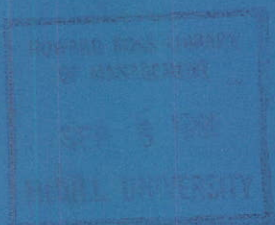


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Consolidated Statement of Earnings and Retained Earnings

(all dollar amounts expressed in thousands)

General Foods Inc.
and Subsidiary Companies.

	Fiscal year ended March 28 1981	Fiscal year ended March 29 1980
Revenues:		
Net sales	\$601,682	\$555,892
Other income	2,578	3,693
	604,260	559,585
Costs and expenses:		
Cost of sales	369,557	338,063
Marketing, general and administrative expenses	187,855	172,272
Interest expense	3,286	3,081
	560,698	513,416
Earnings before income taxes	43,562	46,169
Taxes on income	18,436	19,721
Net earnings	25,126	26,448
Retained earnings at beginning of fiscal year	120,340	107,092
	145,466	133,540
Cash dividends	16,720	13,200
Retained earnings at end of fiscal year	\$128,746	\$120,340

Consolidated Statement of Changes in Financial Position

(all dollar amounts expressed in thousands)

	Fiscal year ended March 28 1981	Fiscal year ended March 29 1980
Financial resources provided:		
Net earnings	\$25,126	\$26,448
Depreciation and amortization	11,448	10,294
Deferred income taxes	1,196	1,988
	37,770	38,730
Other items — net	552	388
	38,322	39,118
Financial resources used:		
Capital additions — net	20,851	22,166
Cash dividends	16,720	13,200
Purchase of preferred shares	—	2,500
	37,571	37,866
Increase in working capital	751	1,252
Working capital at beginning of fiscal year	62,350	61,098
Working capital at end of fiscal year	\$63,101	\$62,350

Consolidated Balance Sheet

(all dollar amounts expressed in thousands)

General Foods Inc.
and Subsidiary Companies.

	March 28 1981	March 29 1980
Assets		
Current assets:		
Cash	\$ 630	\$ 1,067
Temporary investments	—	17,000
Receivables	44,526	31,891
Loan receivable — Parent company	8,000	—
Inventories	84,929	91,144
Deferred income taxes	4,072	5,524
Prepaid expenses	2,358	2,533
	144,515	149,159
Land, buildings and equipment (Note 2)	126,209	116,517
Other assets	1,179	1,837
Goodwill	4,220	4,404
	\$276,123	\$271,917

Liabilities and Shareholders' Equity

Current liabilities:		
Bank indebtedness and short-term notes payable	\$ 16,610	\$ 14,305
Accounts payable and accrued liabilities	53,399	53,601
Income taxes payable	2,269	6,610
Parent and affiliated companies (net)	9,136	12,293
	81,414	86,809
Long-term liabilities (Note 3)	26,961	26,962
Deferred income taxes	18,802	17,606
Shareholders' equity:		
Capital stock (Note 9)	200	200
Capital surplus	20,000	20,000
Retained earnings	128,746	120,340
	148,946	140,540
	\$276,123	\$271,917

Auditors' Report

Approved by the Board:
Robert S. Hurlbut, Director
Robert W. Hiller, Director

To the Shareholders of
General Foods Inc.:

We have examined the consolidated balance sheet of General Foods Inc. as at March 28, 1981 and the consolidated statements of earnings and retained earnings and changes in financial position for the fiscal

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 Corporation as at March 28, 1981 and the results of its operations and the changes in its financial position for the fiscal year then ended in accordance with

generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year.

Price Waterhouse & Co.
Chartered Accountants
Toronto, May 1, 1981.

Message from the President

Net sales for the year ended March 28, 1981 exceeded \$600 million — an increase of 8.2% from the corresponding year earlier. Net earnings totaled \$25.1 million — a decline of 5% from the \$26.4 million earned during fiscal 1980. These earnings represented a margin on sales of 4.2% and a return on invested capital of 15.5%.

Food and beverage markets in Canada continued soft this past year as consumers' discretionary incomes were pressured under persistently high rates of inflation. These same inflationary pressures meant higher costs of most materials and services purchased by the company. Green coffee was the only significant exception.


Further impacting the business during fiscal 1981 was a five-month work stoppage at the LaSalle, Quebec coffee plant. The significant cost and disruption of this work stoppage to both our employees and the company was most unfortunate. The degree to which the impact was offset through fine results in the other businesses and the positive labour relations which have ensued since plant start-up are encouraging and a tribute to the ability and commitment of all of our employees.

Despite these setbacks, General Foods continued its long-standing pursuit of growth with capital

additions of more than \$22 million. Technical research — the wellspring of new and better technologies and products — was funded at \$5.5 million — the highest in company history.

These commitments supported the introduction of new products and restaurants to the marketplace — products such as the new Gaines Select pet food and restaurants such as the new GuadalaHARRY's Mexican theme dinnerhouse currently under test in Ottawa.

While Fiscal 1981 had some disappointments, it was a year of continued progress and satisfactory overall results. The ability to manage the unexpected without compromising the primary goals and objectives of the business is an appropriate and well deserved compliment to all GF employees.



R. S. Hurlbut
President

Fiscal 1981 at a Glance

(all dollar amounts expressed in thousands)

	Fiscal year ended March 28 1981	Fiscal year ended March 29 1980
Operating Results	\$	\$
Net Sales	601,682	555,892
Earnings Before Income Taxes	43,562	46,169
Net Earnings	25,126	26,448
Financial Position at Fiscal Year-End		
Working Capital	63,101	62,350
Land, Buildings and Equipment, Net	126,209	116,517
Long Term Liabilities	26,961	26,962
Shareholders' Equity	148,946	140,540

Directors

Robert S. Hurlbut
Chairman of the Board and
President
General Foods Inc.

Jack C. Barrow
Chairman of the
Finance Committee
Simpson-Sears Limited

Robert P. Bauman
Executive Vice-President
General Foods Corporation

Hervé Belzile
President
Alliance Cie Mutelle
d'Assurance-Vie

The Hon. Douglas D. Everett
LL.B.
President
The Royal Canadian Securities
Company Limited

Robert W. Hiller
Vice-President, Finance
General Foods Inc.

Richard Laster
Executive Vice-President
General Foods Corporation

Donald E. Loadman
Senior Vice-President
General Foods Inc. and
President
Grocery Division

Senior Officers

Robert S. Hurlbut
President

Donald E. Loadman
Senior Vice-President
General Foods Inc. and
President
Grocery Division

Robert W. Hiller
Vice-President
Finance

Alex J. Alliston
Vice-President
General Counsel
and Secretary

Joseph B. Doyle
Vice-President
Corporate Affairs

C. Wilson Spencer
Vice-President
Operations

Jack H. Scott
Vice President,
General Foods Inc. and
President
Hostess Food Products
Limited

David C. Lane
Vice President,
General Foods Inc. and
President
Food Services Division

J. Dale Hagerman
Controller

Ross N. Steeves
Treasurer

5. Retirement plans:

The estimated present value of the unfunded liability, calculated in accordance with the method used for filing under the Pension Benefits Act (Ontario), was approximately \$13,190 as of December 31, 1980 (1979 — \$10,712). The Corporation's intention is to fund this liability over periods not exceeding 15 years.

During fiscal 1981, the Corporation funded and expensed \$680 (fiscal 1980 — \$1,072) in excess of the minimum as filed under the Pension Benefits Act (Ontario) (see Note 1).

In the opinion of the independent actuaries, the plans are being funded in accordance with sound actuarial principles and can be considered to be essentially in a fully funded state as to vested benefits.

6. Research and development:

The Corporation incurred and expensed costs related to technical research of \$5,522 (fiscal 1980 — \$4,752).

7. New head office:

The Corporation has a commitment to purchase for \$3,250, a 40% equity interest in a company that will construct and own an office building, to be completed during fiscal 1983. The Corporation also has a commitment to lease space in this building for 20 years, the cost of which has been included in Note 4 above.

8. Transactions with related parties:

The Corporation is a wholly-owned subsidiary of General Foods Corporation.

Transactions with the parent and affiliated companies relate to the purchase and sale of goods and services priced at commercial rates. During fiscal 1981, these transactions aggregated \$59,429. Principal items included are the importation of coffee for processing and resale and the payment of a royalty and licensing fee based on the sales value of Canadian manufacture of products developed by the parent company.

In addition the Corporation has loaned \$8,000 to the parent company for a term of less than one year.

9. Continuance under the Canada Business Corporations Act:

During the year the Corporation applied for and received a Certificate of Continuance under the Canada Business Corporations Act. As part of the articles of continuation, the authorized share capital was changed to an unlimited number of common shares with no par value and the Corporation changed its name from General Foods, Limited to General Foods Inc.

The issued share capital remained constant at 2,000 common shares.

10. Industry segments:

The Directors have determined that the Corporation operates in two industry segments — Packaged Convenience Foods and Beverages (PCF & B) and Food Services.

The PCF & B segment includes the manufacture, distribution and marketing of branded consumer products consisting mainly of coffee, desserts, cereals, powdered beverages, rice, snacks and pet foods. The food services segment includes the operation of company-owned restaurants and the supply of food products and ingredients to the Hospitality, Institutional and Industrial markets.

	1981	1980
Segment sales		
PCF & B	\$479,201	\$443,388
Food Services	122,481	112,504
	\$601,682	\$555,892
Segment Operating Profit		
PCF & B	\$48,183	\$48,061
Food Services	1,334	2,694
	49,517	50,755
Corporate Income and Expense	5,955	4,586
Income Taxes	18,436	19,721
Net Earnings	\$25,126	\$26,448
Identifiable Assets		
PCF & B	\$194,067	\$179,222
Food Services	66,636	65,730
Corporate	15,420	26,965
	\$276,123	\$271,917
Capital Expenditures — net		
PCF & B	\$12,542	\$ 9,999
Food Services	7,893	12,092
Corporate	416	75
	\$20,851	\$22,166
Depreciation		
PCF & B	\$ 7,326	\$6,764
Food Services	3,240	2,709
Corporate	600	487
	\$11,166	\$9,960

Segment operating profit is revenue less allocable expenses. Identifiable assets are used directly in segment operations.

Notes to Consolidated Financial Statements

(all dollar amounts expressed in thousands)

General Foods Inc.
and Subsidiary Companies.

1. Accounting policies:

The consolidated financial statements include the accounts of the Corporation and all subsidiary corporations.

Inventories are stated at the lower of cost (principally average including realized gains or losses relating to commodity hedging transactions) and net realizable value.

Fixed assets are stated at cost. Major renewals and betterments are capitalized while minor replacements, maintenance and repairs which do not improve or extend life are expensed currently. Depreciation is computed, using principally the straight-line method, at rates based on the estimated useful lives of the depreciable assets. Gains or losses on the disposal of fixed assets are included in income and the cost and accumulated depreciation related to these assets are removed from the accounts.

Buildings are being depreciated at rates varying from 2½% to 5% and machinery and equipment at rates varying from 6⅓% to 25% per annum.

Goodwill represents the excess of cost over the fair value of the net tangible assets of acquired businesses and is being amortized by the straight-line method over the lesser of 40 years or that period represented by value.

The Corporation has plans that provide retirement benefits for most hourly and salaried employees. Cost of these plans is charged to earnings and funded on a basis which maintains pension costs at a reasonably stable percentage of covered payroll.

2. Land, buildings and equipment:

	March 28 1981	March 29 1980
Land	\$ 10,757	\$ 9,277
Buildings	71,257	65,370
Machinery and equipment	116,452	105,641
Construction work in progress	6,594	6,723
	205,060	187,011
Less: Accumulated depreciation	78,851	70,494
Cost less accumulated depreciation	\$126,209	\$116,517

Included in the above are amounts related to capital lease agreements (see Note 4) as follows:

	March 28 1981	March 29 1980
Buildings	\$3,249	\$2,996
Equipment	366	340
	3,615	3,336
Accumulated depreciation	876	672
	\$2,739	\$2,664

3. Long-term liabilities:

	March 28 1981	March 29 1980
8½% unsecured Notes maturing May 1, 1984 (see following)	\$25,000	\$25,000
Capital lease obligation	2,257	2,253
Sundry	44	47
	27,301	27,300
Less: Current portion included with current liabilities	340	338
	\$26,961	\$26,962

The notes bear interest at 8½% and mature on May 1, 1984. They may be redeemed in whole or in part at the Corporation's option on or after May 1, 1982. In addition the Corporation may purchase notes for cancellation on the open market. Further, the Corporation may purchase privately at any time notes for cancellation at a price not greater than the principal amount thereof.

The Corporation has also entered into covenants that it will not encumber any of its assets to secure any of its obligations unless at the same time it shall secure all of these notes equally and rateably therewith. These covenants do not apply to purchase money obligations, or security given in the normal course of business to lending institutions (except on shares and obligations of subsidiaries or on fixed assets), to secure indebtedness repayable on demand or within eighteen months of the date on which such indebtedness was incurred.

Interest expense on debt incurred for an initial term greater than one year, including capital leases, was \$2,413 (fiscal 1980 — \$2,395).

4. Leases:

Future minimum lease payments at March 28, 1981 for the following fiscal years are:

	Capital lease	Operating leases
1982	\$ 415	\$ 4,112
1983	415	4,373
1984	1,800	4,150
1985	—	3,434
1986	—	3,155
1987 and thereafter	—	32,828
Total minimum payments	2,630	\$52,052
Less: Interest imputed at 8½%	373	
Present value of minimum payments	\$2,257	

Processing Facilities

Kentville, Nova Scotia
LaSalle, Quebec
Cobourg, Ontario
Bramalea, Ontario
Cambridge, Ontario
Lethbridge, Alberta
Taber, Alberta
Vancouver, British Columbia
Surrey, British Columbia

Distribution Centres

St. John's, Newfoundland
Moncton, New Brunswick
LaSalle, Quebec
Cobourg, Ontario
Toronto, Ontario
Winnipeg, Manitoba
Lethbridge, Alberta
Vancouver, British Columbia

Operating Subsidiaries

Hostess Food Products Limited
White Spot Limited
ICL Food Services Ltd.
General Foods Commercial
Sales Inc.
Canterbury Foods
(Alta.) Ltd.

Packaged Convenience Foods and Beverages

Maxwell House Coffee, regular, instant
and decaffeinated
Sanka Decaffeinated Coffee, regular,
instant and freeze-dried
Brim Decaffeinated Coffee, regular and
instant
Yuban Coffee, regular and instant
Maxim Freeze-Dried Instant Coffee
Mellow Roast Coffee With Grain and
Chicory, regular and instant
Postum Instant Cereal Beverage
Tang Flavour Crystals
Quench Flavour Crystals
Kool-Aid Instant Drink Mixes
Post Cereals
Awake Frozen Breakfast Drink
Concentrate
Jell-O Desserts
Dream Whip Dessert Topping Mix
Cool Whip Frozen Whipped Topping
Baker's Chocolate
Baker's Coconut
Minute Rice and Rice Mixes
Minit Tapioca
Birds Custard Powder
Certo Fruit Pectins
Swans Down Cake Flour
Shake'n Bake Coating Mixes
Gaines Dog Foods
Whip'n Chill Dessert Mixes

Hostess brand Potato Chips and potato-
based snacks, Corn Chips and corn-
based snacks, Pretzels, Popcorn, Nuts,
Cookies and Candies.

Food Services

White Spot Restaurants
Col. Sanders Kentucky Fried
Chicken (B.C. Franchise)
Crock & Block Restaurants
GuadalaHARRY's
Mexican Restaurant
1867 Restaurants
Cafeterias and Concessions

Food Services Products: Sanka
Decaffeinated Coffee, Maxwell
House, Maitre d' and Yuban
Coffee for restaurant, office,
institutions and vending; Jell-O
dessert products; Tang Flavour
Crystals and other GF brand
name products for the food
service industry.

Industrial products: Chocolate,
Coconut, Pectin, Rice and
Tapioca.



General Foods Inc.
2200 Yonge Street
Toronto, Ontario

Behind this seal are over 8,000
General Foods employees
committed to quality and
convenience. The symbol
guarantees consumer
satisfaction in the 4.4 million
packages of food and beverage
products sold each day
and the service to over 50,000
people daily through food
service outlets.

On pourra se procurer sur
demande un exemplaire
français du présent rapport.