George Weston Limited

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Dup

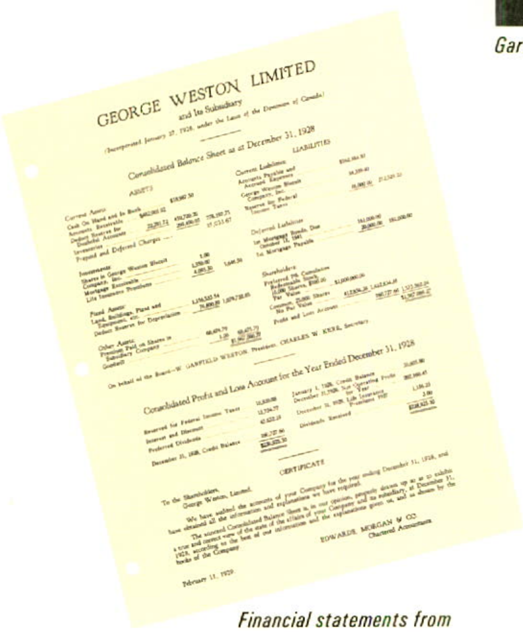
DUPLICATES

Annual Report 1981

Garfield Weston

Following the death of George Weston in 1924 Garfield took over the operations and shortly thereafter shares were offered to the public for the first time. The Company continued to grow.

William Paterson of Brantford, a manufacturer of biscuits and confectionery since 1863 joined the operations. Sweet biscuits became popular under the name of Vanilla Wafers and the manufacture of plain and fancy biscuits became part of the operations under the McCormick's and Paulin's labels. In the late 1930's operations expanded to include Western Canada. "Canadian Made English Quality Biscuits" received wide recognition and carried the "Weston" trademark in virtually every store in the country. Biscuit operations were expanded into the United States and became the cornerstone of today's U.S. biscuit operations.



GEORGE WESTON LIMITED
and Its Subsidiary

Consolidated Balance Sheet as at December 31, 1928

Consolidated Profit and Loss Account for the Year Ended December 31, 1928

CERTIFICATE

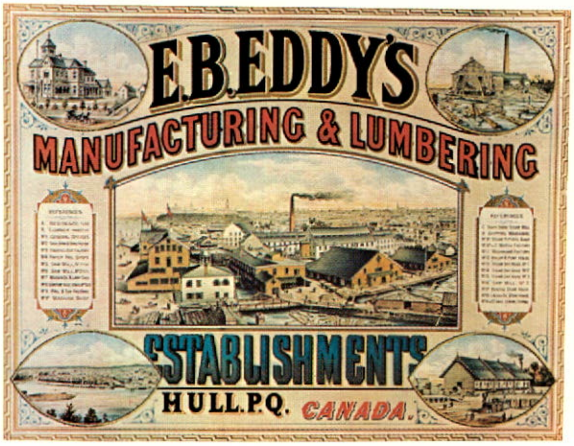
Financial statements from first Weston Annual Report

Early Loblaw store; opened February 15th, 1924

The 1940's and 50's were years of great growth and development for Weston. Such familiar names as Southern Biscuit, Westfair, William Neilson, Famous Foods of Virginia (FFV) became associated with the organization. Many people became familiar with Weston through its radio programs and the "Weston Sing-Song" at Toronto's Sunnyside. The expansion into forest products — E. B. Eddy; into fisheries — B. C. Packers and Connors Bros. and later into food distribution took place.

By 1960, two out of three Canadians lived in metropolitan areas, shopping centres and plazas sprang up and the growth of Loblaw and its subsidiaries was immense.

Following this rapid expansion, a period of consolidation and reorganization took place, culminating in the mid 70's in the complete restructuring of the retail/wholesale group. Weston's historical growth pattern was thus re-established and in 1981 sales surpassed $7 billion. As our first century of operations draws to a close, we look forward with enthusiasm to the next.

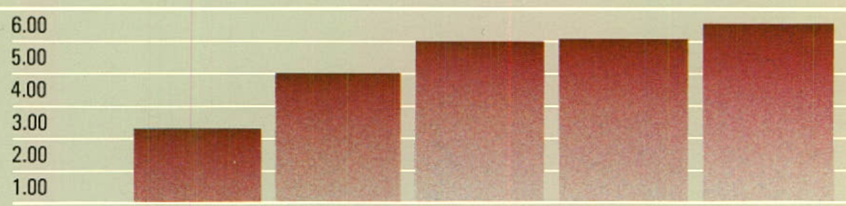


E.B. Eddy facility, established 1851

Connors Bros. tin label

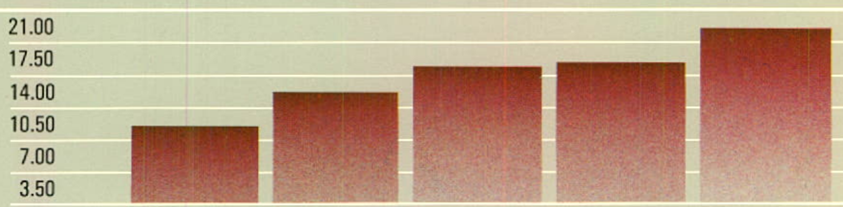
Illustration–1949–Neilson's Gladstone Avenue property

Earnings before extraordinary items per share



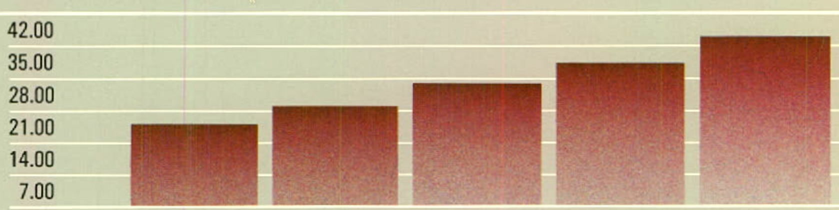
	1977	1978	1979	1980	1981
	$2.36	$4.06	$5.06	$5.11	$5.62

Cash flow per share



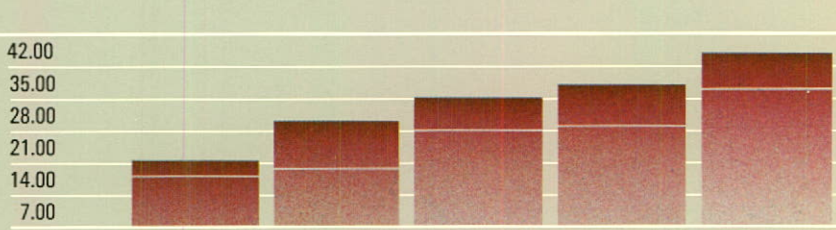
	1977	1978	1979	1980	1981
	$8.66	$12.25	$15.21	$15.60	$19.11

Book value per share



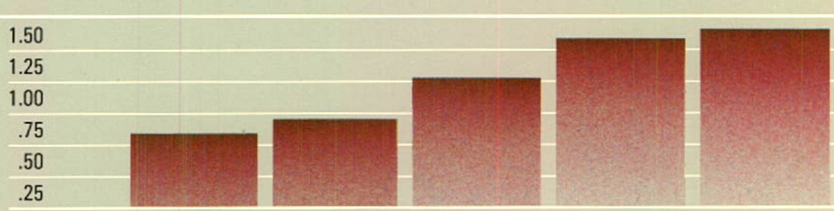
	1977	1978	1979	1980	1981
	$18.27	$22.23	$27.11	$31.94	$37.54

Price range per share



	1977	1978	1979	1980	1981
High	$14.75	$23.37	$28.00	$31.25	$38.38
Low	$11.50	$13.12	$21.00	$22.00	$30.25

Common dividends per share



	1977	1978	1979	1980	1981
	$0.60	$0.72	$1.04	$1.36	$1.44
Year end rate	$0.60	$0.84	$1.24	$1.40	$1.56

Financial **Highlights**

	In millions of dollars	**1981**	1980	Increase
Operating results	Sales	**$7,428.6**	$6,776.7	10%
	Operating income	**229.9**	196.2	17%
	Earnings before extraordinary items	**79.2**	70.5	12%
	Net earnings	**95.3**	83.6	14%
	Earnings per share	**7.06**	6.28	12%
Financial position	Cash flow from operations	**214.6**	174.4	23%
	Long-term debt	**265.6**	248.8	7%
	Shareholders' equity	**591.0**	526.2	12%
	Total assets	**1,898.1**	1,757.5	8%
Ratios	Return on capital employed	**18.1%**	17.4%	
	Return on common equity	**16.2%**	17.3%	
	Return on sales	**1.3%**	1.2%	
	Working capital ratio	**1.40 to 1**	1.40 to 1	
	Total debt to equity	**0.60 to 1**	0.72 to 1	

Chairman's Letter

1981 was another good year for our Company. During a difficult economic period which seriously affected the progress of many of Canada's leading corporations, George Weston Limited's sales increased by 10% and net earnings per share improved by 12%.

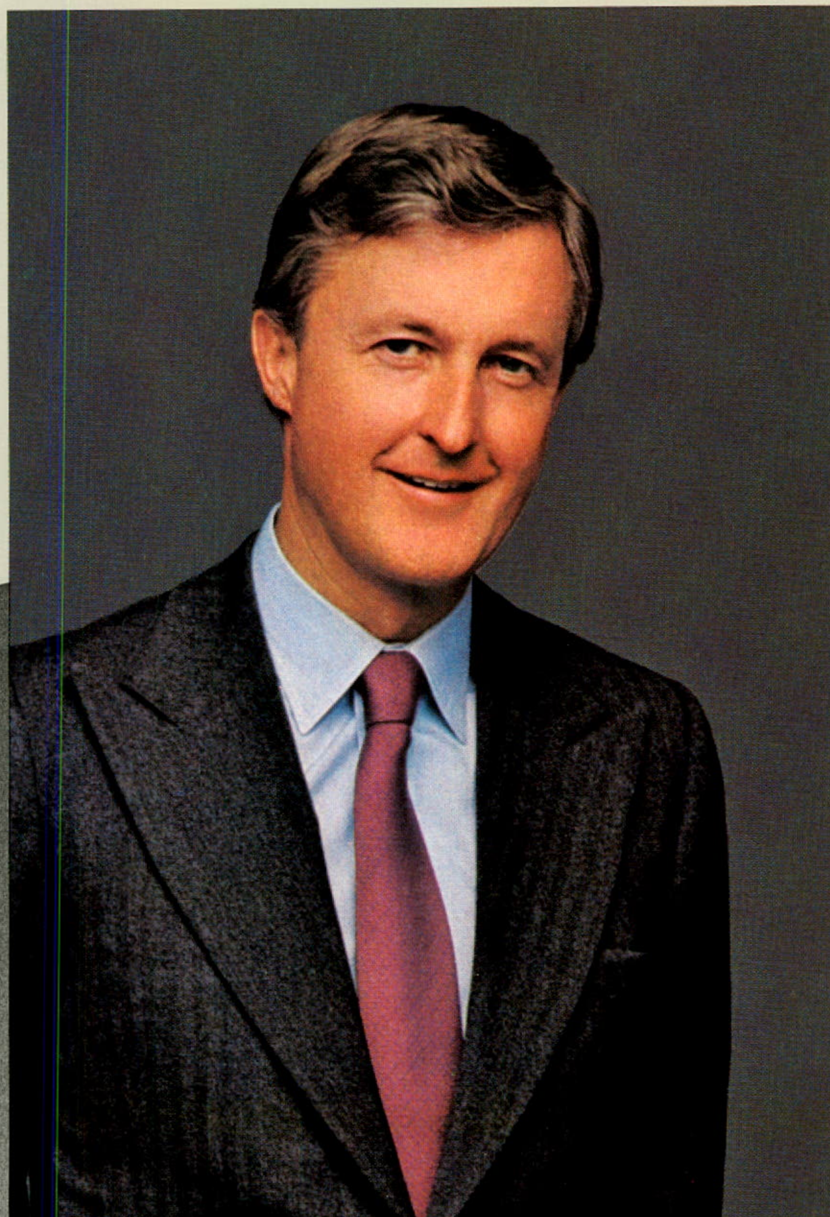
We are entering our centennial year and as a preamble to this report we have provided a brief and very generalized historical review. We have also shown pictorially throughout the report some of the products and facilities that have been with us since the early days. It is comforting to know that while these facilities are now unrecognizable and working conditions throughout them have improved dramatically, many of these products and the service companies which formed the basis of our operations at that time are very much household names and in the forefront of our business today. We believe strongly in maintaining this continuity and extensive capital expenditures will continue to be directed internally to improve efficiency levels from our increasingly formidable asset base.

High levels of performance and responsibility go hand in hand with high levels of autonomy. In keeping with this conviction, I have asked each group president to comment separately on his industry sector and our distinctive position within it. During the year Mark Hoffman became President of the Resource Group and Bob Kidd replaced him as Senior Vice President and Chief Financial Officer. I have asked the latter to cover his particular area by way of an overall introduction.

While we have met with some success in recent years and are more convinced than ever that we are adopting the correct strategies for the long term, your Board of Directors continues to be concerned about the now precarious position of the Canadian economy. All indications are that inflation rates in Canada will again in 1982 far exceed those of the United States, and present personal expectations remain higher than can be satisfied in the near term. Consumer spending will be tight and the coming year for every sector will be a difficult one. I am confident however, that your Company will at least hold its own. Morale is high and it is once more appropriate to record the appreciation of your Board of Directors on behalf of the shareholders to management and our 60,000 employees throughout Canada and the United States for a job well done.

W. Galen Weston

W. Galen Weston
Chairman and President



Weston 1981

In 1981, George Weston Limited reported the fourth consecutive year of record sales and earnings. Weston's plans continue to be directed to providing both long-term stability and the opportunity for growth in our principal businesses by offering quality products with a strong leadership position in each market.

Weston's financial objectives were outlined in last year's annual report. The sound financial position and diversity of Weston was reflected in meeting these objectives during 1981 in spite of adverse economic conditions, high interest costs and weak markets in our resource sector:

- Long-term average rate of return on capital employed targeted in excess of 15%; 16.4% achieved 1977-81;
- Long-term average rate of return on common equity targeted in excess of 15%; 17.6% achieved 1977-81;
- Compound earnings per common share growth rate targeted in excess of 15%; 24.2% achieved 1977-81;
- Maintenance of prudent levels of financial leverage and risk, with targeted maximum debt to equity ratio 1:1; 0.60:1 achieved 1981.

Management Philosophy

Operating on a decentralized basis Weston believes that a high level of management initiative, creativity and performance can be achieved through the flexibility and incentive that is offered by such a structure. Weston co-ordinates planning on a long and medium term basis for the development of its operating groups. Specialized corporate services are provided where appropriate. The various operations are thus able to benefit from the resources of Weston, one of Canada's leading corporations, while at the same time maintaining a close identification with their individual markets.

Operation Highlights

For the year 1981 sales of $7.4 billion reflect an increase of 10% over 1980 while earnings before extraordinary items increased 12% over 1980 to $79 million. Return on Weston's capital employed improved to 18.1% which compares favourably with our long-term objective.

Return on common shareholders' equity in 1981 at 16.2% continued above long-term goals. The primary factors slowing the growth of return on common equity were higher interest rates and preferred dividends. Management's attention continues to be focused on the ability to finance its programs in a manner consis-

Early Connors Bros. label

tent with its cash flows and financial objectives while maximizing return on common shareholders' equity.

Cash flow from operations per share increased from $15.60 in 1980 to $19.11 in 1981. During the year $18.33 per share was reinvested in new and upgraded fixed assets reflecting the continuing need for re-investment and renewal of our asset base. Working capital increased to $274 million and the year end ratio of fixed rate debt to total debt improved.

Capital Expenditures

Weston's corporate objectives require the maintenance of prudent levels of financial leverage and risk appropriate to our business mix while attaining the targeted long-term average rates of growth and return on capital employed. Achieving these goals requires a forward looking and controlled approach to capital expenditures.

Capital expenditure programs are controlled on both a group and corporate basis and must exceed minimum hurdle rates which reflect the mix and nature of our business components and the current cost of capital.

During 1981 capital expenditures totalled $206 million of which $67 million was for the modernization and expansion of our pulpmill and lumber operations at Espanola and Nairn Centre, Ontario. The balance of our capital expenditures were for additional facilities, the improvement of productivity and refurbishing of our present facilities and the replacement of retiring facilities. Included in these expenditures were the purchase by Stroehmann Brothers of baking facilities in the United States, the completion of the first phase of modernization of the Toronto bakery, the start of the Prince Rupert modernization program and in the Food Distribution Group the building of 24 new stores and refurbishing of many others. In 1981, the capital expenditure program was reduced after a vigorous review, in light of rising financing costs.

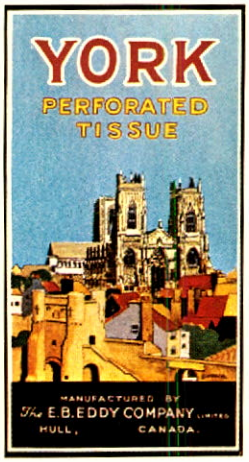
Capital expenditures for the five years 1982-86 are expected to approach $1 billion of which $190 million represents completion of the Forest Products division modernization program. These capital expenditures will be funded out of the Company's internally generated cash flow and normal financing programs.

Finance

Weston entered 1981 with the stated objective of strengthening its financial position in anticipation of deteriorating economic conditions. A program for the prefunding of capital expenditures was implemented and attention was directed

Kelly, Douglas & Co

Loblaw store
18 St. Clair Ave. East, Toronto
Miss Canadas–1943



Early Eddy product label

to maximizing return on capital employed. The progress that has been achieved is reflected in the high rate of inventory turnover, the strong liquid position and the improved debt to equity ratio.

For 1981, cash flow from operations of $215 million together with $54 million net long-term financing exceeded capital expenditures and dividends by $9 million.

The Company will continue to reduce its percentage of floating rate debt through the issue of additional fixed rate indebtedness when market conditions are favourable. By reducing interest rate exposure within its targeted capital structure and achieving a high contribution from capital expenditures the Company will maintain the strong financial ratios reflected in its A bond rating.

In December 1981 the directors increased the quarterly common share dividend 11% to an annual rate of $1.56 from $1.40. Weston follows a common dividend policy which reflects a target payout of prior year's earnings giving consideration to cash flow, capital requirements and financial markets and conditions. While recognizing the need of cash returns to shareholders Weston is also cognizant of the requirement of a strong asset base and the opportunities for capital appreciation to investors. The continued strength in Weston's market value, particularly in view of the performance of the market in general, is significant both from the point of view of potential capital returns to investors and in the confidence this shows in management and its programs.

Southern Biscuit Company "F.F.V." 1920's

Inflation

Weston's current operating income is affected by increasing prices in both its sales and cost of sales. During 1981, the Company has experienced lower rates of food price inflation than demonstrated by general Consumer Price Indices because of lower commodity prices. These trends are expected to continue into 1982.

Recently the Canadian Institute of Chartered Accountants issued a Re-Exposure Draft on "Reporting the Effects of Changing Prices" which proposes reporting supplementary information indicating the inflationary impact on the cost of a corporation's operations. The food processing and resource production assets were acquired over a number of years and any adjustment to reflect current cost results in a significant increase in the net values of property, plant and equipment and a corresponding increase in the depreciation charge for the year. The current cost of Weston's inventories does not differ significantly from historical cost because of rapid inventory turnover. Weston continues to develop current cost data in

Neilson advertising early billboard display anticipation of accounting guidelines being issued in the near future.

Outlook 1982-1986

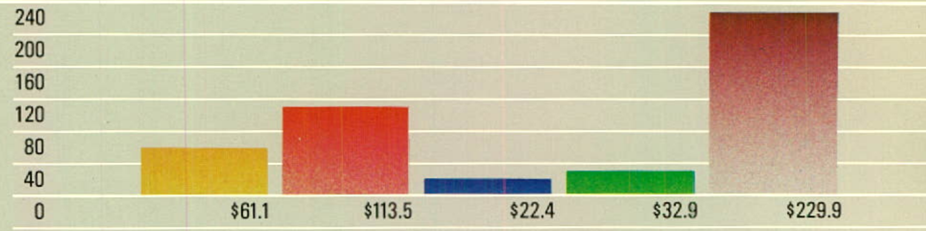
Weston operates on a five year planning cycle and looks outward for ten years in broad business programs. These annually updated plans present a strong challenge to our management team not only to meet the goals but to anticipate and adapt to major changes in circumstances and economic conditions. Over the past year we have seen unprecedented conditions in the North American financial markets and all indications are that 1982 will continue this erratic and unsettling pattern. Our strategy of maintaining a strong financial base and selective expenditures on highly productive assets, is part of the plan to meet the challenges of the coming years.

Weston plans to continue expansion in its existing lines of business in North America and acquisitions where appropriate will continue to be a factor in meeting the Company's objectives for growth. Expansion will be directed to maintaining or achieving a position of market leadership in the areas served by the Company and providing quality products and services equal to or superior in value to those of our competition. The stability of earnings and financial position in the food industry and our interest in renewable Canadian resources will provide Weston with the opportunity for further growth within North America. While our targets for 1982 and the ensuing years represent a major challenge, we are confident that they will be achieved.

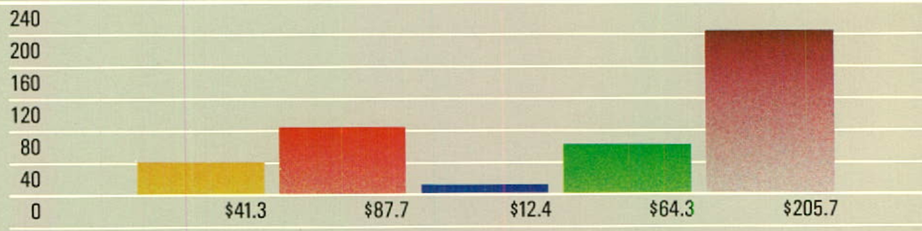
McCormick's electric truck in front of the Biscuit and Candy Factory, London Ontario

Robert H. Kidd
Senior Vice President and
Chief Financial Officer

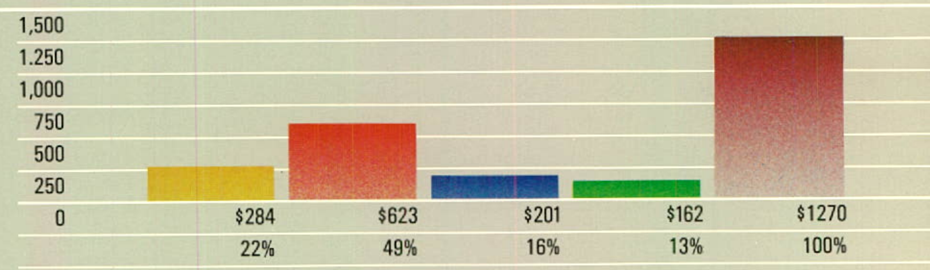
Operating income by group
In millions of dollars



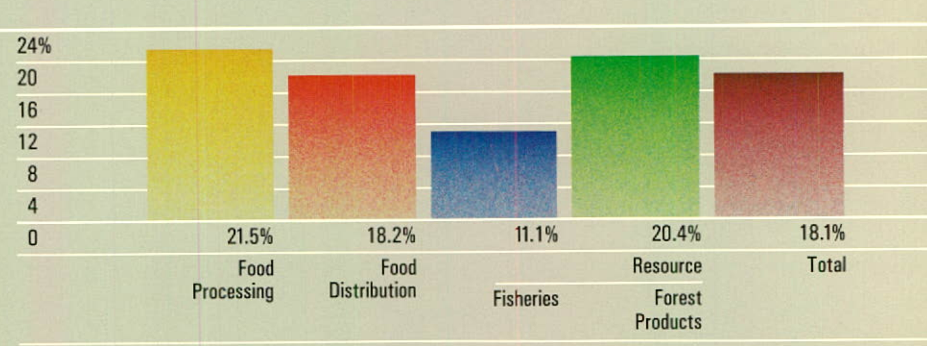
Capital expenditures by group
In millions of dollars



Average capital employed by group
In millions of dollars & percentage



Return on average capital employed by group
Percentage



Group **Summary 1981**

	In millions of dollars	Food Processing	Food Distribution	Resource: Fisheries	Resource: Forest Products	Total
Operating summary	Total sales	$1,038.2	$5,794.5	$394.8	$421.6	
	Inter-segment sales	168.4	3.9	27.4	20.8	
	Sales	869.8	5,790.6	367.4	400.8	$7,428.6
	Operating income	61.1	113.5	22.4	32.9	229.9
Capital summary	Capital expenditures	41.3	87.7	12.4	64.3	205.7
	Total assets	354.1	1,036.6	242.9	264.5	1,898.1
	Average capital employed	284.3	623.0	200.9	161.4	1,269.6
	Return on average capital employed	21.5%	18.2%	11.1%	20.4%	18.1%
Number of employees	Full-time	11,900	19,800	3,000	4,300	39,000
	Part-time	1,200	16,400	4,100	100	21,800

George Weston Limited is a broadly based Canadian company conducting food processing, food distribution and resource operations in North America. Weston plans for the allocation of resources and management skills to achieve targeted rates of growth and returns through a combination of corporate planning and decentralized operating responsibilities responsive to the individual markets served. Weston's sales base approximates 11% food processing, 78% food distribution and 11% resource. Capital employed and operating income approximates 25% food processing, 50% food distribution and 25% resource. The high level of sales in the food distribution industry relative to capital employed and operating income reflects the normal financial structure for that industry.

Weston's sales rank it as the third largest company in Canada. Weston food processing operations rank among the major food processors in Canada. The food distribution sector is the largest wholesale and retail food distributor in Canada and the seventh largest in North America. The Resource Group is one of the largest fish processors in Canada and operates a substantial forest products operation in Eastern Canada and the North Eastern United States. The reports of the three Group Presidents follow.

Food Processing

After a century of growth and diversification, the Food Processing Group now includes 13 operating companies employing more than 12,000 people. This makes it one of the most diversified food processing businesses in North America. Forty-nine plants in Canada and the United States produce a wide range of food products for the consumer, institutional and industrial markets.

In 1981, total sales of the Group increased 15% to $1.0 billion and operating income rose 25% to $61 million. Operating income benefited from the divestiture of two small companies and the results of our continued capital expenditure programs. Return on the $284 million average capital employed moved up to 22%.

The Food Processing Group performed well in 1981, in an increasingly difficult environment. It is this track record and our confidence in the future potential of these operations that underlies our continued commitment to the upgrading of our manufacturing and distribution facilities as shown by record high fixed asset additions of $41 million in 1981.

Soo Line Mills, dating back to 1917, was one of the first fully pneumatic mills in Western Canada

Bakery and Flour Milling

Fresh baked bread and rolls, sweet goods and cake – the original Weston business – continue today as one of our core operations. In 1981 this division, the largest of the Group, continued to make good progress with sales of $400 million, a 19% increase over the previous year.

The division, which includes Weston Bakeries, McCarthy Milling and Soo Line Mills in Canada, and Stroehmann Brothers in the United States, accounted for 39% of the Group's sales in 1981. Part of the reported sales increase is attributable to purchases made by Stroehmann Brothers during the last half of 1981. These plant additions have enabled Stroehmann to expand geographically and to gain needed production capacity at an attractive price. Stroehmann now operates 15 plants, while in Canada, Weston Bakeries have 11 production units between Montreal and Vancouver.

During 1981, both milling companies turned in excellent performances despite a continued reduction in export sales and declining mill feed prices during the second half of the year.

To offset the decline in white bread consumption, which seems now to have stabilized, both Stroehmann Brothers and Weston Bakeries have reinforced their marketing activities to meet the trend to variety breads. Weston's introduction of five Country Harvest selections and Stroehmann's new variety line were in response to changing consumer preferences.

Although changing lifestyles and eating habits have had their effect on the baking

Neilson's five cent chocolate bars, 1910 sales promotion

Weston's Bread and Cake, Regina, late 1930's

Weston's Food Processing Group after a century of growth and diversification is one of the most diversified food processing businesses in North America. Starting from the original two bread routes in 1882 the Group now includes 13 operating companies employing 12,000 people.

industry, there are signs that health-conscious consumers are again recognizing bread as an essential part of a well balanced diet. As well, an increasing number of nutritionists are giving bread a prominent role in weight-loss programs, all of which bodes well for the prospects of efficient, innovative and aggressive companies in this large and stable market.

1937, McCormick's Dainty Jersey Cream Sodas introduced.

Biscuit and Confectionery

Sweet biscuits, crackers, and confectionery, accounted for 21% of the Group's sales. In 1981, sales of the Biscuit and Confectionery division increased 19% to $221 million. InterBake Foods Limited, with three plants in Canada, and Interbake Foods Inc., with four production units in the United States, form this division. In Canada InterBake products are sold under brand names such as Wagon Wheels and Peerless Soda Crackers, or under the McCormicks, Paulin Chambers or George Weston labels. In the United States, Interbake is a major co-packer and supplier of Girl Scout cookies, and markets sweet biscuits and snack crackers under the FFV-Famous Foods of Virginia label. Stoned Wheat Thins have been very successful in both markets.

During the year there was considerable emphasis on the development of new products and new packaging. Interbake Inc. successfully launched a completely new FFV package design with additional biscuit and snack items. In Canada, the McCormick's line of products has also been repositioned and relaunched with success.

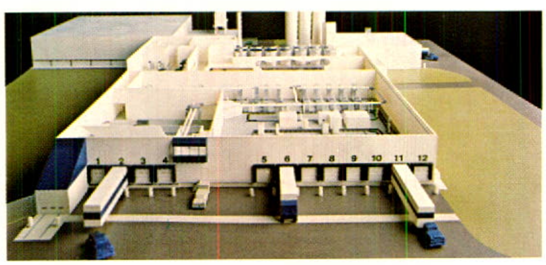
The 1981 results of this division continue to demonstrate that while neither sweet biscuits nor crackers are growth categories, opportunity continues to exist for efficient and aggressive participants in these markets.

Chocolate and Dairy

Chocolate, ice cream and frozen desserts, milk and yogurt contributed 20% of the Food Processing Group sales in 1981. During 1981 the Chocolate and Dairy operations were amalgamated into one division and the entire business is now operated by William Neilson.

In 1981, this division achieved sales of $212 million, an increase of 18% over 1980. With the amalgamation, William Neilson has become one of Canada's largest food companies, producing and marketing a quality range of chocolate confectionery, grocery, frozen and dairy products. Under the Neilson banner, brands such as Jersey Milk, Crispy Crunch and Malted Milk candy bars have long been household words and, more recently, Country Crisp has taken its place in

Paulin Chambers Winnipeg, 1920's



Model for New Dairy complex now under construction in Halton Hills, Ontario: a strong base for the future.

grocery stores as one of Canada's most popular granola bars.

Coincident with combining the confectionery, grocery, frozen and dairy operations, a decision was made to build a new fluid milk and cultured products plant in Halton Hills, Ontario, adjacent to the Group's national confectionery distribution centre. The new dairy complex will replace existing old and relatively inefficient facilities in Guelph and Toronto. Construction started in December of 1981 and it is expected that the new plant will be operating by mid-1983.

The outlook for the Chocolate and Dairy division is positive. The popular demand for chocolate remains high and Neilson dairy products enjoy a favourable consumer attitude toward the wholesomeness and nutritional values of milk.

Food Specialties
Dried fruits, dates, figs and raisins, peanuts, cashews, sugared berries and bakers' supplies are but a few of the thousands of products sold to the food industry by the five specialty importing and processing companies that combine with sugar refining to form this division. In 1981, Food Specialties sales, representing 20% of the Group's total, were $205 million, which approximated 1980's. The flat growth rate relates to the divestiture of Niagara Food Products and to a very difficult year for Westcane Sugar due to sharply lower sugar prices.

Outlook
As we enter our centennial year, we are encouraged by what has been achieved and by the opportunities that lie ahead. Food processing has proven a sound and rewarding business for Weston.

Most of the markets in which we participate are large and relatively static, and our future growth will depend partly upon our ability to improve our market share. We plan to achieve this through aggressive support of existing products, through the development of new products, by geographic expansion, and by acquisition. We believe that it is essential to our success that we be among the most cost efficient producers in the industries in which we compete, and we plan to continue to invest the capital funds necessary to achieve this goal.

Our strategy is to continue to pursue those industry segments in which we presently compete, while searching out new ones. Our priorities are growth and return on invested capital and to this end increased emphasis is being given to strategic planning and financial analysis.

Don McCarthy

Don McCarthy
President
Food Processing Group

Food Distribution

The operations of the Food Distribution Group are conducted through Loblaw Companies Limited and its subsidiaries. Loblaw Companies, a public company, is 78% owned by Weston. It is one of North America's leading food distributors in terms of sales, profit growth, marketing innovation and control systems.

Loblaw Companies is the largest wholesale and retail food distributor in Canada and has significant operations in the United States. It markets food and related products through retail food stores while its wholesale businesses distribute these products to franchise stores, corporate retail stores, independently owned stores, restaurants and the food service industry. Loblaw Companies operates approximately 548 corporate retail stores, of which 25 are over 40,000 square feet, and through 75 distribution centres serves an estimated 1,350 franchise stores from coast to coast.

The strong balance between retail and wholesale business activities has enabled Loblaw Companies to maintain a satisfactory and steady performance in spite of combined overall inflation and cost escalation.

Sales and operating income for fiscal 1981 were $5.8 billion and $113 million, respectively, a record in spite of the difficult economic climate. Capital employed in the Loblaw group at the end of fiscal 1981 represented 48% of Weston's capital employed, the return on which increased to 18.2%. Loblaw Companies employs approximately 36,000 people.

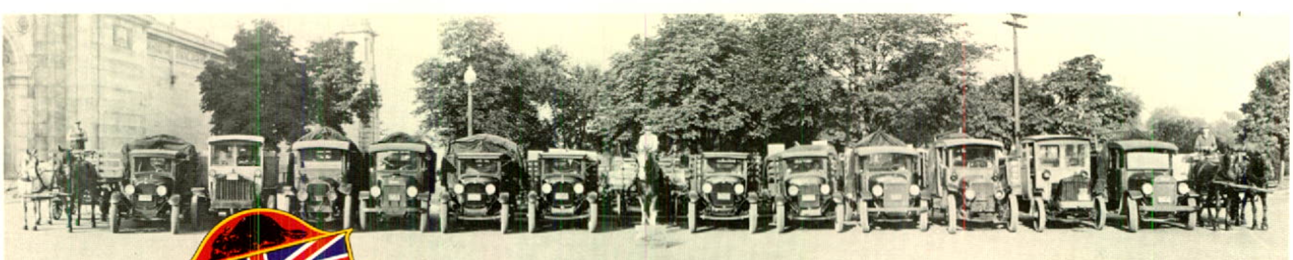
In 1981 capital spending included $76 million for the ongoing expansion and modernization of wholesale and retail facilities. The balance of approximately $12 million was applied to normal replacement and maintenance projects.

Loblaw Companies is engaged in business in three operations, Eastern Canada, Western and United States.

Eastern Canadian operations are organized into four divisions. National Grocers in Ontario and Atlantic Wholesalers in the Maritimes operate largely wholesale businesses with some retail activity. Loblaws Ontario operates retail businesses in most of Ontario and Zehrmart operates retail businesses in certain areas of southwestern and northcentral Ontario.

Loblaws Ontario operates approximately 138 retail supermarkets, including 11 superstores (in excess of 40,000 square feet) and 18 "no frills" stores. Its retail food sales are the second largest in both Ontario and Metropolitan Toronto. The successful performance of Loblaws Ontario can largely be attributed to its marketing strategy of combining high quality products with low prices, the

Kelly, Douglas logo 1916



National Grocers delivery fleet 1929, CNE Toronto

Early advertising logo for National Grocers

Weston's Food Distribution Group, conducted by Loblaw Companies Limited, is one of North America's leading food distributors and the largest wholesale and retail food distributor in Canada. Loblaw maintains a strong balance between retail and wholesale business activities enabling it to achieve steady and satisfactory results in a competitive environment.

Warehouse and company store 1903 Sackville, New Brunswick, the forerunner of Atlantic Wholesalers

National Tea 1933–window display

development of the largest Canadian line of generic products under the ''no name'' label, the introduction of ''no frills'' stores and the development of imaginative promotions and aggressive advertising programs.

Zehrmart operates 55 retail supermarkets under the Zehrs and Gordons names in southwestern and northcentral Ontario. The Zehrs and Gordons stores are regional chains which emphasize friendly service and traditional community identity.

In October 1981, a competitor of Loblaws Ontario and Zehrmart initiated an extensive price reduction program in central and southwestern Ontario which was subsequently extended to the Ottawa Valley. Due to Loblaw Companies' broad geographical base and wholesale/retail business mix, this competitive situation did not have a significant negative impact on overall operating results.

Western operations are conducted through Kelly, Douglas & Company, Limited a primarily wholesale business which is organized into three regional divisions: the British Columbia and the Yukon division operated from Vancouver; the Prairies division operated through Westfair Foods, in Winnipeg; and the United States division operated through Western Grocers Inc. from Denver which consists of a wholesale grocery distribution centre in

Modern food distribution outlet reflecting the innovation, efficiency and strength of our Group ensures its continued leadership.

Albuquerque and a wholesale grocery and general merchandise distribution centre and a cash and carry outlet in Denver. Kelly, Douglas is the second largest food distributor in western Canada.

The United States operations are organized into two divisions. The wholesale operations are carried out through Peter J. Schmitt Co., Inc., a Buffalo based wholesale food distributor which services over 320 supermarkets in western New York and northeastern Pennsylvania. National Tea, with corporate headquarters located in Chicago, operates 214 retail stores in eight states with operations located in Minneapolis, Indianapolis, St. Louis and New Orleans. During the past five years, over half of the National Tea stores have been modernized and their support facilities significantly upgraded.

Outlook

The industry continues to be challenged by intensive price and non-price competition as distributors attempt to preserve and increase their market shares.

With the low return on sales these characteristics can have a significant influence on individual markets. Nevertheless the broad geographic diversification of Loblaw Companies' operations together with its retail and wholesale interests, minimize the effect to the Group in any time period.

The past few years have been spent in bringing the existing business to a satisfactory level of operations and control and in developing a basis for future growth. With a business of such size and scope, stretching as it does from Whitehorse in the north to New Orleans in the south and from Prince Edward Island to Vancouver Island, growth in the future will continue to be in the further development of Loblaw Companies existing business base. Where expansion does take place, it will be into businesses that are already known—i.e., food distribution; and into marketing areas with which we are already familiar.

At the present time, food wholesaling is growing faster than food retailing on the North American scene, fostered by the availability of low cost real estate from declining retail chains. With Loblaw Companies strong wholesale operations, we are in a good position to take advantage of this situation.

The continued emphasis on productivity and efficiency in the food distribution industry and the strong dedication of our employees ensure continued leadership in this Group. A review of these operations appears in the Loblaw Companies Limited Annual Report.

Richard J. Currie

Richard J. Currie
President
Food Distribution Group

Resource

Weston's Resource Group is engaged in the harvesting and conservation, processing and marketing of Canada's principal renewable natural resources—fisheries and forest products. As an extension of Weston's involvement in bringing to market Canada's food resources, Fisheries and Forest Products have provided growth and diversification to Weston's activities for many years. The opportunities for further efficiency, stability and development of these industries in Canada provide a challenge and focus for Weston and a basis for future diversification.

Connors Bros. products known around the world

1981 was a challenging year for the Group. Although low commodity prices and the weak economy depressed sales dollars and put pressure on operating income, fish landings and forest product production levels were strong.

Sales and operating income in 1981 for the Resource Group were $816 million and $55 million, compared to $712 million and $48 million in 1980. Sales and operating income as a percentage of Weston's for 1981 were 11% and 24%, respectively. At the end of 1981 capital employed in the Group was 30% of Weston's capital employed and the return of 15.3% exceeded Weston target levels.

Currently, substantial investments are being made to modernize and expand the pulp, paper making and lumber operations of the E. B. Eddy Forest Products business while management is focusing on the rationalization and improvement of our fisheries' operations on both the east and west coasts.

The Resource Group operates on a decentralized basis through its long established Fisheries and Forest Products divisions and shares a measure of centralized planning and corporate services to direct the long-term investment in resources.

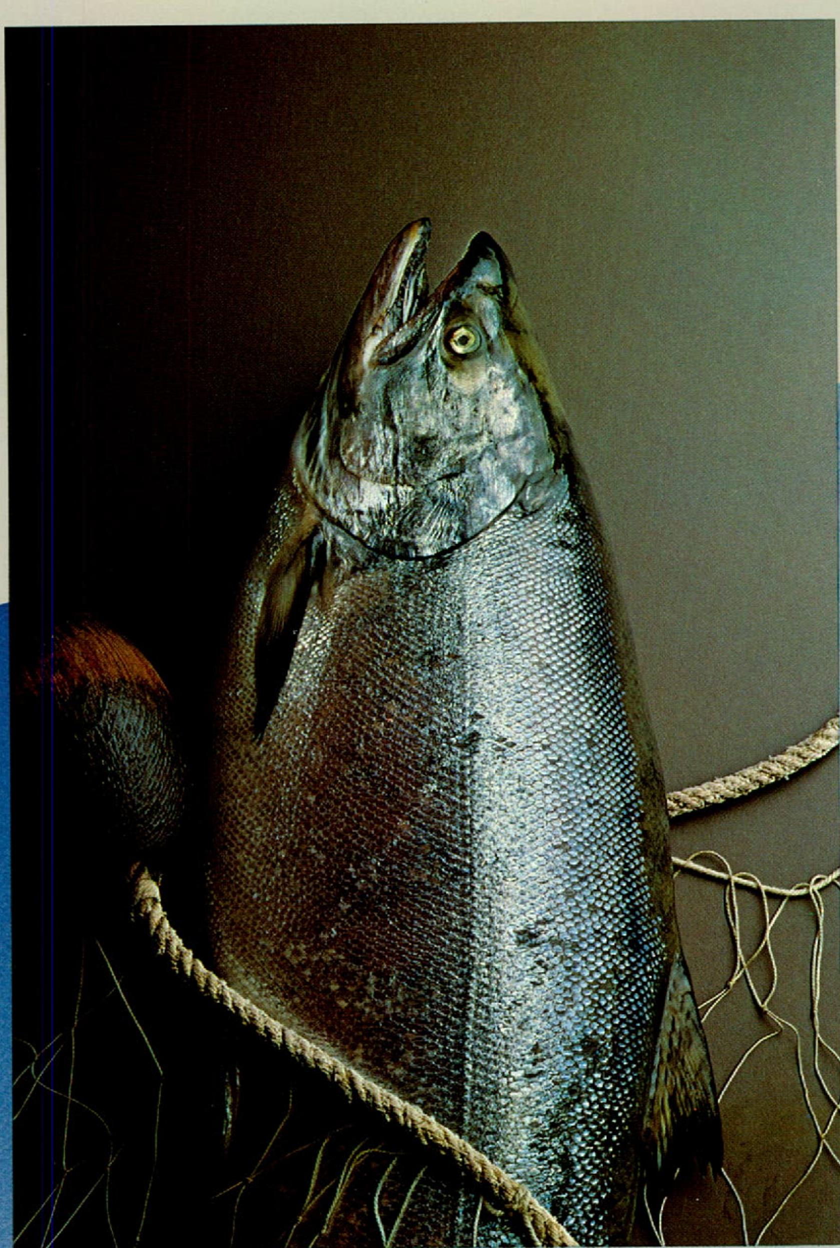
Fisheries

Fisheries operations consist of 85% owned British Columbia Packers Limited and 97% owned Connors Bros., Limited. B.C. Packers is engaged primarily in the salmon, herring and groundfish fisheries on the west coast of North America. Connors Bros. participates in the sardine, herring, shellfish and groundfish fisheries on the east coast of Canada. The division's markets are principally Canada, the United States, Japan and Europe with export markets representing approximately one half of sales.

Fisheries sales and operating income were $395 million and $22 million, for 1981, an increase from $327 million and $6 million in 1980, reflecting the large salmon landings in Alaska and B.C. but were impacted by adverse currency values in export markets. Capital spending

B.C. Packers label

E.B. Eddy square timber lumber raft late 1800's



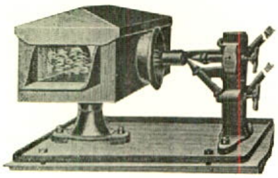
The Fisheries Division of Weston's Resource Group operates on both the east and west coasts of North America. Emphasis has been placed on specialization and improved efficiency through selective capital investments. Currently the Division is undergoing a transition which will result in increased efficiencies enabling further growth and development in this important Canadian industry.

Early Eddy packaging

amounted to $12 million in 1981, reflecting a return to more normal capital investment levels.

B.C. Packers has major processing, packing and freezing plants in Richmond and Prince Rupert, British Columbia, Naknek, Alaska and Santa Fe Springs, California. Production includes canned, fresh and frozen salmon, halibut, groundfish and shellfish, roe herring, food herring, fishmeals and oils and numerous related processed and semi-processed products. B.C. Packers also markets imported items including shrimps, oysters, clams and canned tuna, including product from its associated Philippine tuna canning company Mar Fishing Company Inc. B.C. Packers sales increased by 24% to $301 million in 1981.

The Company's strategy is to concentrate its resources in the fishing industry in the acquiring, processing and marketing areas, and to limit efforts devoted to primary fishing and related fishermen's servicing functions. As part of this plan, certain acquiring and processing facilities were purchased in 1980 and are now being consolidated and older plants closed. Early in 1982, an agreement was resolved for the sale of the northern gillnet fleet of B.C. Packers to a consortium of three native brotherhoods, as well as to a number of independent fishermen.



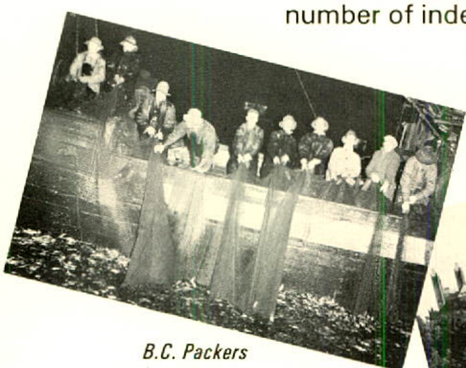
Sardine cans sealed by hand; early 1900's, Clark Kerosene stove used to heat sealing irons

Connors Bros. commenced operations in 1893 and is now the largest processor of sardines in North America. Connors' operations include the processing of sardines, herring and herring fillets, groundfish in fresh, frozen, salted and canned forms including snack foods, as well as industrial fishmeal and oils. It generated sales of $94 million in 1981, an 11% increase from $85 million in 1980.

The modern can and cover plant enables Connors' principal cannery at Black's Harbour, New Bunswick to produce its total annual requirements of approximately 125 million cans and covers while cold storage facilities permit increased efficiencies by smoothing the processing of seasonal catches. Connors also operates several other canning, processing and freezing plants in New Brunswick, Nova Scotia and Newfoundland. Early in 1982, Connors commenced operations in a new facility in Scotland, as an important supplier of high quality fish products to the UK and EEC retail markets.

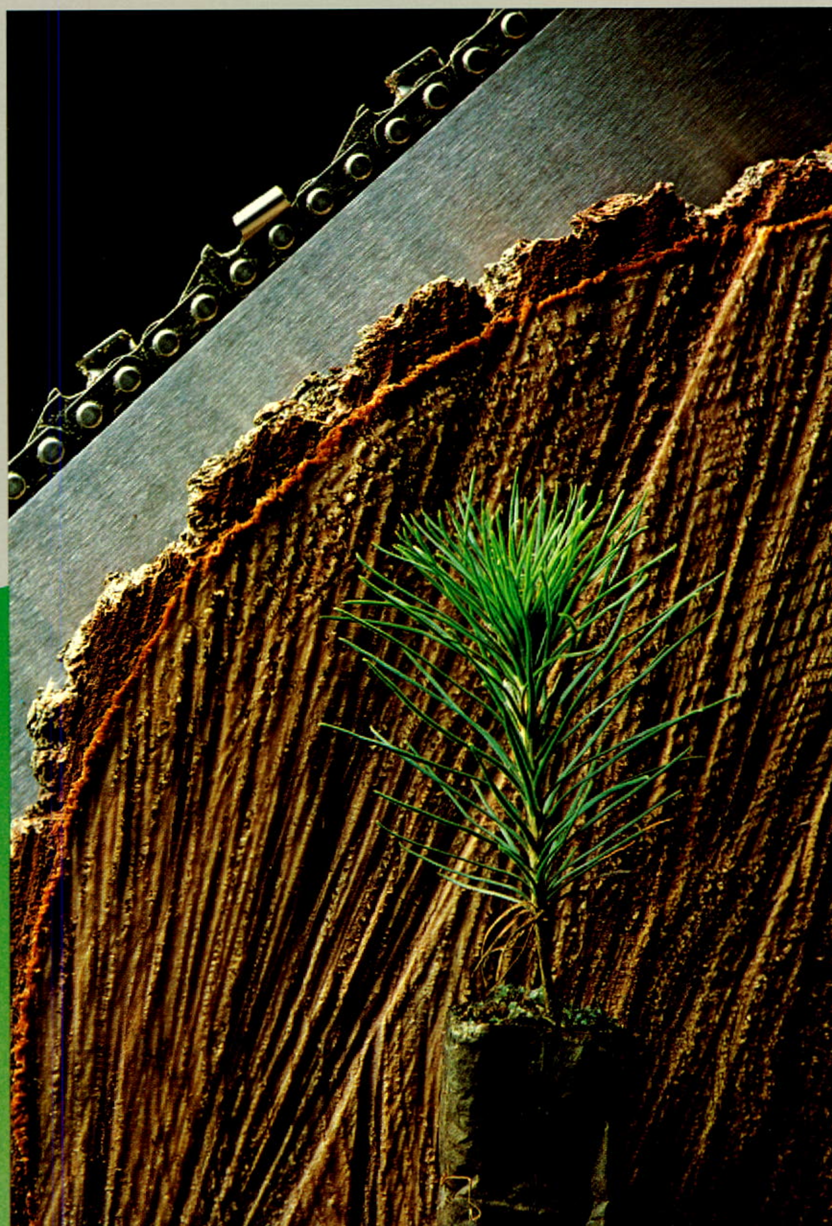
Forest Products

The Forest Products division, operated by E.B. Eddy Forest Products Ltd. and based in Ottawa-Hull, harvests large tracts of woodlands in northern Ontario and Quebec and manufactures pulp, lumber, fine paper and consumer and other specialty



B.C. Packers herring fishing

Early logging operations, Ottawa-Hull



Weston's Forest Products Division is transforming itself by considerable capital re-investment into a more substantial business, while strengthening its base for future growth. The Division's high degree of integration from timber to paper combined with a broad line of specialized products provides a stable base of operations.

British Columbia Packers Limited

Early British Columbia Packers logo

White Swan Tissue "a roll that looks superior is superior" 1926

papers at several locations for distribution mainly in Canada and the United States.

Sales and operating income for the division were $421 million and $33 million, respectively for 1981. While these results reflect inflationary costs for labour and energy along with low commodity prices, particularly low lumber prices resulting from slow residential building, they also reflect the strength of Eddy's diversity and position in specialized markets.

Eddy's facilities include a kraft pulp and paper mill at Espanola, Ontario, paper making and paper converting operations at Ottawa-Hull and a specialty paper mill at Brewer, Maine, as well as sawmills at Nairn Centre and Timmins in Ontario, and Davidson, Quebec.

The largest increase in capital spending for 1981 by Weston was in the Forest Products division primarily due to the Espanola pulp mill and Nairn Centre sawmill expansion program. In 1981, spending under this program totalled $67 million. The total capital expenditure program is expected to be completed by the end of 1983 at an estimated cost of $250 million.

This program to modernize and expand its pulp, paper and sawmill operations will increase Eddy's annual production capacity for pulp from 246,000 to 318,000 short tons making Eddy a net seller of approximately 10% of its pulp output. Unit production costs in the pulp mill will be reduced, product quality upgraded and production facilities improved to meet current environmental standards. Construction is scheduled to allow project completion without interruption of production.

Eddy has become an increasingly sophisticated operation with excellent capabilities for the development and expansion of related business activities. In 1981, the first commercial sale of a highly advanced air-cushion materials-handling system, developed and first employed by Eddy, was made by its Sailrail subsidiary. The outlook is for further developments in this new venture in 1982.

Outlook

Both the Fisheries and Forest Products operations of Weston are currently undergoing substantial transition within their respective industries.

The fishing industry in Canada will see much change in the next two years as operations are rationalized. New and expanded facilities in British Columbia, the United States, Scotland and the Philippines mark Weston's Fisheries division for growth and increased efficiency in this important Canadian industry.

Our Forest Products'operations are transforming themselves by internal reinvestment over the next two years into a

Early B.C. Packers label

much more substantial business. In 1983 the pulp, paper and sawmill expansion program will provide a larger and more profitable base for further growth. We believe that the future of this industry, based on Canada's high quality northern softwood resource is secure and very favourable.

The Resource Group is also engaged in energy conservation and alternate energy experimental projects. A joint venture has recently been established with the Ontario Energy Corporation to evaluate the commercial feasibility of the conversion of wood residues into fuel grade ethanol using a unique bacterial fermentation technology which has been developed at the Weston Research Centre.

Weston's involvement in the resource sector is undergoing a transition. Our horizons in this field are as broad as Canada's. We believe that growing with Canada will continue to involve us in an increasing range of opportunities in the resource sector, utilizing more fully financial, market and management capabilities to provide improved profitability for Weston.

Planning for the future: reforestation of woodlands, Canada's main renewable resource.

Resource regeneration ensures a promising future: fertilization of British Columbia fisheries has doubled salmon runs.

Mark Hoffman

Mark Hoffman
President
Resource Group

Summary of ***Results***

This section of our report presents in summary form the highlights of our 1981 operating results and financial position.

Sales
Sales, after eliminating inter-segment sales, were $7.4 billion in 1981 compared to $6.8 billion in 1980, a 10% increase over 1980.

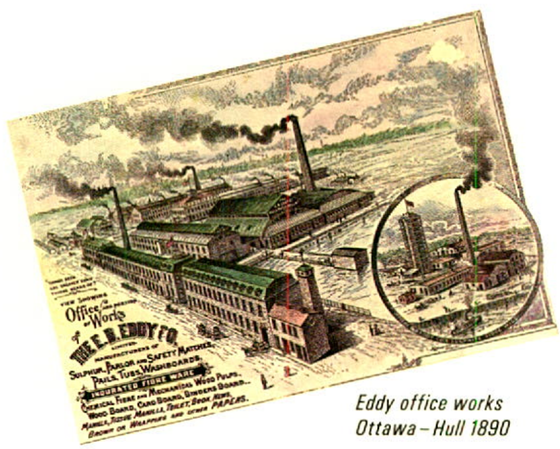
Operating income
1981 operating income increased by 17% to $230 million, a solid improvement over the $196 million recorded in 1980. Operating income continued to improve as a result of increased efficiencies put in place in recent years and the high level of plant utilization throughout the groups. Exceptional performance in the biscuit and confectionery division accounted for most of the improvement in the Food Processing Group. Overall the Resource Group's operating income was ahead of 1980 with advances in Fisheries, reduced by a decline in Forest Products. The lumber sector was particularly affected by low housing starts throughout North America. The Food Distribution Group, despite operating in an intensely competitive marketplace and with substantial pressures on margins, continued to record earnings improvements.

Capital employed
Capital employed (total assets less non-interest bearing current liabilities) increased by 7% to $1,313 million for the Company, compared to $1,226 million last year. At the end of 1981, capital employed by the Food Processing Group, approximating last year's, was $283 million or 22% of the total capital employed; the Resource Group increased by 19% to $394 million or 30% of the total, and the Food Distribution Group increased 4% to $636 million or 48% of the total.

Return on capital employed
The ratio of operating income to average capital employed provides an important measure of performance and efficiency in the utilization of capital. The consolidated return of 18.1% improved over 1980's return of 17.4%. Food Processing's return advanced to 21.5% from 20.1%, while Food Distribution improved to 18.2% from 17.3%. Our Resource Group return was 15.3% compared to 15.5% in 1980.

Earnings
Earnings before extraordinary items increased 12% to $79.2 million in 1981 from $70.5 million in 1980. This represented $5.62 per common share compared to $5.11 in 1980. Extraordinary items in 1981 of $16.1 million consisted of a gain on the sale of an investment of

Logo from 1941 Kew-Bee bread wrapper



Eddy office works Ottawa – Hull 1890

$2.5 million, a gain on issue of a subsidiary's share capital of $6.2 million and tax reductions realized on the application of prior years' losses of $7.4 million. Net earnings for 1981 were $95.3 million ($7.06 per common share).

Dividends

In 1981 dividends of $16.2 million were declared on the common shares, up from $15.2 million in 1980. The quarterly dividend rate was increased in the fourth quarter to an annualized total of $1.56 per share. Preferred dividends increased from $13.5 million to $15.5 million as a result of the increase in prime-related rates during the year.

Cash flow from operations

The positive trend in cash flow from operations continued in 1981, increasing to $215 million from $174 million in 1980. On a per share basis cash flow from operations was $19.11 compared to $15.60 in 1980.

Capital expenditures

Additions to fixed assets that are owned by the Company totalled $206 million in 1981 compared to $180 million last year. Group expenditures in 1981 were as follows: Food Processing $41 million, Resource $77 million and Food Distribution $88 million. These amounts include a number of expenditures related to major expansion and improvement projects in addition to the normal general replacement and refurbishment programs.

Working capital

Working capital at the end of 1981 of $274 million was $9 million higher than last year.

Major sources of working capital during the year were cash flow from operations of $215 million, new long-term debt of $49 million, proceeds from the issue of a subsidiary's share capital amounting to $28 million as well as proceeds from the sale of fixed assets of $23 million.

Working capital was used to purchase fixed assets of $206 million, reduce long-term debt by $40 million and pay dividends to our shareholders of $32 million.

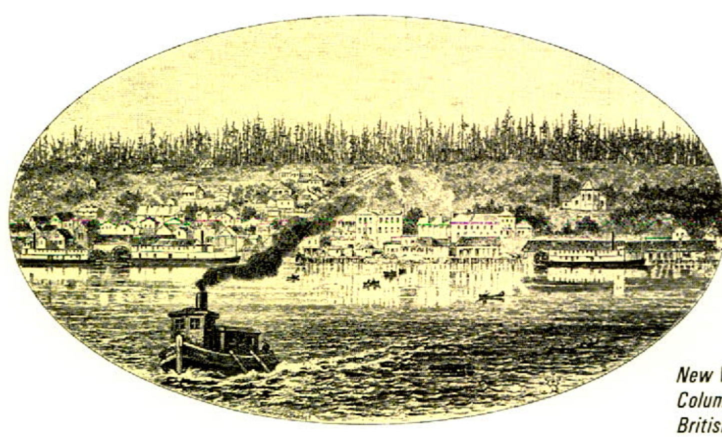
Debt and shareholders' equity

The ratio of total debt to total shareholders' equity was 0.60:1 in 1981 as compared with 0.72:1 in 1980. The ratio of long-term debt to total shareholders' equity also decreased to 0.45:1 in 1981 compared to 0.47:1 in 1980.

Return on common shareholders' equity

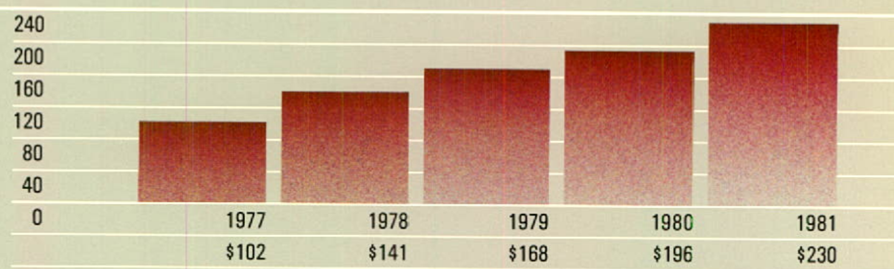
The return on common shareholders' equity was 16.2% in 1981. This compares with a return of 17.3% in 1980.

National Grocers label

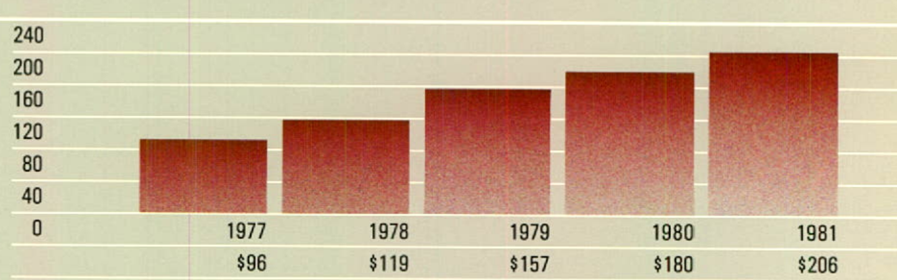


New Westminster, British Columbia in the 1870's; British Columbia fishing fleet

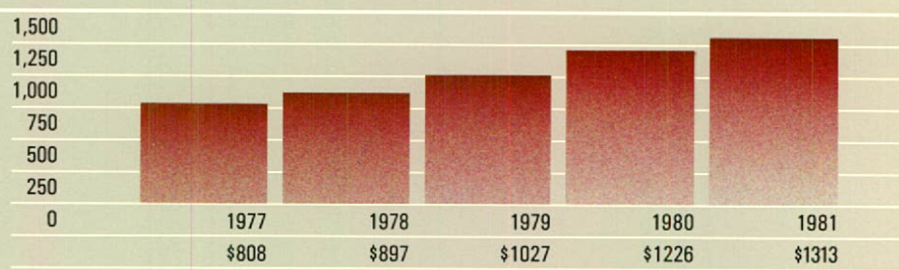
Operating income
In millions of dollars



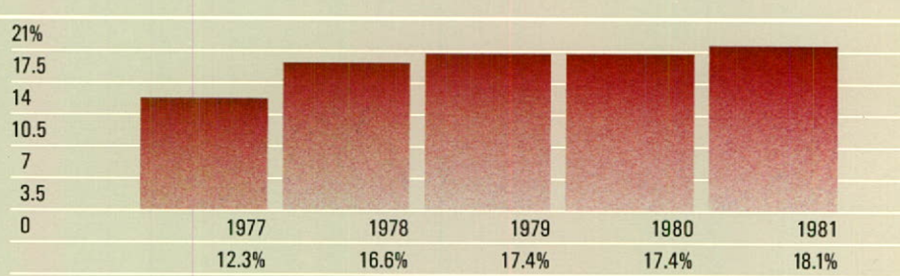
Capital expenditures
In millions of dollars



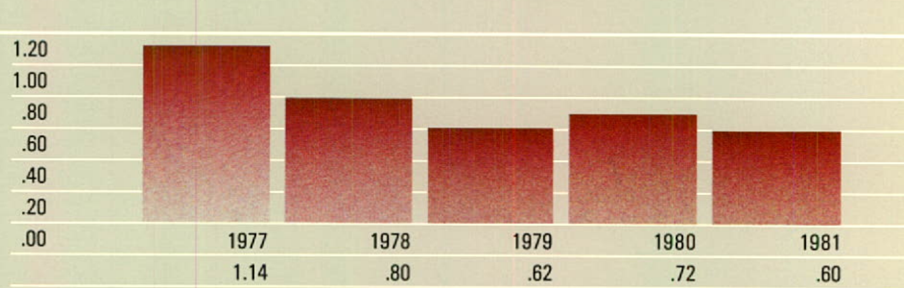
Capital employed
In millions of dollars



Return on average capital employed
Percentage



Debt/equity ratio



Five year **Summary**

	In millions of dollars	1981	1980	1979	1978	1977
Sales and earnings	Sales	**7,429**	6,777	5,867	5,238	4,590
	Operating income	**230**	196	168	141	102
	Interest expense	**67**	57	39	32	37
	Earnings before extraordinary items	**79**	71	66	51	27
	Net earnings	**95**	84	76	57	32
Financial position	Current assets	**952**	932	827	732	657
	Current liabilities	**678**	667	603	530	490
	Working capital	**274**	265	224	202	167
	Fixed assets	**758**	659	560	480	438
	Property under capital leases	**95**	88	45	—	—
	Long-term debt	**266**	249	174	174	196
	Shareholders' equity	**591**	526	471	391	297
	Total equity including minority interest	**745**	647	583	495	393
	Total assets	**1,898**	1,758	1,507	1,282	1,146
Cash flow	Cash flow from operations	**215**	174	168	135	95
	Purchase of owned fixed assets	**206**	180	157	119	96
	Acquisition of property under capital leases	**17**	49	42	—	—
	Dividends—common and preferred	**32**	29	21	14	8
Per common share *In dollars*	Earnings before extraordinary items	**5.62**	5.11	5.06	4.06	2.36
	Net earnings	**7.06**	6.28	6.01	4.66	2.77
	Dividends	**1.44**	1.36	1.04	.72	.60
	Cash flow from operations	**19.11**	15.60	15.21	12.25	8.66
	Book value	**37.54**	31.94	27.11	22.23	18.27
	Market value—high	**38.38**	31.25	28.00	23.38	14.75
	—low	**30.25**	22.00	21.00	13.13	11.50

Consolidated **Statement of Earnings**

Year ended December 31, 1981

	In thousands of dollars	1981	1980
Sales and other income	Sales	**$7,428,609**	$6,776,728
	Investment income	**14,241**	7,969
		7,442,850	6,784,697
Operating expenses	Cost of sales, selling and administrative expenses before the following items	**7,055,669**	6,438,964
	Net long-term lease expense	**61,650**	64,467
	Depreciation of owned fixed assets	**86,396**	79,013
	Depreciation of property under capital leases	**9,264**	6,080
		7,212,979	6,588,524
Operating income		**229,871**	196,173
	Interest on long-term debt	**31,480**	26,373
	Interest on obligations under capital leases	**11,816**	7,941
	Other interest expense	**23,774**	22,712
		67,070	57,026
	Earnings before income taxes	**162,801**	139,147
	Income taxes (note 3)	**69,945**	59,461
	Earnings before minority interest	**92,856**	79,686
	Minority interest	**13,684**	9,213
Earnings before extraordinary items		**79,172**	70,473
	Extraordinary items (note 4)	**16,133**	13,089
Net earnings for the year		**$ 95,305**	$ 83,562
Per common share	Earnings before extraordinary items	**$ 5.62**	$ 5.11
	Extraordinary items	**$ 1.44**	$ 1.17
	Net earnings for the year	**$ 7.06**	$ 6.28

Consolidated **Statement of Retained Earnings**

Year ended December 31, 1981

	In thousands of dollars	1981	1980
Retained earnings at beginning of year (note 2)		**$333,744**	$278,882
	Net earnings for the year	**95,305**	83,562
		429,049	362,444
Dividends	Preferred shares	**15,534**	13,495
	Common shares	**16,167**	15,205
		31,701	28,700
Retained earnings at end of year		**$397,348**	$333,744

Consolidated Statement of Changes in Financial Position

Year ended December 31, 1981

	In thousands of dollars	**1981**	1980
Sources of working capital	*Operations*		
	Earnings before minority interest	**$ 92,856**	$ 79,686
	Depreciation	**95,660**	85,093
	Income taxes not requiring cash	**31,544**	17,532
	Gain on sale of fixed assets	**(3,526)**	(6,077)
	Other	**(1,976)**	(1,858)
	Cash flow from operations	**214,558**	174,376
	Financing		
	Increase in long-term debt	**48,964**	141,742
	Incurrence of obligations under capital leases	**16,548**	50,490
	Proceeds from issue of share capital	**2,197**	1,627
	Proceeds from issue of subsidiary's share capital	**27,770**	1,900
		95,479	195,759
	Other items		
	Proceeds from sale of investments	**3,993**	8,000
	Proceeds from sale of fixed assets	**23,303**	37,356
		27,296	45,356
	Total sources of working capital	**337,333**	415,491
Uses of working capital	*Reinvestment*		
	Purchase of owned fixed assets	**205,742**	179,696
	Acquisition of property under capital leases	**17,120**	49,219
	Acquisition of subsidiary company (net of its working capital)		28,926
	Net increase in investments and sundry items	**27,441**	9,099
		250,303	266,940
	Financing		
	Reduction in long-term debt and obligations under capital leases	**39,867**	73,987
	Purchase of minority interest	**1,938**	1,323
		41,805	75,310
	Dividends		
	To shareholders	**31,701**	28,700
	To minority shareholders in subsidiary companies	**4,238**	3,494
		35,939	32,194
	Total uses of working capital	**328,047**	374,444
Increase in working capital		**9,286**	41,047
	Working capital at beginning of year	**265,020**	223,973
Working capital at end of year		**$274,306**	$265,020

Consolidated **Balance Sheet**

As at December 31, 1981

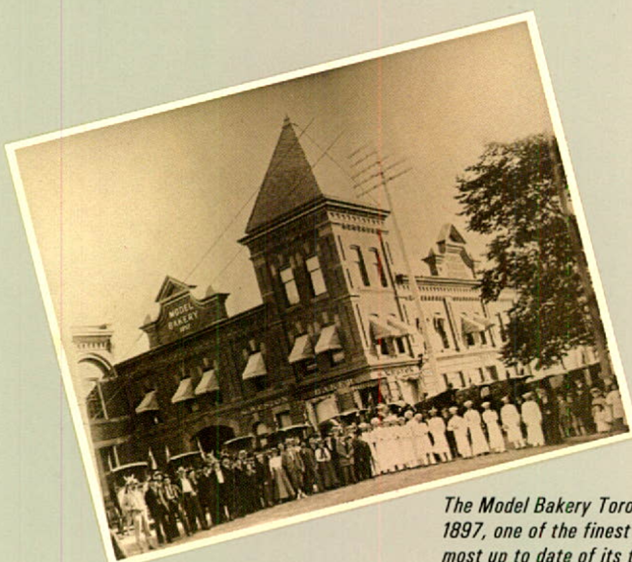
Assets	*In thousands of dollars*	**1981**	1980
Current assets	Cash and short-term investments	**$ 24,920**	$ 11,726
	Accounts receivable (note 5)	**257,513**	234,411
	Properties held for sale, at the lower of cost and net realizable value	**22,260**	18,702
	Inventories (note 6)	**623,518**	641,710
	Prepaid expenses	**24,269**	24,947
		952,480	931,496
Investments (note 7)		**77,559**	64,019
Fixed assets	Land	**54,944**	54,337
	Buildings	**238,510**	202,113
	Equipment and fixtures	**924,058**	789,113
	Leasehold improvements	**140,999**	141,333
		1,358,511	1,186,896
	Accumulated depreciation	**600,065**	528,371
		758,446	658,525
	Property under capital leases, less accumulated depreciation (note 11)	**95,157**	87,725
		853,603	746,250
Goodwill		**12,222**	13,484
Deferred charges		**2,226**	2,240
		$1,898,090	$1,757,489

Approved by the Board

W. Galen Weston

W. Galen Weston, Director

Robert H. Kidd, Director



The Model Bakery Toronto 1897, one of the finest and most up to date of its time

George Weston Limited

Incorporated under the laws of Canada

Liabilities	*In thousands of dollars*	**1981**	1980
Current liabilities	Bank advances and notes payable	**$ 68,988**	$ 120,139
	Accounts payable and accrued liabilities	**540,737**	481,294
	Taxes payable	**39,575**	46,425
	Dividends payable	**4,385**	3,920
	Long-term debt payable within one year	**17,739**	9,941
	Current portion of obligations under capital leases	**6,750**	4,757
		678,174	666,476
Long-term debt (note 9)		**265,557**	248,793
Obligations under capital leases (note 11)		**97,758**	88,877
Other liabilities (note 8)		**14,212**	18,703
Deferred income taxes		**82,400**	70,636
Deferred real estate income		**15,152**	16,782
Minority interest in subsidiaries		**153,799**	120,983

Shareholders' equity			
Share capital (note 10)		**193,690**	192,495
Retained earnings		**397,348**	333,744
		591,038	526,239
		$1,898,090	$1,757,489

Auditors' report

To the Shareholders of George Weston Limited

We have examined the consolidated balance sheet of George Weston Limited as at December 31, 1981 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Thorne Riddell

Chartered Accountants
Toronto, Canada
March 15, 1982

Notes to **Consolidated Financial Statements**

December 31, 1981

1. Summary of significant accounting policies

These consolidated financial statements, which follow accounting principles generally accepted in Canada, have been prepared by management and approved by the Board of Directors. The principles used in their preparation are those judged by management to be appropriate in the circumstances. Management acknowledges responsibility for the fairness, integrity and objectivity of these statements.

Basis of consolidation
The consolidated financial statements include the accounts of the Company and all subsidiaries. The effective interest of George Weston Limited in the equity share capital of principal subsidiaries which are not substantially 100% owned by the George Weston Group is as follows at December 31, 1981:

British Columbia Packers Limited	85%
Loblaw Companies Limited	78%
Kelly, Douglas & Company, Limited	67%
National Tea Co.	66%

On January 27, 1982 a subsidiary company acquired, by merger, the minority interest in the common shares of National Tea Co. for U.S. $13,400,000 and as a result National Tea Co. has become a wholly-owned subsidiary of Loblaw Companies Limited.

Amortization of goodwill arising on consolidation of subsidiaries
The Company follows the policy of amortizing, over periods not exceeding twenty years, the net difference between cost of the investments in subsidiaries and the estimated fair value of their net assets at the dates of acquisition.

Total amortization for 1981 is $790,000 (1980—$750,000) and is included in "Cost of sales, selling and administrative expenses".

Inventories
Retail store inventories are stated at the lower of cost and net realizable value less normal profit margin. Other inventories are stated principally at the lower of cost and net realizable value.

Leases
Leases entered into after December 31, 1978 which transfer substantially all of the benefits and risks incident to ownership of property are recorded as the acquisition of an asset and the incurrence of an obligation. The asset is amortized on a straight-line basis and the obligation, including interest thereon, is liquidated over the life of the lease. Rents on non-capital leases and on all leases entered into before January 1, 1979 are expensed as incurred.

A retroactive application of this policy would reduce net earnings for 1981 by $489,000 or 4¢ per share (1980—$589,000 or 5¢ per share), and assets and obligations would increase by $128,554,000 (1980—$147,959,000) and $172,671,000 (1980—$192,719,000) respectively.

1. Summary of significant accounting policies (continued)

Translation of foreign currencies
All foreign currency balances have been translated at a rate approximating the current rate at each year-end. The net deferrals on the translation of the Company's equity in U.S. subsidiaries and long-term debt payable in foreign funds are included in "Fixed assets" on the balance sheet as a decrease in 1981 of $4,858,000 (1980—$8,375,000). The net deferrals at the end of each year, less amounts realized, are amortized to earnings on a straight-line basis over varying periods not exceeding ten years.

Fixed assets
Fixed assets are stated at cost including interest cost associated with construction. Depreciation is recorded principally on a straight-line basis to amortize the cost of these assets over their estimated useful lives. The depreciation rates are substantially as follows:

Buildings	2½ to 5%
Automotive equipment	15 to 25%
Fishing vessels	6⅔ to 7½%
Equipment and fixtures	5 to 20%
Leasehold improvements	Lesser of useful life and term of lease

When fixed assets are sold or scrapped, the cost of the asset and the related accumulated depreciation are removed from the accounts and the resulting gain or loss on disposal is included in income.

Deferred real estate income
The profits realized on the sale and leaseback of property have been deferred and are being amortized over various periods, mainly twenty-five years, according to the terms of the related leases.

2. Change in accounting policy

Effective January 1, 1981 all divisions of the Company accrue for the cost of vacations when earned by employees. Previously, in some divisions, these costs were charged to expense when paid. As a result of conforming this accounting policy on a retroactive basis, consolidated retained earnings has been restated. Since the amount applicable to 1980 is not material to that year, the entire adjustment of $7,781,000, after minority interest, has been made to consolidated retained earnings at the beginning of the year. Consolidated working capital has been adjusted by $8,515,000 for the effect of this change.

3. Income taxes

The Company provides for income taxes based on financial statement earnings. This provision differs from income taxes currently payable because certain items of income and expense are reported in the statement of earnings in years different from those in which they are reported on income tax returns. The tax effect of these differences in timing is referred to in the balance sheet as "Deferred income taxes". Income tax expense includes deferred taxes of $23,696,000 (1980—$5,274,000).

At December 31, 1981, however, certain subsidiaries have accounting losses from prior years aggregating $43,400,000 available to be carried forward by those subsidiaries, for which potential income tax benefits have not been recorded in the accounts. Included are losses carried forward of $31,770,000 which are available to reduce future taxable income, expiring substantially from 1991 to 1996. Also included are expenses which have been recorded in the accounts but have not yet been claimed for tax purposes amounting to $11,630,000. The Company's effective interest in the accounting losses is $30,580,000.

4. Extraordinary items

In thousands of dollars	**1981**	1980
Income tax reductions realized on application of prior years' losses	**$ 7,436**	$10,548
Gain on issue of subsidiary's share capital	**6,187**	
Gain on sale of investments (less income taxes of $1,007,000 in 1981 and $1,269,000 in 1980)	**2,510**	2,541
	$16,133	$13,089

5. Accounts receivable

In thousands of dollars	**1981**	1980
Trade	**$203,555**	$186,101
Other	**53,958**	48,310
	$257,513	$234,411

Kelly, Douglas Baseball Club 1911. Mr. Douglas is in the back row, centre

6. Inventories, by group

In thousands of dollars			1981	1980
	Raw materials and supplies	Finished goods	**Total**	Total
Food Processing	$48,416	$ 48,203	**$ 96,619**	$122,518
Food Distribution	3,517	363,550	**367,067**	355,504
Resource				
Fisheries	14,240	89,165	**103,405**	105,314
Forest Products	31,740	24,687	**56,427**	58,374
	$97,913	$525,605	**$623,518**	$641,710

7. Investments

In thousands of dollars	1981	1980
Properties held for development or sale, at cost	**$33,227**	$26,384
Secured loans and advances	**18,823**	15,459
Non-current receivables	**6,835**	8,386
Sundry investments	**18,674**	13,790
	$77,559	$64,019

Secured loans and advances include $3,507,000 (1980–$2,312,000) owing by directors and officers of the Company and its subsidiaries arising out of the purchase of preferred shares of the Company through a trustee as part of the Company's incentive plan. These advances are secured by the shares purchased.

8. Other liabilities

In thousands of dollars	1981	1980
Deferred employee compensation	**$ 8,780**	$ 8,776
Provision for future net obligations on closed operations	**2,814**	7,038
Provision for self-insured claims	**2,618**	2,889
	$14,212	$18,703

Neilson promotional poster

9. Long-term debt	In thousands of dollars	1981	1980
George Weston Limited	Sinking Fund Debentures		
	5¼% Series C maturing 1982	**$ 4,108**	$ 4,386
	5½% Series D maturing 1983	**4,224**	5,047
	6¾% Series E maturing 1986	**2,311**	3,330
	6¾% Series F maturing 1987	**13,394**	15,252
	12.75% Series 1 maturing 2000	**25,000**	25,000
	13½% Notes maturing 1987 (U.S. $27,000,000)	**31,764**	35,294
	Term loans at the London Interbank offered rate plus ⅝% until 1985 and plus ¾% to 1990 maturing 1990 (U.S. $10,000,000)	**11,765**	11,765
	Term loans at a weighted average interest rate of 8.40% maturing 1986 to 1990 (Swiss Francs 37,000,000)	**24,050**	
British Columbia Packers Limited	Term loan at 11⅜% to June, 1982 and at bank's prime rate thereafter maturing 1988	**15,000**	15,000
	Term loan at bank's prime rate maturing 1990	**15,000**	15,000

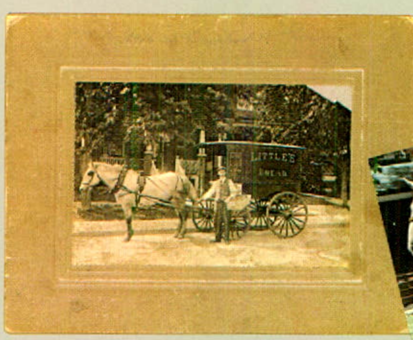
Paulin Chambers staff 1885–Winnipeg

9. Long-term debt (continued)		1981	1980
Loblaw Companies Limited	Term loan at lower of London Interbank offered rate plus ¾% or 107½% of U.S. bank's prime rate maturing 1984 (U.S. $11,625,000)	**$ 13,676**	$ 14,559
	Term loan at 12½% maturing 1985 (U.S. $12,000,000)	**14,117**	14,117
Loblaws Limited	Sinking Fund Debentures		
	5¾% Series F		2,400
	6⅜% Series G maturing 1991	**3,258**	3,938
	6¾% Series H maturing 1991	**3,748**	4,278
Kelly, Douglas & Company, Limited	Sinking Fund Debentures 8⅜% 1973 Series maturing 1993	**10,205**	10,335
National Tea Co.	Term loan at 117% of the average 7 year U.S. Treasury note rate maturing 1991 (U.S. $15,000,000)	**17,647**	17,647
	Term loan at the London Interbank offered rate plus ¾% or at U.S. bank's prime rate plus ½%, declining to prime rate in 1985 maturing 1988 (U.S. $10,000,000)	**11,765**	17,647
Westcane Sugar Limited	9⅜% First Mortgage Sinking Fund Bonds maturing 1993	**6,900**	7,617
Other long-term debt	(individually not exceeding $7,500,000)	**55,364**	36,122
		283,296	258,734
	Less payable within one year	**17,739**	9,941
	Long-term debt	**$265,557**	$248,793

Principal payable in the next five years is as follows:
1982–$17,739,000; 1983–$31,208,000; 1984–$18,539,000; 1985–$25,931,000; 1986–$19,805,000.

10. Share capital

In thousands of dollars (Amount)	Number of shares issued 1981	1980	Amount 1981	1980
Senior preferred shares				
First series	**75,990**	80,290	**$ 7,599**	$ 8,029
Second series	**69,939**	72,809	**6,994**	7,281
	145,929	153,099		
Preferred shares				
Series X	**750,000**	750,000	**75,000**	75,000
Series Y	**500,000**	500,000	**50,000**	50,000
Series Z	**250,000**	250,000	**25,000**	25,000
	1,500,000	1,500,000		
Junior preferred shares				
Series A	**21,918**	24,668	**2,192**	2,467
Series B	**1,000**	1,000	**100**	100
Series C	**5,400**	5,500	**540**	550
Series D	**14,800**		**1,480**	
	43,118	31,168		
			168,905	168,427
Common shares	**11,246,278**	11,202,221	**24,785**	24,068
			$193,690	$192,495



Dick Hagger, 1919, Little's Bread became part of Weston in 1920

Dick Hagger, 1940, a long time Weston employee near the Dupont Street bakery

10. Share capital (continued)

Share description:

Senior preferred shares
(authorized 213,449)
First series—$4.50 cumulative dividend redeemable at $104.
Second series—$6.00 cumulative dividend redeemable at $105.

Preferred shares–cumulative dividend
Series X—redeemable and retractable on December 1, 1987 at $100, annual dividend rate is one half average bank prime rate plus 1¼%.
Series Y—redeemable and retractable on December 1, 1990 at $100, annual dividend rate is one half average bank prime rate plus ½% to November 30, 1981, ¾% thereafter to November 30, 1985 and ⅞% thereafter.
Series Z—redeemable and retractable on December 1, 1991 at $100, annual dividend rate is one half average bank prime rate plus 1¼%.

Junior preferred shares
Series A—$8.00 cumulative dividend, redeemable after March 16, 1988 at $100, convertible into the number of common shares obtained by dividing the number of preferred shares converted by .16125.
Series B—$6.00 cumulative dividend, redeemable at $100, convertible into 5 common shares for each preferred share and $3.75.
Series C—$9.00 cumulative dividend, redeemable after June 6, 1990 at $100, convertible into the number of common shares obtained by dividing the number of preferred shares converted by .24.
Series D—$10.00 cumulative dividend, redeemable after October 2, 1991 at $100, convertible into the number of common shares obtained by dividing the number of preferred shares converted by .3225, issued during the year for cash of $1,480,000.

During the year 7,170 senior preferred shares (1980—5,825) were purchased for cancellation at a cost of $367,000 (1980—$332,000).

The preferred shares Series X, Y and Z are retractable at $100 each earlier than 1987, 1990 and 1991 respectively, only in the event of adverse change in the tax status of the dividends received. In the event of early retraction of Series X and Y shares, the holder will loan the Company funds sufficient to complete the retraction.

In 1981 the Company issued 17,470 (1980–43,409) common shares for $285,000 (1980–$700,000) on conversion of junior preferred shares and issued 26,587 (1980–22,898) common shares for cash of $432,000 (1980–$376,000) on exercise of employee stock options. After giving effect to the foregoing the Company has reserved 209,320 common shares for potential conversion of the preferred shares. As at December 31, 1981, 118,641 common shares have been set aside for issue under terms of an employee stock option plan. The following options which have been granted at the market price on the date of the grant are outstanding at December 31, 1981.

Number of employees	Number of common shares	Exercise price per share	Option expiry date
27	53,308	$16.125	March 16, 1983
2	8,000	19.875	September 15, 1983
12	23,575	24.00	June 6, 1990
5	11,470	32.25	October 2, 1991

The exercise of the conversion privileges and the stock options would not have a material effect on earnings per share.

11. Leases

The Company and its subsidiaries have obligations under long-term leases for retail outlets, warehouse facilities, equipment and store fixtures. Property under capital leases entered into after December 31, 1978 is:

In thousands of dollars	**1981**	1980
Buildings	**$ 50,213**	$39,747
Equipment and fixtures	**62,530**	57,318
	112,743	97,065
Accumulated depreciation	**17,586**	9,340
	$ 95,157	$87,725

Minimum lease commitments together with the present value of the obligations under capital leases entered into after December 31, 1978 are:

In thousands of dollars	Capital leases entered into after December 31, 1978	Other leases: Gross liability	Other leases: Expected sublease income	Other leases: Expected net liability
For the year				
1982	$ 19,579	$ 83,385	$ 17,680	$ 65,705
1983	19,449	76,194	16,551	59,643
1984	19,328	68,595	14,918	53,677
1985	19,058	59,639	12,577	47,062
1986	17,975	53,233	9,996	43,237
Thereafter to 2054	122,973	557,846	68,429	489,417
Total minimum lease payments	218,362	$898,892	$140,151	$758,741
Less interest at a weighted average rate of 12.7%	113,854			
Balance of obligations	104,508			
Less current portion	6,750			
Long-term obligations	$ 97,758			

National Grocers, Branch Managers, Toronto–1926

12. Commitments and contingent liabilities

Endorsements and guarantees amount to $96,200,000.

The present value of the unfunded past service pension liability is estimated to be $75,700,000 at December 31, 1981 and is being amortized over varying periods not exceeding fifteen years.

Certain actions are pending against a subsidiary, National Tea Co., in which several plaintiffs allege that National Tea Co. and others were in violation of U.S. anti-trust laws. Certain suits which claimed substantial damages were dismissed with prejudice by a U.S. District Court on grounds which would have applied to all actions in 1977. On appeal, these cases were remanded to the District Court. In 1981 several of the defendants moved to dismiss the actions and the court reserved judgment. Although the outcome cannot be predicted, management is not aware of any facts which would substantiate the allegations.

13. Other information

Related party transactions

The Company and its subsidiaries lease capital assets from a subsidiary of its controlling shareholder, Wittington Investments, Limited. Net lease expense on these assets for 1981 amounts to $5,400,000 (1980–$5,700,000). The Company has also guaranteed a U.S. $4,070,000 (1980–U.S. $4,280,000) mortgage payable by a subsidiary of Wittington Investments, Limited on property leased to the Company.

Retained earnings

The Trust Indentures securing the Company's sinking fund debentures contain provisions whereby certain tests must be met before the declaration of dividends. At December 31, 1981 a substantial portion of consolidated retained earnings is available for dividends under these tests.

Sales promotion "Paulin's" 1920's

14. Segmented information

	Food Processing		Food Distribution		Resource			
					Fisheries		Forest Products	
In millions of dollars	**1981**	1980	**1981**	1980	**1981**	1980	**1981**	1980
Sales to customers outside the enterprise	**$ 869.8**	$739.4	**$5,790.6**	$5,371.6	**$367.4**	$300.8	**$400.8**	$364.9
Inter-segment sales	**168.4**	165.9	**3.9**	3.2	**27.4**	25.9	**20.8**	20.3
Total sales	**$1,038.2**	$905.3	**$5,794.5**	$5,374.8	**$394.8**	$326.7	**$421.6**	$385.2
Segment operating income per earnings statement	**$ 61.1**	$ 48.9	**$ 113.5**	$ 99.7	**$ 22.4**	$ 6.0	**$ 32.9**	$ 41.6
Total assets	**$ 354.1**	$342.5	**$1,036.6**	$ 962.8	**$242.9**	$235.1	**$264.5**	$217.1
Purchase of fixed assets	**$ 49.8**	$ 34.6	**$ 95.8**	$ 138.6	**$ 12.6**	$ 35.2	**$ 64.7**	$ 20.5
Depreciation of fixed assets	**$ 19.6**	$ 16.9	**$ 54.9**	$ 49.1	**$ 7.7**	$ 7.2	**$ 13.5**	$ 11.9

The directors have determined the Company's classes of business at a meeting of directors to be as follows and have recorded them in the minutes of the meeting: Food Processing, Food Distribution, and Resource to include Fisheries and Forest Products. This information is also broken down geographically between Canada and the United States.

Eliminations		Consolidated		Canada		United States	
1981	1980	**1981**	1980	**1981**	1980	**1981**	1980
		$7,428.6	$6,776.7				
$(220.5)	$(215.3)						
$(220.5)	$(215.3)	**$7,428.6**	$6,776.7	**$4,729.3**	$4,252.1	**$2,699.3**	$2,524.6
		$ 229.9	$ 196.2	**$ 170.4**	$ 149.2	**$ 59.5**	$ 47.0
		$1,898.1	$1,757.5	**$1,328.9**	$1,237.3	**$ 569.2**	$ 520.2
		$ 222.9	$ 228.9	**$ 164.3**	$ 166.2	**$ 58.6**	$ 62.7
		$ 95.7	$ 85.1	**$ 62.9**	$ 55.9	**$ 32.8**	$ 29.2

Canadian sales in 1981 include export sales of $311.4 million (1980–$247.8 million).

Segment operating income includes an allocation of the excess of investment and other income over corporate service expense of $1.2 million (1980–net expense of $1.5 million). 1980 has been restated to conform with the 1981 presentation.

Corporate **Directory**

Directors

W. Galen Weston
Chairman and President
George Weston Limited,
Chairman of the Board
Loblaw Companies
Limited

Richard J. Currie
President
Food Distribution Group
George Weston Limited,
President
Loblaw Companies
Limited

Mark Hoffman
President
Resource Group
George Weston Limited

Don McCarthy
President
Food Processing Group
George Weston Limited

• **Robert H. Kidd**
Senior Vice President and
Chief Financial Officer
George Weston Limited

David A. Nichol
Senior Vice President
George Weston Limited,
President
Loblaws Ontario Division
of Loblaws Limited

George C. Metcalf
Vice President
George Weston Limited

Hugo Mann
Managing Director
Deutscher Supermarkt

Honourable Doctor Pauline McGibbon
Chairman
The National Arts Centre

Richard I. Nelson
Chairman
British Columbia Packers
Limited and Connors Bros.,
Limited

• **S. Simon Reisman**
Chairman
Reisman & Grandy Ltd.

John C. Scarth
President
E.B. Eddy Forest
Products Ltd.

• **John D. Stevenson, Q.C.**
Partner
Smith, Lyons, Torrance,
Stevenson & Mayer
Barristers and Solicitors

Garry H. Weston
Chairman
Associated British Foods
Limited

• Audit Committee

Corporate Officers

Robert H. Kidd
Senior Vice President and
Chief Financial Officer

William A. Sloan
Vice President Finance

Ralph S. Barnes
Treasurer

Ivan R. Franklin
Tax Officer

Stewart E. Green
Secretary

Terrence H. Wardrop
Controller

Dr. G. Ross Lawford
General Manager and
Technical Director
Weston Research Centre

Douglas E. Perrin
Vice President Finance
Food Processing Group

Food Processing

Don McCarthy
President
Food Processing Group

Victor Ursaki
Chairman
Weston Bakeries,
Stroehmann Brothers
Company

Douglas J. McMullen
Chairman
InterBake Foods,
President
Interbake Foods Inc.

Bremner B. Green
Chairman
Bowes Co.

Thomas R. Lamont
President
William Neilson

Harry Joy
President
Westcane Sugar

Food Distribution

Richard J. Currie
President
Food Distribution Group,
President
Loblaw Companies
Limited

Raymond J. Addington
President
Kelly, Douglas &
Company, Limited

Charles B. Barcelona
President
Peter J. Schmitt Co., Inc.

Douglas J. Hamm
President
Atlantic Wholesalers

Peter S. Lennie
President
National Grocers

David A. Nichol
President
Loblaws Ontario

Valdyn W. Schulz
President
National Tea Co.

Carl M. Zinkan
President
Zehrmart

Resource

Mark Hoffman
President
Resource Group

Richard I. Nelson
Chairman
British Columbia Packers
Limited and Connors Bros.,
Limited

J. Bruce Buchanan
President
British Columbia Packers
Limited

Donald A. McLean
President
Connors Bros., Limited

John C. Scarth
President
E.B. Eddy Forest
Products Ltd.

George A. Neil
Executive Vice President
E.B. Eddy Forest
Products Ltd.

Earl R. Pearce
Senior Vice President
Finance and
Consumer Products
E.B. Eddy Forest
Products Ltd.

Edward F. Boswell
Senior Vice President
Pulp & Wood Products
E.B. Eddy Forest
Products Ltd.

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Toronto, Ontario

Stock listings
Toronto, Montreal and Vancouver Stock Exchanges

Registrar and Transfer agent
National Trust Company, Limited
Toronto, Montreal and Vancouver

General counsel
Smith, Lyons, Torrance Stevenson & Mayer

Auditors
Thorne Riddell
Toronto, Ontario

Design: Eskind Waddell