Entities", provides guidance for applying consolidation principles to entities that are subject to control on a basis other than ownership through voting interests. AcG 15 requires that a variable interest entity ("VIE") be consolidated by the Company if it is exposed to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. The Company has reviewed a number of entities that are VIEs to determine whether they will require consolidation by the Company commencing in the first quarter of fiscal 2005. Loblaw has entered into a warehousing and distribution arrangement with a third party. Under the terms of this arrangement, it has been determined that Loblaw is the primary beneficiary of this VIE and accordingly it will be consolidated by the Company. The consolidation is not expected to materially impact the results of operations of the Company. In addition, approximately 125 of Loblaw's independent franchisees are currently under review to determine whether they are VIEs that will require consolidation. To the extent that certain of these franchisees have incurred operating losses in excess of the allowance for doubtful accounts previously recorded, a cumulative adjustment to opening retained earnings will be recorded upon implementation. The consolidation of these entities will not have an effect on the underlying risks to the Company. The independent trust which provides financing loans to Loblaw's independent franchisees had been previously identified as a VIE. During the fourth quarter of 2004, structural changes were made and under the new structure, the Company believes that consolidation of the independent trust by the Company will not be required under the existing accounting standards. In addition, the independent trust used to securitize credit card receivables for PC Bank was identified as a VIE. It was determined that the Company was not the primary beneficiary and therefore the Company believes that consolidation of this trust by the Company will not be required.

  The Company will implement AcG15 in the first quarter of fiscal 2005 on a prospective basis.

- EIC Abstract 150, "Determining Whether an Arrangement Contains a Lease", addresses arrangements comprising a transaction or a series of transactions that do not take the legal form of a lease but convey a right to use a tangible asset in return for a payment or a series of payments. This EIC provides guidance for determining whether these types of arrangements contain a lease within the scope of CICA 3065 "Leases" and should be accounted for accordingly. The assessment should be based on whether the fulfillment of the arrangement is dependent on the use of specific tangible assets and whether the arrangement conveys the right to control the use of the tangible assets. This assessment should be made at inception of the arrangement and only reassessed if certain conditions are met. This EIC is effective for arrangements entered into or modified as of the beginning of the first quarter of 2005.
- Section 3500 "Earnings per Share" exposure draft addresses amendments to the current guidance with respect to calculating the number of incremental shares included in diluted shares when applying the treasury stock method and the elimination of the current provisions that allow an entity to rebut the assumption based on past experience or stated policy, that contracts with the option of settling in either cash or common shares, at the issuer's option, will be settled in common shares, if the share settlement is more dilutive. In addition, guidance is provided for shares issued upon conversion of a mandatory convertible instrument to be included in the weighted average number of common shares outstanding when computing the basic net earnings per share from the date that the conversion becomes mandatory. These revisions are expected to be effective for interim and annual periods relating to fiscal years beginning on or after January 1, 2005.
- Section 1506, "Changes in Accounting Policies and Estimates and Errors" exposure draft proposes to replace the current guidance in "Accounting Changes". The revisions would permit an entity to change an accounting policy pursuant to a requirement by a primary source of generally accepted accounting principles or when the change will result in a reliable and more relevant presentation. In addition, an entity is required to disclose information with respect to new primary sources of generally accepted accounting principles that have been issued but not yet come into effect and have not yet been adopted by the entity. The effective date is expected to be fiscal years beginning on or after January 1, 2005.

OUTLOOK

In the year ahead Loblaw will look to reach several new important milestones. This will include the combination of several administrative and operating offices into a new facility, internal reorganizations involving the merchandising, procurement and operations groups and the continued assessment of the supply chain network. These initiatives are expected to provide significant future opportunities for Loblaw but may, in the interim, require costs to be incurred which will be quantified over the next several months as options are assessed. Loblaw continues to follow its well established strategies to ensure its long term growth and expects continued good sales and net earnings growth in 2005.

Weston Foods will continue to review additional opportunities for restructuring and cost reduction initiatives in 2005. These initiatives will require costs to be incurred in order to realize cost savings opportunities going forward. Cash flow generation is anticipated to remain strong and a return to operational earnings growth for 2005 is expected as the benefits from restructuring and cost reduction activities initiated during 2004 begin to be realized.

SUPPLEMENTARY FINANCIAL INFORMATION

The Company reports its financial results in accordance with Canadian GAAP. However, the Company has included certain non-GAAP financial measures and ratios which it believes provide useful information to both management and readers of this Annual Report in measuring the financial performance and financial condition of the Company. These measures do not have a standardized meaning prescribed by GAAP and, therefore, may not be comparable to similarly titled measures presented by other publicly traded companies, nor should they be construed as an alternative to other earnings measures determined in accordance with Canadian GAAP.

EBITDA The Company believes EBITDA is useful as an indicator of its operational performance and its ability to generate cash flows to fund its cash requirements, including the Company's capital investment program.

The following tables reconcile EBITDA to Canadian GAAP measures reported in the consolidated statements of earnings:

			2004
($ millions)	Weston Foods(1)	Food Distribution(1)	Consolidated
Operating income	$ 138	$ 1,644	$ 1,782
Depreciation and amortization	147	473	620
EBITDA	$ 285	$ 2,117	$ 2,402

			2003(2)
($ millions)	Weston Foods(1)	Food Distribution(1)	Consolidated
Operating income	$ 374	$ 1,458	$ 1,832
Depreciation and amortization	144	393	537
EBITDA	$ 518	$ 1,851	$ 2,369

			2002(2)
($ millions)	Weston Foods	Food Distribution	Consolidated
Operating income	$ 409	$ 1,295	$ 1,704
Depreciation and amortization	144	354	498
EBITDA	$ 553	$ 1,649	$ 2,202

(1) Operating income for 2004 includes restructuring and other charges of $136 (2003 – $64) made up of a $119 (2003 – $35) charge recognized by Weston Foods and a $17 (2003 – $29) charge recognized by Food Distribution (see note 2 to the consolidated financial statements).

(2) Certain prior year's information was restated due to discontinuing the Fisheries segment (see note 7 to the consolidated financial statements).

Net Debt The Company calculates net debt as the sum of long term debt and short term debt offset by cash, cash equivalents and short term investments and believes this measure is useful in evaluating the amount of leverage employed by the Company. The Company calculates net debt excluding exchangeable debentures as net debt (as calculated above) less exchangeable debentures and believes this measure is also useful in evaluating the amount of leverage employed by the Company as the exchangeable debentures can be settled with the Company's investment in Domtar common shares included in other assets.

The following table reconciles net debt excluding exchangeable debentures to Canadian GAAP measures reported in the consolidated balance sheets:

($ millions)	As at December 31, 2004	As at December 31, 2003(1)	As at December 31, 2002(1)
Bank indebtedness	$ 123	$ 108	$ 61
Commercial paper	840	696	715
Short term bank loans	102	67	33
Long term debt due within one year	222	307	110
Long term debt	6,004	5,829	5,387
Less: Cash and cash equivalents	1,008	965	1,157
Short term investments	388	545	398
Net debt	5,895	5,497	4,751
Less: Exchangeable debentures	373	374	374
Net debt excluding exchangeable debentures	$ 5,522	$ 5,123	$ 4,377

(1) Certain prior year's information was restated due to discontinuing the Fisheries segment (see note 7 to the consolidated financial statements).

Total Assets The Company uses the return on average total assets ratio to measure the performance of operating assets and therefore excludes cash, cash equivalents, short term investments, assets of operations held for sale and the Domtar investment from the total assets used in this ratio. The Company believes this results in a more accurate measure of the performance of its operating assets.

The following table reconciles total assets used in the return on average total assets measure to Canadian GAAP measures reported in the consolidated balance sheets:

As at December 31, 2004

($ millions)	Weston Foods	Food Distribution	Discontinued Operations	Consolidated
Total assets	$ 4,652	$ 13,179	$ 73	$ 17,904
Less:				
Cash and cash equivalents	459	549		1,008
Short term investments	113	275		388
Current assets of operations held for sale			62	62
Long term assets of operations held for sale			11	11
Domtar investment	365			365
Total assets	$ 3,715	$ 12,355	$ –	$ 16,070

As at December 31, 2003 (1)

($ millions)	Weston Foods	Food Distribution	Discontinued Operations	Consolidated
Total assets	$ 4,817	$ 12,301	$ 268	$ 17,386
Less:				
Cash and cash equivalents	347	618		965
Short term investments	167	378		545
Current assets of operations held for sale			179	179
Long term assets of operations held for sale			89	89
Domtar investment	367			367
Total assets	$ 3,936	$ 11,305	$ –	$ 15,241

As at December 31, 2002 (1)

($ millions)	Weston Foods	Food Distribution	Discontinued Operations	Consolidated
Total assets	$ 5,261	$ 11,249	$ 292	$ 16,802
Less:				
Cash and cash equivalents	334	823		1,157
Short term investments	94	304		398
Current assets of operations held for sale			207	207
Long term assets of operations held for sale			85	85
Domtar investment	367			367
Total assets	$ 4,466	$ 10,122	$ –	$ 14,588

(1) Certain prior year's information was reclassified to conform with the current year's presentation and was restated due to the implementation of Section 3110 and EIC 144 as discussed in note 1 to the consolidated financial statements and due to discontinuing the Fisheries segment (see note 7 to the consolidated financial statements).

The following table provides additional financial information.

	As at December 31, 2004	As at December 31, 2003	As at December 31, 2002
Market price per common share ($)	$ 109.71	$ 103.71	$ 90.25
Actual common shares outstanding (in millions)	128.9	129.4	132.3
Weighted average common shares outstanding (in millions)	128.9	131.9	131.9

ADDITIONAL INFORMATION

Additional information, including the Company's Annual Information Form, has been filed electronically through the System for Electronic Document Analysis and Retrieval (SEDAR) and is available online at www.sedar.com.

March 11, 2005
Toronto, Canada

Management's Statement of Responsibility for Financial Reporting

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

To provide reasonable assurance that assets are safeguarded and that relevant and reliable financial information is produced, management maintains a system of internal controls reinforced by the Company's standards of conduct and ethics set out in written policies. Internal auditors, who are employees of the Company, review and evaluate internal controls on management's behalf, coordinating this work with the independent auditors. KPMG LLP, whose report follows, were appointed as independent auditors by a vote of the Company's shareholders to audit the consolidated financial statements.

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

W. Galen Weston
Chairman and President

Richard P. Mavrinac
Chief Financial Officer

Toronto, Canada
March 11, 2005

Independent Auditors' Report

To the Shareholders of George Weston Limited:

We have audited the consolidated balance sheets of George Weston Limited as at December 31, 2004 and 2003 and the consolidated statements of earnings, retained earnings and cash flow for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and 2003 and the results of its operations and its cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

KPMG LLP

Toronto, Canada
March 11, 2005

Consolidated Statements of Earnings

For the years ended December 31 ($ millions except where otherwise indicated)	2004	2003 restated (note 1)
Sales	$ 29,798	$ 29,021
Operating Expenses		
Cost of sales, selling and administrative expenses	27,260	26,588
Depreciation and amortization	620	537
Restructuring and other charges (note 2)	136	64
	28,016	27,189
Operating Income	1,782	1,832
Interest Expense and Other Financing Charges (note 3)	438	266
Earnings from Continuing Operations Before the Following:	1,344	1,566
Income Taxes (note 5)	368	435
	976	1,131
Minority Interest	370	324
Net Earnings from Continuing Operations	606	807
Discontinued Operations (note 7)	(178)	(15)
Net Earnings	$ 428	$ 792
Net Earnings (Loss) per Common Share – Basic ($)		
Continuing Operations (note 6)	$ 4.49	$ 5.91
Discontinued Operations	$ (1.38)	$ (0.11)
Net Earnings	$ 3.11	$ 5.80
Net Earnings (Loss) per Common Share – Diluted ($)		
Continuing Operations (note 6)	$ 4.48	$ 5.89
Discontinued Operations	$ (1.38)	$ (0.11)
Net Earnings	$ 3.10	$ 5.78

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Retained Earnings

For the years ended December 31 ($ millions except where otherwise indicated)	2004	2003
Retained Earnings, Beginning of Year	$ 4,046	$ 3,712
Impact of implementing new accounting standards (note 1)	(33)	(33)
Retained Earnings, Beginning of Year as Restated	$ 4,013	$ 3,679
Net earnings	428	792
Premium on common shares purchased for cancellation (note 16)	(58)	(273)
Dividends declared		
Per common share – $1.44 (2003 – $1.20)	(186)	(158)
Per preferred share – Series I – $1.45 (2003 – $1.45)	(13)	(13)
– Series II – $1.29 (2003 – $1.29)	(14)	(14)
Retained Earnings, End of Year	$ 4,170	$ 4,013

See accompanying notes to the consolidated financial statements.

Consolidated Balance Sheets

As at December 31 ($ millions)	2004	2003 restated (note 1)
ASSETS		
Current Assets		
Cash and cash equivalents (note 8)	$ 1,008	$ 965
Short term investments	388	545
Accounts receivable (note 9)	920	861
Inventories	1,979	1,914
Future income taxes (note 5)	175	186
Prepaid expenses and other assets	48	50
Current assets of operations held for sale (note 7)	62	179
Total Current Assets	4,580	4,700
Fixed Assets (note 10)	8,256	7,665
Goodwill and Intangible Assets (note 11)	3,456	3,518
Future Income Taxes (note 5)	107	72
Other Assets (note 12)	1,494	1,342
Long Term Assets of Operations Held for Sale (note 7)	11	89
Total Assets	$ 17,904	$ 17,386
LIABILITIES		
Current Liabilities		
Bank indebtedness	$ 123	$ 108
Commercial paper	840	696
Accounts payable and accrued liabilities	3,079	3,060
Income taxes	91	181
Short term bank loans (note 14)	102	67
Long term debt due within one year (note 14)	222	307
Current liabilities of operations held for sale (note 7)	22	8
Total Current Liabilities	4,479	4,427
Long Term Debt (note 14)	6,004	5,829
Future Income Taxes (note 5)	282	244
Other Liabilities (note 15)	693	656
Long Term Liabilities of Operations Held for Sale (note 7)		3
Minority Interest	2,066	1,797
Total Liabilities	13,524	12,956
SHAREHOLDERS' EQUITY		
Share Capital (note 16)	614	608
Retained Earnings	4,170	4,013
Cumulative Foreign Currency Translation Adjustment (note 19)	(404)	(191)
Total Shareholders' Equity	4,380	4,430
Total Liabilities and Shareholders' Equity	$ 17,904	$ 17,386

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board

W. Galen Weston
Director

R. Donald Fullerton
Director

Consolidated Cash Flow Statements

For the years ended December 31 ($ millions)		2004	2003 restated (note 1)
Operating Activities			
Net earnings from continuing operations before minority interest		$ 976	$ 1,131
Depreciation and amortization		620	537
Restructuring and other charges (note 2)		136	64
Future income taxes		(37)	90
Change in non-cash working capital		(201)	(483)
Other		82	(45)
Cash Flows from Operating Activities of Continuing Operations		1,576	1,294
Investing Activities			
Fixed asset purchases		(1,425)	(1,502)
Short term investments		136	(199)
Proceeds on termination of financial derivatives (note 18)			338
Proceeds from fixed asset sales		118	88
Business acquisition (note 4)		(46)	
Credit card receivables, after securitization (note 9)		(34)	(16)
Franchise investments and other receivables		(25)	(47)
Other		(59)	(29)
Cash Flows used in Investing Activities of Continuing Operations		(1,335)	(1,367)
Financing Activities			
Bank indebtedness		21	63
Commercial paper		144	(19)
Short term bank loans (note 14)	– Issued	35	34
Long term debt (note 14)	– Issued	400	755
	– Retired	(305)	(103)
Share capital (note 16)	– Issued		1
	– Retired	(59)	(275)
Subsidiary share capital	– Issued (note 17)		2
	– Retired (note 4)	(35)	(76)
Dividends	– To shareholders	(205)	(178)
	– To minority shareholders	(80)	(63)
Other		(3)	(3)
Cash Flows (used in) from Financing Activities of Continuing Operations		(87)	138
Effect of Foreign Currency Exchange Rate Changes on Cash and Cash Equivalents (note 8)		(77)	(237)
Cash Flows from (used in) Continuing Operations		77	(172)
Cash Flows used in Discontinued Operations (note 7)		(34)	(20)
Change in Cash and Cash Equivalents		43	(192)
Cash and Cash Equivalents, Beginning of Year		965	1,157
Cash and Cash Equivalents, End of Year		$ 1,008	$ 965

See accompanying notes to the consolidated financial statements.

December 31, 2004
($ 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").

Basis of Consolidation

The consolidated financial statements include the accounts of George Weston Limited ("Weston") and its subsidiaries (collectively referred to as the "Company") with provision for minority interest. Weston's interest in the voting share capital of its subsidiaries is 100% except for Loblaw Companies Limited ("Loblaw"), which is 61.8% (2003 – 61.7%).

Fiscal Year

The Company's year end is December 31. Sales and related activities are reported on a fiscal year ending on the Saturday closest to December 31. As a result, the Company's fiscal year with respect to sales and related activities is usually 52 weeks in duration but does include a 53rd week every five to six years. The year ended 2004 had 52 weeks of sales and related activities, resulting in an effective year end of January 1, 2005 with respect to sales and related activities. The year ended 2003 had 53 weeks of sales and related activities, resulting in an effective year end of January 3, 2004 with respect to sales and related activities. Accordingly, all references to fiscal year end in this Annual Report to Shareholders should be read subject to the foregoing.

Revenue Recognition

Weston Foods recognizes sales upon delivery of their products to customers net of applicable reductions for discounts and allowances. Food Distribution recognizes sales, net of returns, from customers through corporate stores operated by Loblaw and sales to and service fees from its franchised stores, associated stores and independent account customers 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 are exercised and the assumed proceeds are used to purchase Weston's common shares at the average market price during the year.

Cash, Cash Equivalents and Bank Indebtedness

Cash balances which the Company has the ability and intent to offset are used to reduce reported bank indebtedness. Cash equivalents are highly liquid investments with a maturity of 90 days or less.

Short Term Investments

Short term investments are carried at the lower of cost or quoted market value and consist primarily of United States government securities, commercial paper and bank deposits.

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. Credit card receivables are fully written off when payments are contractually 180 days in arrears or when the likelihood of collection is considered remote. 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 a general allowance for probable credit losses on aggregate exposure for which losses cannot be determined on an item-by-item basis. The allowance is based upon a statistical analysis of past 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 these receivables to an independent trust and does not exercise any control over the trust's management, administration or assets. When PC Bank sells credit card receivables in a securitization transaction, it has a retained interest in the securitized receivables represented by a cash reserve account and the right 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 trust. Any gain

or loss 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 values are determined using a financial model. Any gain or loss on a sale is recognized in operating income at the time of the securitization. The carrying value of retained interests is periodically reviewed and when a decline in value is identified that is other than temporary, the carrying value is written down to fair value.

Vendor Allowances

Effective the third quarter of 2004, the Company implemented Emerging Issues Committee ("EIC") Abstract 144, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor" ("EIC 144") retroactively with restatement of the prior year. EIC 144 provides that cash consideration received from a vendor is presumed to be a reduction in the cost of the vendor's products or services and should, therefore, be characterized as a reduction in the cost of sales and the related inventory when recognized in the customer's income statement and 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 certain conditions are met.

The Company receives allowances from certain of its vendors whose products it purchases for resale. 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. As a result of implementing EIC 144, the timing of recognition of certain vendor allowances has changed. Upon retroactive implementation of EIC 144, the Company recorded a decrease to opening retained earnings for 2003 of $24 (net of current future income taxes recoverable of $11 and minority interest of $14), a decrease to inventories of $32 and an increase in accounts payable and accrued liabilities of $17. Current and prior years' net earnings were not materially impacted.

Inventories (principally finished products)

Retail store inventories are stated at the lower of cost and estimated net realizable value less normal gross profit margin. Other inventories are stated at the lower of cost and estimated net realizable value. Cost is determined substantially using the first-in, first-out method.

Fixed Assets

Fixed assets are recorded at cost including capitalized interest. Depreciation commences when the assets are put into use and is recognized principally 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, 10 years for building improvements and from 2 to 20 years for equipment and fixtures. Leasehold improvements are depreciated over the lesser of the estimated useful life and the term of the lease, plus renewal options when applicable, to a maximum of 10 years.

Effective January 1, 2004, the Company implemented Section 3063, "Impairment of Long-lived Assets", a standard issued by the Canadian Institute of Chartered Accountants ("CICA"), which addresses the recognition, measurement and disclosure of impairment of long-lived assets held-for-use. Long-lived assets are reviewed for impairment when events or circumstances indicate that their carrying value exceeds the sum of the undiscounted cash flows expected from their use and eventual disposal. An impairment loss is measured as the amount by which the long-lived assets' carrying value exceeds the fair value. Accordingly, the Company reviews long-lived assets for impairment annually. Asset groups are reviewed for impairment at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. For purposes of annually reviewing Weston's long-lived assets for impairment, manufacturing assets are grouped together by major production category where cash flows are largely dependent on each other. For purposes of annually reviewing Loblaw's store assets for impairment, 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 Loblaw operates a number of store formats 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, or store for Loblaw, 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 would indicate an impairment in the distribution centre assets as well. If Weston's or Loblaw's assets are determined to be impaired, the impairment loss is measured as the excess of the carrying value over its fair value. In addition, the Company evaluates the carrying value of Weston's and Loblaw's long-lived assets whenever events or changes in circumstances indicate that the carrying value of long-lived assets may not be recoverable. These events or changes in circumstances include a commitment to close, retire or transfer manufacturing assets for Weston and to close a Loblaw store or distribution centre, or to relocate or convert a Loblaw store, where the carrying value of the assets is greater than the expected future cash flows.

The standard was applied prospectively during 2004. During 2004, the Company recognized asset impairment charges (see notes 2 and 7).

Assets to be disposed of are classified as held for sale, presented separately on the balance sheet and no longer depreciated. Assets held for sale are recognized at the lower of carrying value or fair value. A write-down is recognized in operating income or, if the plan of disposal meets the requirements of discontinued operations, the write-down is recognized in discontinued operations (see note 7).

Asset Retirement Obligations

Effective January 1, 2004, the Company implemented Section 3110, "Asset Retirement Obligations", a standard issued by the CICA, which addresses standards for recognition, measurement and disclosure of legal obligations associated with the costs to retire long-lived assets. A liability associated with the retirement of long-lived assets is recorded at its estimated fair value in the period in which the legal obligation is incurred and a corresponding asset is capitalized as part of the related asset and depreciated over its estimated useful life. Subsequent to the initial measurement of the asset retirement obligation, the obligation is adjusted to reflect the passage of time and changes in the estimated future costs underlying the obligation.

Accordingly, the Company has recognized a discounted liability associated with obligations arising from provisions in certain lease agreements regarding the exiting of leased properties at the end of the respective lease terms. As well, the Company has recognized a discounted liability associated with environmental decommissioning and remediation as required by environmental regulations that specify the manner in which certain assets must be decommissioned and/or remediated. The standard was implemented retroactively, with restatement of the prior year's consolidated financial statements. The cumulative effect of implementation was a decrease to opening retained earnings for 2003 of $9 (net of future income taxes recoverable of $5 and minority interest of $1), an increase in fixed assets of $3 and an increase in other liabilities of $17. The impact on net earnings for each of 2003 and 2004 was not material.

Deferred Charges

Debt issue costs associated with long term debt are deferred and amortized on a straight-line basis over the term of the debt. Other deferred charges are amortized over the related assets' estimated useful lives, to a maximum of 15 years.

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 its carrying value is tested at least annually for impairment. Intangible assets with an indefinite life are not subject to amortization and are tested at least annually for impairment. Intangible assets with a finite life are amortized over their estimated useful lives ranging from 5 to 30 years. Any impairment in the carrying value of goodwill or intangible assets is recognized in operating income.

Foreign Currency Translation

(i) 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 each year end date. The resulting exchange gains or losses on translation are recognized as part of shareholders' equity in cumulative foreign currency translation adjustment. When there is a reduction in the Company's net investment in self-sustaining foreign operations, the proportionate amount of cumulative foreign currency translation adjustment is recognized in operating income. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at the average foreign currency exchange rate for the year.

(ii) Loblaw Foreign Operations

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the foreign currency exchange rate in effect at each year end date. Exchange gains or losses arising from the translation of these balances denominated in foreign currencies are recognized in operating income. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at the average foreign currency exchange rate for the year.

Derivative Instruments

The Company uses derivative agreements in the form of cross currency basis swaps, interest rate swaps, equity swaps and forwards, and commodity futures to manage its current and anticipated exposure to fluctuations in foreign currency exchange rates, interest rates, the market prices of Weston and Loblaw common shares and commodity prices. The Company has also entered into an electricity contract to minimize price volatility and to maintain a portion of the Company's electricity costs in Ontario, Canada at approximately 2001 rates. The Company does not enter into derivative agreements for trading or speculative purposes.

Effective January 1, 2004, the Company implemented Accounting Guideline 13, "Hedging Relationships" ("AcG 13"), issued by the CICA which addresses the identification, designation, documentation and effectiveness of hedging relationships for the purposes of applying hedge accounting and provides guidance with respect to the discontinuance of hedge accounting. Financial derivative instruments not designated within an AcG 13 compliant hedging relationship are measured at fair value with changes in fair value recorded in the consolidated statement of earnings in accordance with the EIC Abstract 128, "Accounting for Trading, Speculative or Non-Hedging Derivative Financial Instruments".

Pursuant to the requirements of AcG 13, the Company has formally identified, designated and documented the following hedging relationships: Weston's 3% Exchangeable Debentures as a hedge of the anticipated disposal of the Domtar Inc. ("Domtar") investment; Weston's interest rate swap as a fair value hedge of certain MTN; cross currency basis 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 assets, principally cash equivalents and short term investments held by Loblaw; Loblaw's interest rate swaps as a cash flow hedge of the variable interest rate exposure on commercial paper; commodity futures as a hedge of anticipated commodity purchases; and the electricity forward contract as a cash flow hedge of price volatility of the Company's electricity costs in Ontario, Canada. Effectiveness tests are performed to evaluate hedge effectiveness at inception and on an ongoing basis, both retrospectively and prospectively.

Currency forwards and options are identified as a hedge of commitments or anticipated transactions and realized gains and losses are recorded in the cost of the underlying hedged item. Unrealized gains and losses on currency forwards and options are not recognized.

Cross currency basis swaps are identified as a hedge against foreign currency exchange rate fluctuations on the Company's United States dollar denominated net investment in self-sustaining foreign operations, with realized and unrealized foreign currency exchange rate adjustments on cross currency basis swaps recognized as part of shareholders' equity in cumulative foreign currency translation adjustment. When there is a reduction in the Company's net investment in self-sustaining foreign operations, the proportionate amount of the cumulative foreign currency translation adjustment related to cross currency basis swaps gains or losses is recognized in operating income. The exchange of interest payments on Weston's cross currency basis swaps is recognized on an accrual basis in interest expense and other financing charges.

The exchange of interest payments on the interest rate swaps is recognized on an accrual basis in interest expense and other financing charges and unrealized gains and losses on the interest rate swaps designated within a compliant AcG 13 relationship are not recognized. On termination of a hedging relationship, realized and unrealized gains and losses on interest rate swaps are recognized in interest expense and other financing charges.

Realized and unrealized foreign currency exchange rate adjustments on Loblaw's cross currency basis swaps are offset by realized and unrealized foreign currency exchange rate adjustments on a portion of its United States dollar denominated assets and are recognized in operating income. The cumulative unrealized foreign currency exchange rate receivable or payable is recorded in other assets or other liabilities, respectively. The exchange of interest payments on Loblaw's cross currency basis swaps and interest rate swaps is recognized on an accrual basis in interest expense and other financing charges. Unrealized gains or losses on the interest rate swaps designated within a compliant AcG 13 relationship are not recognized.

Hedging relationships that ceased to be eligible for hedge accounting under AcG 13 were discontinued as of January 1, 2004 except for Weston's equity forward sale agreement based on 9.6 million Loblaw common shares (the "underlying Loblaw shares") as discussed below. The financial derivative instruments in these hedging relationships which were previously recorded on an accrual basis were fair valued as of January 1, 2004 and the resulting fair value loss was deferred and is being amortized over the original hedge term of approximately three years. The impact on the Company's financial condition and results of operation was not material. Subsequent changes in the fair value of these financial derivative instruments are recognized in interest expense and other financing charges.

Effective for the third quarter of 2004, hedge accounting is no longer permissible for Weston's forward sale agreement for 9.6 million Loblaw common shares as a result of the March 2004 amendment to EIC Abstract 56, "Exchangeable Debentures" ("EIC 56"). EIC 56 was amended to conform with the provisions of AcG 13, which deal with items ineligible for hedge accounting, by rescinding, effective the first fiscal period commencing after July 1, 2004, the ability to use hedge accounting if an entity's investment in the underlying shares is consolidated or is accounted for by the equity method. As a result of adopting this amendment to EIC 56, during the third quarter of 2004, Weston recognized a non-cash charge, which was included in consolidated interest expense and other financing charges, representing the fair value adjustment of Weston's forward sale agreement for 9.6 million Loblaw common shares from the beginning of the third quarter. The fair value adjustment is based on fluctuations in the market price of the underlying Loblaw shares and is a non-cash item that will ultimately be offset by the recognition of any gain on Weston's disposition of the 9.6 million Loblaw common shares. Prior to the amendment to EIC 56, the fair value adjustment was deferred and recorded in the consolidated balance sheet in other assets and other liabilities. According to the transitional provisions, the non-cash fair value adjustment, as of the effective date of the amendment to EIC 56, of $125 will remain deferred and included in other assets on the consolidated balance sheet, and will be recognized in net earnings at maturity or upon termination of the forward sale agreement.

Gains and losses on the electricity forward contract which is designated as a hedge of a portion of electricity costs are recognized in operating income as actual electricity costs are recognized.

Equity forwards and swaps are used to manage exposure to fluctuations in the market prices of Weston and Loblaw common shares, which impacts the stock-based compensation cost recognized. Market price adjustments on these equity forwards and swaps are recognized in operating income as gains or losses and the cumulative unrealized gains or losses are recorded in other assets or other liabilities, respectively. Interest on equity forwards and swaps is recognized on an accrual basis in interest expense and other financing charges.

Unrealized and realized gains and losses on commodity futures which are designated as a hedge of future purchases are deferred in current assets or liabilities and are recognized in cost of sales when the inventory produced from the related commodity is sold.

Income Taxes

The Company uses the asset and liability method of accounting 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 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 cost and accrued benefit plan obligations of the Company's defined benefit pension plans and other benefit plans, which include post-retirement, post-employment and long term disability benefits, are accrued based on actuarial valuations, which are determined using the projected benefit method prorated on service and management's best estimate of the expected long term rate of return on plan assets, rate of compensation increase, retirement ages and expected growth rate of health care costs. Actuarial valuations are performed using a September 30 measurement date for accounting purposes.

Market values are used to value benefit plan assets as at the measurement date. The accrued benefit plan obligation is measured using 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 obligation.

The cost of plan amendments and the excess net accumulated actuarial gain or loss over 10% of the greater of the accrued benefit plan obligation and the fair value of the benefit plan assets at the beginning of the year are amortized on a straight-line basis over the expected average remaining service period of the active employees. The expected average remaining service period of the active employees covered by the defined benefit pension plans ranges from 6 to 17 years, with a weighted average of 12 years at year end. The expected average remaining service period of the active employees covered by other benefit plans ranges from 4 to 16 years, with a weighted average of 13 years at year end.

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

Accrued benefit plan asset or liability represents the cumulative difference between the cost and the funding contributions and is recorded in accounts payable and accrued liabilities, other assets and other liabilities in the consolidated balance sheets. The amount recorded in accounts payable and accrued liabilities represents the estimated defined benefit pension plans and other benefit plans funding contributions for the following year.

In March 2004, the CICA issued amendments to Section 3461, "Employee Future Benefits", to enhance disclosure requirements relating to pension, post-retirement and post-employment benefit plans. The new annual and interim disclosures are effective for fiscal years and interim periods ending on or after June 30, 2004. Accordingly, the Company implemented the additional interim disclosures in the second quarter of 2004 and the additional annual disclosures are provided in note 13.

Stock-Based Compensation

Effective January 1, 2003, the Company elected early adoption, on a prospective basis, of the amended standard issued by the CICA on stock-based compensation and other stock-based payments. The standard was implemented for all stock option grants that will be settled by issuing common shares, which are measured on the grant date using a fair value model and expensed over the vesting period. There was no impact on the consolidated financial statements upon implementation.

The Company recognizes in operating income a compensation cost and a liability 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 grant date using an option pricing model. On the exercise of this type of stock option, the consideration paid by the employee and the related fair value accrual is credited to common share capital. Each stock option granted before 2003 that will be settled by issuing common shares will be accounted for as a capital transaction and no compensation cost is recognized. Consideration paid by employees on the exercise of this type of stock option is credited to common share capital.

The Company recognizes a compensation cost in operating income and a liability related to employee stock option grants that allow for settlement in cash at the option of the employee and employee share appreciation right grants that will be settled in cash, which are accounted for 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 exceeds the exercise price of the stock options. A year-over-year change in the stock-based compensation liability is recognized in operating income.

Outside members of Weston's and Loblaw's Boards of Directors may elect annually to receive all or a portion of their annual retainer(s) and fees in the form of deferred share units. The deferred share units obligation is accounted for using the intrinsic value method and the year-over-year change in the deferred share units obligation is recognized as a compensation cost in operating income and as a liability.

Weston and Loblaw maintain Employee Share Ownership Plans ("ESOP") for their employees, which allow employees to acquire Weston's and Loblaw's common shares through payroll deductions of up to 5% of their gross regular earnings. Weston and Loblaw contribute an additional 15% of each employee's contribution to its plan. Effective February 1, 2005, Weston and Loblaw will increase their contribution to 25% of each employee's contribution to the plan. These contributions are 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 in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures made in the consolidated financial statements and accompanying notes. These estimates and assumptions are based on management's historical experience, best knowledge of current events and conditions and activities that the Company may undertake in the future. Actual results could differ from these estimates.

Certain estimates, such as those related to valuation of inventories, goodwill, indefinite life intangible assets, income taxes, employee future benefits and impairment of fixed assets, depend upon subjective or complex judgments about matters that may be uncertain, and changes in those estimates could materially impact the consolidated financial statements.

Comparative Information

Certain prior year's information was reclassified to conform with the current year's presentation and was restated due to the retroactive implementation of Section 3110 and EIC 144 as described above and due to discontinuing the Fisheries segment (see note 7).

2. Restructuring and Other Charges

The following table summarizes the restructuring and other charges:

	2004			2003
	Weston Foods	Food Distribution	Total	Total
Fixed Assets	$ 84	$ 16	$ 100	$ 45
Restructuring and Other Exit Costs	17		17	(6)
Intangible Assets	18		18	
Special Voluntary Early Retirement Program		1	1	25
Restructuring and Other Charges	$ 119	$ 17	$ 136	$ 64

Fixed Assets and Other Exit Costs

Weston Foods

Management continues to undertake a series of cost reduction initiatives to ensure a low cost operating structure. Certain of these initiatives have been initiated and are in progress or nearing completion while others are still in the planning stages. Individual actions will be initiated as plans are finalized and approved. During 2004, major actions implemented included the completion of the Northlake, Illinois and Buffalo, New York bakery facility closures, the closure of the frozen-baked goods facility in St. Louis, Missouri and the exiting of the fresh waffle business in the United States as well as the closure of three bakeries and a distribution centre in Canada. As a result of these initiatives and other various distribution outsourcing and overhead reduction projects, Weston Foods recorded total restructuring charges of approximately $53. These charges consisted of $36 of fixed asset write-downs and $17 of employee severance and other exit related cash costs. In addition, Weston Foods recognized $2 of accelerated depreciation with respect to these approved restructuring plans. During 2004, approximately $4 of the severance and other cash exit costs were paid. Included in fixed assets on the consolidated balance sheet is $11 of assets held for sale.

During 2004, an impairment review of the production assets employed in Weston Foods fresh-baked sweet goods category in the United States, which relate primarily to products sold under the *Entenmann's* brand name, was performed as a result of the significant decline in the profitability of this category in 2004. The production assets reviewed included land, buildings, machinery and equipment associated with three of Weston Foods' bakery facilities located in Bayshore and Albany, New York and Carlisle, Pennsylvania. Weston Foods' profitability in the United States fresh-baked sweet goods category remains challenged and continues to be negatively affected by:

- changing consumer eating and shopping preferences;
- a high fixed cost manufacturing and distribution structure;
- continuing commodity and people related cost pressures; and
- a difficult pricing environment for products in that category.

As a result of the impairment review, it was determined that the carrying value exceeded the estimated undiscounted cash flows expected from the use and eventual disposition of these production assets. Accordingly, a $48 non-cash pre-tax impairment charge was recognized in the fourth quarter of 2004 which was measured as the excess of the impaired assets carrying value over its estimated fair value. Fair value was determined using appraised values based on prices for similar assets. The impaired assets are primarily related to production assets held in the Bayshore, New York bakery facility.

In 2003, Weston Foods recognized in operating income a net charge of $35 relating to the rationalization of fresh bakery production lines in the United States and the closure of two bakery facilities in Canada. This charge consisted of $41 of fixed asset write-downs and $14 of employee severance costs offset by $20 recognized due to the completion of other restructuring activities for amounts less than previously recognized in the consolidated financial statements. Approximately $2 of the severance charge had been paid by the end of 2003. The restructuring activities from 2003 were substantially completed by the end of the third quarter of 2004 and a further $9 of employee severance costs has been paid in 2004.

On March 4, 2005, the Company announced a plan to restructure its United States biscuit operations operated by Weston Foods. The plan will result in the closure of two biscuit facilities located in Elizabeth, New Jersey and Richmond, Virginia over the next 12 to 18 months. Employment at both facilities will be phased down as the majority of the production is relocated to a new facility in Virginia and an existing Weston Foods facility already operating in South Dakota. Once completed, this initiative is anticipated to result in lowering annual manufacturing costs and strengthening Weston Foods' competitive position within its biscuit operations in the United States.

As a result of this restructuring, Weston Foods expects to recognize certain one-time exit and start-up costs of approximately $50 over the next 12 to 18 months including employee related severance and benefit costs, production equipment relocations, training and other facility start-up related costs. In addition, Weston Foods expects to recognize accelerated depreciation on assets currently held-for-use of approximately $25 over the next 12 to 18 months.

Food Distribution

Fixed asset impairment charges related to Food Distribution of $16 (2003 – $4) were recognized in restructuring and other charges. In addition, accelerated depreciation of $6 was recognized in depreciation and amortization. These charges were primarily as a result of an evaluation of the carrying value of fixed assets upon the occurrence of a change in circumstances including a commitment to close, relocate or convert a store. The majority of the charges in 2004 resulted from the repositioning of the Ontario, Canada banner portfolio. The fair values were determined using quoted market prices where available, independent offers to purchase where available or prices for similar assets.

Intangible Assets

During 2004, Weston Foods completed its annual impairment assessment of its indefinite life intangible assets. The assessment required management to make assumptions regarding projected future sales, terminal growth rates, royalty rates and discount rates to determine the estimated fair value of the intangible assets and compare them to their carrying value. As part of the annual impairment assessment of the *Entenmann's* brand name, management reduced its previous estimate of the royalty rate used in the calculation of estimated fair value as Weston Foods' profitability in the fresh-baked sweet goods category has declined significantly and remains challenged as a result of the factors described above. As a result, the Company recorded an $18 non-cash pre-tax impairment loss to reduce the carrying value of Weston Foods' *Entenmann's* brand name to estimated fair value.

Special Voluntary Early Retirement Program

In connection with the labour arrangement at Loblaw for *The Real Canadian Superstore* in Ontario, Canada, Loblaw recognized a charge of $25 in operating income during 2003 relating to the voluntary early retirement offers accepted by certain employees of Locals 1000A and 1977 of the United Food and Commercial Workers ("UFCW") union. During 2004, a net charge of $1 was recognized in operating income, representing an adjustment to the 2003 charge net of an additional amount associated with the acceptance of a voluntary early retirement offer by certain employees of Local 175 of the UFCW union. Approximately $5 of this accrual was paid by the end of 2003 and $19 was paid during 2004. At year end 2004, $2 remains outstanding.

3. Interest Expense and Other Financing Charges

		2004		2003 restated (note 1)
Interest on long term debt	$	412	$	397
Interest on financial derivative instruments (note 18)		(28)		(84)
Other financing charges (1)		82		(20)
Net short term interest		(7)		6
Capitalized to fixed assets		(21)		(33)
Interest expense and other financing charges	$	438	$	266

(1) Other financing charges for 2004 includes a non-cash expense of $101 related to the fair value adjustment of Weston's forward sale agreement for 9.6 million Loblaw common shares which was entered into during 2001 and matures in 2031. This non-cash charge was recognized prospectively in interest and other financing charges for the first time during the third quarter of 2004 due to the implementation of the amendment to EIC 56, which became effective at the beginning of the third quarter (see note 1). The fair value adjustment is based on the fluctuations in the market value of the underlying Loblaw shares and is a non-cash item that will ultimately be offset by the recognition of any gain on Weston's disposition of the underlying Loblaw shares. Prior to the amendment to EIC 56, the fair value adjustment was deferred and recorded in the balance sheet in other assets and other liabilities. Also included in other financing charges is income of $19 (2003 – $20) related to the forward accretion income, net of the forward fee associated with Weston's forward sale agreement.

Net interest paid in 2004 was $359 (2003 – $300).

4. Business Acquisitions

Weston Foods

On September 27, 2004, Weston purchased all of the issued and outstanding common shares of Boulangerie Gadoua Ltée ("Gadoua"), a bakery business operated in Quebec, Canada, for $59, consisting of $46 of cash consideration, $6 in Weston common shares issued from treasury and assumed debt of $7, subject to certain adjustments.

The acquisition was accounted for using the purchase method. During the fourth quarter of 2004, Weston completed the Gadoua valuation analysis and recorded the purchase equation, including goodwill of $21. Operating results of Gadoua have been included in the Company's consolidated financial statements since September 27, 2004.

Details of the purchase equation, including total consideration paid and net assets acquired at their fair value, are summarized below:

	As at Sept. 27, 2004
Current assets	$ 12
Fixed assets	19
Intangible assets	27
Current liabilities	(9)
Other liabilities	(3)
Long term debt	(7)
Future income taxes	(8)
Net assets acquired	31
Goodwill	21
	52
Less non-cash consideration:	
Weston common shares issued	(6)
Cash consideration	$ 46

During 2003, Weston Foods acquired a specialty bakery for $6, which resulted in the Company recognizing $2 of goodwill.

Food Distribution

When Loblaw purchases its own common shares, the Company accounts for the purchase as a step-by-step purchase of Loblaw. During 2004, Loblaw purchased 576,100 (2003 – 1,282,900) of its common shares for $35 (2003 – $76) pursuant to its Normal Course Issuer Bid ("NCIB"), which resulted in the Company recognizing $16 (2003 – $34) of goodwill (see note 11).

During 2004, Westfair Foods Ltd. ("Westfair"), a subsidiary of Loblaw, redeemed its Class A shares at a price of 350 dollars per share for cash consideration of $8. The transaction was accounted for as a step-by-step purchase of Westfair, which resulted in Food Distribution recognizing $8 of goodwill (see note 11).

In the normal course of business, Loblaw may acquire from time to time franchisee stores and convert them to corporate stores. In 2004, Loblaw acquired 5 franchisee businesses (2003 – 15 franchisee businesses). The acquisitions were accounted for using the purchase method of accounting with the results of the businesses acquired included in the Company's consolidated financial statements from the date of acquisition. The fair value of the net assets acquired consisted of a nominal amount of fixed assets (2003 – $7), other assets principally inventory of $2 (2003 – $6) and goodwill of $6 (2003 – $8) for cash consideration of $6 (2003 – $11), net of accounts receivable due from the franchisees of $2 (2003 – $10) (see note 11).

5. Income Taxes

The Company's effective income tax rate in the consolidated statements of earnings is reported at a rate less than the weighted average basic Canadian federal and provincial statutory income tax rate for the following reasons:

	2004	2003
Weighted average basic Canadian federal and provincial statutory income tax rate	35.1%	36.7%
Net decrease resulting from:		
Earnings in jurisdictions taxed at rates different from the Canadian statutory income tax rates	(7.5)	(6.7)
Non-taxable amounts (including capital gains/losses and dividends)	(.6)	(1.1)
Large corporation tax	.8	.5
Enacted changes in income tax rates		.4
Impact of resolution of certain income tax matters from a previous year and other	(.4)	(2.0)
Effective income tax rate	27.4%	27.8%

In 2004, Loblaw recognized a $14 reduction to the income tax expense as a result of the successful resolution of certain income tax matters from a previous year. In 2003, Weston recognized a $34 reduction to the income tax expense as a result of the favourable resolution of an income tax issue, previously accrued for by Weston, which related to the disposition of Weston's Forest Products business in 1998.

Net income taxes paid in 2004 were $441 (2003 – $400).

In 2003, the Ontario government enacted both the repeal of income tax rate reductions of 1.5% scheduled for each of 2004, 2005 and 2006 and the increase in the provincial income tax rate to 14% in 2004 from 12.5% in 2003. Future income tax balances were therefore adjusted, resulting in a $7 charge to future income tax expense in 2003.

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

	2004	2003 restated (note 1)
Accounts payable and accrued liabilities	$ 184	$ 220
Other liabilities	212	144
Losses carried forward (expiring 2005 to 2024)	169	156
Other	32	43
Valuation allowances	(54)	(97)
Fixed assets	(320)	(269)
Goodwill	(56)	(44)
Intangible assets and other	(167)	(139)
Net future income tax assets	$ –	$ 14

	2004	2003 restated (note 1)
Presented on the consolidated balance sheets as:		
Future income tax assets		
Current	$ 175	$ 186
Non-current	107	72
	282	258
Future income tax liabilities	(282)	(244)
Net future income tax assets	$ –	$ 14

6. Basic and Diluted Net Earnings from Continuing Operations per Common Share

		2004		2003 restated (note 1)
Net earnings from continuing operations	$	606	$	807
Prescribed dividends on preferred shares		(27)		(27)
Net earnings from continuing operations available to common shareholders	$	579	$	780
Weighted average common shares outstanding (in millions)		128.9		131.9
Dilutive effect of stock-based compensation (in millions) (1)		.3		.4
Diluted weighted average common shares outstanding (in millions)		129.2		132.3
Basic net earnings from continuing operations per common share ($)	$	4.49	$	5.91
Dilutive effect of stock-based compensation per common share ($)		(.01)		(.02)
Diluted net earnings from continuing operations per common share ($)	$	4.48	$	5.89

(1) 193,000 (2003 – 204,000) stock options at an exercise price of $100.00 per common share were outstanding at the end of 2004 but were not recognized in the computation of diluted net earnings from continuing operations per common share because the options' exercise price was greater than the average market price of the common shares for the year.

7. Discontinued Operations

During 2004, Weston sold all of the Fisheries' operations in Chile for cash proceeds of $20 which resulted in a pre-tax loss of $9.

In December 2004, management approved a strategic plan to actively market for sale the remaining Fisheries operations. The operating results of the Fisheries segment are included in discontinued operations. In addition, the assets and liabilities relating to the Fisheries segment have been recorded at the lower of cost or fair value less costs to sell, resulting in an impairment charge of $194 ($147 net of tax) recognized in discontinued operations, and are classified as held for sale.

Certain financial information has been reclassified in prior periods to present this segment as discontinued operations on the consolidated statements of earnings, as assets held for sale and liabilities of operations held for sale on the consolidated balance sheets and as cash flows used in discontinued operations on the consolidated cash flow statements.

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

		2004		2003
Sales	$	164	$	177
Operating loss		29		20
Loss on disposal		9		
Impairment charge		194		
Loss before the following:		232		20
Income tax recovery		54		5
Loss from discontinued operations	$	178	$	15

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

		2004		2003
Current assets of operations held for sale:				
Accounts receivable	$	20	$	74
Inventories		41		103
Prepaid expenses and other assets		1		2
	$	62	$	179
Long term assets of operations held for sale:				
Fixed assets	$	10	$	47
Goodwill and intangible assets				24
Other assets		1		18
	$	11	$	89
Current liabilities of operations held for sale:				
Accounts payable and accrued liabilities	$	22	$	8
Long term liabilities of operations held for sale:				
Long term debt			$	3

The cash flows used in discontinued operations were as follows:

		2004		2003
Cash flows used in operations	$	(39)	$	(11)
Cash flows from (used in) investing		7		(8)
Cash flows used in financing		(2)		(1)
Cash flows used in discontinued operations	$	(34)	$	(20)

8. Cash, Cash Equivalents and Short Term Investments

At year end, the Company had $1.4 billion (2003 – $1.5 billion) in cash, cash equivalents and short term investments held or managed by Glenhuron Bank Limited ("Glenhuron"), a wholly owned subsidiary of Loblaw in Barbados. The $21 (2003 – $20) of income from cash, cash equivalents and short term investments was recognized in net short term interest.

The Company recognized an unrealized foreign currency exchange rate loss of $77 (2003 – $237) as a result of translating its United States dollar denominated cash and cash equivalents. The portion of this change which related to Loblaw's United States dollar denominated cash and cash equivalents amounts to $45 (2003 – $175) and is offset in operating income by the unrealized foreign currency exchange rate gain on Loblaw's cross currency basis swaps. A cumulative unrealized foreign currency exchange rate receivable of $155 (2003 – $96) related to Loblaw's cross currency basis swaps is recorded in other assets on the balance sheet. The remaining foreign currency exchange rate loss of $32 (2003 – $62) relates to the translation of cash and cash equivalents held by Weston's self-sustaining foreign operations, which is recognized as part of shareholders' equity in cumulative foreign currency translation adjustment.

9. Credit Card Receivables

During 2004, Loblaw, through PC Bank, securitized $227 (2003 – $202) of credit card receivables, yielding a nominal net gain (2003 – loss) on the initial sale, inclusive of a $1 (2003 – $2) servicing liability. Servicing liabilities expensed during the year were $11 (2003 – $9) and the fair value at year end of recognized servicing liabilities was $7 (2003 – $6). The trust's recourse to PC Bank's assets is limited to PC Bank's retained interests and is further supported by Loblaw through a standby letter of credit for 15% of the securitized amount.

		2004		2003
Credit card receivables	$	968	$	711
Amount securitized		(785)		(558)
Net credit card receivables	$	183	$	153
Net credit loss experience	$	4	$	9

The net credit loss experience of $4 (2003 – $9) includes $23 (2003 – $22) of net credit losses on the total portfolio of credit card receivables net of credit card losses of $19 (2003 – $13) relating to securitized credit card receivables.

The following table outlines the key economic assumptions used in measuring the retained interests at the date of securitization for securitizations completed in 2004. The table also displays the sensitivity of the current fair value of retained interests to an immediate 10% and 20% adverse change in the 2004 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			
		2004		10%		20%
Carrying value of retained interests	$	12				
Payment rate (monthly)		47.0%				
Weighted average life (years)		.6				
Expected credit losses (annual)		3.0%	$	(.4)	$	(.8)
Discount rate applied to residual cash flows (annual)		14.0%	$	(1.6)	$	(3.3)

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

		2004		2003
Proceeds from new securitizations	$	227	$	202
Net cash flows received on retained interests	$	83	$	53

10. Fixed Assets

	2004						2003 restated (note 1)					
		Cost		Accumulated Depreciation		Net Book Value		Cost		Accumulated Depreciation		Net Book Value
Properties held for development	$	378			$	378	$	361			$	361
Properties under development		290				290		320				320
Land		1,623				1,623		1,461				1,461
Buildings		4,443	$	863		3,580		3,848	$	761		3,087
Equipment and fixtures		4,587		2,601		1,986		4,342		2,320		2,022
Buildings and leasehold improvements		688		296		392		684		282		402
		12,009		3,760		8,249		11,016		3,363		7,653
Capital leases – buildings and equipment		98		91		7		86		74		12
	$	12,107	$	3,851	$	8,256	$	11,102	$	3,437	$	7,665

11. Goodwill and Intangible Assets

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

		2004		2003 restated (note 1)
	Weston Foods	Food Distribution	Total	Total
Goodwill, beginning of year	$ 1,269	$ 1,724	$ 2,993	$ 3,338
Goodwill acquired during the year	21	30	51	44
Adjusted purchase price allocation (1)				(125)
Impact of foreign currency translation	(87)		(87)	(264)
Goodwill, end of year	1,203	1,754	2,957	2,993
Trademarks and brand names (2)	482		482	523
Other intangible assets	17		17	2
Goodwill and intangible assets	$ 1,702	$ 1,754	$ 3,456	$ 3,518

(1) The adjusted purchase price allocation relates to the reversal of purchase accounting liabilities no longer required and the recognition of future income tax assets pertaining to the 2001 George Weston Bakeries acquisition.

(2) Year end 2004 balance includes the acquisition of *Gadoua* trademarks and brand names of $15, the negative impact of the impairment charge for the *Entenmann's* trademarks and brand names of $18 and the negative impact of foreign currency translation of $38 (2003 – $104).

The Weston Foods intangible assets primarily relate to $481 (2003 – $522) of trademarks and brand names, which have an indefinite useful life except for the *Gadoua* trademarks and brand names and, accordingly, are not being amortized. The *Gadoua* trademark and brand names and other intangible assets are being amortized over their estimated useful life ranging from 5 to 30 years.

The Weston Foods and Food Distribution goodwill and the Weston Foods intangible assets with an indefinite useful life are tested annually for impairment. During the fourth quarter of 2004, the Company performed the annual goodwill and indefinite life intangible assets impairment tests and determined that an impairment charge of $18 for the *Entenmann's* trademarks and brand names was required (see note 2).

12. Other Assets

	2004	2003 restated (note 1)
Domtar investment (note 14)	$ 365	$ 367
Franchise investments and other receivables	329	322
Deferred loss on equity forward sale (note 18)	125	186
Accrued benefit plan asset (note 13)	232	183
Unrealized cross currency basis swaps receivable (notes 8 and 18)	155	96
Unrealized equity derivative receivable (note 18)	120	93
Deferred charges and other	168	95
	$ 1,494	$ 1,342

13. Employee Future Benefits

The Company offers a number of pension plans, which include registered funded defined benefit pension plans, supplemental unfunded arrangements which provide pension benefits in excess of statutory limits and defined contribution pension plans. Its defined benefit pension plans are predominantly non-contributory and these benefits are, in general, based on career average earnings.

The Company also offers certain employees post-retirement and post-employment benefit plans and long-term disability benefit plans. Post-retirement and post-employment benefit plans are not funded and 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 which 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.

The most recent actuarial valuation of the Canadian defined benefit pension plans for funding purposes ("funding valuation") was as of December 31, 2003. The Company is required to file Canadian funding valuations at least every three years; therefore, the next required valuation will be as of December 31, 2006. The most recent funding valuation of the U.S. defined benefit pension plans was as of January 1, 2004. The Company is required to file U.S. funding valuations every year; therefore, the next required valuation will be as of January 1, 2005.

Total cash payments made by the Company during 2004 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 unfunded defined benefit pension plans and unfunded other benefit plans were $219 (2003 – $270).

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

			2004			2003
	Pension Benefit Plans	Other Benefit Plans (1)	Total	Pension Benefit Plans	Other Benefit Plans (1)	Total
Benefit Plan Assets						
Fair value, beginning of year	$ 1,224	$ 35	$ 1,259	$ 1,048	$ 27	$ 1,075
Actual return on plan assets	118	1	119	165	1	166
Employer contributions	89	23	112	135	28	163
Voluntary employee contributions	4		4	4		4
Benefits paid	(91)	(20)	(111)	(81)	(21)	(102)
Other, including impact of foreign currency translation	(25)		(25)	(47)		(47)
Fair value, end of year	$ 1,319	$ 39	$ 1,358	$ 1,224	$ 35	$ 1,259
Accrued Benefit Plan Obligations						
Balance, beginning of year	$ 1,509	$ 333	$ 1,842	$ 1,440	$ 330	$ 1,770
Current service cost	56	9	65	53	11	64
Interest cost	95	20	115	93	19	112
Benefits paid	(91)	(20)	(111)	(81)	(21)	(102)
Actuarial loss (gain)	33	(7)	26	84	75	159
Plan amendments		(11)	(11)	(4)	(54)	(58)
Other, including impact of foreign currency translation	(31)	(16)	(47)	(76)	(27)	(103)
Balance, end of year	$ 1,571	$ 308	$ 1,879	$ 1,509	$ 333	$ 1,842
Deficit of Plan Assets Versus Plan Obligations	$ (252)	$ (269)	$ (521)	$ (285)	$ (298)	$ (583)
Unamortized cost of plan amendments	10	(49)	(39)	10	(47)	(37)
Unamortized net actuarial loss	283	119	402	290	137	427
Net accrued benefit plan asset (liability)	$ 41	$ (199)	$ (158)	$ 15	$ (208)	$ (193)
Recognized in the consolidated balance sheets as follows:						
Accounts payable and accrued liabilities	$ (101)	$ (26)	$ (127)	$ (89)	$ (25)	$ (114)
Other assets (note 12)	193	39	232	154	29	183
Other liabilities (note 15)	(51)	(212)	(263)	(50)	(212)	(262)
Net accrued benefit plan asset (liability)	$ 41	$ (199)	$ (158)	$ 15	$ (208)	$ (193)

(1) Other Benefit Plans include post-retirement, post-employment and long-term disability benefits.

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:

	2004		2003	
	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
Accrued Benefit Plan Obligations				
Unfunded plans	$ 71	$ 274	$ 71	$ 302
Funded plans	1,435		1,375	
	1,506	274	1,446	302
Fair Value of Benefit Plan Assets	1,253		1,159	
Deficit	$ 253	$ 274	$ 287	$ 302

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

	2004		2003	
	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
Accrued Benefit Plan Obligations				
Discount rate	6.2%	6.1%	6.3%	6.1%
Rate of compensation increase	3.5%		3.5%	
Net Defined Benefit Plan Cost				
Discount rate	6.3%	6.1%	6.6%	6.4%
Expected long term rate of return on plan assets	8.0%	4.5%	8.0%	5.0%
Rate of compensation increase	3.5%		3.6%	

The Company's growth rate of health care costs, primarily drug costs, was estimated at 9.0% (2003 – 9.0%) and is assumed to decrease to 5.0% in 2008 (2003 – 5.0% in 2011) and remain at that level thereafter.

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

	Percentage of Plan Assets			
	2004		2003	
Asset Category	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
Equity securities	64%		63%	
Debt securities	34%	95%	34%	92%
Cash and cash equivalents	2%	5%	3%	8%
Total	100%	100%	100%	100%

Pension benefit plan assets include securities issued by Weston and by Loblaw having a fair value of $5 and nil (2003 – $5 and $1) respectively as at September 30. Other benefit plan assets do not include any Weston or Loblaw securities.

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

	2004		2003	
	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
Current service cost, net of employee contributions	$ 52	$ 9	$ 49	$ 11
Interest cost on plan obligations	95	20	93	19
Actual return on plan assets	(118)	(1)	(165)	(1)
Actuarial loss (gain)	33	(7)	84	75
Plan amendments		(11)	(4)	(54)
Benefit plan costs, before adjustments to recognize the long term nature of employee future benefit costs	62	10	57	50
Difference between costs arising in the year and costs recognized in the year in respect of:				
Return on plan assets	20		84	
Actuarial (gain) loss	(22)	6	(68)	(76)
Plan amendments	2	6	6	53
Net defined benefit plan cost	62	22	79	27
Defined contribution plan cost	24		25	
Multi-employer pension plan cost	83		82	
Net benefit plan cost	$ 169	$ 22	$ 186	$ 27

Sensitivity of Key Assumptions

The following table outlines the key assumptions for 2004 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 the 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. Actuarial gains and losses are amortized in accordance with Canadian GAAP, further reducing the volatility associated with these changes.

	Pension Benefit Plans		Other Benefit Plans	
	Accrued Benefit Plan Obligations	Benefit Plan Cost	Accrued Benefit Plan Obligations	Benefit Plan Cost
Expected long term rate of return on plan assets		8.0%		4.5%
Impact of: 1% increase	n/a	$ (12)	n/a	$ –
1% decrease	n/a	$ 12	n/a	$ –
Discount rate	6.2%	6.3%	6.1%	6.1%
Impact of: 1% increase	$ (208)	$ (14)	$ (33)	$ (2)
1% decrease	$ 242	$ 15	$ 38	$ 3
Expected growth rate of health care costs (1)			9.0%	9.0%
Impact of: 1% increase	n/a	n/a	$ 33	$ 6
1% decrease	n/a	n/a	$ (29)	$ (5)

n/a – not applicable

(1) Gradually decreasing to 5.0% in 2008 and remaining at that level thereafter.

14. Long Term Debt

	2004	2003 restated (note 1)
George Weston Limited		
Debentures		
Series B, current rate 3.23%, due on demand (i)	$ 102	$ 67
Series A, 7.45%, due 2004 (iii)		200
Series A, 7.00%, due 2031 (i)	466	466
Exchangeable Debentures, 3.00%, due 2023, redeemable in 2005 (ii)(v)		
Carrying amount	503	569
Deferred amount	(130)	(195)
Notes		
5.25%, due 2006	200	200
5.90%, due 2009	250	250
6.45%, due 2011	300	300
5.05%, due 2014 (iii)	200	
12.70%, due 2030		
Principal	150	150
Effect of coupon repurchase	(120)	(118)
7.10%, due 2032	150	150
6.69%, due 2033	100	100
Other at a weighted average interest rate of 7.12%, due 2005 to 2033	6	2
Loblaw Companies Limited		
Notes		
6.95%, due 2005 (v)	200	200
6.00%, due 2008	390	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	(18)	(11)
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 (iii)	200	
6.45%, due 2039	200	200
7.00%, due 2040	150	150
5.86%, due 2043	55	55
Other at a weighted average interest rate of 9.78%, due 2005 to 2043	43	43
Provigo Inc.		
Debentures		
Series 1997, 6.35%, due 2004 (iii)		100
Series 1996, 8.70%, due 2006	125	125
Other (iv)	5	9
Total long term debt	6,328	6,203
Less – amount due within one year	(222)	(307)
– amount due on demand	(102)	(67)
	$ 6,004	$ 5,829

The five-year schedule of repayment of long term debt based on maturity, excluding the Exchangeable Debentures and the amount due on demand, is as follows: 2005 – $222; 2006 – $328; 2007 – $5; 2008 – $392; 2009 – $378.

(i) During 2004, Weston issued $35 (2003 – $34) of Series B Debentures due on demand, which are at a current weighted average interest rate of 3.23%. The Series A, 7.00% and Series B Debentures are secured by a pledge of 9.6 million Loblaw common shares.

(ii) In 1998, Weston 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 is recorded in other assets. Weston subsequently issued $375 of 3% Exchangeable Debentures ("Debentures") due June 30, 2023. Each one thousand dollar principal amount of the Debentures is exchangeable at the option of the holder for 95.2381 Domtar common shares. The Debentures are redeemable at the option of Weston after June 30, 2005. Upon notice of redemption by Weston or within 30 days prior to the maturity date, the holder has the option to exchange each one thousand dollar principal amount for 95.2381 Domtar common shares plus accrued interest payable in cash.

Weston's obligation on the exchange or redemption of these Debentures can be satisfied by delivery of a cash amount equivalent to the current market price of Domtar common shares at such time, the Domtar common shares or any combination thereof. Upon maturity, Weston at its option may deliver cash, the Domtar common shares or any combination thereof equal to the principal amount plus accrued interest.

The carrying amount of these Debentures is based on their market price at the reporting date. As a result of Weston issuing these Debentures, the Domtar investment is hedged and the difference between the carrying amount and the original issue amount of the Debentures is recorded as a deferred amount until exchange, redemption or maturity. No corresponding valuation adjustment is made to the investment.

(iii) During 2004, Weston issued $200 of 5.05% MTN due 2014 and repaid its $200 of Series A, 7.45% Debentures and Loblaw issued $200 of 6.15% MTN due 2035 and repaid its $100 of 6.35% Series 1997 Provigo Inc. Debenture as it matured.

(iv) Other of $5 (2003 – $9) represents the unamortized portion of the adjustment to fair value the Provigo Inc. Debentures. This adjustment was recorded as part of the Provigo purchase equation and was calculated using Loblaw's average credit spread applicable at that time to the remaining life of the Provigo Inc. Debentures. The adjustment is being amortized over the remaining term of the Provigo Inc. Debentures.

(v) Subsequent to year end 2004, Loblaw issued $300 of 5.90% MTN due 2036 and the Loblaw $200 of 6.95% MTN matured and was repaid. In addition, $53 of the 3% Exchangeable Debentures were exchanged for Domtar Inc. common shares. A corresponding reduction in the investment in Domtar Inc. will also be recorded.

15. Other Liabilities

	2004	2003 restated (note 1)
Accrued benefit plan liability (note 13)	$ 263	$ 262
Accrued insurance liabilities	111	100
Stock-based compensation liability	92	103
Unrealized equity derivative liability (note 18)	118	113
Other	109	78
	$ 693	$ 656

In 2004, Loblaw completed two sale-leaseback transactions involving two of its warehouses. Under these transactions, the land, buildings and building improvements at the locations were sold for total cash consideration of $44 and leased back for an initial term of 5 years, with specified renewal options for up to 15 years. These leasebacks are accounted for as operating leases. The $14 gain on the sale-leaseback transactions was deferred and is being amortized over the initial lease terms.

16. Share Capital

	2004	2003
Common share capital	$ 126	$ 120
Preferred shares, Series I	228	228
Preferred shares, Series II	260	260
	$ 614	$ 608

Common Share Capital (authorized – unlimited)

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

	2004		2003	
	Number of Common Shares	Common Share Capital	Number of Common Shares	Common Share Capital
Issued and outstanding, beginning of year	129,433,442	$ 120	132,279,822	$ 121
Issued from treasury (1)	67,337	7	18,812	1
Purchased for cancellation	(587,200)	(1)	(2,865,192)	(2)
Issued and outstanding, end of year	128,913,579	$ 126	129,433,442	$ 120
Weighted average outstanding	128,915,636		131,888,902	

(1) Includes $6 issued as consideration in the acquisition of Gadoua (see note 4) and $1 (2003 – $1) issued for stock options exercised (see note 17).

Preferred Shares, Series I (authorized – unlimited) ($)

Weston has 9.4 million 5.80% Preferred Shares, Series I outstanding, which entitle the holder to a fixed cumulative preferred cash dividend of $1.45 per share per annum. Weston 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
On or after December 15, 2007 at $25.75 per share
On or after December 15, 2008 at $25.50 per share
On or after December 15, 2009 at $25.25 per share
On or after December 15, 2010 at $25.00 per share

At any time after issuance, Weston 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 Weston on a share-for-share basis on a date specified by Weston.

Preferred Shares, Series II (authorized – unlimited) ($)

Weston has 10.6 million 5.15% Preferred Shares, Series II outstanding which entitle the holder to a fixed cumulative preferred cash dividend of $1.2875 per share per annum. On or after April 1, 2009, Weston may, at its option, redeem for cash these outstanding preferred shares, in whole or in part, at $25.00 per share. On and after July 1, 2009, these outstanding preferred shares are convertible, at the option of the holder, into a number of Weston's common shares determined by dividing $25.00 by the greater of $2.00 and 95% of the then current market price of Weston's common shares. At any time after issuance, Weston 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 Weston on a share-for-share basis on a date specified by Weston.

NCIB ($)

During 2004, Weston purchased for cancellation 587,200 (2003 – 852,100) of its common shares for $59 million (2003 – $83 million). In addition, Weston intends to renew its NCIB to purchase on the Toronto Stock Exchange or enter into equity derivatives to purchase up to 5% of its common shares outstanding. Weston, in accordance with the rules and by-laws of the Toronto Stock Exchange, may purchase its common shares at the then market price of such shares.

During 2003, Weston purchased for cancellation 2,013,092 of its common shares (representing approximately 1.5% of the Company's outstanding common shares) for $192 million pursuant to an offer received from Wittington Investments, Limited ("Wittington"), Weston's majority shareholder, thereby reducing Wittington's beneficial ownership to 62%. The weighted average purchase price of $95.58 per common share was equal to the lesser of 96% of the volume weighted average price of the Company's common shares for the last 20 business days and 96% of the volume weighted average closing price for the three business days immediately prior to the closing of the purchase, subject to the price not being less than $95 per common share. Weston and its Board of Directors concluded that it was in the best interest of Weston to purchase its common shares and this transaction represented an opportunity to purchase a significant number of its common shares at a price below market price. This offer was reviewed and approved by an independent committee of directors established by Weston's Board of Directors. Weston obtained from the Ontario Securities Commission an exemption from the issuer bid rules in connection with this purchase.

17. Stock-Based Compensation ($ except table)

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

Stock Option Plans

Weston maintains a stock option plan for certain employees. Under this plan, Weston may grant options for up to seven million common shares, however, Weston 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% 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 Weston'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 Weston at the price specified in the terms of the option, or option holders may elect to receive in cash the share appreciation value equal to the excess of the market price at the date of exercise over the specified option price.

During 2003, Weston granted 685,129 stock options to 91 employees at an exercise price of $93.35 per common share under its existing stock option plan, which allows for settlement in cash at the option of the employee. During 2004, Weston issued 8,604 (2003 – 18,812) common shares on the exercise of stock options for cash consideration of $.4 million (2003 – $.8 million), for which it had recorded a nominal stock-based compensation liability. The share appreciation value of $12 million (2003 – $14 million) was paid on the exercise of 238,627 (2003 – 269,039) stock options. In addition, 24,091 (2003 – 32,702) stock options were forfeited or cancelled during 2004.

During 2002, Weston granted 226,000 stock options at an exercise price of $100.00 per common share, which will be settled by issuing common shares. During 2003, 2,200 stock options were exercised and in 2004, 11,000 (2003 – 19,800) were forfeited or cancelled.

Loblaw maintains a stock option plan for certain employees. Under this plan, Loblaw may grant options for up to 20.4 million of its common shares, however, Loblaw 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% cumulatively on each anniversary date of the grant and are exercisable at the designated common share price, which is 100% of the market price of Loblaw's common shares on the last trading day prior to the effective date of the grant. Each stock option is exercisable into one common share of Loblaw at the price specified in the terms of the option, or option holders may elect to receive in cash the share appreciation value equal to the excess of the market price at the date of exercise over the specified option price.

During 2004, Loblaw granted 45,000 (2003 – 2,387,746) stock options with a weighted average exercise price of $65.45 (2003 – $53.67) 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 2004, Loblaw issued 3,000 (2003 – 93,200) common shares on the exercise of stock options for cash consideration of $.1 million (2003 – $2 million), for which it had recorded a nominal stock-based compensation liability (2003 – $4 million). The share appreciation value of $33 million (2003 – $28 million) was paid on the exercise of 985,395 (2003 – 802,701) stock options. In addition, 97,673 (2003 – 140,056) of Loblaw's stock options were forfeited or cancelled during 2004.

Subsequent to year end 2004, Loblaw granted 2,152,252 stock options under its current stock option plan, that allow for settlement in shares or in the share appreciation value in cash at the option of the employee, to 231 employees with an exercise price of $69.63 per common share.

Restricted Share Unit ("RSU") Plan

Weston and Loblaw adopted a RSU plan for certain employees. Under the RSU plan, performance periods of three years in duration are designated and commence on the date on which RSUs are awarded to each participant ("Award Date"). In respect of each such designated performance period, a participant is granted a number of RSUs, where each unit has a value equal to one Weston or Loblaw common share at the time of grant. Each RSU entitles the participant to receive a cash payment in the third calendar year following the applicable Award Date and in the amount calculated with reference to the trading price of a Weston or Loblaw common share on the Toronto Stock Exchange. Each RSU will be paid out no later than December 30 of that year.

The compensation cost related to the RSUs will be recognized in operating income over the term of the performance period based on the expected total compensation to be paid out at the end of the performance period.

Subsequent to year end 2004, Loblaw awarded 376,645 RSUs to 231 employees.

Share Appreciation Right Plan

Weston 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 Weston'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.

During 2003, Weston granted 252,285 share appreciation rights to 63 employees at an exercise price of $93.35 per common share under its existing share appreciation right plan, which will be settled in cash. In 2004, 10,800 share appreciation rights were exercised and 32,800 (2003 – 7,000) were forfeited or cancelled.

Deferred Share Unit Plans

Independent members of Weston's and Loblaw's Boards of Directors may elect annually to receive all or a portion of their annual retainer(s) and fees in the form of deferred share units, the value of which is determined by the market price of Weston's or Loblaw's common shares at the time of payment of the director's annual retainer(s) or fees. Upon termination of Board service, the common shares due to the director, as represented by the deferred share units, will be purchased on the open market on the director's behalf. At year end, Weston had 17,176 (2003 – 9,579) and Loblaw had 30,908 (2003 – 21,489) deferred share units outstanding.

Employee Share Ownership Plans

Weston and Loblaw maintain ESOP for their employees, which allow employees to acquire Weston's and Loblaw's common shares through payroll deductions of up to 5% of their gross regular earnings. Weston and Loblaw contribute an additional 15% of each employee's contribution to its plan. Effective February 1, 2005, Weston and Loblaw will increase their contribution to 25% of each employee's contribution to the plan. The ESOP is administered through a trust, which purchases Weston's and Loblaw's common shares on the open market on behalf of employees.

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

($ millions)	2004	2003
Stock-Based Compensation		
Stock option plans/share appreciation right plan cost	$ 31	$ 76
Equity derivatives gain	(34)	(87)
	(3)	(11)
Deferred share unit plans	3	1
Employee share ownership plans	3	2
Net stock-based compensation cost	$ 3	$ (8)

Stock option and share appreciation right transactions were as follows:

	2004		2003	
	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	2,005,094	$ 79.158	1,417,233	$ 62.867
Granted			937,414	$ 93.350
Exercised	(258,031)	$ 52.560	(290,051)	$ 45.259
Forfeited/cancelled	(67,891)	$ 92.968	(59,502)	$ 79.960
Outstanding options/rights, end of year (1)	1,679,172	$ 82.687	2,005,094	$ 79.158
Options/rights exercisable, end of year	598,262	$ 72.250	432,425	$ 55.201

(1) Options/rights outstanding, represented approximately 1.4% (2003 – 1.5%) of the Company's issued and outstanding common shares, which was within the Company's guideline of 5%.

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

					2004
	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
$ 37.667 – $ 55.250	380,460	1	$ 46.002	250,295	$ 44.079
$ 63.500 – $ 100.000	1,298,712	5	$ 93.435	347,967	$ 92.514

18. Financial Instruments

A summary of Weston's and Loblaw's outstanding financial derivative instruments is as follows:

	Notional Amounts Maturing in							
	2005	2006	2007	2008	2009	Thereafter	2004 Total	2003 Total
Cross currency basis swaps		$ 11	$ 107	$ 210	$ 31	$ 755	$ 1,114	$ 1,214
Interest rate swaps	$ 361	$ (43)		$ 240	$ 140	$ 100	$ 798	$ 755
Equity derivatives				$ 92		$ 891	$ 983	$ 945
Electricity forward contract	$ 16						$ 16	$ 68

Cross Currency Basis Swaps

During 2003, Weston terminated cross currency basis swaps which had exchanged $2.9 billion of Canadian dollars for United States dollars. Cash proceeds of $317 were received, which resulted from a realized foreign currency exchange rate gain of $336 ($275, net of tax) recognized in the cumulative foreign currency translation adjustment and a loss of $19 ($16, net of tax) recognized in interest expense and other financing charges. These cross currency basis swaps were identified as a hedge against foreign currency exchange rate fluctuations on Weston's United States dollar denominated net investment in self-sustaining foreign operations.

Loblaw entered into cross currency basis swaps to receive $1.1 billion (2003 – $1.2 billion) of Canadian dollars in exchange for United States dollars, which mature by 2016. Currency adjustments receivable or payable arising from these swaps are settled in cash on maturity. At year end, a cumulative unrealized foreign currency exchange rate receivable of $155 (2003 – $96) was recorded in other assets.

Interest Rate Swaps

During 2004, Weston entered into interest rate swap contracts with a notional value of $200 which mature in 2014. These interest rate swaps were designated as a fair value hedge of the $200 of 5.05% MTN due 2014. Under the terms of the interest rate swaps, Weston will receive a fixed interest rate of 4.8% and pay a floating interest rate.

In 2004, Weston interest rate swaps converting a net notional $75 of its 6.7% fixed rate debt into floating rate debt, matured.

During 2003, Weston terminated interest rate swaps which had converted a notional $2.4 billion of Canadian floating interest rate exposure to receive a 5.1% fixed rate and a notional $1.6 billion (U.S. $1.2 billion) of United States floating interest rate exposure to pay a 4.5% fixed interest rate. The termination of these interest rate swaps resulted in cash proceeds and a gain of $21 ($13, net of tax) recognized in interest expense and other financing charges. These interest rate swaps were entered into to partially offset Weston's exposure to floating interest rates which resulted from the cross currency basis swaps that were also terminated during 2003.

Loblaw enters into interest rate swaps to hedge its exposure to fluctuations in interest rates on cash equivalents and short term investments. Loblaw entered into interest rate swaps converting a net notional $598 (2003 – $680) of its floating rate investments to fixed rate investments at 5.80% (2003 – 6.72%), which mature by 2013.

Subsequent to year end, Weston terminated its interest rate swaps with a notional value of $200 which were designated as a fair value hedge of the $200 of 5.05% MTN due 2014. The gain realized on the termination of these swaps will be deferred over the remaining term of the initial hedge and recognized in interest expense and other financing charges.

Equity Swaps and Forwards (s)

In 2004, Weston had cumulative outstanding equity swaps in its common shares of 1,686,700 (2003 – 1,686,700) at an average forward price of $103.17 (2003 – $103.17). In 2004, Loblaw had cumulative outstanding equity forwards in its common shares of 4.8 million (2003 – 4.8 million), with an average initial term of 10 years at an average forward price of $49.25 (2003 – $48.56) including $4.38 (2003 – $3.69) per common share of interest expense net of dividends that will be paid at redemption. These swaps and forwards allow for several methods of settlement including net cash settlement. They change in value as the market price of the underlying common shares changes and provide a partial offset to fluctuations in Weston's and Loblaw's stock-based compensation cost. The Company has included an unrealized market gain in other assets of $120 million (2003 – $93 million) relating to these swaps and forwards.

In 2001, Weston entered into an equity forward sale agreement based on 9.6 million Loblaw common shares at a current forward price of $59.70 (2003 – $56.05) per Loblaw common share, which increases over time at a rate of 7%. The forward matures in 2031 and will be settled in cash as follows: Weston will receive the forward price and will pay the market value of the underlying Loblaw common shares at maturity. The obligation of Weston under this forward is secured by the underlying Loblaw common shares. Weston entered into this forward to partially offset any repayment risk associated with its Series A, 7.00% and Series B Debentures. Further, the market value of the underlying Loblaw common shares exceeds the obligation of Weston under this forward and a portion of the proceeds from a future sale of these shares may be used to satisfy the obligation under this forward upon termination or maturity. Accordingly, hedge accounting was applied from inception of this agreement until the end of the second quarter of 2004.

Effective for the third quarter of 2004, hedge accounting is no longer permissible for Weston's forward sale agreement for 9.6 million Loblaw common shares as a result of the March 2004 amendment to EIC 56. EIC 56 was amended to conform with the provisions of AcG 13, which deal with items ineligible for hedge accounting, by rescinding the ability to use hedge accounting if an entity's investment in the underlying shares is consolidated or is accounted for by the equity method. The effective date to cease the hedge accounting described is the first fiscal period commencing after July 1, 2004. As a result of adopting this amendment to EIC 56, during the third quarter of 2004, Weston recognized a non-cash charge, included in consolidated interest expense and other financing charges, representing the fair value adjustment of Weston's forward sale agreement for 9.6 million Loblaw common shares from the beginning of the third quarter. The fair value adjustment is based on fluctuations in the market price of the underlying Loblaw shares and is a non-cash item that will ultimately be offset by the recognition of any gain on Weston's disposition of the 9.6 million Loblaw common shares. Prior to the amendment to EIC 56, the fair value adjustment was deferred and recorded in the consolidated balance sheet in other assets and other liabilities. According to the transitional provisions, the non-cash fair value adjustment as of the effective date of the amendment to EIC 56 will remain deferred and included in other assets and other liabilities on the consolidated

balance sheet and will be recognized in net earnings at maturity or upon termination of the forward sale agreement. At year end, Weston had an obligation under this forward of $118 million (2003 – $113 million), which was included in other liabilities, and a deferred loss of $125 million (2003 – $186 million), which was included in other assets.

Electricity Forward Contract

The Company entered into an electricity forward contract to minimize price volatility and to maintain a portion of the Company's electricity costs in Ontario, Canada at approximately 2001 rates. This electricity forward contract has an initial term of three years and expires in May 2005.

Fair Value of Financial Instruments

The fair value of a financial instrument is the estimated amount that the Company would receive or pay to terminate the instrument agreement at the reporting date. The following methods and assumptions were used to estimate the fair value of each type of financial instrument by reference to various market value data and other valuation techniques as appropriate.

- The fair values of cash, cash equivalents, short term investments, accounts receivable, bank indebtedness, commercial paper, accounts payable, accrued liabilities and short term bank loans approximated their carrying values given their short term maturities.
- The fair value of long term debt issues 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.
- The fair value of the Exchangeable Debentures was estimated based on their market price at the reporting date.
- The fair value of the cross currency basis swaps was estimated based on the market spot exchange rates and forward interest rates and approximated their carrying value.
- The fair value of the interest rate swaps was estimated by discounting net cash flows of the swaps at market and forward interest rates for swaps of the same remaining maturities.
- The fair value of the equity swaps and forwards was estimated by multiplying the Company's and Loblaw's common shares outstanding under the swaps and forwards by the difference between the market price of the common shares and the average forward price of the outstanding swaps and forwards at year end.
- The fair value of the electricity forward contract was provided by the counterparty based on expected future electricity prices.

		2004		2003
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Long term debt liability	$ 6,328	$ 7,100	$ 6,203	$ 6,906
Long term debt liability (excluding Exchangeable Debentures)	$ 5,955	$ 6,596	$ 5,829	$ 6,337
Interest rate swaps net (liability) asset	$ (2)	$ 9		$ 13
Equity swaps and forwards net liability	$ 2	$ 2	$ (20)	$ (20)
Electricity forward contract net asset		$ 3		$ 2

Counterparty Risk

The Company may be exposed to losses should any counterparty to its financial derivative agreements fail 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 and by placing risk adjusted limits on its exposure to any single counterparty for its financial derivative agreements. The Company has internal policies, controls and reporting processes which require ongoing assessment and corrective action, if necessary, with respect to its derivative transactions. In addition, principal amounts on currency and equity derivatives are each netted by agreement and there is no exposure to loss of the original notional principal amounts on the interest rate and equity derivatives.

Credit Risk

The Company's exposure to credit risk relates to the Company's cash equivalents and short term investments, Weston Foods' trade accounts receivables and Food Distribution's credit card receivables and accounts receivable from franchisees, associates and independent accounts.

Credit risk associated with the Company's cash equivalents and short term investments results from the possibility that a counterparty may default on the repayment of a security. This risk is mitigated by the Company's policies and guidelines that require issuers of permissible investments to have a minimum A credit rating from a recognized credit rating agency and specify minimum and maximum exposures to specific issuers.

Weston Foods performs ongoing credit evaluations of new and existing customers' financial condition and reviews the collectibility of its trade accounts receivables in order to mitigate any possible credit losses.

Food Distribution's exposure to credit risk from PC Bank's credit card receivables and receivables from franchisees, associates and independents 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 and actively monitoring its credit card portfolio. Food Distribution accounts receivable from franchisees, associates 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. In addition, these receivables are dispersed among a large, diversified group of customers.

19. Cumulative Foreign Currency Translation Adjustment

In 2004, as a result of the significant strengthening of the Canadian dollar relative to the United States dollar, the change in the cumulative foreign currency translation adjustment decreased shareholders' equity by $213 (2003 – $253). This net change was due to the negative impact of translating the Company's U.S. net investment in self-sustaining foreign operations as a result of the strengthening of the Canadian dollar relative to the United States dollar since year end 2003.

20. 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 and provincial 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.

The Company is committed to various operating leases. Future minimum lease payments relating to these operating leases are as follows:

	Amounts Maturing in							
	2005	2006	2007	2008	2009	Thereafter to 2054	2004 Total	2003 Total
Operating lease payments	$ 215	$ 195	$ 172	$ 151	$ 130	$ 663	$ 1,526	$ 1,458
Expected sub-lease income	(65)	(53)	(46)	(36)	(27)	(72)	(299)	(210)
Net operating lease payments	$ 150	$ 142	$ 126	$ 115	$ 103	$ 591	$ 1,227	$ 1,248

At year end, the Company has committed approximately $357 (2003 – $419) 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 and insurance programs. The aggregate gross potential liability related to these standby letters of credit is approximately $303 (2003 – $272). Other standby letters of credit related to the financing program for Loblaw's franchisees and securitization of PC Bank's credit card receivables have been identified as guarantees and are discussed further in the Guarantees section below.

In connection with Loblaw's purchase of Provigo, Loblaw committed to support Quebec small business and farming communities as follows: for a period of seven years commencing in 1999, subject to business dispositions, the aggregate amount of goods and services purchased from Quebec suppliers in the normal course of business will not fall below that of 1998. Loblaw has fulfilled its commitment in each year from 1999 to and including 2004.

Guarantees

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

Standby Letters of Credit

A standby letter of credit for the benefit of an independent trust with respect to the credit card receivables securitization program of PC Bank, a wholly owned subsidiary of Loblaw, has been provided by a major Canadian bank. This standby letter 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 after the cash reserve account established pursuant to the securitization agreement has been depleted. Loblaw has agreed to reimburse the issuing bank for any amount drawn on the standby letter of credit. Loblaw believes that the likelihood of this occurrence is remote. The aggregate gross potential liability under this arrangement, which represents 15% of the securitized credit card receivables amount, is approximately $118 (2003 – $84).

A standby letter of credit has been provided by a major Canadian bank in the amount of $42 (2003 – $35) for the benefit of an independent funding trust which provides loans to Loblaw's franchisees for their purchase of inventory and fixed assets, mainly fixturing and equipment. The amount of the standby letter of credit is based on a defined formula and is equal to approximately 10% of the principal amount of the loans outstanding at any point in time. In the event that a franchisee defaults on its loan and Loblaw has not, within a specified time period, assumed the loan, or the default is not otherwise remediated, the independent funding trust may assign the loan to Loblaw and draw upon this standby letter of credit or realize on its security. Loblaw has agreed to reimburse the issuing bank for any amount drawn on the standby letter of credit.

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 $145 (2003 – $178).

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, 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 representation and warranty or for future claims for certain liabilities, including liabilities related to tax and environmental matters. The terms of these indemnification provisions vary in duration and may extend for an unlimited period of time. Given the nature of such indemnification provisions, 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.

In 2004, Weston was served with a statement of claim, in the amount of $20 for taxes owing and alleging a breach of tax related representations and warranties dealing with years prior to the 1998 sale of Weston's forest product business. The claim is being defended.

21. Related Party Transactions

The Company's majority shareholder, 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 $4 in 2004 as well as a one time payment of $8 for a property designated for future development. It is the Company's policy to conduct all transactions and settle balances with related parties on normal trade terms. Also during 2003, Weston purchased for cancellation 2,013,092 of its common shares from Wittington for $192 (see note 16).

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

22. Segment Information

The Company has two reportable operating segments: Weston Foods and Food Distribution. The Weston Foods segment is primarily engaged in the baking and dairy industries within North America. The Food Distribution segment, which focuses on food retailing and is increasing its offering of general merchandise products and services in Canada, is operated by Loblaw. In prior years, the Company reported Weston Foods in the Food Processing segment.

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.

	2004	2003 restated (note 1)
Sales		
Weston Foods	$ 4,335	$ 4,523
Food Distribution	26,209	25,220
Intersegment	(746)	(722)
Consolidated	$ 29,798	$ 29,021
Operating Income (1)		
Weston Foods	$ 138	$ 374
Food Distribution	1,644	1,458
Consolidated	$ 1,782	$ 1,832
Depreciation and Amortization		
Weston Foods	$ 147	$ 144
Food Distribution	473	393
Consolidated	$ 620	$ 537
Total Assets		
Weston Foods (2)	$ 4,652	$ 4,817
Food Distribution	13,179	12,301
Discontinued Operations	73	268
Consolidated	$ 17,904	$ 17,386
Fixed Assets and Goodwill Purchases		
Weston Foods	$ 188	$ 233
Food Distribution	1,288	1,313
Consolidated	$ 1,476	$ 1,546

(1) 2004 includes restructuring and other charges of $136 (2003 – $64) made up of a $119 (2003 – $35) charge recognized by Weston Foods and a $17 (2003 – $29) charge recognized by Food Distribution (see note 2).

(2) Includes the $365 (2003 – $367) investment in Domtar common shares, which is effectively hedged as a result of Weston issuing the 3% Exchangeable Debentures (see note 14).

The Company operates primarily in Canada and the United States.

	2004	2003 restated (note 1)
Sales (excluding intersegment)		
Canada	$ 26,749	$ 25,741
United States	3,049	3,280
Consolidated	$ 29,798	$ 29,021
Fixed Assets and Goodwill		
Canada	$ 9,268	$ 8,469
United States	1,945	2,189
Consolidated	$ 11,213	$ 10,658

Eleven Year Summary

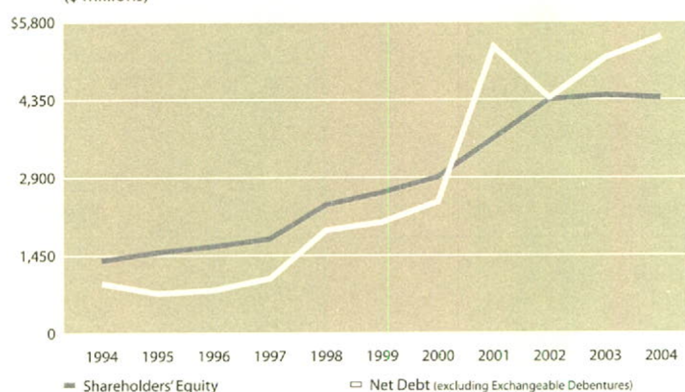
CONSOLIDATED INFORMATION – CONTINUING OPERATIONS (1,2)

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

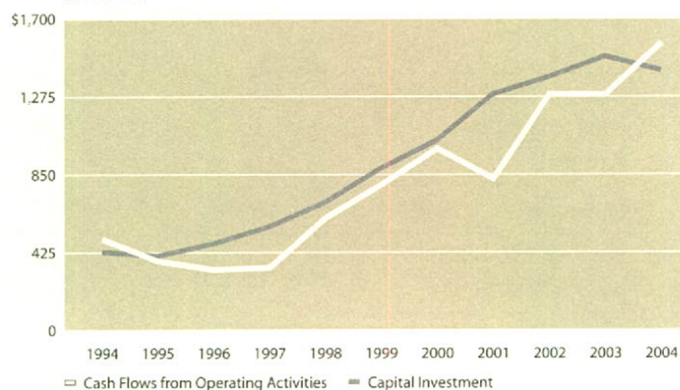
	2004	2003	2002	2001
Operating Results				
Sales	29,798	29,021	27,239	24,276
EBITDA (3, 4)	2,402	2,369	2,202	1,859
Operating income (3)	1,782	1,832	1,704	1,441
Interest expense	438	266	238	221
Net earnings from continuing operations	606	807	708	602
Financial Position				
Working capital	61	102	(71)	(755)
Fixed assets	8,256	7,665	6,970	6,196
Goodwill	2,957	2,993	3,338	3,330
Total assets	17,904	17,386	16,802	16,326
Net debt (4)	5,895	5,497	4,751	5,711
Shareholders' equity	4,380	4,430	4,335	3,626
Cash Flows				
Cash flows from operating activities of continuing operations	1,576	1,294	1,296	834
Capital investment	1,425	1,502	1,390	1,296
Per Common Share ($)				
Basic net earnings from continuing operations	4.49	5.91	5.19	4.58
Basic earnings from continuing operations before goodwill charges and unusual item(s)	4.49	5.91	5.19	4.30
Dividend rate at year end	1.44	1.20	.96	.80
Cash flows from operating activities of continuing operations	12.02	9.61	9.65	6.34
Capital investment	11.06	11.39	10.54	9.86
Book value	30.19	30.46	29.08	25.84
Market value at year end	109.71	103.71	90.25	103.40
Financial Ratios				
EBITDA margin (%)	8.1	8.2	8.1	7.7
Operating margin (%)	6.0	6.3	6.3	5.9
Net earnings from continuing operations before unusual item(s) margin (%)	2.0	2.8	2.6	2.5
Return on average total assets (%) (4)	11.4	12.3	12.2	12.6
Return on average common shareholders' equity (%)	14.8	20.0	18.9	19.1
Interest coverage	4.1	6.9	7.2	6.5
Net debt (4) to equity	1.35	1.24	1.10	1.58
Net debt (excluding Exchangeable Debentures) (4) to equity	1.26	1.16	1.01	1.47
Cash flows from operating activities of continuing operations to net debt (4)	.27	.24	.27	.15
Price/earnings from continuing operations earnings ratio at year end	24.4	17.5	17.4	22.6
Market/book ratio at year end	3.6	3.4	3.1	4.0

(1) For financial definitions and ratios refer to the Glossary on page 98.
(2) Certain prior year's information was reclassified to conform with the current year's presentation and was restated due to the implementation of Section 3110 and EIC 144 as discussed in note 1 to the consolidated financial statements and due to discontinuing the Fisheries segment (see note 7 to the consolidated financial statements).
(3) 2004 includes restructuring and other charges of $136 (2003 – $64) made up of a $119 (2003 – $35) charge recognized by Weston Foods and a $17 (2003 – $29) charge recognized by Food Distribution (see note 2 to the consolidated financial statements).
(4) See Supplementary Financial Information beginning on page 57.

Shareholders' Equity and Net Debt[1,2]
($ millions)

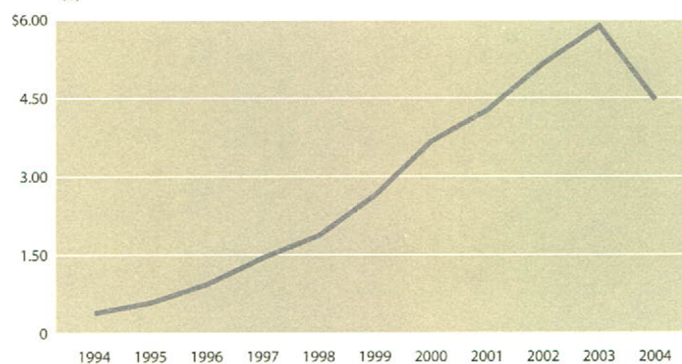


Cash Flows from Operating Activities and Capital Investment[2]
($ millions)

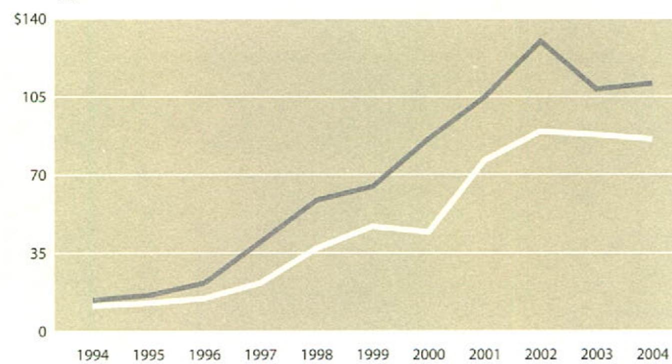


2000	1999	1998	1997	1996	1995	1994
21,906	20,434	14,113	12,391	11,185	11,398	11,619
1,499	1,269	892	719	590	546	474
1,142	928	643	511	413	359	288
171	136	104	73	84	102	106
451	325	673	193	182	74	48
(337)	(251)	(589)	(173)	(70)	(34)	(163)
4,803	4,130	3,734	2,563	2,219	2,014	2,086
2,033	1,917	1,581	77	79	70	84
11,441	10,049	9,036	5,878	5,441	5,122	4,787
2,824	2,446	2,295	1,022	804	742	927
2,904	2,618	2,389	1,756	1,615	1,506	1,353
1,000	802	620	350	338	386	506
1,023	892	706	573	481	414	436
3.43	2.47	5.07	1.45	1.34	.52	.34
3.70	2.67	1.90	1.47	.96	.61	.41
.80	.48	.40	.33	.29	.27	.23
7.61	6.09	4.67	2.61	2.45	2.73	3.59
7.78	6.77	5.32	4.27	3.48	2.93	3.09
22.09	19.98	18.14	13.16	11.87	10.66	9.58
84.10	55.25	58.50	40.67	22.28	16.75	14.08
6.8	6.2	6.3	5.8	5.3	4.8	4.1
5.2	4.5	4.6	4.1	3.7	3.1	2.5
2.1	1.6	4.8	1.6	1.6	.6	.4
12.9	11.8	11.3	13.8	12.2	10.7	8.7
16.3	13.0	32.5	11.5	11.7	5.2	3.7
6.7	6.8	6.2	7.0	4.9	3.5	2.7
.97	.93	.96	.58	.50	.49	.69
.84	.79	.80	.58	.50	.49	.69
.35	.33	.27	.34	.42	.52	.55
24.5	22.4	11.5	28.1	16.7	32.0	41.4
3.8	2.8	3.2	3.1	1.9	1.6	1.5

Basic Net Earnings from Continuing Operations before Goodwill Charges and Unusual Item(s)[2]
($)



Common Share Market Value Range
($)



SEGMENT INFORMATION – CONTINUING OPERATIONS (1,2)

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

		2004	2003	2002	2001
OPERATING RESULTS					
Sales	Weston Foods	4,335	4,523	4,792	3,412
	Food Distribution	26,209	25,220	23,082	21,486
	Intersegment	(746)	(722)	(635)	(622)
	Consolidated	29,798	29,021	27,239	24,276
EBITDA (3, 5)	Weston Foods	285	518	553	416
	Food Distribution	2,117	1,851	1,649	1,443
	Consolidated	2,402	2,369	2,202	1,859
Operating Income (3)	Weston Foods	138	374	409	313
	Food Distribution	1,644	1,458	1,295	1,128
	Consolidated	1,782	1,832	1,704	1,441
FINANCIAL POSITION					
Fixed Assets	Weston Foods	1,143	1,275	1,413	1,265
	Food Distribution	7,113	6,390	5,557	4,931
	Consolidated	8,256	7,665	6,970	6,196
Total Assets	Weston Foods (4)	4,652	4,817	5,261	6,004
	Food Distribution	13,179	12,301	11,249	10,002
	Discontinued operations	73	268	292	320
	Consolidated	17,904	17,386	16,802	16,326
CASH FLOWS					
Capital Investment	Weston Foods	167	231	311	188
	Food Distribution	1,258	1,271	1,079	1,108
	Consolidated	1,425	1,502	1,390	1,296
FINANCIAL RATIOS					
EBITDA Margin (%)	Weston Foods	6.6	11.5	11.5	12.2
	Food Distribution	8.1	7.3	7.1	6.7
	Consolidated	8.1	8.2	8.1	7.7
Operating Margin (%)	Weston Foods	3.2	8.3	8.5	9.2
	Food Distribution	6.3	5.8	5.6	5.2
	Consolidated	6.0	6.3	6.3	5.9
Return on Average Total Assets (%) (5)	Weston Foods	3.6	8.9	9.2	10.9
	Food Distribution	13.9	13.6	13.5	13.2
	Consolidated	11.4	12.3	12.2	12.6

(1) For financial definitions and ratios refer to the Glossary on page 98.

(2) Certain prior year's information was reclassified to conform with the current year's presentation and was restated due to the implementation of Section 3110 and EIC 144 as discussed in note 1 to the consolidated financial statements and due to discontinuing the Fisheries segment (see note 7 to the consolidated financial statements).

(3) 2004 includes restructuring and other charges of $136 (2003 – $64) made up of a $119 (2003 – $35) charge recognized by Weston Foods and a $17 (2003 – $29) charge recognized by Food Distribution (see note 2 to the consolidated financial statements).

(4) Total assets include the following: 2004 – $365 (2002 to 2003 – $367, 1998 to 2001 – $368) investment in Domtar common shares; and 2001 total assets include $934 business held for sale.

(5) See Supplementary Financial Information beginning on page 57.

2000	1999	1998	1997	1996	1995	1994
2,322	2,151	2,035	1,782	1,709	1,927	2,008
20,121	18,783	12,497	11,008	9,848	9,854	10,000
(537)	(500)	(419)	(399)	(372)	(383)	(389)
21,906	20,434	14,113	12,391	11,185	11,398	11,619
248	200	187	150	112	94	66
1,251	1,069	705	569	478	452	408
1,499	1,269	892	719	590	546	474
174	125	121	87	55	34	16
968	803	522	424	358	325	272
1,142	928	643	511	413	359	288
629	581	540	470	481	523	483
4,174	3,549	3,194	2,093	1,738	1,491	1,603
4,803	4,130	3,734	2,563	2,219	2,014	2,086
1,914	1,816	1,454	705	698	792	728
9,112	7,919	7,132	3,857	3,566	3,210	3,044
415	314	450	1,316	1,177	1,120	1,015
11,441	10,049	9,036	5,878	5,441	5,122	4,787
80	90	107	56	91	107	110
943	802	599	517	390	307	326
1,023	892	706	573	481	414	436
10.7	9.3	9.2	8.4	6.6	4.9	3.3
6.2	5.7	5.6	5.2	4.9	4.6	4.1
6.8	6.2	6.3	5.8	5.3	4.8	4.1
7.5	5.8	5.9	4.9	3.2	1.8	.8
4.8	4.3	4.2	3.9	3.6	3.3	2.7
5.2	4.5	4.6	4.1	3.7	3.1	2.5
14.0	11.7	13.3	12.5	7.4	4.5	2.1
12.7	11.8	10.7	14.0	13.4	12.2	10.3
12.9	11.8	11.3	13.8	12.2	10.7	8.7

Glossary

Operating Terms	Definition
Control label	A brand and associated trademark that is owned by Food Distribution for use in connection with its own products and services.
Conversion	A store that changes from one Food Distribution banner to another Food Distribution banner.
Corporate stores sales per average square foot	Sales by corporate stores divided by the average corporate stores square footage at year end.
Major expansion	Expansion of a store that results in an increase in square footage that is greater than 25% of the square footage of the store prior to the expansion.
Minor expansion	Expansion of a store that results in an increase in square footage that is less than or equal to 25% of the square footage of the store prior to the expansion.
New store	A newly constructed store, conversion or major expansion.
Renovation	Capital investment in a store resulting in no change to the store square footage.
Retail sales	Combined sales of the stores owned by Food Distribution and those owned by Food Distribution's independent franchisees.
Same-store sales	Retail sales from the same physical location for stores in operation in that location in both years being compared but excluding sales from a store that has undergone a conversion or major expansion in the period.

Financial Terms and Ratios	Definition
Basic net earnings from continuing operations before goodwill charges and unusual item(s) per common share	Net earnings from continuing operations available to common shareholders before goodwill charges (net of minority interest impact and tax) and unusual item(s) (net of tax) divided by the weighted average number of common shares outstanding during the year.
Basic net earnings from continuing operations before goodwill charges per common share	Net earnings from continuing operations available to common shareholders before goodwill charges (net of minority interest impact and tax) divided by the weighted average number of common shares outstanding during the year.
Basic net earnings from continuing operations per common share	Net earnings from continuing operations available to common shareholders divided by the weighted average number of common shares outstanding during the year.
Book value per common share	Common shareholders' equity divided by the number of common shares outstanding at year end.
Capital investment	Fixed asset purchases.
Capital investment per common share	Capital investment divided by the weighted average number of common shares outstanding during the year.
Cash flows from operating activities of continuing operations per common share	Cash flows from operating activities of continuing operations less preferred dividends paid divided by the weighted average number of common shares outstanding during the year.
Cash flows from operating activities of continuing operations to net debt[1]	Cash flows from operating activities of continuing operations divided by net debt.
Common shareholders' equity	Total shareholders' equity less preferred shares outstanding.

Diluted net earnings from continuing operations per common share	Net earnings from continuing operations available to common shareholders divided by the weighted average number of common shares outstanding during the year minus the dilutive impact of outstanding stock option grants at year end.
Dividend rate per common share at year end	Dividends per common share declared in the fourth quarter multiplied by four.
EBITDA[1]	Operating income plus depreciation and amortization.
EBITDA margin	EBITDA divided by sales.
Gross margin	Sales less cost of sales divided by sales.
Interest coverage	Operating income divided by interest expense.
Market/book ratio at year end	Market price per common share at year end divided by book value per common share at year end.
Net debt[1]	Bank indebtedness, commercial paper, short term bank loans, long term debt due within one year, long term debt and debt equivalents less cash, cash equivalents and short term investments.
Net debt (excluding Exchangeable Debentures)[1] **to equity**	Net debt excluding Exchangeable Debentures divided by total shareholders' equity.
Net debt[1] **to equity**	Net debt divided by total shareholders' equity.
Net earnings from continuing operations before unusual item(s) margin	Net earnings from continuing operations before unusual item(s) (net of tax) divided by sales.
Normalized basic net earnings from continuing operations per common share	Net earnings from continuing operations available to common shareholders before unusual item(s) (net of tax) divided by weighted average common shares outstanding at year end.
Operating margin	Operating income divided by sales.
Price earnings from continuing operations ratio at year end	Market price per common share at year end divided by basic earnings from continuing operations per common share for the year.
Return on average common shareholders' equity	Net earnings from continuing operations available to common shareholders divided by average common shareholders' equity.
Return on average total assets[1]	Operating income divided by average total assets excluding cash, cash equivalents, short term investments and assets held for sale.
Weighted average common shares outstanding	The number of common shares outstanding determined by relating the portion of time within the year that the common shares were outstanding to the total time in that year.
Working capital	Total current assets less total current liabilities.
Year	The Company's year end is December 31. Sales and related activities are reported on a fiscal year ending on the Saturday closest to December 31, usually 52 weeks in duration, but includes 53 weeks every five to six years. The years ended 2003 and 1998 each contained 53 weeks of sales and related activities.

(1) See Supplementary Financial Information beginning on page 57.

Corporate Directory

BOARD OF DIRECTORS

W. Galen Weston O.C., B.A., LL.D. (1*)
Chairman and President, George Weston Limited; Chairman, Loblaw Companies Limited, Holt, Renfrew & Co., Limited, Brown Thomas Group Limited, Selfridges & Co. Ltd.; President, The W. Garfield Weston Foundation; Director, Associated British Foods plc, Canadian Imperial Bank of Commerce; Member, Advisory Board of Columbia University.

A. Charles Baillie B.A., M.B.A. (2)
Retired Chairman, Toronto Dominion Bank; former Chairman & CEO, Toronto Dominion Bank; Director, Dana Corporation, Ballard Power Systems Inc., Canadian National Railway Company, Telus Corporation; Chancellor, Queens University; President, Art Gallery of Ontario's Board of Trustees; Honorary Chairman of the Canadian Council of Chief Executives.

Robert J. Dart B.Comm., F.C.A.
Vice Chairman, Wittington Investments, Limited; former President, Wittington Investments, Limited; former Senior Tax Partner, Price Waterhouse Canada; Director, Loblaw Companies Limited, Holt, Renfrew & Co., Limited, Brown Thomas Group Limited.

Peter B.M. Eby B.Comm., M.B.A. (1,2,3)
Former Vice Chairman and Director, Nesbitt Burns Inc.; former Executive, Nesbitt Burns Inc. and its predecessor companies; former Chairman, Olympic Trust; Director, Leon's Furniture Limited, Sixty Split Corporation, TD Waterhouse Inc. U.S. Family of Funds, Provigo Inc., R. Split II Corporation.

Phillip W. Farmer B.Sc. (2,5)
Retired Chairman, President and Chief Executive Officer, Harris Corporation; former Chairman, Executive Committee of the Manufacturer's Alliance; Director, Vulcan Materials Company, AuthenTec, Inc.; former Governor, Aerospace Industries Association; Vice Chairman, Board of Trustees of Florida Institute of Technology; former Member of U.S. Secretary of Defense's Defense Policy Advisory Committee on Trade.

Anne L. Fraser B.Sc., LL.D. (5*)
Education Consultant, University of Victoria; Associate Governor, Dalhousie University; Associate, Faculties of Management, Education, Engineering, Law and Fine Arts, University of Calgary; President, ENERG Enterprises Inc.; Director, Loblaw Companies Limited, Neuroscience Canada Foundation, Bamfield Marine Research Centre, Pier 21 Society.

R. Donald Fullerton B.A. (2*,3*)
Retired Chairman and Chief Executive Officer, Canadian Imperial Bank of Commerce; former Chairman, Executive Committee, Canadian Imperial Bank of Commerce; Director, Asia Satellite Telecommunications Holdings Ltd., Partner Communications Company Ltd., Husky Energy Inc.

Anthony R. Graham (1,3,4*)
President and Director, Wittington Investments, Limited; President and Chief Executive Officer, Sumarria Inc.; former Vice Chairman, National Bank Financial; Chairman and Director, President's Choice Bank, Graymont Limited; Director, Loblaw Companies Limited, Brown Thomas Group Limited, Holt, Renfrew & Co., Limited, Power Corporation of Canada, Power Financial Corporation, Provigo Inc., Selfridges & Co. Ltd.

Mark Hoffman A.B., B.A., M.A., M.B.A. (4,5)
Chairman, Cambridge Research Group, Guinness Flight Venture Capital Trust plc; Director, Millipore Corporation, Advent International Corporation, Hermes Focus Asset Management Limited.

Allan L. Leighton (4)
Chairman, Royal Mail Group; former President and Chief Executive Officer, Wal-Mart Europe; former Chief Executive, Asda Stores Ltd.; Director, Dyson Ltd., Selfridges & Co. Ltd., BHS Ltd.

John C. Makinson B.A., CBE (2)
Chairman and Chief Executive Officer, The Penguin Group; former Group Finance Director, Pearson plc; Director, Pearson plc, Recoletos SA, Interactive Data Corporation Inc.

J. Robert S. Prichard O.C., O.Ont., M.B.A., LL.M., LL.D. (3)
President and Chief Executive Officer, Torstar Corporation; President Emeritus, University of Toronto; Director, Torstar Corporation, Bank of Montreal, Onex Corporation, Four Seasons Hotels.

M.D. Wendy Rebanks B.A. (4,5)
Treasurer, The W. Garfield Weston Foundation; Trustee, American Museum Trustee Association, University of Toronto Art Centre; Director, The Canadian Merit Scholarship Foundation.

Galen G. Weston B.A., M.B.A.
Senior Vice President, Corporate Development, Loblaw Companies Limited; former Senior Director e-Commerce Development, Loblaw Companies Limited; Director, Wittington Investments, Limited; Trustee, The W. Garfield Weston Foundation; Governor, Shaw Festival.

(1) Executive Committee
(2) Audit Committee
(3) Governance, Human Resource, Nominating and Compensation Committee
(4) Pension and Benefits Committee
(5) Environmental, Health and Safety Committee
* Chairman of the Committee

CORPORATE OFFICERS

(includes age and years of service)

W. Galen Weston, O.C. (64 and 33 years)
Chairman and President

Richard P. Mavrinac (52 and 22 years)
Chief Financial Officer

Roy R. Conliffe (54 and 23 years)
Senior Vice President, Labour Relations

Stewart E. Green (60 and 28 years)
Senior Vice President, Secretary and General Counsel

Louise M. Lacchin (47 and 21 years)
Senior Vice President, Finance

Donald G. Reid (55 and 25 years)
Senior Vice President

Robert G. Vaux (56 and 7 years)
Senior Vice President, Corporate Development

Geoffrey H. Wilson (49 and 18 years)
Senior Vice President, Investor Relations and Public Affairs

Robert A. Balcom (43 and 11 years)
Vice President, Assistant Secretary

Manny DiFilippo (45 and 13 years)
Vice President, Risk Management and Internal Audit Services

J. Bradley Holland (41 and 11 years)
Vice President, Taxation

Michael N. Kimber (49 and 20 years)
Vice President, Legal Counsel

Kirk W. Mondesire (44 and 19 years)
Vice President, Corporate Systems

Lucy J. Paglione (45 and 21 years)
Vice President, Pension and Benefits

Rolando Sardellitti (37 and 10 years)
Vice President, Controller

Lisa R. Swartzman (34 and 11 years)
Vice President, Treasurer

Ann Marie Yamamoto (44 and 18 years)
Vice President, Systems Audit

Marian M. Burrows (50 and 26 years)
Assistant Secretary

Walter H. Kraus (42 and 16 years)
Director, Environmental Affairs

Patrick MacDonell (35 and 9 years)
Controller, Planning & Analysis

Swavek A. Czapinski (30 and 6 years)
Assistant Treasurer

M. Darryl Hanstead (30 and 6 years)
Assistant Treasurer

Shareholder and Corporate Information

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

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

Common Shares
At year end 2004, there were 128,913,579 common shares outstanding, 1,142 registered common shareholders and 48,351,692 common shares available for public trading.

The average 2004 daily trading volume of the Company's common shares was 75,529.

Preferred Shares
At year end 2004, there were 9,400,000 preferred shares Series I outstanding, 10,600,000 preferred shares Series II outstanding and 56 registered preferred shareholders. All outstanding preferred shares were available for public trading.

The average 2004 daily trading volume of the Company's preferred shares was:
Series I: 6,632
Series II: 9,876

Common Dividend Policy
It is the Company's policy to maintain a dividend payment equal to approximately 20% to 25% of the prior year's normalized basic net earnings from continuing operations per common share.

Common Dividend Dates
The declaration and payment of quarterly dividends are made subject to approval by the Board of Directors. The anticipated record and payment dates for 2005 are:

Record Date	Payment Date
March 15	April 1
June 15	July 1
Sept. 15	Oct. 1
Dec. 15	Jan. 1

Normal Course Issuer Bid
The Company has a Normal Course Issuer Bid on the Toronto Stock Exchange.

Value of Common Shares
For capital gains purposes, the valuation day (December 22, 1971) cost base for the Company, adjusted for the 4 for 1 stock split (effective May 27, 1986) and the 3 for 1 stock split (effective May 8, 1998), is $1.50 per share. The value on February 22, 1994 was $13.17 per share.

Registrar and Transfer Agent
Computershare Trust Company of Canada
100 University Avenue
Toronto, Canada M5J 2Y1

Tel:	416.263.9200
Toll Free Tel:	1.800.663.9097
Fax:	416.263.9394
Toll Free Fax:	1.888.453.0330

To change your address or eliminate multiple mailings, or for other shareholder account inquiries, please contact Computershare Trust Company of Canada.

Independent Auditors
KPMG LLP
Chartered Accountants
Toronto, Canada

Annual Meeting
The George Weston Limited Annual Meeting of Shareholders will be held on Wednesday, May 11, 2005 at 11:00 a.m. at the Metro Toronto Convention Centre, Constitution Hall, Toronto, Canada.

Trademarks
George Weston Limited and its subsidiaries own a number of trademarks. These trademarks are the exclusive property of George Weston Limited and its subsidiary companies. Trademarks where used in this report are in italics.

Investor Relations
Shareholders, security analysts and investment professionals should direct their requests to Mr. Geoffrey H. Wilson, Senior Vice President, Investor Relations and Public Affairs at the Company's Executive Office or by e-mail at investor@weston.ca.

Additional financial information has been filed electronically with various securities regulators in Canada through the System for Electronic Document Analysis and Retrieval (SEDAR). The Company holds an analyst call shortly following the release of its quarterly results, which is broadcast live on the Company's website. These calls are archived in the Investor Zone section of the Company's website.

This Annual Report includes selected information on Loblaw Companies Limited, a 62%-owned public reporting company with shares trading on the Toronto Stock Exchange.

Ce rapport est disponible en français.

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