



George Weston Limited Q1/2003

Quarterly Report to Shareholders  
12 Weeks Ended March 22, 2003

Weston

## Key Financial Performance Indicators

	12 Weeks Ended	
	Mar. 22, 2003	Mar. 23, 2002
Sales growth	7%	17%
Basic net earnings per common share growth (1)	20%	40%
Net debt (excluding Exchangeable Debentures) to equity ratio	1.10:1	1.36:1
Return on average common shareholders' equity (2)	18.5%	19.0%

(1) After adjusting the 2001 basic net earnings per common share to exclude goodwill charges, basic net earnings per common share in 2002 increased 27% on a comparable basis.

(2) Calculated on a rolling year basis for the 12 weeks ended March 22, 2003 and March 23, 2002.

## Management's Discussion and Analysis

George Weston Limited's (the "Company") first quarter 2003 basic net earnings per common share increased 20% to 96 cents compared to 80 cents in 2002. Sales increased 7% to \$6.4 billion and operating income increased 13% to \$342 million, with operating margin increasing to 5.3% from 5.0% last year. The Company continues to focus on the successful implementation of its existing operating and financial strategies.

### Consolidated Results of Operations

**Sales** Sales for the first quarter of 2003 increased 7%, or \$401 million, to \$6.4 billion. Weston Foods first quarter sales were 2% behind last year impacted negatively by the strengthening Canadian dollar and the continued sluggish sales environment in the United States. Food Distribution, operated by Loblaw Companies Limited ("Loblaw"), sales increased 9% compared to last year with all regions across the country experiencing sales growth consistent with expectations. Fisheries sales increased 18% primarily as a result of improved fresh salmon market prices.

**Operating Income** Operating income for the first quarter of 2003 increased 13%, or \$40 million, to \$342 million, which includes a \$2 million (2002 – \$17 million) stock-based compensation cost. Weston Foods operating income increased 8%. Food Distribution operating income increased 15%. Fisheries continued to experience operating losses during the quarter. Operating margin improved to 5.3% from 5.0% in 2002. EBITDA (see supplementary financial information on page 5) margin improved to 7.3% from 6.9% in 2002.

**Interest Expense** Interest expense for the first quarter of 2003 decreased \$8 million, or 13%, to \$53 million from \$61 million in 2002. Interest on long term debt increased by \$4 million to \$86 million as a result of an increase in average long term borrowing levels partially offset by a decline in average long term borrowing rates. Other long term interest includes the net positive effect of the Company's and Loblaw's interest rate, currency and equity derivative agreements of \$24 million (2002 – \$13 million). Net short term interest income remained unchanged at \$1 million as the increase in average net short term investment levels was offset by lower average short term interest rates. During the second quarter of 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 the first quarter of 2003, \$8 million (2002 – \$7 million) of interest expense was capitalized to fixed assets.

**Income Taxes** The Company's effective income tax rate decreased to 33.6% compared to 34.9% in 2002 as a result of declining Canadian federal and provincial income tax rates.

**Net Earnings** Net earnings for the first quarter of 2003 increased \$26 million, or 24%, to \$134 million from \$108 million in 2002. Basic net earnings per common share for the first quarter of 2003 increased 16 cents, or 20%, to 96 cents from 80 cents in 2002.

## Management's Discussion and Analysis

### Reportable Operating Segments

#### Weston Foods Operating Results

**Sales** Weston Foods sales for the first quarter of \$1.1 billion declined 2%, or \$18 million, compared to last year. Adjusting for the negative impact of the strengthening Canadian dollar, sales for the first quarter were 2% ahead of last year with overall volume growth of approximately 2%. Volume gains were experienced in the baking and dairy operations in Canada and the baking operations in the United States reflecting growth with core customers, the continued strategic positioning with alternate retail formats and foodservice channels, strong promotional sales support programs and the continued rationalization of lower volume products.

**Operating Income** Weston Foods operating income for the first quarter of \$83 million increased 8% compared to last year. Operating margin improved to 7.4% from 6.7% in 2002 and EBITDA margin also improved to 10.5% from 9.5% in 2002. Adjusting for the positive impact of the decrease in stock-based compensation cost and the negative impact of foreign currency translation due to the strengthening Canadian dollar, Weston Foods operating income and margin were essentially flat with last year. Sales volume growth, the continued realization of anticipated synergies from the integration of George Weston Bakeries and the on-going focus on lower operating costs offset higher commodity, energy, pension and benefit costs during the first quarter.

#### Food Distribution Operating Results

**Sales** Food Distribution sales for the first quarter of \$5.4 billion increased 9% or \$425 million compared to last year. All regions across the country experienced sales growth with volume growth in some regions outpacing sales growth reflecting Food Distribution's strategic investment in lower prices.

The increase in sales resulted from a 5.4% same-store sales growth in the quarter and an increase of 2.1 million square feet of net retail square footage related to the opening of 74 new corporate and franchised stores and the closure of 59 stores during the last four quarters. During the first quarter of 2003, 13 new stores were opened and 15 stores were closed resulting in a net increase of .1 million square feet. Consistent with 2002, national food price inflation for 2003 remained low.

**Operating Income** Food Distribution operating income for the first quarter of \$267 million increased 15%, or \$35 million, compared to last year. Operating margin improved to 5.0% compared to 4.7% in 2002. All regions across the country realized earnings improvements over 2002. EBITDA margin improved to 6.6% from 6.3% in 2002. An improvement in overall sales mix management at the store level, a focus on administrative cost control and operating efficiencies and reduced product costs from buying synergies continued to contribute to the improvement in margins.

#### Fisheries Operating Results

**Sales** Fisheries sales for the first quarter of \$46 million increased 18%, or \$7 million, compared to last year primarily due to improved fresh salmon market prices and increased harvest volumes.

**Operating Income** Fisheries operating loss for the first quarter of \$8 million compared to an operating loss of \$7 million last year. First quarter results for 2003 were negatively impacted by a \$2 million inventory loss as a result of the extremely cold weather on the east coast of North America. Although prices have improved compared to last year, a return to profitability remains dependent upon further price improvements.

## Consolidated Financial Condition

**Financial Ratios** The Company's net debt to equity ratio (excluding the Exchangeable Debentures) for the first quarter of 2003 was 1.10:1 compared to 1.36:1 last year. The improvement was a result of a combination of the proceeds realized from the 2002 disposition of the western portion of Bestfoods Baking, the refinancing of debt through the issuance of preferred shares during the second quarter of 2002 and continued earnings growth. Consistent with prior years' trends, the Company expects its net debt to equity ratio to improve throughout the remainder of the year. The interest coverage ratio for the first quarter of 2003 improved to 6.5 times compared to 5.0 times in the first quarter of 2002 due to higher operating income and lower interest expense.

The Company's rolling year return on average total assets was 11.6% at the end of the first quarter of 2003 compared to 11.8% for the comparable period of 2002 and was slightly higher than the year end 2002 return of 11.5%. The Company's rolling year return on average common shareholders' equity was 18.5% at the end of the first quarter of 2003 compared to 19.0% in the comparable period of 2002 and improved slightly compared to the year end 2002 return of 18.3%.

**Dividends** On April 1, 2003, common dividends of 30 cents per common share and preferred dividends of 32 cents per preferred share, Series II were paid as declared by the Company's Board of Directors (the "Board"). On March 15, 2003, preferred dividends of 36 cents per preferred share, Series I were paid as declared by the Board.

## Liquidity and Capital Resources

**Cash Flows used in Operating Activities** First quarter 2003 cash flows used in operating activities improved \$103 million to \$247 million compared to \$350 million in the comparable period of 2002. The improvement resulted mainly from an increase in net earnings before depreciation and an improvement in non-cash working capital, primarily the result of a smaller decrease in accounts payable.

For the remainder of 2003, cash flows relating to operating activities are expected to fund a significant portion of the Company's anticipated 2003 capital investment activity of approximately \$1.6 billion as the investment in non-cash working capital is expected to continue to decline and net earnings before depreciation are expected to increase throughout the remainder of the year.

**Cash Flows used in Investing Activities** First quarter 2003 cash flows used in investing activities were \$155 million compared to cash flows from investing activities of \$624 million in 2002. The change is primarily due to the proceeds from the disposition of the western portion of Bestfoods Baking of approximately \$950 million (U.S. \$610 million) received in 2002.

Capital investment for the first quarter of 2003 totaled \$224 million (2002 – \$227 million) as the Company continues its commitment to maintain and renew its asset base and invest for growth across North America.

During the first quarter of 2003, Loblaw, through its wholly owned subsidiary President's Choice Bank, securitized \$79 million (2002 – nil) of credit card receivables under its securitization program yielding a minimal gain based on assumptions consistent with those disclosed in Note 8 of the Company's consolidated financial statements included in its 2002 Annual Report.

**Cash Flows from Financing Activities** First quarter 2003 cash flows from financing activities were \$448 million compared to cash flows used of \$313 million in 2002. The change is primarily due to the repayment of \$1.3 billion of the short term unsecured credit facility in 2002. During the quarter, the Company issued \$100 million of 6.69% Medium Term Notes ("MTN") due 2033 and Loblaw issued \$200 million of 6.54% MTN due 2033, both pursuant to their respective 2001 Base Shelf Prospectuses.

## Management's Discussion and Analysis

As at the end of the first quarter 2003, the Company had issued all of the MTN available under its 2001 \$1.5 billion Base Shelf Prospectus and Loblaw had \$500 million of MTN available to issue under its 2001 \$1.5 billion Base Shelf Prospectus, which expires on May 24, 2003. On May 1, 2003 Loblaw's announced that its Board of Directors approved the continuation of the MTN program and the Company refiled a \$1.0 billion preliminary Base Shelf Prospectus under which MTN can be offered for issuance over the next 25 months. The Company also intends to refile a Base Shelf Prospectus in 2003.

During the first quarter of 2003, the Company renewed its Normal Course Issuer Bid ("NCIB") to purchase on the Toronto Stock Exchange or enter into equity derivatives to purchase up to approximately 5% of its common shares outstanding. The Company, in accordance with the rules and by-laws of the Toronto Stock Exchange, may purchase its shares at the then market prices of such shares.

During the first quarter of 2003, the Company entered into equity swaps to buy 886,700 of its common shares at an average forward price of \$92.49 per common share with an initial term of six years, pursuant to its NCIB.

### Risks and Risk Management

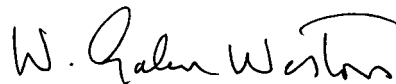
Operating and financial risks and risk management strategies as detailed on pages 33 to 38 in the Management's Discussion and Analysis ("MD&A") included in the Company's 2002 Annual Report remain substantially the same.

### Accounting Standards Implemented in 2003

Effective January 1, 2003, the Company implemented the new Canadian Accounting Guideline 14 – "Disclosure of Guarantees" issued by the Canadian Institute of Chartered Accountants (see Note 10 to the unaudited interim period consolidated financial statements). This guideline 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 payment under those guarantees.

### Outlook

As the current year progresses, the Canadian consumer and our relationship with that consumer appears increasingly positive. Our United States customers and competitors however, are going through a period of change and uncertainty. In spite of this, after 21 months of hard work and restructuring, we are extremely pleased with our United States acquisition and are comfortable that sales and earnings of George Weston Limited will be forthcoming at traditional levels in the year to come.



**W. Galen Weston**  
*Chairman and President*

*Toronto, Canada*  
*May 7, 2003*

## Supplementary Information

This quarterly MD&A should be read in conjunction with the Company's unaudited interim period consolidated financial statements and the accompanying notes and the Company's 2002 Annual Report. A glossary of terms used throughout this Quarterly Report can be found on page 70 of the Company's 2002 Annual Report.

## Supplementary Financial Information

The Company included informaton on EBITDA because it believes certain readers of this Quarterly Report use this measure as a means of measuring financial performance. The term does not have a standardized meaning prescribed by Canadian generally accepted accounting principles ("GAAP") and, therefore, may not be comparable to similarly titled measures presented by other publicly traded companies. This measure should not be construed as an alternative to other earnings measures determined in accordance with Canadian GAAP.

The following tables reconcile EBITDA to the Canadian GAAP measures reported in the Consolidated Statements of Earnings.

	12 weeks ended Mar. 22, 2003			
(\$ millions)	Weston Foods	Food Distribution	Fisheries	Consolidated
Operating income	\$ 83	\$ 267	\$ (8)	\$ 342
Depreciation	36	86	2	124
EBITDA	\$ 119	\$ 353	\$ (6)	\$ 466

	12 weeks ended Mar. 23, 2002			
(\$ millions)	Weston Foods	Food Distribution	Fisheries	Consolidated
Operating income	\$ 77	\$ 232	\$ (7)	\$ 302
Depreciation	32	79	2	113
EBITDA	\$ 109	\$ 311	\$ (5)	\$ 415

The following table provides additional quarterly financial information.

	As at	
	Mar. 22, 2003	Mar. 23, 2002
Market price per common share (\$)	\$ 93.75	\$ 112.60
Actual common shares outstanding (in millions)	132.3	131.5
Weighted average common shares outstanding (in millions)	132.3	131.5

## Forward-Looking Statements

This Quarterly Report, including this MD&A, contains certain forward-looking statements. Such statements relate, to among other things, sales growth, 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, fuels and utilities, the results of the Company's on-going 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 the MD&A included in the Company's 2002 Annual Report. Consequently, actual results and events may vary significantly from those included in, contemplated or implied by such forward-looking statements.

## Consolidated Statements of Earnings

(unaudited)

(\$ millions except where otherwise indicated)

	12 Weeks Ended	
	Mar. 22, 2003	Mar. 23, 2002
<b>Sales</b>	<b>\$ 6,399</b>	<b>\$ 5,998</b>
Operating Expenses		
Cost of sales, selling and administrative expenses	<b>5,933</b>	5,583
Depreciation	<b>124</b>	113
	<b>6,057</b>	5,696
<b>Operating Income</b>	<b>342</b>	302
Interest Expense (note 2)	<b>53</b>	61
<b>Earnings Before the Following:</b>	<b>289</b>	241
Income Taxes	<b>97</b>	84
Minority Interest	<b>58</b>	49
<b>Net Earnings</b>	<b>\$ 134</b>	<b>\$ 108</b>
<b>Net Earnings per Common Share (\$)</b> (note 4)		
Basic	<b>\$ .96</b>	<b>\$ .80</b>
Diluted	<b>\$ .96</b>	<b>\$ .79</b>

See accompanying notes to the unaudited interim period consolidated financial statements.

## Consolidated Statements of Retained Earnings

(unaudited)

(\$ millions except where otherwise indicated)

	12 Weeks Ended	
	Mar. 22, 2003	Mar. 23, 2002
<b>Retained Earnings, Beginning of Period</b>	<b>\$ 3,712</b>	<b>\$ 3,260</b>
Impact of implementing new accounting standard		(55)
Net earnings	<b>134</b>	108
Dividends declared		
Per common share – 30¢ (2002 – 24¢)	<b>(40)</b>	(31)
Per preferred share – Series I – 36¢ (2002 – 40¢)	<b>(4)</b>	(4)
– Series II – 32¢	<b>(3)</b>	
<b>Retained Earnings, End of Period</b>	<b>\$ 3,799</b>	<b>\$ 3,278</b>

See accompanying notes to the unaudited interim period consolidated financial statements.



## Consolidated Balance Sheets

As at

(\$ millions)	Mar. 22, 2003 (unaudited)	Dec. 31, 2002
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,203	\$ 1,157
Short term investments	387	398
Accounts receivable	1,060	964
Inventories	1,962	1,994
Future income taxes	174	144
Prepaid expenses and other assets	62	48
<b>Total Current Assets</b>	<b>4,848</b>	<b>4,705</b>
Fixed Assets	7,120	7,053
Goodwill and Intangible Assets (notes 5 & 6)	3,954	3,988
Future Income Taxes	41	43
Other Assets	976	874
<b>Total Assets</b>	<b>\$ 16,939</b>	<b>\$ 16,663</b>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Bank indebtedness	\$ 58	\$ 61
Commercial paper	988	715
Accounts payable and accrued liabilities	3,044	3,344
Income taxes	83	164
Short term bank loans	42	33
Long term debt due within one year	308	110
<b>Total Current Liabilities</b>	<b>4,523</b>	<b>4,427</b>
Long Term Debt (note 7)	5,491	5,391
Future Income Taxes	187	146
Other Liabilities	663	728
Minority Interest	1,609	1,589
<b>Total Liabilities</b>	<b>12,473</b>	<b>12,281</b>
<b>Shareholders' Equity</b>		
Share Capital (note 8)	610	609
Retained Earnings	3,799	3,712
Cumulative Foreign Currency Translation Adjustment	57	61
<b>Total Shareholders' Equity</b>	<b>4,466</b>	<b>4,382</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 16,939</b>	<b>\$ 16,663</b>

See accompanying notes to the unaudited interim period consolidated financial statements.

## Consolidated Cash Flow Statements

(unaudited)

12 Weeks Ended

(\$ millions)

	Mar. 22, 2003	Mar. 23, 2002
<b>Operating Activities</b>		
Net earnings before minority interest	\$ 192	\$ 157
Depreciation	124	113
Future income taxes	12	9
Change in non-cash working capital	(540)	(611)
Acquisition restructuring and other charges, including income tax recoveries	(36)	(37)
Other	1	19
<b>Cash Flows used in Operating Activities</b>	<b>(247)</b>	<b>(350)</b>
<b>Investing Activities</b>		
Fixed asset purchases	(224)	(227)
Short term investments	11	(106)
Proceeds from fixed asset sales	7	7
Business dispositions		938
Credit card receivables, after securitization	81	(18)
Franchise investments and other receivables	(17)	33
Other	(13)	(3)
<b>Cash Flows (used in) from Investing Activities</b>	<b>(155)</b>	<b>624</b>
<b>Financing Activities</b>		
Bank indebtedness	(3)	(94)
Commercial paper	273	511
Short term bank loans – Issued	9	9
– Retired		(1,321)
Long term debt – Issued (note 7)	300	600
– Retired	(1)	(4)
Subsidiary share capital – Issued (note 8)	1	
– Retired (note 5)	(41)	
Dividends – To shareholders	(39)	(30)
Other	(51)	16
<b>Cash Flows from (used in) Financing Activities</b>	<b>448</b>	<b>(313)</b>
Change in Cash and Cash Equivalents	46	(39)
Cash and Cash Equivalents, Beginning of Period	1,157	743
<b>Cash and Cash Equivalents, End of Period</b>	<b>\$ 1,203</b>	<b>\$ 704</b>

See accompanying notes to the unaudited interim period consolidated financial statements.

## Notes to the Unaudited Interim Period Consolidated Financial Statements

### 1. Summary of Significant Accounting Policies

#### Basis of Presentation

The unaudited interim period consolidated financial statements (the "interim financial statements") were prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and follow the same accounting policies and methods of application with those used in the preparation of the audited annual consolidated financial statements for the year ended December 31, 2002, except for the changes described below. Under Canadian GAAP, additional disclosure is required in annual financial statements and accordingly the interim financial statements should be read together with the audited annual consolidated financial statements and the accompanying notes included in George Weston Limited's 2002 Annual Report.

#### Basis of Consolidation

The interim financial statements include the accounts of George Weston Limited and its subsidiaries (the "Company") with provision for minority interest. The Company's interest in the voting share capital of its subsidiaries is 100% except for Loblaw Companies Limited ("Loblaw"), which was 61.6% at the end of the first quarter compared to 61.4% at year end 2002.

#### Stock-Based Compensation

Subsequent to the first quarter of 2003, the Company amended its Employee Share Ownership Plan. Effective April 6, 2003, the Company will contribute 15% of each employee's contribution to the plan, which will be recognized in operating income as a stock-based compensation cost when the contribution is made.

#### Comparative Information

Certain prior period's information was reclassified to conform with the current period's presentation.

### 2. Interest Expense

(\$ millions)	12 Weeks Ended	
	Mar. 22, 2003	Mar. 23, 2002
Interest on long term debt	\$ 86	\$ 82
Other long term interest	(24)	(13)
Net long term interest	62	69
Net short term interest	(1)	(1)
Capitalized to fixed assets	(8)	(7)
Interest expense	\$ 53	\$ 61

Net interest paid in the first quarter of 2003 was \$62 million (2002 – \$47 million).

### 3. Income Taxes

Net income taxes paid in the first quarter of 2003 were \$165 million (2002 – \$158 million).

## Notes to the Unaudited Interim Period Consolidated Financial Statements

### 4. Net Earnings per Common Share

(\$ millions except where otherwise indicated)	12 Weeks Ended	
	Mar. 22, 2003	Mar. 23, 2002
Net earnings	\$ 134	\$ 108
Prescribed dividends on preferred shares	(7)	(3)
Net earnings available to common shareholders	\$ 127	\$ 105
Weighted average common shares outstanding (in millions)	132.3	131.5
Dilutive effect of stock-based compensation (in millions) (1)	.4	1.3
Diluted weighted average common shares outstanding (in millions)	132.7	132.8
Basic net earnings per common share (\$)	\$ .96	\$ .80
Dilutive effect of stock-based compensation per common share (\$)		(.01)
Diluted net earnings per common share (\$)	\$ .96	\$ .79

- (1) 226,000 of stock options at an exercise price of \$100.00 per common share and 685,129 of stock options at an exercise price of \$93.35 were outstanding at quarter end but were not recognized in the computation of diluted net earnings per common share because the options' exercise price was greater than the quarter's average market price of the common shares.

### 5. Business Acquisitions

During the first quarter of 2003, the Company acquired a specialty bakery for \$6 million, which resulted in the Company recognizing \$2 million of goodwill.

When Loblaw purchases its own common shares, the Company accounts for the purchase as a step-by-step purchase of Loblaw. During the first quarter of 2003, Loblaw purchased 730,000 of its common shares for \$41 million pursuant to its Normal Course Issuer Bid ("NCIB"), which resulted in the Company recognizing \$19 million of goodwill.

### 6. Goodwill and Intangible Assets

Changes in the carrying value of goodwill and intangible assets were as follows:

(\$ millions)	Mar. 22, 2003				As at Dec. 31, 2002
	Weston Foods	Food Distribution	Fisheries	Total	Total
Goodwill, beginning of period	\$ 1,656	\$ 1,682	\$ 9	\$ 3,347	\$ 3,339
Goodwill acquired during the period	2	19		21	8
Impact of foreign currency translation	(39)			(39)	
Goodwill, end of period	1,619	1,701	9	3,329	3,347
Trademarks and brand names	627			627	627
Marine site licences			14	14	14
Impact of foreign currency translation	(16)			(16)	
Goodwill and intangible assets	\$ 2,230	\$ 1,701	\$ 23	\$ 3,954	\$ 3,988

**7. Long Term Debt**

During the first quarter of 2003, the Company issued \$100 million of 6.69% Medium Term Note ("MTN") due 2033 and Loblaw issued \$200 million of 6.54% MTN due 2033.

**8. Stock-Based Compensation**

In the first quarter of 2003, the Company recognized in operating income a stock-based compensation cost of \$2 million, \$8 million less the \$6 million fair value impact of the equity swaps and forwards (2002 – \$17 million, \$39 million less the \$22 million fair value impact of the equity swaps and forwards).

During the first quarter of 2003, the Company granted 685,129 stock options under its existing stock option plan, which allow for settlement in cash at the option of the employee, to 91 employees at an exercise price of \$93.35 per common share. As well, the Company issued 6,812 common shares for cash consideration of \$.3 million on the exercise of stock options and paid the share appreciation value of \$5 million (2002 – \$5 million), net of tax of \$2 million (2002 – \$3 million) on the exercise of 159,891 (2002 – 135,616) stock options. In addition, 11,000 stock options were forfeited or cancelled during the first quarter. Loblaw issued 30,000 common shares for cash consideration of \$1 million on the exercise of stock options and paid the share appreciation value of \$4 million (2002 – \$8 million), net of tax of \$2 million (2002 – \$6 million) on the exercise of 205,362 (2002 – 434,590) stock options. In addition, 29,860 of Loblaw's stock options were forfeited or cancelled during the first quarter.

During the first quarter of 2003, the Company granted 252,285 share appreciation rights under its existing share appreciation right plan, that will be settled in cash, to 63 employees at an exercise price of \$93.35 per common share. No share appreciation rights were exercised, forfeited or cancelled.

During 2002, the Company granted 226,000 stock options to 18 employees at an exercise price per common share of \$100.00, which will be settled by issuing common shares. The weighted average grant-date fair value of these stock options was estimated using the Black-Scholes model for pricing options assuming a weighted average expected dividend yield of .96% annually, a weighted average risk free interest rate of 3.3%, a weighted average expected common stock price volatility of 26.0% and a weighted average expected option life of three years. If the fair value method had been used for these stock options in the first quarter of 2003, the Company's net earnings would have decreased by \$.3 million, with a minimal impact to basic and diluted net earnings per common share. This impact on net earnings and basic and diluted net earnings per common share excludes the effect of 239,115 stock options that were granted before January 1, 2002, which will be settled by issuing common shares.

At quarter end 2003, a total of 2,176,944 (2002 – 2,654,308) stock option grants and share appreciation rights were outstanding, which represented approximately 1.6% (2002 – 2.0%) of the Company's issued and outstanding common shares and was within regulatory guidelines.

**9. Financial Instruments**

During the first quarter of 2003, the Company entered into equity swaps to buy 886,700 of its common shares at an average forward price of \$92.49 per common share, with an initial term of six years, pursuant to its NCIB. Also, Loblaw entered into equity forwards to buy 1,103,500 of its common shares at an average forward price of \$56.39 per common share, with an initial term of 10 years, pursuant to its NCIB.

## Notes to the Unaudited Interim Period Consolidated Financial Statements

### 10. Guarantees

Effective January 1, 2003, the Company implemented Accounting Guideline 14 – “Disclosure of Guarantees”, issued by the Canadian Institute of Chartered Accountants, which requires a guarantor to disclose in its notes to the consolidated financial statements significant information about guarantees it has provided. Under this guideline, a guarantee is defined as a contract or indemnification agreement, which requires the Company to make payments (cash, financial instruments, other assets, the Company’s own shares or the provision of services) to a third party contingent on future events. These payments are contingent on either (i) changes in an underlying interest rate, security price, commodity price, foreign exchange rate or other variables that are related to an asset, liability or an equity security of the guaranteed party, (ii) the failure of another entity to perform under an obligating agreement or (iii) the failure of another party to pay its indebtedness when due (a “Guarantee”). The disclosures are required even when the likelihood of the guarantor having to make any payment under the Guarantee is remote.

The Company has provided to third parties the following significant Guarantees:

#### **Standby Letters Of Credit**

Loblaw has established a standby letter of credit for the benefit of an independent Trust with respect to the credit card receivables securitization program of President’s Choice Bank, a wholly owned subsidiary of Loblaw. 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 believes that the likelihood of this occurrence is remote. The aggregate gross potential liability under this arrangement, which represents 15% of the securitized credit card receivables amount, is approximately \$65 million.

A standby letter of credit has been established by Loblaw in the amount of \$33 million for the benefit of an independent Trust which provides loans to Loblaw’s franchisees for their purchase of inventory and fixed assets. 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 over which security has been taken, or (iii) increased 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.

#### **Lease Obligations**

In connection with historical dispositions of certain of its assets, the Company has assigned leases to third parties. The Company remains contingently liable for these lease obligations in the estimated amount of \$204 million for minimum rent, excluding other lease related expenses such as property tax and common area maintenance charges, in the event any of the assignees are in default of their lease obligations.

#### **Indemnification Provisions**

The Company from time to time enters into agreements in the normal course of its business, such as service arrangements and leases, and in connection with business or asset acquisitions or dispositions. These agreements by their nature may provide for indemnification of counterparties. These indemnification provisions may be in connection with breach of representations and warranties and for future claims for certain liabilities, including liabilities related to tax and environmental matters. The terms of these indemnification provisions vary in duration and can extend for an unlimited period of time. Given the nature of these indemnification provisions, the Company is unable to reasonably estimate its total maximum potential liability as certain indemnification provisions do not provide for a maximum potential amount and the amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. Historically, the Company has not made any significant payments in connection with these indemnification provisions.

### 11. Segment Information

The Company has three reportable operating segments: Weston Foods, Food Distribution and Fisheries. The accounting policies of the segments are the same as those described herein and in the Company's 2002 Annual Report. The Company measures each segment's performance based on operating income. No segment is reliant on any single external customer.

(\$ millions)	12 Weeks Ended	
	Mar. 22, 2003	Mar. 23, 2002
<b>Sales</b>		
Weston Foods	\$ 1,129	\$ 1,147
Food Distribution	5,376	4,951
Fisheries	46	39
Intersegment	(152)	(139)
Consolidated	\$ 6,399	\$ 5,998
<b>Operating Income</b>		
Weston Foods	\$ 83	\$ 77
Food Distribution	267	232
Fisheries	(8)	(7)
Consolidated	\$ 342	\$ 302

## Corporate Profile

George Weston Limited (“Weston”) is a broadly based Canadian company founded in 1882 and is one of North America’s largest food processing and distribution companies. Weston has three reportable operating segments: Weston Foods, Food Distribution and 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 (“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 Atlantic fresh farmed salmon in North America and Chile.



## Investor Relations

Shareholders, security analysts and investment professionals should direct their requests to Mr. Geoffrey H. Wilson, Vice President, Industry and Investor Relations at the Company’s Executive Office. Additional financial information has been filed electronically with various securities regulators in Canada through SEDAR.

This Quarterly Report to Shareholders includes selected information on Loblaw Companies Limited, a subsidiary of the Company and a public reporting company with shares trading on the Toronto Stock Exchange.

# Weston

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