Management's Discussion and Analysis

Contents

Forward-Looking Statements 25
Overview 25
Vision 25
Operating and Financial Strategies 26
Key Performance Indicators 27
Overall Financial Performance
  Consolidated Results of Operations 27
  Consolidated Financial Condition 33
Results of Reportable Operating Segments
  Weston Foods Operating Results 35
  Food Distribution Operating Results 38
  Fisheries Operating Results 40
Liquidity and Capital Resources
  Major Cash Flow Components 41
  Sources of Liquidity 44
  Contractual Obligations 45
  Off-Balance Sheet Arrangements 46
Quarterly Results of Operations
  Quarterly Financial Information 48
  Fourth Quarter Results 49
Operating Risks and Risk Management 50
Financial Risks and Risk Management 55
Related Party Transactions 56
Accounting Standards Implemented in 2003 57
Future Accounting Standards 57
Outlook 59
Supplementary Financial Information 59
Additional Information 62

The following Management's Discussion and Analysis ("MD&A") for George Weston Limited ("Weston") should be read in conjunction with the consolidated financial statements and the accompanying notes on pages 63 to 89 of this Annual Report. The consolidated financial statements and the accompanying notes have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are reported in Canadian dollars. A Glossary of terms and ratios used throughout this Annual Report can be found on page 94. Throughout this MD&A, Weston and its subsidiaries are collectively referred to as the "Company". The information in this MD&A is current to March 11, 2004, unless otherwise noted.

FORWARD-LOOKING STATEMENTS

This Annual Report, including this MD&A, contains certain forward-looking statements. Such statements relate to, among other things, sales growth, the integration of operations of acquired businesses, the expansion and growth of the Company's business, future capital expenditures and the Company's business strategies. Forward-looking statements are subject to inherent uncertainties and risks including but not limited to: general industry and economic conditions, changes in the Company's relationships with its suppliers, pricing pressures and other competitive factors, the availability and cost of raw materials and ingredients, fuels and utilities, the results of the Company's ongoing efforts to improve cost effectiveness, the rates of return on the Company's pension plan assets, changes in the regulatory requirements affecting the Company's business and the availability and terms of financing. Other risks are outlined in the Operating and Financial Risks and Risk Management sections of this MD&A. Consequently, actual results and events may vary significantly from those included in, contemplated by or implied by such statements. In evaluating forward-looking statements, readers should specifically consider the various factors which could cause actual events or results to differ materially from such forward-looking statements.

OVERVIEW

Weston is a Canadian public company, founded in 1882, that participates in the food processing and distribution industry. The Company has two core reportable operating segments, Weston Foods and Food Distribution, and one non-core reportable operating segment, Fisheries. The Weston Foods segment is primarily engaged in the baking and dairy industries within North America. The Food Distribution segment, which is operated by Loblaw Companies Limited and its subsidiaries ("Loblaw"), Canada's largest food distributor, concentrates on food retailing and is increasing its offering of non-food products and services. The Fisheries segment is primarily engaged in the hatching, growing and processing of fresh farmed salmon in North America and Chile.

VISION

The Company seeks long term, stable growth in its operating segments through continuous capital investment supported by a strong balance sheet, thereby providing sustainable returns to its shareholders through a combination of common share price appreciation and dividends.

The Company believes that to be successful over the long term, it must deliver on what its customers and consumers want, today and in the future. The Company also believes that it must provide consumers with the best in one-stop shopping and continually introduce innovative products and convenient services that meet consumers' everyday household needs.

Looking ahead, the Company plans to achieve these goals in the long term by:

- providing customers with the best bakery and dairy solutions in North America,
- focusing on its trusted and quality brands,
- offering the highest quality fresh products,
- continuing to offer its compelling value proposition and food assortment,
- leading in the development of unique, high quality control label products and services,
- developing powerful and compelling non-food offerings,
- delivering sustainable growth through distinct but integrated approaches to the marketplace, and
- providing a great place to work and grow.

Management's Discussion and Analysis

OPERATING AND FINANCIAL STRATEGIES

In order to be successful in delivering long term value and to fulfill its long term objectives of security and growth, the Company employs various operating and financial strategies that minimize its exposure to risk. Although a few of them may carry some short term risk, the Company employs these various strategies in order to achieve its long term vision. Each of the Company's reportable operating segments has its own risk profile and operating risk management strategy.

Weston Foods' operating strategies include:

- focusing on core brands, products, customers and markets,
- focusing on the development of products to maximize market share and penetration,
- ongoing cost reduction initiatives to ensure a low cost operating structure,
- simplifying and removing complexity from manufacturing processes,
- targeting strategic acquisitions and relationships to broaden market penetration and expand geographic presence, and
- continuous capital investment to strategically position production facilities across North America, to support growth and to enhance productivity and efficiencies.

Food Distribution's operating strategies include:

- using the cash flow generated in its business to invest in its future,
- owning its real estate, where possible, to maximize flexibility for product and business opportunities in the future,
- using a multi-format approach to maximize market share over the longer term,
- focusing on food but serving the consumer's everyday household needs,
- creating customer loyalty and enhancing price competitiveness through a superior control label program, and
- constantly striving to improve its value proposition.

Fisheries' operating strategies include:

- developing innovative value-added products,
- building upon its strong brand equity, and
- ongoing cost reduction initiatives to ensure low operating costs.

The Company's financial strategies include:

- maintaining a strong balance sheet,
- minimizing the risks and costs of its operating and financing activities, which include the use of financial instruments,
- reinvesting cash flow in the business, and
- maintaining liquidity and access to capital markets.

The Company believes that if it successfully implements and executes its various operating and financial strategies, plans and programs and continues to focus on flawless execution, it will be well positioned to continue to provide sustainable returns to its shareholders.

KEY PERFORMANCE INDICATORS

The Company reviews and monitors its activities and key performance indicators which it believes are important to measuring whether the implementation of its operating and financial strategies are successful.

Some of the Company's key financial performance indicators and results against those indicators are set out below.

Key Financial Performance Indicators	2003	2002
Sales growth	6.4%	11.3%
Basic net earnings per common share growth	14.9%	14.3%
Net debt (excluding Exchangeable Debentures) (1) to equity ratio	1.15:1	1.00:1
Return on average common shareholders' equity	19.4%	18.3%
Common dividend payout ratio	23.8%	24.0%

(1) See Supplementary Financial Information beginning on page 59.

In addition, the Company has key operating performance indicators that include but are not limited to: market share, new product development, customer service ratings and operating and administrative cost management including productivity improvements and waste reduction.

OVERALL FINANCIAL PERFORMANCE

Consolidated Results of Operations

($ millions except where otherwise indicated)	2003	2002	2001
Sales	$ 29,198	$ 27,446	$ 24,661
Net earnings	$ 792	$ 690	$ 582
Net earnings per common share ($):			
Basic	$ 5.80	$ 5.05	$ 4.42
Diluted	$ 5.78	$ 5.02	$ 4.37

The Company has achieved strong sales and net earnings growth over the past two years while operating in dynamic and competitive industries. In 2003, consolidated sales increased 6.4% to $29.2 billion from $27.4 billion in 2002, including the positive impact of reporting an additional week of results in 2003 (a 53-week year). In 2002, consolidated sales increased 11.3% from $24.7 billion in 2001. Consolidated net earnings increased $102 million, or 14.8%, to $792 million in 2003 from $690 million in 2002. In 2002, consolidated net earnings increased $108 million, or 18.6%, from $582 million in 2001.

The following discussion details the factors and trends that have impacted the Company's financial performance over the past two fiscal years.

Basic net earnings per common share growth of 14.9% in 2003 was in line with consolidated net earnings growth. Basic net earnings per common share growth of 14.3% in 2002 resulted from consolidated net earnings growth of 18.6% offset by the impact of increased preferred share dividends in 2002 as a result of Weston's issuance of preferred shares in the last quarter of 2001 and the first half of 2002.

Ending the fiscal year for sales and related activities on the Saturday closest to December 31 periodically results in the Company reporting on a 53-week year; this occurred in 2003.

The Company's consolidated financial statements are expressed in Canadian dollars but a significant portion of its Weston Foods business is carried on in United States dollars through its investment in self-sustaining foreign operations in the United States ("U.S. net investment"). Changes in the exchange rate for United States dollars will affect the

Management's Discussion and Analysis

Company's sales, net earnings and the value of the Company's assets and liabilities on its consolidated balance sheet, either positively or negatively as a result of translating the U.S. net investment into Canadian dollars. In 2002, the United States dollar exchange rate remained relatively stable. However, in 2003, due to the significant appreciation in the Canadian dollar relative to the United States dollar, sales, net earnings and the value of the Company's net assets were negatively impacted as a result of foreign currency translation.

Over the past two years, Weston Foods has emerged as one of the largest North American baked-goods companies in terms of sales and its 2001 acquisition of the Bestfoods Baking Company (renamed George Weston Bakeries) complemented its existing United States bakery operations and provided it with a portfolio of strong and valued brands. During this period, sales have been positively impacted by its focus on penetrating new sales channels, particularly with alternate format retailers and the introduction of new and innovative products. This sales growth was offset by decreased sales to traditional food retailers in the United States who continue to experience a difficult sales environment as consumer shopping patterns have evolved. The pricing environment in the North American baking industry was and continues to remain challenging, particularly in the United States. However, Weston Foods has been able to mitigate the effect of certain cost increases by raising prices on selected items, particularly in Canada. Weston Foods has maintained its strong sales and profit position relative to its competitors and has moderated industry-wide cost increases by focusing on low cost operations and streamlining manufacturing processes. However, ongoing industry cost pressures will continue to challenge operating income growth and margins in 2004.

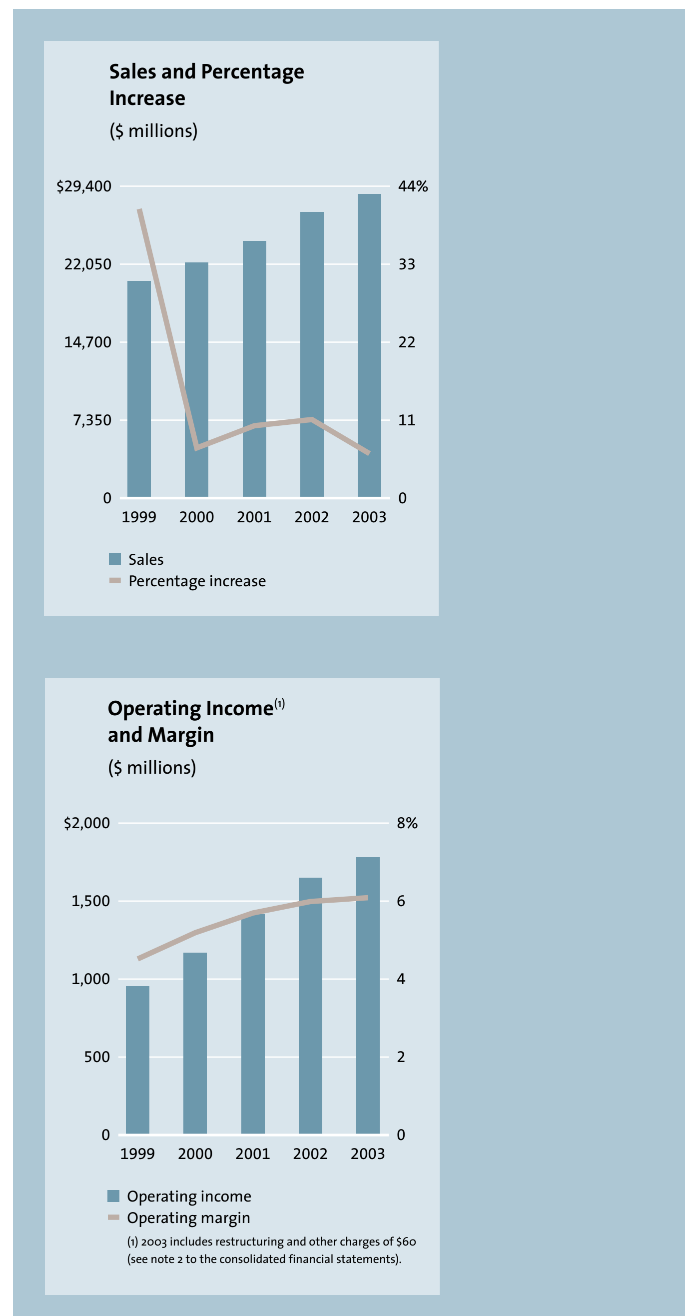
Food Distribution sales growth has been reasonably consistent over the past two years, notwithstanding the impact of the 53rd week in 2003. Food Distribution sales may be influenced by a number of factors, including changes in net retail square footage, same-store sales, inflation, expansion into new services and/or departments and the activities of competitors. Over the past two years Food Distribution has invested more than $1 billion in capital annually, resulting in an increase in net retail square footage of approximately 4.5 million square feet or 12%. In addition to the net increase in retail square footage, corporate store sales per average square foot rose from $566 in 2001 to $591 in 2003. The amount of new net retail square footage and the timing of store openings and closures within any given year may vary; however, there have not been significant variances in the annual increase in weighted average retail square footage. The weighted average increase in net retail square footage was 5.6% in 2003 and 6.2% in 2002. Growth in same-store sales was 4.6% in 2002 and 4.6% in 2003 on an equivalent 53-week basis and inflation over this period has been low. In addition, in its pursuit of improving its value proposition, Food Distribution has invested in lower prices establishing price leadership in specific markets. Consistent with its strategy of focusing on food but serving the consumer's everyday household needs, Food Distribution has also expanded its non-food offerings over the last two years, which has resulted in non-food retail sales growth at approximately twice the rate of food retail sales growth in 2003. Competitor activity varies by market and any negative effect on Food Distribution sales from this activity may be caused by increased price competition and the addition of retail square footage by competitors in markets in which Food Distribution operates. While the impact of competitor activity has varied within markets over the past two years, it has not caused significant variation in overall sales growth. Initiatives to reduce retail operating costs have been successful in the areas of inventory shrinkage and labour efficiency, and complement similar cost minimizing initiatives within the warehouse and distribution network and administrative functions. Food Distribution's capital investment program has resulted in new larger stores replacing older smaller stores, which dampened short term earnings growth as sales developed and leveraged lower variable costs off the new fixed cost base.

In 2001, the Connors canned sardine business was sold and over the past two years the remaining fresh farmed salmon business within Fisheries has experienced a challenging environment as world fresh salmon market prices have declined due to industry excess supply conditions. In 2003, average fresh farmed salmon market prices have shown an improvement over 2002, however, a return to profitability is dependent on further price increases.

The following analysis details factors that have impacted the Company's consolidated sales and net earnings over the past two years.

Sales The Company's 2003 consolidated sales were impacted by each of its reportable operating segments as follows:

- Negatively by 1.0% due to a sales decline of 5.6% at Weston Foods, primarily due to the negative impact of foreign currency translation partially offset by the positive impact of the additional week.
- Positively by 7.8% due to sales growth of 9.3% at Food Distribution. The Food Distribution sales growth, inclusive of the effects of the investment in lower pricing, resulted from the 53rd week and increased same-store sales and net retail square footage, but was negatively impacted by a delay in new store construction.
- Marginally due to a sales decline of 13.2% at Fisheries, primarily due to decreased harvest volumes as a result of the timing of harvests in 2003 compared to 2002, partially offset by improved fresh farmed salmon market prices.



The Company's 2002 consolidated sales were impacted by each of its reportable operating segments as follows:

- Positively by 5.6% due to sales growth of 40.4% at Weston Foods, primarily due to the full-year impact of the 2001 acquisition of George Weston Bakeries. The inclusion of an additional 30 weeks of George Weston Bakeries in 2002 increased consolidated sales by approximately 5%.
- Positively by 6.5% due to sales growth of 7.4% at Food Distribution, which experienced sales growth in all regions, overcoming the effects of intensified lower pricing activity in Quebec, the effects of strikes in the *Fortinos* and in the Saskatchewan *The Real Canadian Superstore* ("RCSS") businesses, and unseasonable weather in Ontario and Quebec. An increase in same-store sales and net retail square footage also contributed to the increase in Food Distribution sales.
- Marginally due to a sales decline of 44.7% at Fisheries compared to 2001, which included the results of the Connors canned sardine and seafood processing operations disposed of in 2001. After adjusting for this disposition, sales of Fisheries' continuing fresh farmed salmon operations were essentially flat over 2001.

Management's Discussion and Analysis

Operating Income The Company's 2003 consolidated operating income increased $134 million, or 8.0%, to $1.8 billion from $1.7 billion in 2002. The Company's 2002 consolidated operating income increased $238 million, or 16.5%, to $1.7 billion from $1.4 billion in 2001.

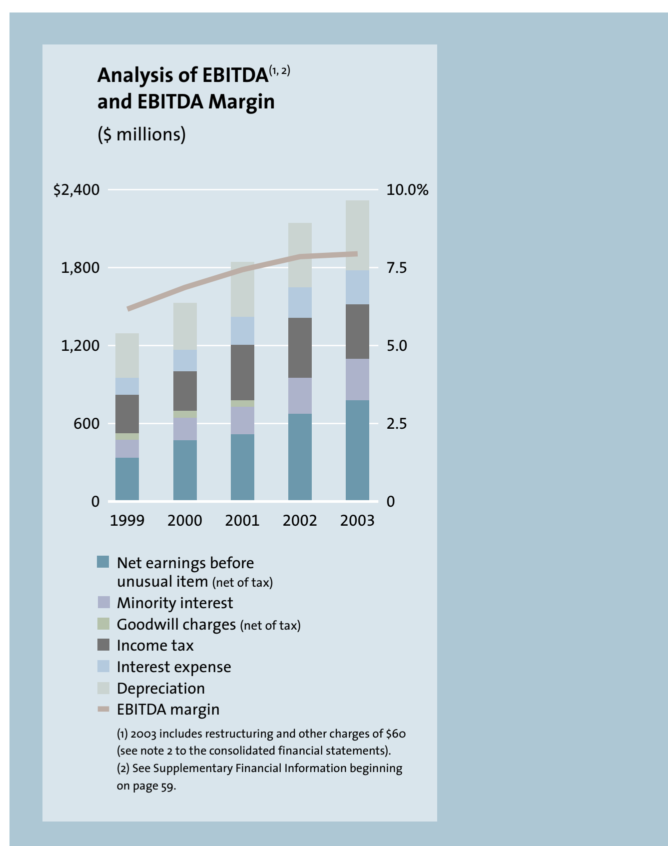
The Company's 2003 consolidated operating income was impacted by each of its reportable operating segments as follows:

- Negatively by 2.1% due to an operating income decline of 8.6% at Weston Foods, primarily due to the inclusion of a restructuring charge of $35 million recognized as a result of the closure of two bakery facilities in Canada and the continuing rationalization of certain bakery production lines in the United States. In addition, Weston Foods' 2003 operating income was negatively impacted by foreign currency translation as a result of the significant appreciation of the Canadian dollar relative to the United States dollar.

- Positively by 9.7% due to an operating income increase of 12.6% at Food Distribution, primarily due to higher sales offset by a $25 million charge recognized as a result of the voluntary early retirement offer accepted by Ontario employees affected by the new RCSS labour arrangement.

- Marginally due to lower operating losses at Fisheries, primarily due to improvements in fresh salmon market prices.

The Company's 2003 consolidated operating margins improved to 6.2% from 6.1% in 2002, and consolidated EBITDA (see Supplementary Financial Information beginning on page 59) margins improved to 8.1% from 8.0% in 2002. Consolidated margins continued to improve in 2003 due in part to a continued focus on administrative cost control and operating efficiencies, the maturing of new stores opened in the past few years in Food Distribution, the realized synergies from the George Weston Bakeries integration and reduced net stock-based compensation cost, partially offset by the negative impact of foreign currency translation in Weston Foods and the negative impact of the restructuring and other charges noted above.



The Company's 2002 consolidated operating income was impacted by each of its reportable operating segments as follows:

- Negatively by the consolidated $32 million net stock-based compensation cost relating to the new Canadian accounting standard for stock-based compensation and other stock-based payments, which was implemented in 2002.

- Positively by 6.7% due to Weston Foods' operating income increase of 30.7%, primarily due to the inclusion of a full year of George Weston Bakeries results in 2002.

- Positively by 11.6% due to Food Distribution's operating income increase of 14.8%, primarily due to higher sales and improved operating margins.

- Negatively by 1.7% due to higher operating losses in Fisheries, which continued to experience difficulties as operating losses increased to $26 million from $1 million in 2001.

The Company's 2002 consolidated operating margins improved to 6.1% from 5.8% in 2001, and consolidated EBITDA margins improved to 8.0% from 7.6% in 2001. Consolidated margins continued to improve in 2002 due to better overall product mix management, a continued focus on administrative cost control and operating efficiencies, the realized synergies as anticipated from the George Weston Bakeries integration and volume growth in core products.

Interest Expense Interest expense consists primarily of interest on short and long term debt, the amortization of deferred financing costs, the interest impact of interest rate, currency and equity derivative agreements and interest income earned on short term investments. Food Distribution capitalizes interest incurred on debt related to real estate properties under development.

In 2003, interest expense increased $28 million, or 11.8%, to $266 million from $238 million in 2002. The increase is explained as follows:

- Net long term interest expense increased $7 million, or 2.4%, to $293 million from $286 million in 2002 as a result of the impact of the 53rd week combined with an increase in average long term debt levels offset by the $104 million (2002 – $77 million) net positive interest impact of the Company's interest rate, currency and equity derivative agreements.

- Net short term interest expense of $6 million from interest income of $18 million in 2002 due to higher average short term Canadian borrowing levels and lower average short term United States investment rates.

- During 2003, $33 million (2002 – $30 million) of interest expense was capitalized to fixed assets.

In 2002, interest expense increased $17 million, or 7.7%, to $238 million from $221 million in 2001. The increase is explained as follows:

- Net long term interest increased $44 million, or 18.2%, to $286 million from $242 million in 2001 as a result of an increase in average long term debt levels offset by the $77 million (2001 – $22 million) net positive interest impact of the Company's interest rate, currency and equity derivative agreements. Weighted average long term debt levels increased by $1.5 billion in 2002, primarily as a result of refinancing the George Weston Bakeries acquisition financing from short term to long term debt.

- Net short term interest income of $18 million compared to interest expense of $6 million in 2001, mainly because of an increase in average net short term investment levels. In 2002, the Company completed the repayment of the short term unsecured credit facility used to finance the 2001 George Weston Bakeries acquisition and, as a result, moved from a net short term debt position to a net short term investment position.

- During 2002, $30 million (2001 – $27 million) of interest expense was capitalized to fixed assets.

The 2003 weighted average interest rate of fixed long term debt (excluding capital lease obligations and the Exchangeable Debentures) was 6.8% (2002 – 6.9%) and the weighted average term to maturity was 16 years (2002 – 16 years). The 2004 interest expense is expected to increase due to higher weighted average debt levels and lower positive impact of the Company's interest rate, currency and equity derivative agreements.

Management's Discussion and Analysis

Income Taxes The Company's 2003 effective income tax rate decreased to 27.8% compared to 32.6% in 2002. The decrease is due in part to the declining Canadian federal income tax rate and the income tax impact of fair valuing Loblaw's equity forwards. The decrease was also the result of the favourable resolution of an income tax issue, previously accrued for by the Company, which related to the disposition of the Company's forest products business in 1998. The reversal of this accrual resulted in a reduction of $34 million to the income tax provision and a decrease of 2.2% in the Company's effective income tax rate in 2003. The decrease was partially offset by an adjustment to future income tax balances caused by the increase in corporate income tax rates by the Ontario provincial government. In 2003, the Ontario government enacted a 1.5% increase in corporate income tax rates from 12.5% in 2003 to 14% in 2004, and repealed the scheduled 2004 to 2006 income tax rate reductions of 1.5% per annum. The adjustment to the future income tax balances resulted in a $7 million charge to future income tax expense in 2003.

The Company's 2002 effective income tax rate decreased to 32.6% compared to 35.2% in 2001, partially as a result of declining Canadian federal and provincial income tax rates. This decrease was also a result of the income tax impact of fair valuing Loblaw's equity forwards and the impact of the new Canadian accounting standard that provides for the discontinuance of goodwill amortization.

The Company's 2004 effective income tax rate is expected to be reasonably consistent with the 2003 effective tax rate before the positive impact of the $34 million accrual reversal discussed above. However, the effective income tax rate may differ if the allocation of taxable income across the various tax jurisdictions changes.

Net Earnings Changes in the Company's net earnings over the past two years were impacted by the discussion detailed above. In addition, the Company implemented two new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA") that impacted the financial information and performance over the past two years.

During the first quarter of 2002, the Company prospectively implemented Section 3062, "Goodwill and Other Intangible Assets", which no longer requires the amortization of goodwill but does require the carrying value of goodwill to be tested annually, at a minimum, for impairment. If this standard had been applied to 2001 results, net earnings would have increased by $37 million and basic net earnings per common share would have increased by $0.28 net of the impact on minority interest. Also during the first quarter of 2002, the Company implemented Section 3870, "Stock-based Compensation and Other Stock-Based Payments", retroactively without restatement of the prior period consolidated financial statements. As a result of implementing Section 3870, costs related to employee stock options that allow for settlement in shares or in the share appreciation value in cash at the option of the employee are recognized as compensation cost in operating income. This compensation cost is partially offset by the fluctuation in the fair value of the equity derivative contracts entered into by Weston and Loblaw.

In 2001, the Company's net earnings included a net unusual gain of $63 million ($55 million after tax) relating to its sale of Loblaw common shares offset by the loss on sale of the Connors canned sardine and seafood processing operations and a restructuring charge related to the integration of George Weston Bakeries, which was acquired in that year.

Minority interest did not have a significant impact on the Company's net earnings growth rates over the past two years as Weston's ownership of Loblaw has not significantly changed over this period.

Consolidated Financial Condition

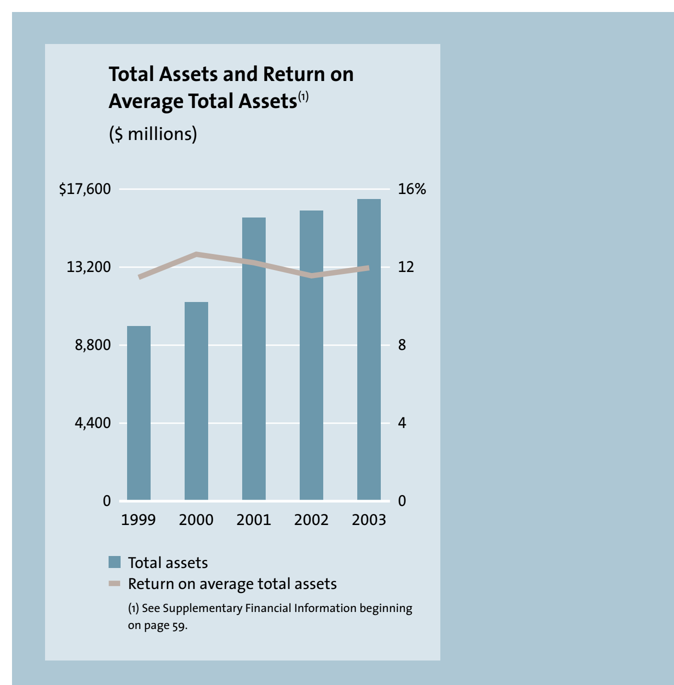
($ millions except where otherwise indicated)	2003	2002	2001
Total assets	**$ 17,338**	$ 16,683	$ 16,287
Total long term debt (excluding amount due within one year)	**$ 5,832**	$ 5,391	$ 4,908
Dividends declared per share ($) – Common share	**$ 1.20**	$ .96	$ .80
– Preferred share:			
– Series I	**$ 1.45**	$ 1.49	
– Series II	**$ 1.29**	$ .93	

The Company's total assets have increased over the past two years. Fixed assets have grown as a result of the capital investment program net of annual depreciation. Food Distribution inventory level growth parallels that of the growth in new stores and the necessary supply chain inventory investment to support new stores. Food Distribution's inventory turns of non-food are lower than those of food, resulting in somewhat higher aggregate levels of investment in inventory as the non-food business is developed. Food Distribution's accounts receivable from franchised stores, associated stores and independent accounts have grown consistently with that business. A substantial portion of credit card receivables of President's Choice Bank ("PC Bank"), a wholly owned subsidiary of Loblaw, is sold to an independent trust and the unsecuritized balance has increased by $99 million since 2001. In 2003, the Company's total assets were negatively impacted by the translation of the Company's U.S. net investment due to the significant strengthening of the Canadian dollar relative to the United States dollar. In 2002, the Company's total assets were impacted by the sale of the western portion of George Weston Bakeries and the proceeds of approximately $950 million were used to repay the short term unsecured credit facility used to purchase George Weston Bakeries.

Although cash flows from operating activities have covered a large portion of the funding requirements for the Company over the past two years, external funding was also required. The amount of fixed rate debt issued in any given year is intended to continue to preserve the Company's liquidity needs.

Cash flows from operating activities cover a large portion of the Company's funding requirements. Over the past two years, the Company's funding requirements resulted primarily from:

- the capital investment program,
- defined benefit pension plan contributions,
- non-cash working capital requirements, and
- purchases of Weston and Loblaw common shares pursuant to their respective Normal Course Issuer Bids ("NCIB").



In 2003, as a result of the significant strengthening of the Canadian dollar relative to the United States dollar, the change in the cumulative foreign currency translation adjustment decreased shareholders' equity by $253 million. This net change was due to the negative impact of translating the Company's U.S. net investment, partially offset by the realized gain on the cross currency basis swaps terminated during the year that were previously used to hedge the U.S. net investment (see note 19 to the consolidated financial statements).

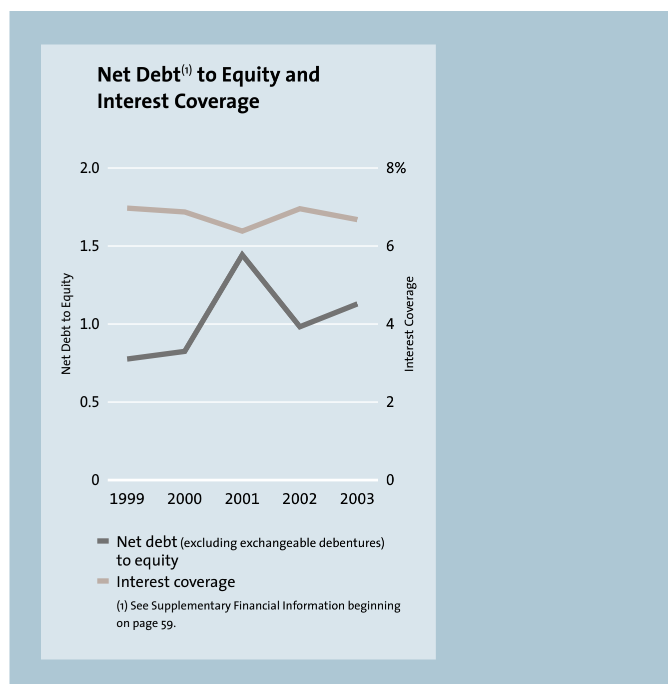
Management's Discussion and Analysis

Financial Ratios In 2003, the Company maintained a consistent financial position as measured by its financial ratios, balance sheet and cash flow. This position is expected to continue in 2004.

The Company's 2003 return on average total assets (see Supplementary Financial Information beginning on page 59) of 12.0% increased compared to the 2002 return of 11.8%. This return increased after accounting for the significant capital investment and business acquisitions over the past few years. The Company's 2002 return on average total assets of 11.8% declined slightly compared to the 2001 return of 12.3%. The 2002 return was negatively impacted by the 2002 stock-based compensation cost and the difficult year experienced by Fisheries.

The Company's 2003 return on average common shareholders' equity of 19.4% increased compared to the 2002 return of 18.3%. This increase is mainly due to higher net earnings and the repurchase for cancellation of Weston's common shares in 2003. The Company's 2002 return on average common shareholders' equity was 18.3% compared to the 2001 return of 18.4%. This slight decrease in 2002 was due to the impact of the stock-based compensation cost and the difficult year experienced for Fisheries. The five year average return on common shareholders' equity was 17.5%.

The Company's 2003 net debt (excluding the Exchangeable Debentures) (see Supplementary Financial Information beginning on page 59) to equity ratio was 1.15:1 compared to the 2002 ratio of 1.00:1. The increase in this ratio resulted partially from the decrease in United States denominated cash, cash equivalents and short term investments resulting from foreign currency translation and the decrease in shareholders' equity resulting from the translation of the Company's U.S. net investment. Both of these decreases were due to the significant appreciation of the Canadian dollar relative to the United States dollar in 2003. Increased funding requirements, primarily due to defined benefit pension plan contributions and working capital along with the purchase for cancellation of Weston common shares, also negatively impacted the net debt to equity ratio in 2003. The 2004 ratio is expected to improve as a result of retained earnings growth offset by a marginal increase in debt levels. The Company's 2002 net debt (excluding the Exchangeable Debentures) to equity ratio was 1.00:1 compared to the 2001 ratio of 1.47:1 as a result of a combination of the proceeds realized from the disposition of the western portion of George Weston Bakeries, the refinancing of debt through the issuance of preferred shares and the Company's 2002 net earnings growth.



The 2003 interest coverage ratio declined to 6.8 times compared to 7.1 times in 2002 due mainly to higher interest expense. The 2002 interest coverage ratio improved to 7.1 times compared to 6.5 times in 2001 mainly due to improved earnings and the net positive interest impact of the Company's interest rate, currency and equity derivative agreements.

Dividends The Company's common dividend policy is to maintain a common 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 2003, Weston's Board of Directors (the "Board") declared quarterly common dividends of $0.30 per common share, quarterly preferred dividends of $0.36 per preferred share, Series I and quarterly preferred dividends of $0.32 per preferred share, Series II. The 2003 annualized dividend per common share of $1.20 was equal to 23.8% of the 2002 normalized basic net earnings per

common share and within Weston's common dividend policy range. Subsequent to year end, the Board declared a quarterly dividend of $0.36 per common share, payable April 1, 2004.

Outstanding Share Capital The Company's outstanding share capital is comprised of common shares and preferred shares. An unlimited number of common shares is authorized and, at year end, 129,433,442 common shares were outstanding. An unlimited number of preferred shares Series I and Series II are authorized and, at year end, 9,400,000 preferred shares Series I and 10,600,000 preferred shares Series II were outstanding. For preferred shares Series I and Series II holders, Weston may at any time after issuance, at its option, give the holders of these preferred shares the right, at the option of the holder, to convert their preferred shares into preferred shares of a further series designated by Weston on a share-for-share basis on a date specified by Weston. In addition, for preferred shares Series II holders, on or after July 1, 2009, these outstanding preferred shares are convertible, at the option of the holder, into a number of Weston's common shares determined by dividing $25.00 by the greater of $2.00 and 95% of the then current market price of Weston's common shares. Further information on the Company's outstanding share capital is set out in note 16 to the consolidated financial statements. Subsequent to year end, Weston purchased for cancellation 587,200 of its common shares for $59 million, pursuant to its NCIB.

RESULTS OF REPORTABLE OPERATING SEGMENTS

The following discussion details the 2003 results of operations of each of the Company's reportable operating segments.

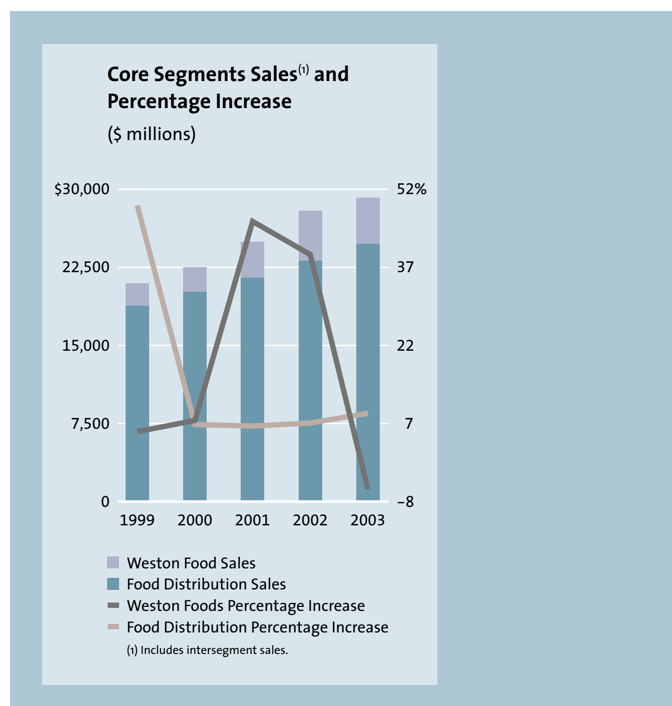
Weston Foods Operating Results

($ millions except where otherwise indicated)	2003	2002	Change
Sales	$ 4,523	$ 4,792	(5.6)%
Operating income (1)	$ 374	$ 409	(8.6)%
Operating margin	8.3%	8.5%	
EBITDA (1, 2)	$ 518	$ 553	(6.3)%
EBITDA margin	11.4%	11.5%	
Return on average total assets (2)	9.0%	9.2%	

(1) 2003 includes restructuring and other charges of $35. See note 2 to the consolidated financial statements.

(2) See Supplementary Financial Information beginning on page 59.

Sales Weston Foods sales decreased 5.6% to $4.5 billion from $4.8 billion in 2002. The additional week of operating results in 2003 positively impacted sales by approximately 2%. Overall volume improved 2% in 2003 compared to 2002, inclusive of the 53rd week. A significant portion of Weston Foods' business is carried on through its U.S. net investment and as a result of translating the U.S. net investment, Weston Foods sales were negatively impacted by approximately 9%, due to the significant appreciation in the Canadian dollar relative to the United States dollar in 2003.



Sales growth in 2003 has been affected by two important consumer trends:

- In many of Weston Foods' geographic markets, particularly in the United States, consumer shopping patterns are shifting toward alternate format retail channels over traditional retail food stores. Weston Foods has responded by continuing its focus on serving all customer channels with a worry-free source of supply while improving its position with alternate format retailers. Throughout 2003, the difficult sales environment experienced by traditional food retailers in the United States negatively impacted Weston Foods' sales growth. This decline was partially offset with the introduction of new and expanded product offerings and increased sales with alternate format retailers. In 2004, Weston Foods expects the difficult sales environment to continue with traditional food retailers in the United States.

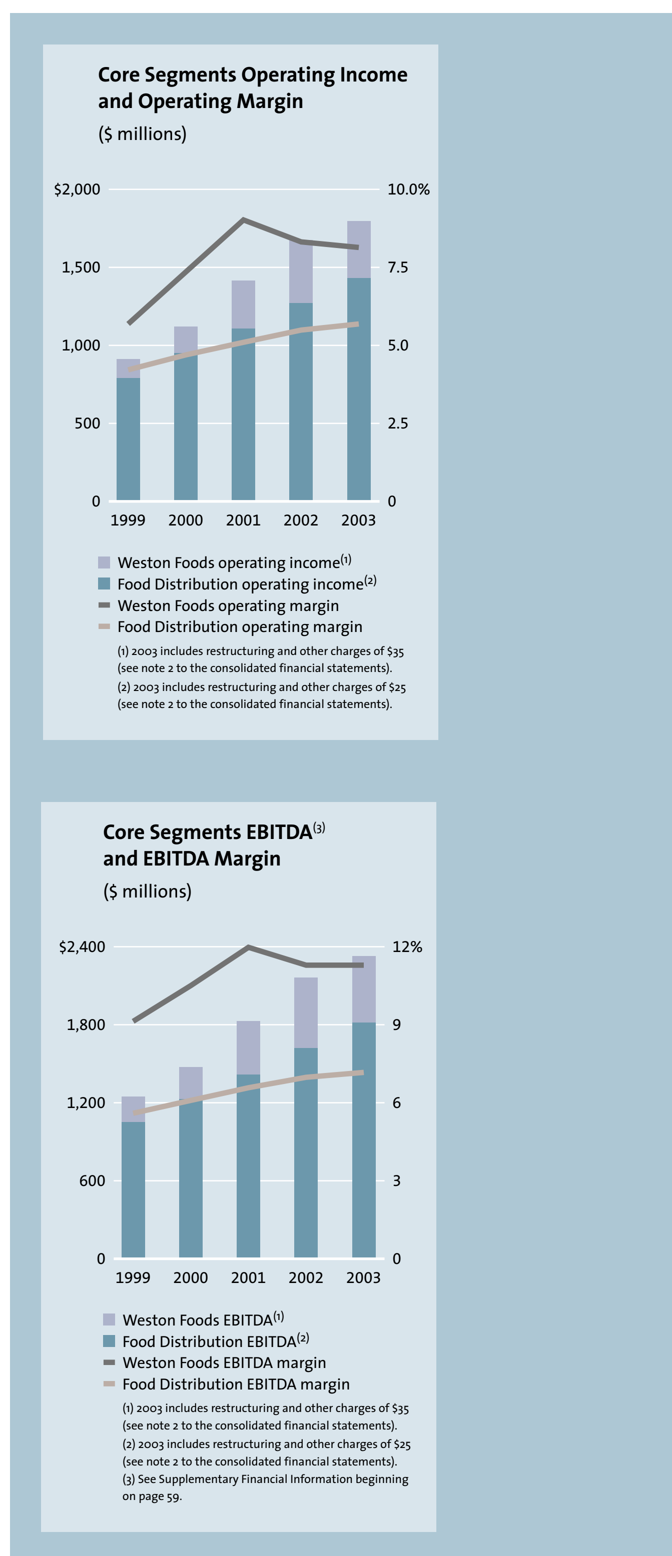
- Consumers are increasingly demanding healthier, more convenient products that can be consumed away from the home. Weston Foods has responded with the introduction of convenient "On the Go" hand-held products as well as the production and development of no cholesterol, no trans fat, reduced fat and organic products. In addition, with the increased popularity of lower carbohydrate ("low-carb") diets across North America, Weston Foods has developed low-carb products across many of its popular brands that have been well received by customers and consumers. This included entering into an exclusive North American agreement to market reduced carbohydrate bakery products with Atkins Nutritionals, Inc. The consumer trend toward low-carb products has had an industry-wide negative impact on the sales of traditional white sliced bread, which remains an important category for Weston Foods. This overall industry decline is somewhat offset by the favourable sales mix opportunities related to the whole grain and premium categories, which have shown positive growth as consumers shift their consumption. Weston Foods has participated in this premium category growth in 2003.

The impact of rationalizing low volume products as part of the ongoing effort to streamline and focus manufacturing had a negative impact on volume in 2003. Offsetting this negative impact was the launch of several innovative new products, including *Country Harvest* whole wheat soy breads, *PC* baguette, *City Bakery* artisan breads, *Wonder Wacki*, *Thomas' Crispy Cranny* waffles, *Thomas'* mini bagels as well as low-carb breads and bagels including *Thomas' Carb Counting* bagels and Atkins-endorsed *Arnold* breads. In 2004, Weston Foods expects to continue to introduce innovative new products and continue to extend the *Thomas'* and *Entenmann's* brands into Canada. The Canadian dairy operations continued their sales momentum in 2003, with continued growth in the value-added category, favourable sales mix management and the successful launch of Nestlé® branded beverages, which Weston Foods exclusively manufactures and distributes in Canada.

In 2004, Weston Foods will continue to execute its operational plans and strategies that are in place today as it believes they will provide sustainable sales growth over the longer term. These long term strategies include:

- building on its core brands, products, customers and markets,
- providing continued marketing support to its core brands and products,
- concentrating on more effective and efficient selling methods including the optimization of its direct-to-store delivery network and sales mix management,
- developing and expanding new lines of innovative bakery products in response to consumer demand,
- developing value-added products in its dairy operations,
- leveraging its North American scale and brand strength,
- improving its position with alternate format retail channels while maintaining its position with major traditional food retailers, and
- expanding its fresh baked goods production capabilities in North America for branded and private label production.

Operating Income Weston Foods operating income decreased $35 million, or 8.6%, to $374 million from $409 million in 2002, including the restructuring charge of $35 million for the closure of two bakery facilities in Canada and the rationalization of fresh bakery production lines in the United States, reflecting Weston Foods' continuing strategy to streamline and focus its production capacity. In addition, the negative impact of foreign currency translation combined with the positive impact of lower net stock-based compensation cost (net of the equity derivatives) negatively impacted Weston Foods operating income by approximately 2% in 2003. Operating margin for the year decreased to 8.3% from 8.5% in 2002 and EBITDA margin for the year decreased to 11.4% from 11.5% in 2002, both including the negative impact of the restructuring charge discussed above. In addition, operating income for the year was positively impacted by sales volume growth, the realization of the anticipated synergies from the integration of George Weston Bakeries and the ongoing focus on lower operating costs, partially offset by higher commodity, energy and defined benefit pension plan costs.



2003 was a challenging year for Weston Foods as it experienced cost pressures on its operating margins as a result of increases in:

- defined benefit pension and health and welfare benefit costs,
- core ingredients including wheat, oil and cocoa, and
- energy costs including fuel and natural gas.

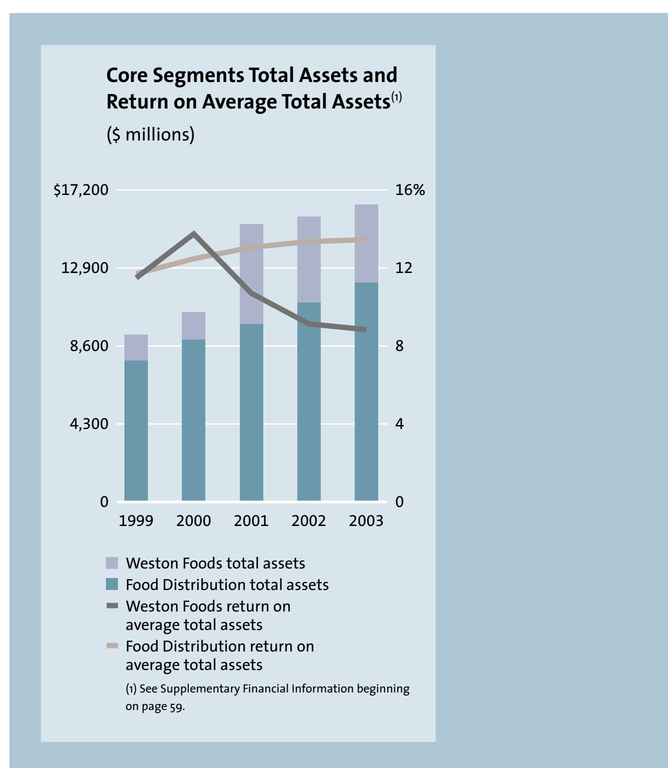
Weston Foods moderated these cost pressures on its margins through the execution of its operating strategies, specifically through:

- leveraging existing capacity where possible to support sales growth with core customers,
- realizing synergies from the integration of its United States fresh and frozen bakery operations,
- closing higher cost facilities,
- focusing on lower operating costs including eliminating waste and streamlining manufacturing operations,
- applying technology to improve process applications and to enhance efficiencies, and
- making strategic capital investment decisions to increase productivity and support growth, such as the capital investment in the Albany, New York facility to produce hand held baked goods, which reduces cost while adding capacity for a growing product line.

Management's Discussion and Analysis

The integration of George Weston Bakeries within Weston Foods' existing United States operations was substantially completed by the end of 2003, and anticipated synergies have been achieved. Weston Foods expects further operational efficiencies in the latter half of 2004 as a result of the restructuring charge discussed above. These restructuring plans are in line with Weston Foods' strategy of reducing complexity to ensure an efficient and low cost operating environment.

Weston Foods will continue to focus on strengthening its competitive advantage as the business realigns its customer base and improves its manufacturing and distribution assets. However, the difficult food retail market in the United States and the ongoing industry-wide cost pressures faced by Weston Foods will continue to challenge sales and operating income growth as well as margins throughout 2004.



Food Distribution Operating Results

($ millions except where otherwise indicated)	2003	2002	Change
Sales	**$ 25,220**	$ 23,082	9.3%
Operating income (1)	**$ 1,458**	$ 1,295	12.6%
Operating margin	**5.8%**	5.6%	
EBITDA (1, 2)	**$ 1,851**	$ 1,649	12.2%
EBITDA margin	**7.3%**	7.1%	
Return on average total assets (2)	**13.7%**	13.6%	

(1) 2003 includes restructuring and other charges of $25. See note 2 to the consolidated financial statements.
(2) See Supplementary Financial Information beginning on page 59.

Food Distribution enjoyed another strong year in 2003 with sales growth of 9.3% and operating income growth of 12.6%. These results were attained while operating in a highly competitive industry. The retail industry continues to change, with the distinction between traditional grocer, mass merchant and discount retailer blurring, as each expands into the areas of food and non-food to drive sales growth and to meet changing consumer needs. New products have been and continue to be developed in response to varying nutritional and dietary preferences. In addition, food safety has become a priority for food retailers and consumers alike. Food Distribution monitors and responds to these changing forces while moving ahead in the execution of its operating strategies.

Sales Sales increased 9.3% to $25.2 billion from $23.1 billion in 2002. All regions across the country experienced sales growth, inclusive of the effects of Food Distribution's investment in lower pricing and the delay of new store construction in Ontario pending the completion of negotiations with several unions during the third quarter of 2003.

The increase in Food Distribution sales resulted from:

- sales for the 53rd week, which accounted for 2% of growth,
- 4.6% same-store sales growth on an equivalent 53-week basis, some of which related to the renovation or minor expansion of 87 stores,
- an increase in non-food sales at approximately twice the rate of food sales at the retail level, and
- an increase of 4.7% in net retail square footage related to the opening of 63 new corporate and franchised stores and the closure of 61 stores. The weighted average net retail square footage increased 5.6%, and exceeds the absolute increase due to the timing of the store activity. In 2003, the increase in the weighted average net retail square footage reflects the full year benefit of the 1.6 million of net retail square footage added in the latter half of 2002.

National food price inflation remained low throughout 2003. Warehouse case movement and retail item count, which are indicators of volume, increased over 2002.

Control label retail sales reached $5.6 billion in 2003 while penetration, measured as control label retail sales as a percentage of Food Distribution's retail sales, increased to 24.2% from 23.6% in 2002. Food Distribution introduced approximately 1,500 new control label products in 2003, including 500 new *PC* general merchandise products. Food Distribution's control label program, which includes *President's Choice, PC, President's Choice Organics, no name, Club Pack, GREEN, TOO GOOD TO BE TRUE, EXACT* and *Life@Home*, provides additional sales growth potential.

Food Distribution expects that the following initiatives, coupled with continued pricing investment where appropriate, will generate continued sales growth over each of the next few years:

- continued capital investment in its store network including the 2004 planned opening, expansion or renovation of more than 160 corporate and franchised stores across Canada,
- expansion of non-food offerings, and
- ongoing introduction of new control label products.

Operating Income Food Distribution operating income increased $163 million, or 12.6%, to $1.5 billion from $1.3 billion in 2002. Operating margin improved to 5.8% from 5.6% in 2002. EBITDA margin improved to 7.3% from 7.1% in 2002 and compares favourably with North American industry peers. All regions realized earnings improvements over 2002.

Gross margins in 2003 remained relatively flat in comparison to 2002. The investment in lower selling prices was partially offset by sales mix, reduced product costs and improvement in inventory shrinkage.

In 2003, operating income included a $25 million charge relating to the voluntary early retirement offer made to Ontario employees affected by the new labour arrangement for RCSS. As part of a long term labour strategy to establish a competitive framework for the RCSS concept in Ontario, certain employees in Ontario received a voluntary early retirement offer. At year end 2003, 541 employees had accepted the voluntary early retirement offer, resulting in the charge to operating income. Subsequent to year end, an additional 94 employees had accepted the voluntary early retirement offer, which will result in an additional charge of $2 million to operating income in the first quarter of fiscal 2004.

Food Distribution operating income for 2003 was further impacted by the following:

- an increase in net defined pension and other benefit plan expense,
- the negative impact related to the labour disruption in Newfoundland and Labrador,
- a decrease in net stock-based compensation cost, and
- the incremental 53rd week in fiscal year 2003, which contributed positively to operating income.

Operating margins improved from the continued focus on administrative cost control and operating efficiencies, including a focus on controlling retail labour management, and the maturing of new stores opened during the past few years.

Food Distribution expects operating income to grow at rates slightly below those of the past several years. The investment in pricing is expected to continue, offset by a continued focus on cost initiatives, as well as the following:

- reduction in the variations of store models across the country, where appropriate, to obtain a more consistent and cost effective merchandising thrust,
- optimization of Food Distribution's warehouse and distribution network, information systems and procurement functions, and
- continued rollout of *President's Choice Financial* services and products and *President's Choice Financial* MasterCard as well as personal auto and home insurance offered under the *PC Financial* Insurance brand, which was introduced in the fall of 2003 to selected markets, with an expanded rollout planned throughout 2004 and 2005.

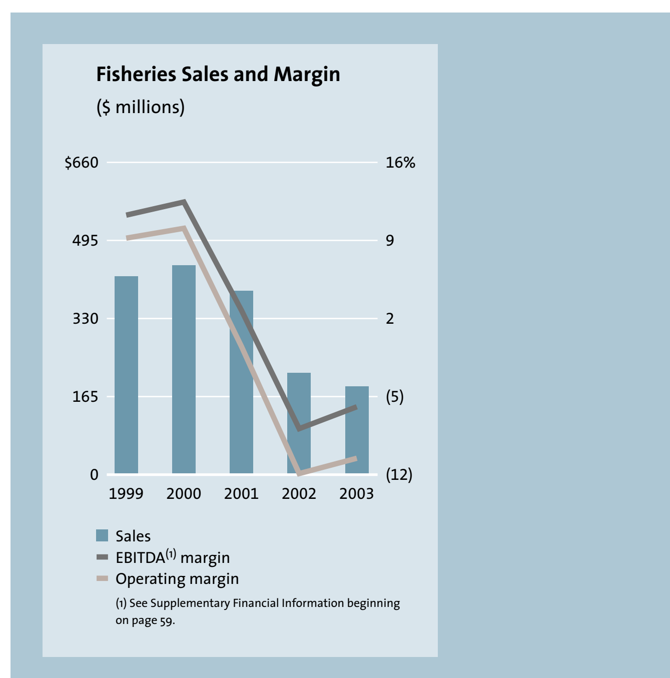
Fisheries Operating Results

($ millions except where otherwise indicated)	2003	2002	Change
Sales	$ 190	$ 219	(13.2)%
Operating income	$ (20)	$ (26)	23.1 %
Operating margin	(10.5)%	(11.9)%	
EBITDA (1)	$ (11)	$ (17)	35.3 %
EBITDA margin	(5.8)%	(7.8)%	
Return on average total assets (1)	(7.1)%	(8.5)%	

(1) See Supplementary Financial Information beginning on page 59.

Sales Fisheries sales declined 13.2% to $190 million from $219 million in 2002 primarily due to lower harvest volumes as a result of the timing of harvests this year compared to last year, partially offset by improved salmon market prices. Although market prices improved in 2003, supply volatility continues to be a major factor impacting pricing and sales growth.

Operating Income Fisheries experienced an operating loss of $20 million compared to a loss of $26 million in 2002 primarily due to the ongoing softness in fresh salmon market prices. Although average prices have improved and the level of operating losses decreased compared to last year, average prices remained below levels required to return Fisheries to a profitable position during 2003. In addition, Fisheries results were also negatively impacted in 2003 by continuing inventory



disease issues and an inventory loss as a result of extremely cold weather on the east coast of North America. The Fisheries operating income margins and return on average total assets were also impacted by the factors noted above. Price improvements are expected to continue in 2004, however a return to profitability for the Fisheries segment, which will be closely monitored, is highly dependent upon further price improvements.

LIQUIDITY AND CAPITAL RESOURCES

Major Cash Flow Components

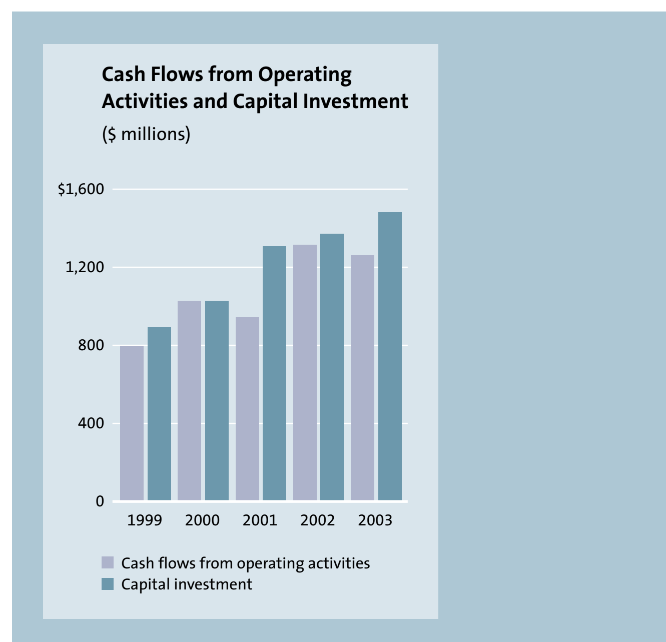
($ millions)	2003	2002	Change
Cash flows from operating activities	**$ 1,283**	$ 1,340	(4.3)%
Cash flows used in investing activities	**$ (1,375)**	$ (356)	n/a
Cash flows from (used in) financing activities	**$ 137**	$ (594)	n/a

n/a – change not relevant

Cash Flows from Operating Activities Cash flows from operating activities decreased slightly in 2003 from 2002 due to increased funding requirements, primarily due to defined benefit pension plan contributions and non-cash working capital, resulting principally from a reduction in total accounts payable outstanding at year end and an increase in non-food inventory by Food Distribution.

The Company's 2004 cash flows from operating activities are expected to increase at a rate consistent with net earnings growth and are expected to fund a large portion of the Company's anticipated 2004 funding requirements, including its planned capital investment activity of approximately $1.7 billion.

Cash Flows used in Investing Activities Cash flows used in investing activities in 2003 were $1.4 billion compared to $356 million in 2002. During 2003, as a result of the significant strengthening of the Canadian dollar the Company terminated currency derivatives that were identified as a hedge against its exposure to currency exchange rate fluctuations primarily resulting from the acquisition of George Weston Bakeries in 2001. Also in 2003, the Company terminated interest rate derivatives that were related to these currency derivatives. In respect of both transactions, the Company received, and included in cash flows used in investing activities, cash proceeds of $338 million ($317 million on termination of the currency derivatives and $21 million on termination of the interest rate derivatives), which were used to purchase common shares of Weston and repay short term debt (see notes 16 and 18 to the consolidated financial statements). Cash flows used in investing activities in 2002 were impacted by proceeds of $960 million, primarily from the disposition of the western portion of George Weston Bakeries received in 2002.



Management's Discussion and Analysis

Capital investment reached $1.5 billion (2002 – $1.4 billion), reflecting the Company's continuing commitment to maintain and renew its asset base and invest for growth across North America. Weston Foods' capital investment was $231 million (2002 – $311 million). The capital was directed toward the construction of one new plant, significant facility additions, facility betterments and the upgrade of production lines and distribution assets. Weston Foods' capital investment benefited all of its operations to varying degrees and strengthened its processing and distribution capabilities. Food Distribution's capital investment amounted to $1.3 billion (2002 – $1.1 billion). Approximately 80% (2002 – 80%) of Food Distribution's capital investment was for new stores, renovations or expansions and the remainder was primarily directed toward its warehouse and distribution network, information systems and other infrastructure required to support store growth. Food Distribution's continued capital investment activity benefited all regions in varying degrees and strengthened its existing store base. 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. Food Distribution's 2003 corporate and franchised store capital investment program, which includes the impact of store openings and closures, resulted in an increase in net retail square footage of 4.7% over 2002. During 2003, 63 (2002 – 75) new corporate and franchised stores were opened and 87 (2002 – 84) underwent renovation or minor expansion. The 63 new stores added 1.9 million square feet of retail space (2002 – 2.6 million), net of 61 (2002 – 58) store closures. The 2003 average corporate store size increased 3% to 50,500 square feet (2002 – 48,900) and the average franchised store size increased 4% to 24,400 square feet (2002 – 23,400). The increase in net retail square footage in 2003 was impacted by a delay in new store construction in the third quarter pending the completion of negotiations with several unions. Fisheries' capital investment was $7 million (2002 – $7 million), the majority of which was directed toward routine capital maintenance.

The Company expects to continue its capital investment level in 2004. Capital investment in 2004 is estimated at $1.7 billion (approximately $300 million for Weston Foods and $1.4 billion for Food Distribution). Weston Foods' 2004 capital investment will focus on new fresh bakery facilities in Canada and the United States as well as streamlining production and distribution assets to be more efficient. Food Distribution plans to open, expand or renovate more than 160 corporate and franchised stores throughout Canada in a geographic investment pattern similar to that of 2003 and is expected to result in a net increase of approximately 3.2 million square feet. Fisheries' 2004 capital investment will focus on routine capital upgrades.

Cash Flows from/used in Financing Activities Cash flows from financing activities were $137 million in 2003 compared to cash flows used in financing activities of $594 million in 2002. During 2003, Weston and Loblaw completed the following financing activities:

- issued $755 million of Medium Term Notes ("MTN"),
- issued $34 million of Series B Debentures,
- repaid $100 million of MTN as they matured,
- Loblaw purchased for cancellation 1,282,900 of its common shares for $76 million, pursuant to its NCIB,
- Weston purchased for cancellation 852,100 of its common shares for $83 million, pursuant to its NCIB, and
- Weston purchased for cancellation 2,013,092 of its common shares for $192 million pursuant to an offer received from Wittington Investments, Limited ("Wittington"), Weston's majority shareholder.

During 2002, Weston and Loblaw completed the following financing activities:

- issued $600 million of MTN,
- issued 10.6 million preferred shares, Series II for net proceeds of $260 million,
- issued $33 million of Series B debentures,
- repaid the $1.4 billion remaining balance on the short term unsecured credit facility,
- redeemed the $61 million Series 8 debentures,
- repaid the $10 million BA Range Note as it matured,
- Loblaw purchased for cancellation 309,000 of its common shares for $17 million, pursuant to its NCIB, and
- Weston purchased for cancellation 327,400 of its common shares for $33 million, pursuant to its NCIB.

See notes 5, 14 and 16 to the consolidated financial statements for the terms and details of the debt and share capital transactions.

During 2003, Weston filed a new Base Shelf Prospectus, which permits Weston to issue an aggregate principal amount of up to $750 million of MTN. Also in 2003, Loblaw filed a new Base Shelf Prospectus, which permits Loblaw to issue an aggregate principal amount of up to $1.0 billion of MTN.

Subsequent to year end, Weston repaid its $200 million Series A, 7.45% debentures, which matured in the first quarter of 2004, and issued $200 million of 5.05% MTN due in 2014. As a result, Weston currently has $550 million of MTN available to issue under its 2003 Base Shelf Prospectus. Also subsequent to year end, Loblaw issued $200 million of 6.15% MTN due in 2035, resulting in Loblaw currently having $345 million of MTN available to be issued.

Weston intends to renew its NCIB to purchase on the Toronto Stock Exchange and enter into equity derivatives to purchase up to 5% of its common shares outstanding. Weston believes that the market price of its common shares could be such that their purchase may be an attractive and appropriate use of funds in light of potential benefits to remaining shareholders. During 2003, the Company entered into equity swaps to buy 886,700 of its common shares, at an average price of $92.49 with an initial term of six years, pursuant to its NCIB.

Subsequent to year end, Weston purchased for cancellation 587,200 of its common shares for $59 million, pursuant to its NCIB. In addition, Loblaw purchased for cancellation 132,400 of its common shares for $8 million, pursuant to its NCIB.

The following tables reconcile the amounts of MTN available to issue under the Weston and Loblaw programs:

Weston Medium Term Notes Program

	Base Shelf Prospectus dated	
($ millions)	May 16, 2003	October 4, 2001
In 2001 issued MTN of		$ 500
In 2002 issued MTN of		400
In 2003 issued MTN of		100
Total issued against Base Shelf Prospectus		$ 1,000
MTN issue limit	$ 750	$ 1,000
MTN available at year end 2003 (1)	$ 750	

(1) Subsequent to year end, an additional $200 of MTN was issued, resulting in Weston having $550 of MTN available for issue.

Loblaw Medium Term Notes Program

	Base Shelf Prospectus dated	
($ millions)	May 12, 2003	May 24, 2001
In 2001 issued MTN of		$ 600
In 2002 issued MTN of		200
In 2003 issued MTN of	$ 455	200
Total issued against Base Shelf Prospectus	$ 455	$ 1,000
MTN issue expired		$ 500
MTN issue limit	$ 1,000	$ 1,500
MTN available at year end 2003 (1)	$ 545	

(1) Subsequent to year end, an additional $200 of MTN was issued, resulting in Loblaw having $345 of MTN available for issue.

Sources of Liquidity

The Company obtains its short term financing through a combination of cash generated from operating activities, cash, cash equivalents, short term investments, bank indebtedness and commercial paper programs. Weston's cash, cash equivalents and short term investments, as well as $271 million in uncommitted credit facilities and $300 million in committed credit facilities extended by several banks, support Weston's $500 million commercial paper program. Loblaw's cash, cash equivalents and short term investments, as well as $845 million in uncommitted operating lines of credit extended by several banks, support its $1.2 billion commercial paper program. Weston's and Loblaw's commercial paper borrowings generally mature less than three months from the date of issuance, although the term can be up to 364 days.

Securitization of credit card receivables provides PC Bank with an additional source of funds for the operation of its business. Under PC Bank's securitization program, a portion of the total interest in the credit card receivables is sold to an independent trust. PC Bank securitized $202 million (2002 – $244 million) of credit card receivables during 2003. Information on PC Bank's credit card receivables and securitization is provided in note 9 to the consolidated financial statements and in the Off-Balance Sheet Arrangements section of this MD&A.

The Company obtains its long term financing primarily through MTN programs. The Company plans to refinance existing long term debt as it matures and may obtain additional long term financing for other operating uses or strategic reasons.

In the normal course of business, the Company enters into certain arrangements such as providing comfort letters to third party lenders in connection with financing activities of certain franchisees with no recourse liability to the Company. In addition, the Company establishes standby letters of credit used in connection with certain obligations related to the financing program for Loblaw's franchisees, securitization of PC Bank's credit card receivables, real estate transactions and benefit and insurance programs. At year end, the aggregate gross potential liability related to the Company's standby letters of credit was approximately $391 million (2002 – $460 million), against which the Company had $606 million (2002 – $583 million) in credit facilities available to draw on.

The Company has the following sources from which it can fund its 2004 cash requirements: cash, cash equivalents, short term investments, bank indebtedness, cash flows generated from operating activities, commercial paper programs, MTN programs and additional credit card receivable securitizations from future growth in the PC Bank credit card operations. In 2004, the Company anticipates no difficulty in obtaining external financing in view of its current credit ratings, its past experience in the capital markets and general market conditions.

Credit Ratings (Canadian standards)	Dominion Bond Rating Service ("DBRS")	Standard & Poor's ("S&P")
Commercial paper	R-1 (low)	A-1 (low)
Medium term notes	A (low)	A–
Exchangeable debentures	BBB (high)	
Preferred shares	Pfd-2 (low)	P-2
Other notes and debentures	A (low)	A–

The rating organizations listed above base their ratings on quantitative and qualitative considerations which are relevant for Weston. These ratings are intended to give an indication of the risk that Weston will not fulfill its obligations in a timely manner and do not take certain factors into account, such as market or pricing risk, since these must be considered by investors as factors in their investment process.

Contractual Obligations

The following illustrates certain of the Company's significant contractual obligations and discusses other obligations as at December 31, 2003:

Summary of Contractual Obligations	Payments due by year						
($ millions)	2004	2005	2006	2007	2008	Thereafter	Total
Long term debt (including capital lease obligation)	$ 307	$ 217	$ 329	$ 6	$ 393	$ 4,954	$ 6,206
Operating leases (1)	204	185	164	139	119	647	1,458
Contracts for purchase of property and capital investment projects (2)	360	53	6				419
Total contractual obligations (3)	$ 871	$ 455	$ 499	$ 145	$ 512	$ 5,601	$ 8,083

(1) Represents the minimum or base rents payable. Amounts are not offset by any expected sublease income.

(2) These obligations include agreements for the purchase of real property. These agreements may contain conditions that may or may not be satisfied. If the conditions are not satisfied, it is possible the Company will no longer have the obligation to proceed with the transaction.

(3) Financial derivative instruments are discussed in note 18 to the consolidated financial statements.

Other contractual obligations not reflected in the table above are discussed below.

In connection with the purchase of Provigo, Loblaw committed to support Quebec small business and farming communities as follows: for a period of seven years commencing in 1999 and, subject to business dispositions, the aggregate amount of goods and services purchased from Quebec suppliers in the normal course of business will not fall below those of 1998. Loblaw has fulfilled its commitment in each year from 1999 to and including 2003.

At year end, the Company had other long term liabilities which included accrued pension and other benefits plans liability, future income taxes liability, stock-based compensation liability, accrued insurance liabilities and an equity derivative liability. These long term liabilities have not been included in the table above for the following reasons:

- future contributions to the Company's pension plans depend on the funded status of each plan, which may vary based on the results of actuarial valuations and on the investment performance of the pension plans assets,
- future payments of other benefit plans liability, principally post-retirement benefits, depend on when and if retirees submit claims,
- future payments of income taxes depend on the levels of taxable earnings and income tax rates,
- future payments of the share appreciation value on employee stock options depend on whether employees exercise their stock options, the market prices of Weston and Loblaw common shares on the exercise date and the manner in which they exercise those stock options,
- future payments of insurance claims can extend over several years and depend on the timing of anticipated settlements and results of litigation, and
- future payment relating to the settlement of the equity forward obligation based on 9.6 million Loblaw common shares which matures in 2031 (see note 18 to the consolidated financial statements) will depend on the market price of Loblaw common shares. Further, the market value of the 9.6 million Loblaw common shares that Weston has used to secure this obligation exceeds the amount owing under the forward contract, and a portion of the proceeds from a future sale of these shares can be used to satisfy the obligation under this forward upon termination or maturity.

At any given time, the Company will have significant commitments with respect to the purchase of goods and services in the normal course of business, such as the purchase of inventory, often in the form of outstanding purchase orders or invoices. Although a small number of these contracts are long term, such as certain arrangements for warehousing and distribution and the purchase of electricity for a manufacturing facility, they are generally short term in nature and are settled in accordance with normal trade terms.

Off-Balance Sheet Arrangements

In the normal course of business, the Company enters into the following off-balance sheet arrangements:

- guarantees,
- the securitization of a portion of PC Bank's credit card receivables through an independent trust,
- a standby letter of credit to an independent trust which provides loans to Loblaw's franchisees for their purchase of inventory and fixed assets, and
- financial derivative instruments in the form of interest rate swaps and an electricity forward contract.

Guarantees The Company has entered into various guarantee agreements. For a detailed description of the Company's guarantees, see note 20 to the consolidated financial statements.

Credit Card Receivables Loblaw, through its wholly owned subsidiary PC Bank, securitizes credit card receivables through an independent trust administered by a major Canadian bank. In these securitizations, PC Bank sells a portion of its credit card receivables to the trust in exchange for cash. The trust funds these purchases by issuing debt securities in the form of commercial paper to third party investors. The securitizations are accounted for as asset sales only when PC Bank transfers control of the transferred assets and receives consideration other than beneficial interests in the transferred assets. All transactions between the trust and PC Bank have been, and are expected to continue to be, accounted for as sales as contemplated by Accounting Guideline 12, "Transfers of Receivables". As PC Bank does not control or exercise any measure of influence over the trust, the financial results of the trust have not been included in the Company's consolidated financial statements.

When Loblaw sells credit card receivables to the trust it no longer has access to the receivables but continues to maintain credit card customer account relationships and servicing responsibilities. Loblaw does not receive an explicit servicing fee from the trust for its servicing responsibilities. When a sale occurs, PC Bank may retain subordinated interests consisting of rights to future cash flows after obligations to the investors in the trust have been met and credit enhancement deposits in the form of a cash reserve account, both of which are considered to be a retained interest. The trust's recourse to PC Bank's assets is limited to PC Bank's retained interests and is further supported through a standby letter of credit provided by a major Canadian bank for 15% of the securitized amount. This standby letter of credit could be drawn upon in the event of a major decline in the income flow from or in the value of the securitized credit card receivables, after the cash reserve account established pursuant to the securitization agreement has been depleted. Loblaw has agreed to reimburse the issuing bank for any amount drawn on the standby letter of credit. The carrying value of the retained interests is periodically reviewed and when a decline in value is identified that is other than temporary, the carrying value is written down to fair value.

As at year end 2003, the total amount of securitized credit card receivables outstanding which PC Bank continues to service was $558 million and the associated retained interests amounted to $9 million. The standby letter of credit supporting these securitized receivables amounted to approximately $84 million. During 2003, PC Bank received income of $53 million from the independent trust relating to the securitized credit card receivables.

In the absence of securitization, Loblaw would be required to raise alternative financing by issuing debt or equity instruments. Further disclosure regarding this arrangement is provided in notes 9 and 20 to the consolidated financial statements.

Standby Letter of Credit to an Independent Trust Franchisees of Loblaw may obtain financing from an independent trust that was created to provide loans to franchisees to facilitate their purchase of inventory and fixed assets, mainly fixturing and equipment. The trust's activities are financed through the issuance of short term asset-backed notes to third party investors. The total amount of loans outstanding to Loblaw's franchisees as at year end 2003 was $343 million. A standby letter of credit has been provided for the benefit of the trust by a major Canadian bank for approximately 10% of the principal amount of the loans or $35 million as a form of credit enhancement which, in turn, allows the trust to provide favourable financing terms to Loblaw's franchisees. In the event that a franchisee defaults on its loan and Loblaw has not, within a specified time period, (i) assumed the loan, (ii) purchased the assets of the defaulting franchisee over which security has been taken by the trust, or (iii) provided for an increase of the amount of the standby letter of credit by the outstanding amount under the loan, the trust may draw upon this standby letter of credit or realize on its security. Loblaw has agreed to reimburse the issuing bank for any amount drawn on the standby letter of credit.

In accordance with current accounting standards issued by the CICA, the financial statements of the trust are not consolidated with those of the Company. The discussion in the Future Accounting Standards section of this MD&A concerning Accounting Guideline 15, "Consolidation of Variable Interest Entities", includes a discussion concerning the possible application of this accounting guideline to the trust.

Derivative Instruments The Company uses off-balance sheet financial derivative instruments to manage its exposure to changes in interest rates and Ontario electricity prices. For a detailed description of the Company's off-balance sheet derivative instruments and the related accounting policies, see notes 1 and 18 to the consolidated financial statements.

Management's Discussion and Analysis

QUARTERLY RESULTS OF OPERATIONS

The 52 week reporting cycle followed by the Company is divided into four quarters of 12 weeks each except for the third quarter, which is 16 weeks in duration. When a fiscal year such as 2003 contains 53 weeks, the fourth quarter is 13 weeks in duration. The following is a summary of selected consolidated financial information derived from the Company's unaudited interim consolidated financial statements for each of the eight most recently completed quarters. This information was prepared in accordance with Canadian GAAP and is reported in Canadian dollars.

Quarterly Financial Information (unaudited)

($ millions except where otherwise indicated)		First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total (audited)
Sales	**2003**	**$ 6,399**	**$ 6,754**	**$ 8,768**	**$ 7,277**	**$ 29,198**
	2002	$ 5,998	$ 6,324	$ 8,509	$ 6,615	$ 27,446
Net earnings	**2003**	**$ 134**	**$ 193**	**$ 213**	**$ 252**	**$ 792**
	2002	$ 108	$ 161	$ 190	$ 231	$ 690
Net earnings per common share ($)						
Basic	**2003**	**$ .96**	**$ 1.42**	**$ 1.55**	**$ 1.87**	**$ 5.80**
	2002	$ .80	$ 1.18	$ 1.37	$ 1.70	$ 5.05
Diluted	**2003**	**$ .96**	**$ 1.42**	**$ 1.54**	**$ 1.86**	**$ 5.78**
	2002	$ .79	$ 1.17	$ 1.36	$ 1.70	$ 5.02

Results by Quarter Sales growth in 2003 for the first and second quarters was lower than the prior year as the Company cycled the acquisition of George Weston Bakeries, which was completed in the third quarter of 2001. This was offset by Food Distribution sales growth and same-store sales growth that were strong in the first half of 2003 and declined slightly in the latter half of the year. Sales growth in the third quarter of 2003 was lower than the prior year primarily as a result of the impact of foreign currency translation in Weston Foods and the delay in new store construction pending the completion of negotiations with several unions in Food Distribution. Sales growth in the fourth quarter of 2003 over the prior year was primarily the result of an additional week in 2003 partially offset by the negative impact of foreign currency translation in Weston Foods. In the second quarter of 2002, the Company's sales increase was negatively impacted by the two week strike in the RCSS business in Saskatchewan and unseasonable weather in Ontario and Quebec. Holidays such as Easter, Thanksgiving and Christmas impact the Company's sales volumes and have fallen within the same quarters year over year. In addition, Weston Foods is impacted by the timing of seasonal sales items such as pies, buns, rolls, girl scout cookies and ice cream cones and wafers. The sales timing of these seasonal items generally occur in the same quarters year over year.

Operating margin in each of the first three quarters of 2003 improved over the respective quarters of 2002. Fourth quarter operating income in 2003 was negatively impacted by the $60 million of restructuring and other charges recognized during the quarter (see note 2 to the consolidated financial statements). Operating margins in the fourth quarter are generally stronger than those generated during the other quarters due to a more profitable sales mix.

Interest expense incurred on a quarterly basis in 2003 over the prior year has generally been impacted by increases in average long term borrowing levels outstanding, partially offset by declines in average long term borrowing rates. Quarterly interest expense has also been impacted by lower average United States short term investment rates on increasing average United States short term investment levels. During the first three quarters of 2003, interest expense benefited from the higher net positive effect of the Company's interest rate, currency and equity derivative agreements.

The effective income tax rate declines in the 2003 quarterly results over the prior year are mainly as a result of the 2% reduction in the federal statutory income tax rate, and fluctuations in the effective income tax rate on a quarterly basis are in part due to the fair value impact of the Loblaw equity forwards.

Throughout fiscal 2003 and 2002 the Company purchased common shares for cancellation pursuant to its NCIB. The weighted average common shares outstanding has not been significantly impacted by these purchases.

Fourth Quarter Results

The Company's 2003 fourth quarter results of operations, financial condition and cash flows were affected as follows:

- Sales were impacted positively by approximately 8% due to the additional week in 2003 and negatively by 2% due to foreign currency translation in Weston Foods.
- Operating income included $60 million of restructuring and other charges recognized during the quarter (see note 2 to the consolidated financial statements).
- Operating income was impacted negatively by 2% due to foreign currency translation in Weston Foods.
- Interest expense increased 59%, mainly attibutable to an increase in average long term borrowing levels, the impact of the additional week in 2003, the lower positive effect from interest rate, currency and equity derivatives resulting from the termination of Weston's cross currency basis and interest rate swaps and lower United States net short term interest rates on investments.
- Income tax expense included a $7 million charge due to the adjustment to future income tax balances to reflect the increase in corporate income tax rates by the Ontario provincial government. The Ontario government enacted a 1.5% increase in corporate income tax rates from 12.5% in 2003 to 14% in 2004, and repealed the scheduled 2004 to 2006 income tax rate reductions of 1.5% per annum. Income tax expense also included a reduction of $34 million as a result of the favourable resolution of an income tax issue, previously accrued for by the Company, which related to the disposition of the Company's forest products business in 1998.
- Weston purchased for cancellation 2,013,092 of its common shares at an agreed-upon price of $95.58 per common share from Wittington, Weston's majority shareholder.

Further discussion and analysis on the fourth quarter results is provided in the Company's 2003 Preliminary Report to Shareholders.

Management's Discussion and Analysis

OPERATING RISKS AND RISK MANAGEMENT

In the normal course of its business, the Company's reportable operating segments are exposed to operating risks that have the potential to negatively affect its financial performance. Each operating segment has insurance programs and its own operating and risk management strategies to help minimize these operating risks.

Industry The North American food industry is a changing and competitive market. Consumers' needs drive changes in the industry, which is impacted by changing demographic and economic trends such as changes in disposable income, increasing ethnic diversity, nutritional awareness and time availability. Over the past several years, consumers have demanded more quality, value and convenience. If the Company is ineffective in responding to these demands, its financial performance could be negatively impacted.

All operating segments evaluate the markets they operate in and will enter new markets and review potential acquisitions when opportunities arise, and will also exit a particular market and reallocate assets elsewhere when there is a strategic advantage to doing so. With any acquisition, there is inherent risk related to the Company's ability to integrate the acquired business and to achieve the anticipated operating improvements.

Weston Foods' strategy to operate on a North American scale allows it to effectively manage and minimize its exposure to industry risk.

Food Distribution pursues a strategy of enhancing profitability on a market-by-market basis by using a multi-format approach. By operating across Canada through corporate stores, franchised stores and associated stores and by servicing independent accounts, Food Distribution strategically minimizes and balances its exposure to industry risk.

To minimize its exposure to industry risk, Fisheries operates hatcheries, ocean pens and processing plants in three strategic geographic areas: the east coast of Canada and the United States, the west coast of Canada and southern Chile.

Competitive The Company reviews and monitors operating plans and results including market share in its reportable operating segments. When necessary, the segments will modify their operating strategies including relocating production facilities or stores, reviewing pricing and adjusting product offerings, brand positioning and/or marketing programs to take into account competitive activity. A significant competitive advantage the Company has developed is its brands. All segments focus on brand development and building upon their core brand equity.

Weston Foods' brands provide it with a strategic advantage over its competitors. Its premium and popular brands provide Weston Foods with strong core brands and product lines that enhance consumer loyalty, trusted as they are for quality, great taste and freshness. As a result of the difficult sales environment being experienced by United States traditional food retailers, coupled with the continuing cost pressures being experienced by the industry, Weston Foods anticipates that competitive business restructuring will continue in 2004. Although the outcome and the impact, if any, on the Company's consolidated financial results from this anticipated restructuring is uncertain, Weston Foods will closely monitor the United States food retail market and, if required, adjust its strategies and programs as necessary.

Food Distribution's control label program enhances customer loyalty by offering superior value and provides some protection against national brand pricing strategies. Food Distribution faces competition from many types of non-traditional competitors, such as mass merchandisers, warehouse clubs, drug stores and specialty stores, which continue to increase their offerings of products typically associated with supermarkets. In order to compete effectively and efficiently, Food Distribution is developing and operating new departments and services that complement the traditional supermarket layout as well as enhancing its non-food product and service offerings. Food Distribution is also subject to competitive pressures from new entrants into the marketplace and from the potential consolidation of existing competitors.

Fisheries' product innovation is its strategic point of differentiation from its competitors. Fisheries, through its *Heritage* product line, continues to leverage its strong brand equity with its customers and to be a leader in the development of innovative and consumer-friendly salmon products.

Increased competition could affect the Company's ability to achieve its objectives. The Company's inability to compete effectively with its current or any future competitors could result in, among other things, lessening of market share and lower pricing in response to its competitor pricing activities.

Food Safety The Company is subject to potential liabilities connected with its business operations, including potential liabilities and expenses associated with product defects, food safety and product handling. Such liabilities may arise in relation to the storage, distribution and display of products and, with respect to Food Distribution's control label products, in relation to the production, packaging and design of products.

A large majority of the Company's sales are generated from food products and the Company could be vulnerable in the event of a significant outbreak of food-borne illness or increased public health concerns in connection with certain food products. Such an event could materially affect the Company's financial performance. Procedures are in place to manage food crises, should they occur. These procedures identify risks, provide clear communication to employees and consumers and ensure that potentially harmful products are removed from inventory immediately. Food safety related liability exposures are insured by the Company's insurance program. In addition, the Company has food safety procedures and programs which address safe food handling and preparation standards. The Company employs best practices for storage and distribution of food products. The Company is intensifying the campaign for consumer awareness on safe food handling and consumption.

Labour A significant portion of the Company's workforce is unionized. Renegotiating collective agreements might result in work stoppages or slowdowns, which could materially affect the Company's financial performance, depending on their nature and duration. The Company is willing to accept the short term costs of labour disruption in order to negotiate competitive labour costs and operating conditions for the longer term. There were significant labour negotiations across the Company in 2003; 77 collective agreements expired and another 76 collective agreements were successfully negotiated. Food Distribution's 2003 labour negotiations were challenging and resulted in a labour disruption of short duration in the Dominion banner in Newfoundland and Labrador, which was ultimately resolved and resulted in a collective agreement of 41 months in duration. In 2004, 113 collective agreements affecting approximately 13,000 employees will expire, with the single largest agreement covering approximately 2,300 employees. The Company will also continue to negotiate the 51 collective agreements carried over from 2000 to 2003 and anticipates no labour disruption with respect to these negotiations. The Company has good relations with its employees and unions and, although it is possible, does not anticipate any unusual difficulties in renegotiating agreements.

Several of the Company's competitors operate in a non-union environment. These competitors may benefit from lower labour costs, making it more difficult for the Company to compete.

Commodity Prices Weston Foods operating results are directly impacted by fluctuations in the price of commodities such as wheat, flour, sugar, vegetable oil and cocoa. Increases in prices of these commodities could continue to adversely affect the Company's financial performance. In order to minimize the effect of these fluctuations on current operating results and to lessen the resulting uncertainty of future financial results, the Company hedges a portion of its anticipated commodity purchases to help mitigate the impact of its exposure to fluctuations in commodity prices. As at year end 2003, Weston Foods had entered into commodity future or option contracts, which mitigate price

fluctuations on some commodities for approximately four months, on average, into 2004. Fisheries operating results are directly impacted by fresh farmed salmon market prices and its profitability remains dependent on further improvement in prices, which may or may not materialize given the uncertainty surrounding industry supply and demand.

Third Party Service Providers Certain aspects of the Company's operations are provided by third parties. While appropriate contractual arrangements are in place with these third parties, the Company has no direct influence over how such third parties are managed. It is possible that negative events affecting these third parties could in turn negatively impact the Company's operations.

In addition, certain of Weston Foods' products and Food Distribution's control label products are manufactured under contract by third party vendors, which are held to high standards of quality.

President's Choice Financial banking services are provided by Amicus Bank, a member of the CIBC group of companies. PC Bank uses third party service providers to process credit card transactions, operate call centres and monitor credit and fraud for the *President's Choice Financial* MasterCard. In order to minimize operating risk, PC Bank and Loblaw actively manage and monitor their relationship with all third party service providers. PC Bank has developed a vendor management policy, approved by its Board of Directors, and provides its Board with regular reports on vendor management and risk assessment. Products offered by *PC Financial* Insurance are provided by companies within the Aviva Canada group, the Canadian subsidiary of a major international property and casualty insurance provider.

Pension, Post-Retirement and Post-Employment Benefits In order to measure the obligations and expenses of Company-sponsored pension, post-retirement and post-employment benefit plans, the Company is required to use various assumptions including a long term estimate of the expected rate of return on plan assets, discount rate and growth rate of health care costs. Because these assumptions are forward-looking and longer term in nature, actual results in the short term may differ.

The following table outlines the 2004 key economic assumptions used in measuring the accrued benefit plan obligations and related expenses of the Company's pension and other benefit plans. The sensitivity analysis provided in the table is hypothetical and should be used with caution. The sensitivities of each key variable have been calculated independently of any changes in other key variables. Actual experience may result in changes in a number of key assumptions simultaneously. Changes in one factor may result in changes in another, which could amplify or reduce the impact of such variables. Actuarial gains or losses are amortized in accordance with Canadian GAAP, further reducing the volatility associated with these changes.

	Pension Benefit Plans		Other Benefit Plans	
($ millions except where otherwise indicated)	Accrued Benefit Obligation	Benefit Expense	Accrued Benefit Obligation	Benefit Expense
Expected long term rate of return on plan assets		8.0%		
Impact of: 1% increase		$ (13)		
1% decrease		$ 13		
Discount rate	6.3%	6.3%	6.1%	6.1%
Impact of: 1% increase	$ (183)	$ (18)	$ (33)	$ (4)
1% decrease	$ 213	$ 26	$ 38	$ 4
Growth rate of health care costs (1)			9.0%	9.0%
Impact of: 1% increase			$ 35	$ 7
1% decrease			$ (30)	$ (6)

(1) Gradually decreasing to 5.0% in 2011 and remaining at that level thereafter.

For 2004, the Company has assumed an 8.0% (2003 – 8.0%) expected long term rate of return on plan assets based on the plan asset mix and the active management of its pension plan assets. The Company's defined benefit pension plan assets had a 10-year annualized return of 8.8% in 2003. The actual return per annum within this 10-year period varied with market conditions.

The poor performance of the financial markets in recent years combined with interest rates at 40-year lows have negatively impacted the funding of the Company's defined benefit pension plans. During 2003, the Company voluntarily made a lump sum contribution to its defined benefit pension plans of $64 million, bringing total contribution to $135 million (2002 – $20 million). During 2004, the Company expects to contribute approximately $90 million to these plans.

While the Company's pension plans are currently adequately funded and returns on pension plan assets are in line with expectations, there is no assurance that this will continue. An extended period of depressed capital markets and low interest rates could require the Company to make significant contributions to its pension plans, which in turn could have a material effect on its financial performance.

In addition to the Company-sponsored pension plans, the Company participates in various multi-employer pension plans providing pension benefits in which approximately 41% (2002 – 40%) of employees of the Company and Loblaw's franchisees participate. The administration of these plans and the investment of their assets are legally controlled by a board of independent trustees generally consisting of an equal number of union and employer representatives. In some circumstances, the Company may have a representative on the board of trustees of these multi-employer pension plans. The Company's responsibility to make contributions to these plans is limited by the amounts established pursuant to its collective agreements. Pension expense for these plans is recognized as contributions are paid.

Real Estate The availability and conditions affecting the acquisition and development of real estate properties may impact Food Distribution's strategies and financial performance. Food Distribution maintains a significant portfolio of owned retail real estate and, whenever practical, pursues a strategy of purchasing sites for future store locations. This enhances Food Distribution's operating flexibility by allowing it to introduce new departments and services that could be precluded under operating leases. At year end 2003, Food Distribution owned 67% (2002 – 63%) of its corporate store square footage.

Seasonality The Company's operations as they relate to food, specifically inventory levels, sales volumes and product mix, are impacted to some degree by certain holiday periods throughout the year. Each of the Company's reportable operating segments continuously monitors the impact holidays may have on their operations and adjusts inventory levels and production and delivery schedules as required. As Food Distribution expands its non-food offering, it may increase the number of seasonal products offered and, therefore, its operations may be subject to more seasonal fluctuations.

Leadership Development and Employee Retention Effective leadership is essential to sustaining the growth and success of the Company. The Company continues to focus on the development of leaders at all levels, and across all regions, by executing tailored leadership development programs that provide the knowledge and skills necessary to drive positive change and ensure effective execution. The degree to which the Company is effective in developing its leaders and retaining key employees could affect its ability to execute its strategies, efficiently run its operations and meet its goals for financial performance.

In 2002, Food Distribution announced the construction of a new office facility in Brampton, Ontario that will consolidate eight administrative and operating offices from across southern Ontario by 2005, which may result in some short term employee turnover.

Management's Discussion and Analysis

Utility Prices The Company is a significant consumer of electricity and other utilities. Unanticipated increases in the cost of these utilities could affect the Company's financial performance. In 2002, the government of Ontario, Canada deregulated the electricity market in that province. In order to minimize the risk of higher electricity prices, the Company entered into a three year initial term electricity forward contract, which expires in May 2005. This contract maintains a portion of the Company's electricity costs at approximately 2001 rates.

Insurance The Company effectively limits its exposure to risk through a combination of appropriate levels of self-insurance and the purchase of various insurance coverages, including an integrated insurance program. The Company's insurance program is based on various lines and limits of coverage which provide the appropriate level of retained and insured risks. Insurance is arranged on a multi-year basis with reliable, financially stable insurance companies as rated by A.M. Best Company, Inc. The Company combines comprehensive risk management programs and the active management of claims handling and litigation processes by using internal professionals and external technical expertise to reduce and manage the risk it retains.

Environmental, Health and Safety The Company has effective environmental programs in place and has established policies and procedures aimed at ensuring compliance with applicable environmental legislative requirements. To this end, the Company employs environmental risk assessments and audits using internal and external resources together with effective employee awareness programs throughout its operating locations.

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. Environmental protection requirements do not and are not expected to have a material effect on the Company's financial performance. The Company has a health and safety program designed to address health and wellness, workplace safety and compliance with internal and regulatory guidelines for workplace health and safety. Fisheries may be faced from time to time with challenges with respect to its compliance with certain environmental laws. The salmon aquaculture industry has recently been the subject of publicity concerning certain health related issues which may impact demand for the product.

The Environmental, Health and Safety Committee of the Board receives reports which review outstanding issues, identify new legislative concerns and outline related communication efforts.

Legal, Tax and Accounting Changes to any of the laws, rules, regulations or policies related to the Company's business, including the production, processing, preparation, distribution, packaging and labelling of its products could have a significant impact on its financial performance. In the course of complying with such changes, the Company may incur significant costs. Failure by the Company to fully comply with applicable laws, rules, regulations and policies may subject it to civil or regulatory proceedings, including fines, injunctions, recalls or seizures, which may have a material adverse effect on the Company's financial performance. There can be no assurance that the tax laws and regulations in the jurisdictions affecting the Company will not be changed in a manner which could adversely affect the Company. New accounting pronouncements introduced by the appropriate authoritative bodies may impact the Company's financial performance.

Holding Company Structure Weston is a holding company. As such, it does not carry on all of its business directly but does so through its subsidiaries. It has no major source of income or assets of its own, other than the interests it has in its subsidiaries, which are all separate legal entities. Weston is therefore financially dependent on dividends and other distributions it receives from its subsidiaries.

FINANCIAL RISKS AND RISK MANAGEMENT

In the normal course of its business, the Company is exposed to financial risks that have the potential to negatively affect its financial performance. The risks relating to the Company's financing activities include changes in interest rates, foreign currency exchange rates, the market prices of Weston and Loblaw common shares and electricity prices in Ontario. The Company is also exposed to credit and counterparty risks on certain of its financial instruments. These risks and the actions taken to minimize them are discussed below.

Derivative Instruments The Company uses over-the-counter derivative financial instruments, specifically cross currency basis swaps, interest rate swaps and equity forwards and swaps, to minimize the risks and costs associated with its financing activities and its stock-based compensation plans. The Company has also entered into an elecricity forward contract to partially offset electricity price volatility in Ontario. The Company maintains treasury centres that operate under policies and guidelines approved by the Board, covering funding, investing, foreign currency exchange, equity and interest rate management. The Company's policies and guidelines prevent it from using any derivative instrument for trading or speculative purposes. See notes 1 and 18 to the consolidated financial statements for additional information on the Company's derivative instruments.

Foreign Currency Exchange Rate The Company enters into currency derivative agreements to manage its current and anticipated exposure to fluctuations in foreign currency exchange rates. Loblaw's cross currency basis swaps are transactions in which floating interest payments and principal in United States dollars are exchanged against the receipt of floating interest payments and principal in Canadian dollars. These cross currency basis swaps limit Loblaw's exposure against foreign currency exchange rate fluctuations on a portion of its United States dollar denominated assets, principally cash, cash equivalents and short term investments.

During 2003, as a result of the significant strengthening of the Canadian dollar, Weston terminated cross currency basis swaps that previously limited its exposure to foreign currency exchange rate fluctuations on its U.S. net investment. As a result, foreign currency exchange rate adjustments on the translation of Weston's U.S. net investment that are recognized within the cumulative foreign currency translation adjustment included in shareholders' equity will no longer be offset. Weston continues to monitor its current and anticipated exposure to fluctuations in foreign currency exchange rates, specifically those related to its U.S. net investment, and may consider entering into currency derivative agreements as appropriate to manage this exposure.

Interest Rate The Company enters into interest rate derivative agreements to manage its current and anticipated exposure to fluctuations in interest rates and market liquidity. Interest rate swaps are transactions in which the Company exchanges interest flows with a counterparty on a specified notional amount for a predetermined period based on agreed-upon fixed and floating interest rates. Notional amounts are not exchanged. The Company monitors market conditions and the impact of interest rate fluctuations on its fixed/floating interest rate exposure mix on an ongoing basis.

Common Stock Market Price The Company enters into equity derivative agreements to manage its current and anticipated exposure to fluctuations in its stock-based compensation cost as a result of changes in the market prices of Weston and Loblaw common shares. These equity derivative agreements change in value as the market price of the underlying common shares changes, which effectively results in a partial offset to fluctuations in the Company's stock-based compensation cost. The partial offset between the Company's stock-based compensation costs and the equity derivatives is effective as long as the market prices of Weston and Loblaw common shares exceed the exercise price of the related employee stock options. The fair value of Weston's equity forward sale agreement based on 9.6 million Loblaw common shares will fluctuate with changes in the market price of Loblaw common shares, and any gain or loss would be offset by the recognition of a gain or loss on a future sale by Weston of the 9.6 million Loblaw common shares.

Electricity Prices The Company entered into an electricity forward contract to partially offset its volatility in the price of electricity in Ontario. The forward contract changes in value as the price of electricity changes.

Counterparty Over-the-counter derivative financial instruments are subject to counterparty risk. Counterparty risk arises from the possibility that market changes may affect a counterparty's position unfavourably and that the counterparty defaults on its obligation to the Company. The Company has sought to minimize potential counterparty risk and losses by implementing a policy that allows such transactions only with counterparties that have, at a minimum, a long term A rating by S&P or DBRS, placing risk adjusted limits on its exposure to any single counterparty and having master netting agreements with its counterparties. These netting agreements mitigate counterparty risk to the extent that unfavourable contracts with the same counterparty can be legally netted against the settlement of favourable contracts.

Credit The Company's exposure to credit risk relates to the Company's cash equivalents and short term investments, Weston Foods' trade accounts receivables and Food Distribution's credit card receivables and accounts receivable from franchisees, associates and independent accounts.

Credit risk associated with the Company's cash equivalents and short term investments results from the possibility that a counterparty may default on the repayment of a security. This risk is mitigated by the Company's policies and guidelines that require issuers of permissible investments to have a minimum A credit rating from a recognized credit rating agency and specify minimum and maximum exposures to specific issuers.

Weston Foods performs ongoing credit evaluations of new and existing customers' financial condition and reviews the collectibility of its trade accounts receivables in order to mitigate any possible credit losses.

Food Distribution's exposure to credit risk relates to PC Bank's credit card receivables. PC Bank manages the *President's Choice Financial* MasterCard and the *PC* points loyalty program. PC Bank grants credit to its customers on the *President's Choice Financial* MasterCard with the intention of increasing the loyalty of Food Distribution customers and Food Distribution profitability. In order to minimize the associated credit risk, PC Bank employs stringent credit scoring techniques, actively monitors its credit card portfolio and reviews techniques and technology that can improve the effectiveness of its collection process. In addition, these receivables are dispersed among a large, diversified group of credit card customers. Food Distribution also has accounts receivable from its franchisees, associates and independent accounts, mainly as a result of sales to these customers. Food Distribution actively monitors the balances on an ongoing basis and collects funds from its franchisees on a weekly basis in accordance with terms specified in the applicable agreements.

RELATED PARTY TRANSACTIONS

Weston's majority shareholder, Wittington, and its affiliates are related parties. Weston, in the normal course of business, has routine transactions with these related parties, including the rental of office space at market rates from Wittington. Rental payments amounted to approximately $2 million in 2003. It is Weston's policy to conduct all transactions and settle balances with related parties on normal trade terms.

As previously discussed, in 2003 Weston purchased for cancellation 2,013,092 of its common shares (representing approximately 1.5% of Weston's outstanding common shares) at an agreed price of $95.58 per common share pursuant to an offer received from Wittington, thereby reducing Wittington's beneficial ownership to 62%. The agreed upon price of $95.58 was equal to the lesser of 96% of the volume weighted average price for Weston's common shares for the last 20 business days and 96% of the volume weighted average closing price for the three business days immediately prior to the closing of the purchase and was subject to the price not being less than $95 per common share.

Weston and the Board of Directors concluded that it was in the best interest of Weston to purchase its common shares and this transaction represented an opportunity to purchase a significant number of its common shares at a price below market price. This offer was reviewed and approved by an independent committee of directors established by Weston's Board of Directors. Weston has obtained an exemption from the issuer bid rules in connection with this purchase from the Ontario Securities Commission.

ACCOUNTING STANDARDS IMPLEMENTED IN 2003

Effective January 1, 2003, the Company implemented Accounting Guideline ("AcG") 14, "Disclosure of Guarantees", issued by the CICA (see note 20 to the consolidated financial statements). AcG 14 requires the Company to disclose significant information about guarantees it has provided without regard to the likelihood that the Company will have to make any payments under those guarantees, and is in addition to the requirements under Section 3290, "Contingencies".

Effective January 1, 2003, the Company elected early adoption, on a prospective basis, of the amended standard, Section 3870, "Stock-based Compensation and Other Stock-based Payments" issued by the CICA. The amended standard was implemented for all stock option grants that will be settled by issuing common shares, which will be measured on grant date using a fair value model and expensed over the vesting period. There was no impact to the consolidated financial statements upon implementation.

In addition, the Company has implemented the revisions to Section 3475, "Disposal of Long-Lived Assets and Discontinued Operations", and the new Emerging Issues Committee (EIC) Abstracts 134, "Accounting for Severance and Termination Benefits" and EIC 135, "Accounting for Costs Associated with Exit and Disposal Activities". Section 3475 replaces the existing Section 3475, "Discontinued Operations" and the disposal provisions of Section 3061, "Property, Plant and Equipment". These recommendations address the recognition, measurement, presentation and disclosure of disposal activities initiated after May 1, 2003. EIC 134 addresses the recognition, measurement and disclosure associated with various types of severance and termination benefits resulting from the termination of employees' services prior to normal retirement. EIC 135 addresses recognition, measurement and disclosure associated with exit and disposal activities. These EICs require that costs be recognized when the liability is incurred rather than at the date of a commitment to an exit or restructuring plan and were effective for activities undertaken after March 31, 2003. The implementation of these recommendations has not had a material impact on the Company's financial position or results of operations.

FUTURE ACCOUNTING STANDARDS

The Company closely monitors new accounting pronouncements and changes in current accounting standards to assess the impact, if any, on its consolidated financial statements. The Company is currently reviewing or has implemented the following pronouncements issued by the CICA:

- AcG 13, "Hedging Relationships", addresses the identification, designation, documentation and effectiveness of hedging relationships for the purposes of applying hedge accounting. The Company has completed the required documentation and effectiveness testing of its hedging relationships as at January 1, 2004 and has determined that no material changes to its accounting for hedging relationships are required except for the current hedge accounting treatment on Weston's equity forward sale agreement based on 9.6 million Loblaw shares (see note 18 to the consolidated financial statements), which will no longer be permissible. EIC 56, "Exchangeable Debentures", has been amended to conform with the provisions of AcG 13, which deal with items ineligible for hedge accounting, by rescinding the ability to use hedge accounting if an entity's investment in the underlying shares is consolidated or is accounted for by the equity method. The effective date to cease the hedge accounting described is the first fiscal period commencing after July 1, 2004. As a result of the amendment to EIC 56, the Company will no longer be permitted to apply hedge accounting on Weston's equity forward sale agreement based on 9.6 million Loblaw shares. Effective the beginning of the Company's third quarter of 2004, the Company will be required to recognize on a

prospective basis the fair value adjustments on this agreement in net earnings. The fair value adjustment is a non-cash item and will ultimately be offset by the recognition of a gain or loss on Weston's disposition of the 9.6 million Loblaw common shares.

- Section 3063, "Impairment of Long-lived Assets", addresses the recognition, measurement and disclosure of impairment of long-lived assets. Accordingly, long-lived assets are reviewed for impairment when events or circumstances indicate that the carrying value of the assets or the asset group may not be recoverable. An impairment loss is recognized when the carrying value of long-lived assets exceeds the sum of the undiscounted cash flows expected to result from their use and eventual disposition. An impairment loss is measured as the amount by which the long-lived assets carrying value exceeds their fair value. These recommendations are effective for fiscal years beginning on or after April 1, 2003. The Company is currently assessing the impact of these recommendations and will implement them in the first quarter of 2004.

- Section 3110, "Asset Retirement Obligations", addresses recognition, measurement and disclosure of legal obligations associated with the costs to retire long-lived assets. These recommendations are effective for fiscal years beginning on or after January 1, 2004. The Company is currently reviewing its legal obligations with respect to asset retirement obligations and will implement these recommendations in the first quarter of 2004.

- EIC 144, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor", was issued in January 2004 and addresses accounting for cash consideration received from a vendor. EIC 144 provides that cash consideration received from a vendor is presumed to be a reduction in the prices of the vendor's products or services and should, therefore, be characterized as a reduction in cost of sales and related inventory when recognized in the customer's income statement and balance sheet. However, that presumption is overcome when consideration is a payment for assets or services delivered to the vendor, in which case the cash consideration should be characterized as revenue or other income, or it is a reimbursement of costs incurred to sell the vendor's products, in which case the cash consideration should be characterized as a reduction of that cost, provided that certain conditions are met. EIC 144 requires retroactive application to all financial statements for annual and interim periods ending after August 15, 2004. The Company is currently assessing the impact of these recommendations and will implement them in the third quarter of 2004.

- AcG 15, "Consolidation of Variable Interest Entities" issued in June 2003, provides guidance for applying consolidation principles to entities that are subject to control on a basis other than ownership of voting interests. The recommendations require the identification of the Company's participation in variable interest entities ("VIEs"), which are defined as entities with insufficient equity at risk to finance its activities without additional subordinated financial support from other parties. Entities identified as VIEs are to be consolidated by the primary beneficiary who holds the majority of the exposure to the expected losses or stands to gain from the majority of the expected returns. Based on the current requirements of AcG 15, the Company is reviewing its interest in unconsolidated entities to identify potential VIEs. Among the entities under review is an independent trust, which provides loans to Loblaw's franchisees for the purchase of inventory and fixed assets, mainly fixturing and equipment. This independent trust has been identified as a VIE and the Company is evaluating the resulting impact.

  The CICA is monitoring developments by the United States Financial Accounting Standards Board ("FASB"), regarding FASB Interpretation No. 46 (Revised December 2003) ("FIN 46R"), "Consolidation of Variable Interest Entities". It is expected that AcG 15 will be amended in 2004 to harmonize with FIN 46R and therefore the effective date of AcG 15 has been deferred to fiscal years beginning on or after November 1, 2004. The Company is monitoring these developments and will implement these recommendations as required in the first quarter of 2005.

OUTLOOK

The Company had another successful year in 2003, maintaining a consistent financial position and good cash flow generation, while continuing its $1.7 billion annual capital investment program. Management believes the financial strength of the Company and the strategic deployment of its financial resources will allow for the continued successful implementation of the Company's operating and financial strategies. Management's expectation for overall sales and earnings growth continues to be positive.

SUPPLEMENTARY FINANCIAL INFORMATION

The Company reports its financial results in accordance with Canadian GAAP. However, the Company has included certain non-GAAP financial measures and ratios which it believes provide useful information to both management and readers of this Annual Report in measuring the financial performance and financial condition of the Company. These measures do not have a standardized meaning prescribed by GAAP and, therefore, may not be comparable to similarly titled measures presented by other publicly traded companies, nor should they be construed as an alternative to other earnings measures determined in accordance with Canadian GAAP.

EBITDA The Company believes EBITDA is useful as an indicator of its operational performance and its ability to generate cash flows to fund its cash requirements, including the Company's capital investment program.

The following tables reconcile EBITDA to Canadian GAAP measures reported in the consolidated statements of earnings:

								2003
($ millions)		**Weston Foods**		**Food Distribution**		**Fisheries**		**Consolidated**
Operating income (1)	**$**	**374**	**$**	**1,458**	**$**	**(20)**	**$**	**1,812**
Depreciation		**144**		**393**		**9**		**546**
EBITDA	**$**	**518**	**$**	**1,851**	**$**	**(11)**	**$**	**2,358**

								2002
($ millions)		Weston Foods		Food Distribution		Fisheries		Consolidated
Operating income	$	409	$	1,295	$	(26)	$	1,678
Depreciation		144		354		9		507
EBITDA	$	553	$	1,649	$	(17)	$	2,185

								2001
($ millions)		Weston Foods		Food Distribution		Fisheries		Consolidated
Operating income	$	313	$	1,128	$	(1)	$	1,440
Depreciation		103		315		13		431
EBITDA	$	416	$	1,443	$	12	$	1,871

(1) 2003 operating income includes restructuring and other charges of $60 made up of a $35 charge recognized by Weston Foods reportable operating segment and a $25 charge recognized by Food Distribution reportable operating segment (see note 2 to the consolidated financial statements).

Management's Discussion and Analysis

Net Debt The Company calculates net debt as the sum of long term debt and short term debt offset by cash, cash equivalents and short term investments and believes this measure is useful in evaluating the amount of leverage employed by the Company. The Company calculates net debt excluding exchangeable debentures as net debt (as calculated above) less exchangeable debentures and believes this measure is also useful in evaluating the amount of leverage employed by the Company as the exchangeable debentures can be settled with the Company's investment in Domtar common shares included in other assets.

The following table reconciles net debt excluding exchangeable debentures to Canadian GAAP measures reported in the consolidated balance sheets:

($ millions)	**As at December 31, 2003**	As at December 31, 2002	As at December 31, 2001
Bank indebtedness	**$ 108**	$ 61	$ 152
Commercial paper	**696**	715	466
Short term bank loans	**67**	33	1,367
Long term debt due within one year	**307**	110	82
Long term debt	**5,832**	5,391	4,908
Less:			
Cash and cash equivalents	**965**	1,157	743
Short term investments	**545**	398	518
Net debt	**5,500**	4,755	5,714
Less: Exchangeable debentures	**374**	374	375
Net debt excluding exchangeable debentures	**$ 5,126**	$ 4,381	$ 5,339

Total Assets The Company uses the return on average total assets ratio to measure the performance of operating assets and therefore excludes cash, cash equivalents, short term investments, business held for sale and the Domtar investment from the total assets used in this ratio. The Company believes this results in a more accurate measure of the performance of its operating assets.

The following table reconciles total assets used in the return on average total assets measure to Canadian GAAP measures reported in the consolidated balance sheets:

				As at December 31, 2003
($ millions)	Weston Foods	Food Distribution	Fisheries	Consolidated
Total assets	$ 4,775	$ 12,294	$ 269	$ 17,338
Less:				
Cash and cash equivalents	347	618		965
Short term investments	167	378		545
Domtar investment	367			367
Total assets	$ 3,894	$ 11,298	$ 269	$ 15,461

				As at December 31, 2002
($ millions)	Weston Foods	Food Distribution	Fisheries	Consolidated
Total assets	$ 5,224	$ 11,167	$ 292	$ 16,683
Less:				
Cash and cash equivalents	334	823		1,157
Short term investments	94	304		398
Domtar investment	367			367
Total assets	$ 4,429	$ 10,040	$ 292	$ 14,761

				As at December 31, 2001
($ millions)	Weston Foods	Food Distribution	Fisheries	Consolidated
Total assets	$ 5,995	$ 9,972	$ 320	$ 16,287
Less:				
Cash and cash equivalents	168	575		743
Short term investments	92	426		518
Business held for sale	934			934
Domtar investment	368			368
Total assets	$ 4,433	$ 8,971	$ 320	$ 13,724

Management's Discussion and Analysis

The following table provides additional financial information.

	As at December 31, 2003	As at December 31, 2002	As at December 31, 2001
Market price per common share ($)	**$ 103.71**	$ 90.25	$ 103.40
Actual common shares outstanding (in millions)	**129.4**	132.3	131.5
Weighted average common shares outstanding (in millions)	**131.9**	131.9	131.5

ADDITIONAL INFORMATION

Additional information, including the Company's Annual Information Form, has been filed electronically through the System for Electronic Document Analysis and Retrieval (SEDAR) and is available online at *www.sedar.com*.

March 11, 2004
Toronto, Canada