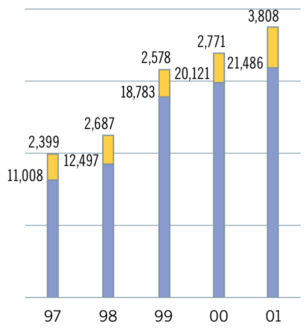
Management's Discussion and Analysis

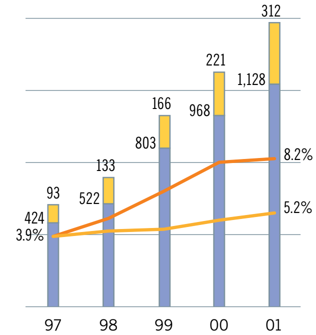
George Weston Limited ("the Company") is a broadly based Canadian company which carries on business primarily in Canada and the United States through its Food Processing and Food Distribution segments. The Food Processing segment is a significant participant in the North American baking and fresh farmed salmon industries as well as the dairy industry, principally in Canada. The Food Distribution segment operates through Loblaw Companies Limited ("Loblaw"), the largest food distributor in Canada.

Sales (1)
($ millions)

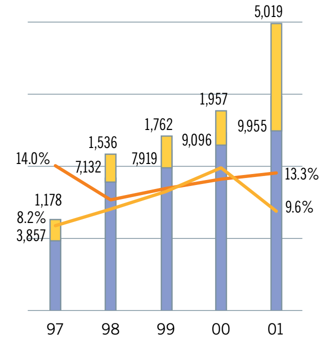


(1) Includes inter group sales

Operating Income and Margin
($ millions)



Total Assets (1) and Return on Average Total Assets
($ millions)



(1) 2001 total assets exclude Business held for sale; 1998 to 2001 total assets exclude the $368 investment in Domtar common shares

This discussion and analysis, including the results by quarter found on page 51, should be read in conjunction with the audited consolidated financial statements and the notes that accompany them found on pages 29 to 47 of this Annual Report. Certain forward-looking statements are included in this Annual Report concerning capital investment, cost reduction and operating improvements. Such statements are subject to inherent uncertainties and risks, which include but are not limited to: general industry and regional economic conditions, supplier arrangements, pricing pressures and other competitive factors, the results of the Company's ongoing efforts to improve cost effectiveness, and the availability and terms of financing. Consequently, actual results and events may vary significantly from those included in, contemplated or implied by such statements.

2001 Developments

On July 30, 2001, George Weston Limited completed the acquisition of Bestfoods Baking Co., Inc. ("Bestfoods Baking") in the United States from Unilever at a price of U.S. $1.79 billion or Cdn. $2.78 billion in cash. The business was renamed George Weston Bakeries Inc. ("George Weston Bakeries"). The Company believes that the brands, earnings performance, management team and future prospects of this business make it a strategic acquisition that complements the Company's U.S. baking operations. Its integration with the existing operations is well underway with the exception of the Western portion of the acquired business, consisting principally of the *Oroweat* product line with bakeries in Texas, Colorado, California and Oregon. Subsequent to year end 2001, the Company completed the sale of the Western portion of Bestfoods Baking (including certain license and distribution arrangements) to Grupo Bimbo, S.A. de C.V. for cash proceeds of U.S. $610 million or approximately Cdn. $950 million.

The Bestfoods Baking acquisition has been accounted for using the purchase method with the net realizable value of the Western assets being sold reported as "Business held for sale". Operating results include the operations of George Weston Bakeries since the date of acquisition but exclude the results of the Western portion of that business.

In the fourth quarter of 2001, the Company completed the sale of 4.2 million Loblaw common shares at a price of $48.50 per common share for net proceeds of $195 million, which reduced the Company's ownership of Loblaw to 61% from 63%. Also in the fourth quarter, the Company completed the planned sales of the Connors canned sardine and seafood processing operations for net proceeds of $148 million. Proceeds from these transactions were used to repay debt. Proceeds from the divestiture of the *Oroweat* operation have also been used for debt repayment. The Company has stated its intention to retain the Neilson Dairy and *Heritage* salmon operations.

Results of Operations

Sales

Sales for 2001 were $24.66 billion, an increase of 10% or $2.32 billion over 2000.

Food Processing sales of $3.81 billion exceeded 2000 by $1.04 billion or 37% reflecting growth in all businesses and supported by the 2001 Bestfoods Baking acquisition. Excluding the impact of this acquisition and the Connors dispositions, Food Processing sales increased $210 million or 8%, reflecting improvement in all operations with the exception of the fresh farmed salmon operations.

Sales in the Canadian fresh and frozen baking business increased as a result of continued organic growth and a full year's contribution from the 2000 acquisitions.

Sales

($ millions)	**2001**	Change	2000
Food Processing	**$ 3,808**	37%	$ 2,771
Food Distribution	**21,486**	7%	20,121
Inter Group	**(633)**		(548)
Consolidated	**$ 24,661**	10%	$ 22,344

The Company believes that success in the Food Processing segment is driven by geographic and product diversity, leveraging a low cost production environment and a broad but focused customer base. The Company believes that superior results in the Food Distribution segment can be achieved by continuing to provide Canadian consumers with the best in one-stop shopping for everyday household needs.

Production capacity expansion in 2001 supported the increased sales volumes. Neilson Dairy's sales levels reached new heights because of increased volumes, improved product mix and higher market prices. Sales in the Canadian fresh and frozen baking and dairy operations increased 6% in 2001, compared to an increase of 7% in 2000.

The Company operates its U.S. fresh and frozen baking and biscuit operations as one business unit with four divisions: George Weston Bakeries, Interbake Foods, Maplehurst Bakeries and Stroehmann Bakeries. Sales increased 77% over 2000, a significant portion of which is due to the mid-year acquisition of Bestfoods Baking. Excluding the impact of this acquisition, sales increased 13%, following a 9% increase in 2000.

Sales of Maplehurst Bakeries were strengthened by the addition of strategic new customers during the year. Both Interbake Foods and Stroehmann Bakeries achieved double digit growth in sales, reflecting a full year's contribution from their 2000 acquisitions in addition to organic growth. Bestfoods Baking, now George Weston Bakeries, acquired in late July, 2001, produces high quality fresh breads, specialty breads and sweet baked goods for sale in the United States and Canada under leading national brands such as *Freihofer's*, *Entenmann's*, *Arnold*, *Thomas'* and *Brownberry*. Sales and volumes were solid and in line with expectations.

Fisheries sales, including the results of the Connors canned sardine and seafood processing operations up to mid-November, declined compared to last year due to the divestitures and to temporarily very depressed market prices for fresh salmon resulting from current world market excess supply, although demand remained buoyant.

In 2002, the Food Processing segment is expected to increase sales substantially from 2001 levels. Capacity constraints which limited sales growth in parts of the business in 2001 have been addressed through expansion of existing facilities and niche facility acquisitions. In addition, George Weston Bakeries' results will be included for a full year in 2002.

Food Distribution sales of $21.49 billion increased $1.37 billion, or 7%, from 2000, supported by solid growth in all regions with continued positive improvements in Quebec. The increase in sales was a result of 4% same-store sales growth, a net 5% increase in retail square footage related to the opening of 61 new stores (which included major expansions of existing locations) and the closure of 62 stores, some food price inflation early in the year, principally in meat, fresh fruit and vegetables, and a 1.5% decrease related to the discontinuance in 2000 of certain non-core Cash and Carry status tobacco and Quebec food service operations. Food price inflation was not a contributing factor in the 2000 sales growth.

In 2002, Loblaw plans to open, expand or remodel more than 130 corporate and franchised stores across Canada, introduce more than 500 control label products and further enhance the non-food product offering, all of which is expected to generate additional sales growth.

Operating Income

Operating income (earnings before interest, taxes and goodwill charges) increased 21% to $1.44 billion for the full year, compared to $1.19 billion in 2000.

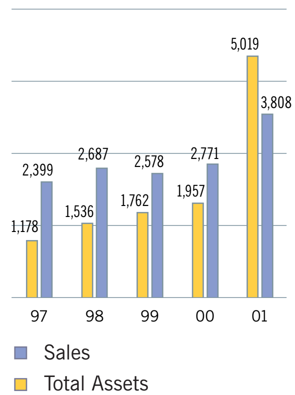
Food Processing operating income of $312 million in 2001 surpassed the prior year by $91 million or 41%. Excluding the impact of the Bestfoods Baking acquisition and the Connors dispositions, operating income increased 7% or $14 million compared to 2000, including a $20 million provision recorded related to the *Heritage* salmon operations, described later in this section.

Canadian fresh and frozen baking operations' operating income improved again in 2001, driven mainly by increased sales volumes from existing and new customers and margin improvements. Neilson Dairy's operating income increased significantly, leveraging strong sales growth from a low cost production base.

Operating income from the U.S. operations, excluding George Weston Bakeries, grew solidly, driven by sales growth, combined with continued focus on operating cost control. In line with expectations, George Weston Bakeries contributed solidly to operating income for the five months since acquisition which have been included in 2001.

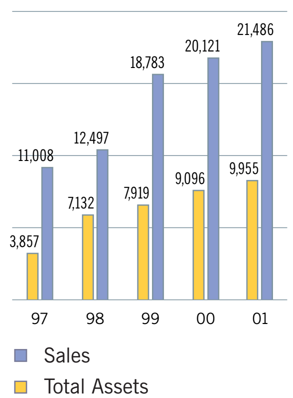
Fisheries' operating income was significantly lower than last year. While the 2001 results of the Connors operations prior to the sales were comparable to 2000, the very depressed market prices for fresh salmon

Food Processing
Sales (1) and Total Assets (2)
($ millions)



(1) Includes inter group sales
(2) 2001 total assets exclude Business held for sale

Food Distribution
Sales and Total Assets
($ millions)



5.8%
operating margin in 2001

In both the Food Processing and Food Distribution segments, the Company employs various operating and financial strategies to minimize industry and economic risks, and to maximize its operational flexibility. The Food Processing operating strategies include a portfolio of branded and private label products to suit various markets and customers, niche acquisitions and capital investment to expand product lines and facility capacity, and ongoing cost reduction initiatives.

had a negative impact on the profitability of the Food Processing segment. In addition, in light of current market conditions, the Company recorded a provision of $20 million, primarily against the value of inventory, through the current year operating income.

Despite the adverse impact of the fresh farmed salmon results, operating margin (operating income divided by sales) improved to 8.2% in 2001 (7.5% excluding George Weston Bakeries and the Connors dispositions), compared to 8.0% in 2000. Trading profit or EBITDA (operating income before depreciation) divided by sales (trading margin) was 11.2% in 2001 (10.8% excluding George Weston Bakeries and the Connors dispositions), an improvement from 11.0% in 2000.

In 2002, Food Processing earnings are expected to grow solidly, reflecting the benefits of the integration of George Weston Bakeries for a full year, anticipated sales growth from all parts of the business and improvement in the market prices for fresh salmon as world supply and demand rebalance.

Food Distribution operating income increased $160 million, or 17%, to $1.13 billion in 2001. Gross margins strengthened and operating margin improved to 5.2% from 4.8% in 2000. Trading margin improved to 6.7% from 6.2% in 2000, resulting from better product mix management at the store level, better inventory management to minimize inventory shrinkage, continued focus on overhead cost control and efficiencies, reduced product costs from buying synergies, and the maturing of stores opened during the past few years. All regions realized earnings improvements over 2000.

Food Distribution operating income growth is expected to continue in 2002 at a rate comparable to 2001 from the segment's continued focus on the initiatives described above.

Unusual Items

In the fourth quarter of 2001, three items totalling $63 million were recorded as unusual items in earnings before taxes: the sale of 4.2 million Loblaw common shares gave rise to a $142 million gain; the sales of the Connors canned sardine and seafood processing operations yielded a loss on disposal

Operating Income and Margin

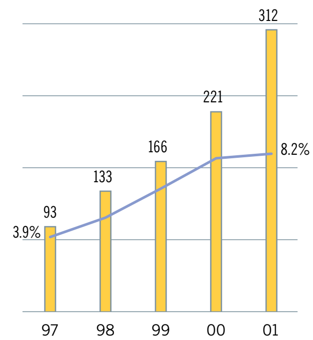
	2001	Change	2000
Operating Income ($ millions)			
Food Processing	**$ 312**	41%	$ 221
Food Distribution	**1,128**	17%	968
Consolidated	**$ 1,440**	21%	$ 1,189
Operating Margin			
Food Processing	**8.2%**		8.0%
Food Distribution	**5.2%**		4.8%
Consolidated	**5.8%**		5.3%

of $35 million; and the recording of the Bestfoods Baking acquisition involved a restructuring charge of $44 million (U.S. $29 million) related to bakery asset and administration reorganization associated with the non-Bestfoods Baking facilities, including severance, recognizing the effects of integration efforts underway to maximize efficiencies of the new combined operating structure.

Interest Expense

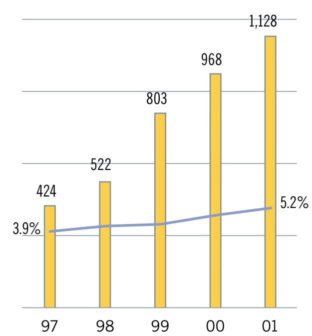
Interest expense consists primarily of interest expense on short and long term debt, the amortization of deferred financing costs and the realized interest impact of interest rate and currency derivatives less interest earned on short and long term investments held by Glenhuron Bank Limited, a wholly owned subsidiary of Loblaw in Barbados. Net interest expense for 2001 was $221 million, an increase of $50 million from 2000. The increase was primarily the result of the Bestfoods Baking acquisition financing, slightly offset by a decrease in average net borrowing rates for the year. Net short term interest income decreased as a result of lower average net interest rates and the Bestfoods Baking financing offset by Loblaw's higher average net short term investment levels.

Food Processing
Operating Income and Margin
($ millions)



Operating Income
Operating Margin

Food Distribution
Operating Income and Margin
($ millions)



Operating Income
Operating Margin

Trading Profit and Margin

	2001	Change	2000
Trading Profit (EBITDA) ($ millions)			
Food Processing	**$ 428**	40%	$ 306
Food Distribution	**1,443**	15%	1,251
Consolidated	**$ 1,871**	20%	$ 1,557
Trading Margin			
Food Processing	**11.2%**		11.0%
Food Distribution	**6.7%**		6.2%
Consolidated	**7.6%**		7.0%

Operating strategies in the Food Distribution segment include a multi-format approach, continuous development of brand equity through a superior control label program, enhancing stores with non-traditional departments and services, reinvesting cash flow in the business and owning its real estate.

The 2001 weighted average interest rate on fixed rate long term debt (excluding capital lease obligations and the Domtar Exchangeable Debentures) decreased to 7.0% from 7.6% in 2000. The weighted average term to maturity decreased to 16 years in 2001 (2000 – 17). The net positive effect of interest rate and currency derivatives was $19 million (2000 – $3 million), which reduced long term interest expense.

Interest coverage (operating income divided by interest expense) declined to 6.5 times in 2001 from 7.0 times in 2000 mainly due to the incremental interest expense related to the Bestfoods Baking acquisition financing.

In 2002, net interest expense is expected to increase due to higher average net borrowing levels, primarily a full year of the Bestfoods Baking acquisition financing.

Income Taxes

The Company's effective income tax rate was 35.2% in 2001, marginally lower than the prior year's effective income tax rate of 36.1% (excluding the impact of substantially enacted changes in future income tax rates in 2000). The decrease was a result of both Canadian federal and provincial income tax rate reductions and the unusual items in 2001. In 2001, the Company recorded a $1 million income tax recovery related to the recognition of future Ontario income tax rate reductions, which will be phased in from 2002 to 2005. In 2000, the Company reported a $41 million reduction to future income tax expense related to the recognition of future Canadian federal and provincial income tax rate and capital gains/losses inclusion rate reductions, some of which were phased in during 2001 with the remainder to be phased in from 2002 to 2004.

The 2002 effective income tax rate is expected to decline slightly compared to 2001, consistent with previously announced budgetary income tax rate reductions and the impact of the new accounting standard that provides for the discontinuance of goodwill and intangible asset amortization. This accounting change will result in an apparent decrease of approximately 1% in the Company's effective income tax rate in 2002.

Net Earnings

Net earnings, including unusual items, rose to $582 million in 2001 from $481 million in 2000. Basic net earnings per common share, including unusual items, net of tax, were $4.42, an increase of 21% or 76 cents from the $3.66 earned in 2000. Basic net earnings per common share, excluding the 2001 unusual items and the effects of the 2000 Canadian federal and provincial tax rate reductions, improved 19% to $4.00 from the $3.35 earned in 2000.

Financial Position

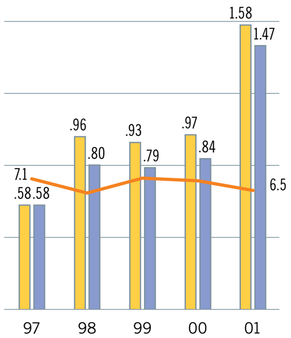
The Company maintained a solid financial position in 2001, which is expected to strengthen in 2002. The Bestfoods Baking acquisition temporarily increased the debt to equity ratio at the end of the year above the Company's internal 1:1 guideline. The ratio this year at 1.58:1 (1.47:1 excluding the Domtar Exchangeable

Debentures) compares to .97:1 last year (.84:1 excluding the Domtar Exchangeable Debentures). The proceeds realized from the sale of the Bestfoods Baking Western operations and refinancing of debt through the planned issuance of preferred shares, in combination with retained earnings growth from future incremental earnings, are expected to return the debt to equity ratio to within the Company's internal guideline by the end of 2002 or in 2003. Similarly, the return on average total assets of 11.9% in 2001 declined slightly compared to 12.4% in 2000, reflecting the mid year Bestfoods Baking acquisition, with improvement expected in 2002.

In 2001, the Company entered into currency derivative agreements to exchange an amount of $3.00 billion Canadian dollar debt for U.S. dollar debt. The derivatives are a hedge against exchange rate fluctuations on the Company's U.S. dollar denominated assets. In addition, the Company entered into an equity derivative agreement based on 9.6 million Loblaw common shares. Subsequent to year end 2001, the Company entered into equity derivative agreements based on 78,300 of its common shares at an average price of $103.00 per common share.

Shareholders' equity reached $3.63 billion in 2001, an increase of $722 million from 2000, attributable to the current year's net earnings, net of dividends, and the issue of preferred shares.

Total Debt to Shareholders' Equity and Interest Coverage on Total Debt



Total Debt to Shareholders' Equity (including Exchangeable Debentures)

Total Debt to Shareholders' Equity (excluding Exchangeable Debentures)

Interest Coverage on Total Debt

6 of 10

top selling branded bread products in Canada

The Canadian fresh and frozen baking operation produces fresh bread and rolls, frozen dough, bagels and sweet goods for sale in Canada under several leading national brands including *Weston*, *Wonder*, *D'Italiano* and *Country Harvest*. Neilson Dairy is the largest fluid milk processor in Ontario, Canada.

The Company's dividend policy for common shares is to maintain a stable dividend payment equal to approximately 20% to 25% of the prior year's normalized basic net earnings per common share, giving consideration to the year end cash position, future cash flow requirements and investment opportunities. During 2001, the Company declared, after approval by the Board of Directors, an 80 cent annualized dividend per common share, equal to 24% of the 2000 basic net earnings per common share, which was within the Company's dividend policy range.

Liquidity and Capital Resources

Cash Flows from Operating Activities

2001 cash flows from operating activities decreased $66 million to $979 million compared to $1.05 billion in 2000. Cash flows from operating activities before acquisition restructuring and other charges were $1.06 billion in 2001, a decrease of $58 million from 2000. The cash flows from operating activities before acquisition restructuring and other charges are used as an indicator of normalized cash flows from operating activities and exclude the acquisition restructuring and other charges which are not considered part of normal operations. Excluding working capital investment, cash flows from operations increased generally in line with EBITDA. Depreciation increases reflect the Company's continuing commitment to invest for growth in both operating segments. The investment in working capital was made in Loblaw, principally for inventory that reflects its strategic thrust into certain non-food categories which typically have inventory turns slower than food, and for increased inventory and receivable levels in the *Heritage* fresh farmed salmon operations.

The 2002 cash flows from operating activities are expected to increase at a rate consistent with operating earnings growth and to fund most of the Company's anticipated 2002 capital investment activity.

Cash Flows from Investing Activities

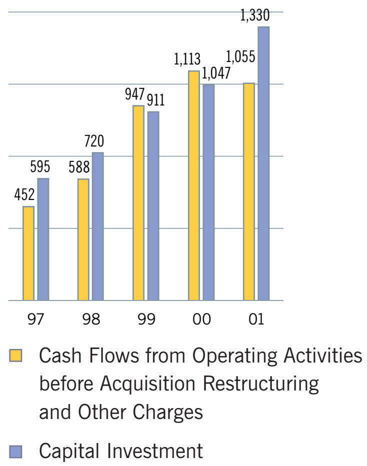
Capital investment (excluding acquisitions) in 2001 totalled $1.33 billion, $222 million for Food Processing and $1.11 billion for Food Distribution. The Food Processing segment investment was directed to plant expansions in Canadian and U.S. fresh and frozen baking operations in addition to line relocations, facility acquisitions and upgrades in all businesses.

Food Distribution capital investment reached $1.11 billion in 2001 compared to $943 million in 2000. Approximately 80% of the total capital investment was for new stores, renovations, expansions and/or replacements. Other capital investment was for information systems, the distribution network and other infrastructure to support store growth. Some of the new larger stores replaced older, smaller, less efficient stores that did not offer the broad range of products and services demanded by today's consumer. Loblaw's continued capital investment activity benefited all banners and regions in varying degrees and strengthened the existing store base. Loblaw's 2001 corporate and franchised store capital investment program increased net square footage by 5% compared to 2000. This increase includes the impact of store openings and closures during the year. During 2001, 61 (2000 – 71) new corporate and franchised stores were opened and 75 (2000 – 66) underwent major renovation or minor expansion, adding approximately

2 million square feet of selling space (2000 – 2 million), net of 62 (2000 – 62) store closures. The 2001 average corporate store size increased 4% to 46,400 square feet (2000 – 44,600) and the average franchised store size increased 4% to 22,900 square feet (2000 – 22,000). Loblaw opened three stores in Ontario employing its new enlarged store layout of approximately 115,000 square feet, which was designed to accommodate a greater selection of non-food products. In addition to the retail store investment, during 2001, Loblaw also constructed a new warehouse in Cambridge, Ontario and opened a new office building in Montreal for the Quebec operations.

At year end 2001, projects-in-progress, which the Company has committed to complete, totalled approximately $162 million of the 2002 planned $1.42 billion capital investment (Food Processing – $297 million, Food Distribution – $1.13 billion).

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



Major Cash Flow Components

($ millions)	2001	Change	2000
Capital Investment			
Food Processing	**$ 222**	113%	$ 104
Food Distribution	**1,108**	17%	943
Consolidated	**$ 1,330**	27%	$ 1,047
Business Acquisitions	**$ 2,794**		$ 242
Business Dispositions	**$ 330**		
Cash Flows from Operating Activities before Acquisition Restructuring and Other Charges	**$ 1,055**	(5%)	$ 1,113
Cash Flows from Financing Activities	**$ 2,941**		$ 584

Stroehmann produces fresh bread and rolls for the northeastern United States under the *Stroehmann*, *D'Italiano*, *Kaufman's* and *Maier's* brands. Maplehurst makes pre-proofed, par-baked and frozen doughnuts, cakes, bagels and pies for sale to supermarket in-store bakeries and food service operators across the United States. Interbake is a specialty biscuit maker operating in four industry segments: contract manufacturing, private label products, ice cream cones and sandwich wafers, and Girl Scout cookies.

In 2002, capital investment in the Food Processing segment will focus on the integration of the George Weston Bakeries business and new facilities in eastern Canada, in addition to routine capital maintenance. The Food Distribution segment plans to open, expand or renovate more than 130 corporate and franchised stores throughout Canada in a geographic investment pattern similar to that of 2001.

Cash Flows from Financing Activities

The Company obtains its short term financing through a combination of internally generated cash flows, cash, cash equivalents, short term investments, bank indebtedness and its commercial paper program. The Company's cash, cash equivalents and short term investments, as well as $108 million in uncommitted facilities and $313 million in committed facilities extended by several banks, support the Company's $300 million commercial paper program. Loblaw's cash, cash equivalents and short term investments, as well as $820 million in lines of credit extended by several banks, support its $1.20 billion commercial paper program.

The Company obtains its long term financing primarily through its Medium Term Notes ("MTN") programs. The Company and/or Loblaw plans to refinance existing long term debt as it matures and may obtain additional long term financing for other operating uses or for strategic reasons. The Company anticipates no difficulty in obtaining long term financing in view of its current credit ratings and its past experiences in the capital markets.

In connection with the acquisition of Bestfoods Baking, the Company obtained a Cdn. $2.18 billion and U.S. $400 million unsecured bridge loan, of which Cdn. $754 million and U.S. $400 million was outstanding at 2001 year end. During the third quarter of 2001, the Company filed a Base Shelf Prospectus for the issue of up to $1.50 billion in debt securities and preferred shares, from which the Company issued $500 million of MTN and $235 million of preferred shares. In addition, the Company arranged secured debt financing of $466 million. Subsequent to year end, the Company issued $400 million of MTN under the 2001 shelf prospectus.

During 2001, Loblaw issued the remaining $440 million of MTN under its 2000 shelf prospectus. During the first quarter of 2001, Loblaw filed another shelf prospectus to issue up to $1.50 billion of MTN, from which it issued $600 million in 2001. Proceeds from these MTN issues were used to repay short term commercial paper and to redeem/repay other long term debt; the proceeds also contributed to the cash position increase during the year. During 2001, $100 million of Provigo Inc. Debentures matured,

Credit Ratings (Canadian Standards)	Dominion Bond Rating Service	Standard & Poor's
George Weston Limited		
Commercial paper	R-1 (low)	A-1 (low)
Medium term notes	A (low)	A–
Other notes and debentures	A (low)	A–
Preferred shares	Pfd-2 (low)	P-2
Loblaw Companies Limited		
Commercial paper	R-1 (low)	A-1 (mid)
Medium term notes	A (high)	A
Other notes and debentures	A (high)	A

$50 million of Series 5 Debentures were redeemed and $100 million 7.34% MTN matured. Subsequent to year end 2001, Loblaw announced its intention to redeem its Series 8, $61 million Debentures and issued $200 million of 6.85% MTN.

During 2001, the Company purchased for cancellation 8,100 (2000 – 220,000) of its common shares for $1 million (2000 – $12 million), pursuant to its Normal Course Issuer Bids.

In 2000, Loblaw issued $760 million of MTN related to its 1999 and 2000 shelf prospectuses and redeemed its $100 million 5.39% Notes.

Debt terms and details are presented in Note 11 to the consolidated financial statements on pages 41 and 42 in this Annual Report.

The Company and Loblaw expect to meet their respective 2002 cash requirements through funds generated from operations, the commercial paper programs and the Company's remaining MTN and preferred share facility and Loblaw's remaining MTN facility.

Accounting Standard and Disclosure Changes Implemented in 2001

The Canadian Institute of Chartered Accountants ("CICA") issued three accounting standards, Section 3500 "Earnings per Share", Section 1581 "Business Combinations" and Section 3062 "Goodwill and Intangible Assets" for 2001. Section 3500 was effective for fiscal years commencing on or after January 1, 2001. Sections 1581 and 3062 apply to acquisitions completed on or after July 1, 2001. Section 3062 will apply to all previous acquisitions for fiscal years beginning on or after January 1, 2002.

Section 3500 requires the presentation of basic and diluted earnings per share ("EPS"), calculated using the treasury stock method, on the consolidated statements of earnings. In the first quarter of 2001, the Company implemented this standard retroactively with restatement of the prior period consolidated statements of earnings.

Section 1581 requires the purchase method of accounting for all business combinations and prohibits purchase equation reserves related to the acquiror's business. Section 3062 no longer requires the amortization of goodwill, but instead requires that the book value of goodwill be tested annually for impairment. In addition, the amortization of intangible assets is no longer required unless the intangible asset has a limited life, in which case it will be amortized over its limited life. Intangible assets not subject to amortization will be tested annually for impairment. Any permanent impairment in the book value of goodwill or intangible assets is to be written off against earnings. The Company has implemented both Sections 1581 and 3062 for the purchase equation of the Bestfoods Baking acquisition.

Accounting Standard and Disclosure Changes To Be Implemented in 2002

The CICA issued one accounting standard effective for fiscal years beginning on or after January 1, 2002, Section 3870 "Stock-based Compensation and Other Stock-based Payments", which the Company intends

1,118
corporate and franchised stores

One of Loblaw's strengths is its balanced commitment to operating corporately owned stores, as well as supplying franchised independents that operate under such well known banners as no frills, Fortinos, Your Independent Grocer, Provigo and Extra Foods. The vitality of independent store owner-operators, franchised through the Loblaw network, provides great strength, flexibility and growth capacity to the business.

to implement in the first quarter of 2002. Section 3870 establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services provided by employees and non-employees. The Company intends to implement this standard retroactively without restatement of prior periods for employee awards that are a direct award of stock and that specify settlement in cash. The cumulative effect of implementation will be reported in fiscal 2002 as a decrease to consolidated retained earnings of $76 million, net of future income tax recoverable of $38 million, which includes the Company's portion of the net decrease to consolidated retained earnings of Loblaw of $25 million, net of future income tax recoverable of $23 million and the fair value impact of the equity forward contracts. Going forward, the Company will record an annual charge to the consolidated statements of earnings. Additional disclosures for options granted to employees including disclosure of pro forma net earnings and pro forma EPS as if a fair value based accounting method was used, are required.

In addition, as noted above, for fiscal years beginning on or after January 1, 2002, Section 3062 will become effective for all goodwill and intangible assets existing prior to July 1, 2001. The Company intends to implement this standard in the first quarter of 2002. Excluding the acquisition of Bestfoods Baking, the Company expects the impact of implementing this standard to be an annual increase to net earnings of approximately $53 million or 40 cents per common share, based on current year goodwill charges, net of tax, and weighted average common shares outstanding.

Risk and Risk Management

The Company carries on business through its Food Processing and Food Distribution segments, with each having its own risk profile and risk management strategy.

Food Processing is geographically diverse and focuses on brand development, low production costs and maintenance of a broad customer base. To this end, Food Processing emphasizes market expansion activities, cost reduction initiatives such as commodity derivatives and contracts to manage price fluctuations of key raw materials, maintenance of an appropriate number of focused product lines, and longer production runs to keep production costs as low as possible and service levels high. Operations are strategically located across Canada and east of the Mississippi in the United States and, in the case of fisheries, on both North American coasts and in Chile.

Food Distribution is carried out through Loblaw, an aggressive competitor that manages operating risks through innovation (store design and format and control label product development), realization of cost benefits from economies of scale and by operating across a broad geographic base in Canada. Loblaw pursues a strategy of enhancing profitability on a market-by-market basis by using a multi-format approach. The strategy of owning real estate whenever practical enhances its operating flexibility and also allows Loblaw to benefit from any long term property value appreciation. Also, the development of powerful control label products enhances customer loyalty by offering superior overall value and provides some protection against national brand strategies.

Loblaw's *President's Choice Financial* services, which uses Amicus Bank, a member of the CIBC group of companies, as a service provider for banking services, experienced its fourth year of strong growth since its introduction in 1998. In March, 2001, President's Choice Bank ("the Bank"), a subsidiary of Loblaw, successfully launched the *President's Choice Financial* MasterCard. The Bank manages the *President's Choice Financial* MasterCard accounts and the *PC* loyalty program. The risks associated with these offerings include operational, financing, liquidity, credit and fraud risks. In order to minimize these risks, the Bank and Loblaw actively manage and monitor their relationship with third party service providers, implemented a securitization program and employ operational practices and credit scoring techniques which are considered leading in the industry.

The Company will enter new markets and will review acquisitions, such as the 2001 acquisition of Bestfoods Baking, when opportunities arise. There is inherent risk associated with any acquisition related to the Company's ability to integrate the acquired business and to achieve operating improvements as expected. The risk associated with the Bestfoods Baking acquisition is mitigated by the Company's strong management team and prior acquisition experience. The Company will also exit a particular market, such as the 2001 divestiture of the Connors operations, and reallocate assets elsewhere when there is a strategic advantage in doing so.

Economic and market risks relating to the Company's operating and financing activities include changes in interest rates, foreign currency exchange rates, commodity prices and the market value of the Company's and Loblaw's common shares. The Company uses financial instruments, specifically interest rate and currency derivative agreements, commodity derivatives and contracts and equity forward contracts, to minimize the risks and costs associated with these activities. The Company maintains treasury centres, which operate under Company approved policies and guidelines covering funding, investing, foreign exchange, commodity and interest rate management. The Company's policies and guidelines restrict it from using any financial instrument for speculative purposes. In addition, the Company has sought to minimize its potential counterparty risk by transacting with counterparties that have a minimum A credit rating and by placing risk adjusted limits on its financial instrument exposure to any one counterparty. In the normal course of business, the Company and Loblaw also enter into certain arrangements such as: providing comfort letters to third party lenders in connection with the financing obtained by certain franchisees (with no recourse liability to the Company) and establishing letters of credit to support certain normal operating activities.

In 2002, the Government of Ontario is planning to deregulate the supply of electricity. In order to mitigate the risk of potential price increases, the Company and Loblaw, provided deregulation occurs, have a three year fixed price contract to purchase $146 million of electricity (at approximately current market prices) from a company that has a long term debt rating of A from Dominion Bond Rating Service. The effect of this contract is to remove price volatility and to maintain a substantial portion of its electricity costs at the current rates.

The Company's financial strategies include adhering to generally conservative accounting policies, maintaining a strong balance sheet, using financial instruments to minimize the risks and costs of financing and to hedge against foreign exchange rate fluctuations on the Company's U.S. dollar denominated assets, and maintaining access to capital markets and liquidity.

The Company has good relations with its employees and unions and, although possible, no significant labour disruption is anticipated. The Company, however, is willing to accept the short term costs of labour disruption in order to achieve competitive labour costs for the longer term.

The Company effectively limits its exposure to risk through a combination of appropriate levels of self-insurance and the purchase of integrated insurance programs. Insurance is arranged on a multi-year basis with reliable, financially stable insurance companies as rated by A.M. Best Company, Inc. The integrated insurance programs do not expire for two years, which will limit the Company's exposure to insurance premium increases and restrictions in coverage being instituted in today's environment. The Company combines comprehensive loss prevention programs and the active management of claims handling and litigation processes by using internal professionals and external technical expertise to reduce the risk it retains.

The Company has had for many years food safety procedures that proactively minimize food safety risks to the consumer. In addition, procedures are in place to manage food crises should they occur, which identify risks, ensure that communication with consumers is clear, immediate and precise, and ensure that potentially hazardous products are removed from inventory immediately.

The Company endeavours to be socially and environmentally responsible, and recognizes that the competitive pressures for economic growth and cost efficiency must be integrated with environmental stewardship and ecological considerations. Environmental committees throughout the Company meet regularly to monitor and ensure the maintenance of responsible business operations. The Environmental, Health and Safety Committee of the Board of Directors receives reports which review outstanding environmental issues, identify new legislative concerns and outline related communication efforts. Currently, the Company is not aware of any significant environmental liabilities.

Outlook

For 2002, solid results are expected from the realization of benefits from the George Weston Bakeries integration into the Food Processing segment, as well as continued capital investment for both real estate and control label expansion in the Food Distribution segment. Sales and earnings growth for 2002 will be supported by the 2001 acquisitions in the Food Processing segment and organic growth in the Food Distribution segment and should produce aggregate growth rates slightly higher than those of the past few years.