

## Report to Shareholders<sup>(1)</sup>

2008 was a year of significant accomplishments for George Weston Limited despite challenging market conditions affecting both operating businesses. Loblaw Companies Limited's financial results continue to edge forward, demonstrating that it is continuing to make good progress on its key transformational priorities. In December 2008, two significant business developments occurred in the Weston Foods operating segment: the sale of our Canadian dairy and bottling operations and the announcement of an agreement to sell our fresh bread and baked goods business in the United States, which was completed in January 2009. As a result of these dispositions, the Company holds significant cash and short term investments and is in the process of assessing opportunities for the deployment of these funds.

Basic net earnings per common share for 2008 were \$6.08 compared to \$3.92 in 2007. Basic net earnings per common share from continuing operations were \$4.63 compared to \$2.46 in 2007. Sales increased 4.8% to \$32.1 billion from \$30.6 billion in 2007, including the positive impact of approximately 1.9% due to the additional week in 2008.

The Weston Foods operating segment achieved improved financial results from its continuing operations despite challenging market conditions. Sales for 2008 increased 5.2% compared to 2007. The results of the dairy and bottling operations and foreign currency translation negatively impacted reported sales growth by approximately 4.8% and 0.3%, respectively, while the additional week of operating results in 2008 positively impacted sales by approximately 1.6%. Price increases across key product categories combined with changes in sales mix contributed positively to sales growth by 9.9% for 2008. Volume declined 3.8% for 2008 and was negatively impacted by 4.0% due to the results of the dairy and bottling operations, while the additional week of operating results in 2008 positively impacted volume growth by approximately 1.4%. 2008 operating income grew 4.8% to \$154 million from \$147 million in 2007. Operating margin in 2008 was 7.0% and was consistent with 2007.

Inflationary commodity cost pressures continued in 2008 and consumer eating preferences and food shopping patterns continued to evolve. Industry price increases helped to mitigate the higher commodity costs; however, cost and productivity improvements and growth in higher margin products resulted in positive earnings growth for the Weston Foods operating segment.

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

Weston Foods sales growth was driven by price increases across key product categories combined with changes in sales mix. The introduction of new products, such as *D'Italiano Thintini*, *Gadoua Vitalité*, *Wonder+ Headstart*, *Country Harvest Plus* and products under the *Weight Watchers*® licensed brand contributed positively to branded sales growth in 2008.

Weston Foods continuously evaluates strategic and cost reduction initiatives related to its manufacturing assets and distribution networks 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 2008 were \$30.8 billion compared to \$29.4 billion for 2007, representing an increase of 4.8%. Same-store sales growth was 4.2% including a positive impact of 1.9% due to the extra selling week in 2008. In 2008, Loblaw continued to refine and simplify its processes and systems, initiated several innovation efforts and made measured progress on key growth opportunities. Operating income for 2008 was \$1,038 million compared to \$728 million in 2007 resulting in an increase in operating margin to 3.4% in 2008 from 2.5% in 2007.

With the divestitures of the dairy business in 2008 and the U.S. fresh bakery business in January 2009, George Weston Limited has strategically well positioned companies with leading market positions in food retail and baking in Canada, our retained U.S. bakery businesses and a significant amount of cash. The remaining Weston Foods operating businesses are expected to deliver satisfactory operating performance in 2009 despite challenging market conditions. Reported earnings will continue to be impacted by volatility in commodity markets. Loblaw remains confident in its approach and will continue to focus on making measured progress on its key transformation priorities, including food renewal, store enhancements, product innovation, infrastructure, and customer value.

On behalf of the Board of Directors and shareholders, I thank our loyal customers for their support and our more than 145,000 employees for their dedication and commitment during these challenging times.

*[signed]*

**W. Galen Weston**

Chairman and President