Report to Shareholders[1,2]

2007 was another challenging year for George Weston Limited due to significant transformational changes amid intense competition at Loblaw Companies Limited. The performance of the Weston Foods business, on the other hand, was strong.

2007 adjusted basic net earnings per common share from continuing operations was $4.26 compared to $4.98 in 2006. Sales increased 2.0% to $32.8 billion from $32.2 billion in 2006, including the negative impacts of approximately 1.4% from declining tobacco sales and 0.5% from the foreign currency translation of the Weston Foods operating segment, partially offset by the positive impact of 0.2% from the consolidation of certain Loblaw independent franchisees.

The Weston Foods operating segment achieved significantly improved financial results in 2007 despite challenging market conditions. Weston Foods sales for 2007 decreased 1.2% compared to 2006; however, this included a negative impact from foreign currency translation of approximately 3.4%. Overall volume decreased 1.3% for 2007 and was negatively impacted by approximately 0.7% due to the combined effects of the exit from the United States frozen foodservice bagel business early in the third quarter of 2006 and the discontinuance of contract manufacturing of biscuits for certain customers in 2006. The remaining volume decline of 0.6% for the year was due to growth in certain higher margin categories being more than offset by declines in other categories. 2007 adjusted operating income grew 17.5% to $382 million from $325 million in 2006, including the negative impact of foreign currency translation of approximately 4.3 percentage points. Adjusted operating margin improved from 7.5% in 2006 to 8.9% in 2007, reflecting in part the benefit of favourable product mix and productivity improvements.

Inflationary commodity cost pressures continued and accelerated in 2007 and this, coupled with a continuation of changing consumer eating preferences and food shopping patterns, led to significant disparity in the financial performance of industry participants. Industry price increases mitigated the higher commodity costs; however, cost and productivity improvements and a mix shift to higher margin products resulted in above average earnings growth for the Weston Foods operating segment.

Weston Foods sales growth was driven by price increases in key product categories combined with changes in sales mix. Branded volume increases in the *Arnold* and *Thomas*' brands in the United States and the *D'Italiano* brand in Canada were of particular note in 2007. Weston Foods remains a leader in product innovation and the introduction of new and expanded product offerings contributed positively to branded sales growth in 2007, including *Thomas*' Mini Squares Bagelbread, *Thomas*' 100 Calorie English Muffin, *Entenmann's* 100 Calorie *Little Bites*, and reformulated *Country Harvest*

(1) This Report to Shareholders contains a discussion of the following Non-GAAP Financial Measures: adjusted basic net earnings per common share from continuing operations, adjusted operating income, adjusted operating margin, free cash flow and same-store sales growth excluding the impact of decreased tobacco sales. See Non-GAAP Financial Measures beginning on page 55.

(2) To be read in conjunction with Forward-Looking Statements on page 5 of this Annual Report.

breads with 25% less sodium. As a measure of the success of the 2006 renovation of the *Wonder* brand, *Wonder+* was awarded the National Consumer Acceptance prize at the 2007 Canadian Grand Prix New Products.

Weston Foods continues to evaluate strategic and cost reduction initiatives related to its manufacturing assets, distribution networks and administrative infrastructure with the objective of ensuring a low cost operating structure. Initiatives are in place to help drive best practices, which are expected to result in standardization, simplification and continued improvement of processes as well as lower costs.

As disclosed in the Loblaw Companies Limited Annual Report, sales for 2007 were $29.4 billion compared to $28.6 billion for 2006, representing an increase of 2.6%. Same-store sales growth excluding the impact of decreased tobacco sales was 3.4% and the volume of retail units sold grew 1.9% compared to 2006. Sales growth was experienced in all of its regions and Loblaw maintained its market share without adding square footage. Adjusted operating income for 2007 was $1.0 billion compared to $1.3 billion in 2006. Sales increases were insufficient to offset margin declines resulting from targeted investments in pricing. Cost reduction lagged these required pricing investments, contributing to lower earnings. Also during 2007, Loblaw reduced capital expenditures and concentrated on same-store sales growth, rather than space-driven growth, which helped drive an increase in free cash flow. Loblaw has made good progress in the first year of its three to five year turnaround.

Looking forward into 2008, Weston Foods anticipates challenging market conditions as unprecedented increases for ingredient and other input costs are expected. Weston Foods plans to offset these higher input costs by ongoing cost reduction initiatives and pricing as necessary. As for Loblaw, sales volumes have been positively responding to its investments in lower prices to give value to its customers. Loblaw expects this to continue in 2008 along with continued investments in price, offset by cost reductions. On behalf of the Board of Directors and shareholders, I thank our loyal customers for their support and our more than 155,000 employees for their dedication and commitment during these challenging times.

[*signed*]
W. Galen Weston
Chairman and President