

19. NON-GAAP FINANCIAL MEASURES

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 for the reasons set out below. These measures do not have a standardized meaning prescribed by Canadian 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 financial measures determined in accordance with Canadian GAAP.

Sales and Sales Growth Excluding the Impact of Tobacco Sales and VIEs

These financial measures exclude the impact on sales from the decrease in tobacco sales and from the consolidation by the Company of certain independent franchisees. Tobacco sales continued to decrease through the end of third quarter 2007 as a result of a major tobacco supplier shipping directly to certain customers of Loblaw's Cash & Carry and wholesale club network commencing in the third quarter of 2006. These impacts on sales are excluded because the Company believes this allows for a more effective analysis of the operating performance of the Company. A reconciliation of the financial measures to the Canadian GAAP financial measures is included in the table "Sales and Sales Growth Excluding the Impact of Tobacco Sales and VIEs" on pages 8, 24, 36 and 40 of this MD&A. Loblaw same-store sales growth and same-store sales growth excluding the impact of decreased tobacco sales are included in the table "Sales and Sales Growth Excluding the Impact of Tobacco Sales and VIEs" on pages 24 and 40 of this MD&A.

Management's Discussion and Analysis

Adjusted Operating Income and Margin

The following table reconciles operating income (loss) and adjusted operating income to Canadian GAAP net earnings (loss) from continuing operations for the quarters ended December 31, 2007 and December 31, 2006 and the years ended December 31 as indicated. For each of its reportable operating segments, the tables on pages 19 and 24 of this MD&A reconcile segment adjusted operating income to segment operating income. Items listed in these reconciliations are excluded because the Company believes adjusted operating income allows for a more effective analysis of the operating performance of the Company. In addition, the excluded items affect the comparability of the financial results and could potentially distort the analysis of trends. The exclusion of these items does not imply they are non-recurring. Adjusted operating income and margin are useful to management in assessing the Company's performance and in making decisions regarding the ongoing operations of its business.

Adjusted operating margin is calculated as adjusted operating income divided by sales excluding the impact of tobacco sales and VIEs.

CONSOLIDATED

(\$ millions)	Quarter ended Dec. 31, 2007 (unaudited)	Quarter ended Dec. 31, 2006 (unaudited)	Year ended Dec. 31, 2007	Year ended Dec. 31, 2006	Year ended Dec. 31, 2005	Year ended Dec. 31, 2004	Year ended Dec. 31, 2003
Net earnings (loss) from continuing operations	\$ 151	\$ (428)	\$ 563	\$ 110	\$ 716	\$ 606	\$ 807
Add (deduct) impact of the following:							
Minority interest	22	(289)	130	(82)	288	370	324
Income taxes	46	(3)	236	256	443	368	435
Interest (income) expense and other financing charges	(38)	90	165	253	187	438	266
Operating income (loss)	\$ 181	\$ (630)	\$ 1,094	\$ 537	\$ 1,634	\$ 1,782	\$ 1,832
Add (deduct) impact of the following:							
Restructuring and other charges	39	51	227	90	118	122	60
Net effect of stock-based compensation and the associated equity derivatives	77	(11)	109	60	72	(3)	(11)
Commodity futures fair value adjustment	6	(3)	(19)		(3)		
Inventory liquidation	3	68	15	68			
VIEs	(4)		(11)	(8)			
Curtailment of post-retirement plan			(7)				
Loblaw goodwill impairment charge		800		800			
Ontario collective labour agreement		84		84			
Departure entitlement charge				12			
Goods and Services Tax and provincial sales taxes					40		
Direct costs associated with supply chain disruptions					30		
Adjusted operating income	302	359	1,408	1,643	1,891	1,901	1,881
Add (deduct) impact of the following:							
Depreciation and amortization	162	159	704	705	684	618	537
VIE depreciation and amortization	(6)	(5)	(33)	(24)	(26)		
Adjusted EBITDA	\$ 458	\$ 513	\$ 2,079	\$ 2,324	\$ 2,549	\$ 2,519	\$ 2,418

WESTON FOODS

(\$ millions)	Quarter ended Dec. 31, 2007 (unaudited)	Quarter ended Dec. 31, 2006 (unaudited)	Year ended Dec. 31, 2007	Year ended Dec. 31, 2006	Year ended Dec. 31, 2005	Year ended Dec. 31, 2004	Year ended Dec. 31, 2003
Operating income	\$ 49	\$ 67	\$ 366	\$ 256	\$ 241	\$ 138	\$ 374
Add (deduct) impact of the following:							
Restructuring and other charges	3	16	5	46	32	121	35
Net effect of stock-based compensation and the associated equity derivatives	25	(5)	37	23	29	(3)	(7)
Commodity futures fair value adjustment	6	(3)	(19)		(3)		
Curtailment of post-retirement plan			(7)				
Adjusted operating income	83	75	382	325	299	256	402
Add impact of the following:							
Depreciation and amortization	28	26	116	115	126	145	144
Adjusted EBITDA	\$ 111	\$ 101	\$ 498	\$ 440	\$ 425	\$ 401	\$ 546

LOBLAW

(\$ millions)	Quarter ended Dec. 31, 2007 (unaudited)	Quarter ended Dec. 31, 2006 (unaudited)	Year ended Dec. 31, 2007	Year ended Dec. 31, 2006	Year ended Dec. 31, 2005	Year ended Dec. 31, 2004	Year ended Dec. 31, 2003
Operating income (loss)	\$ 132	\$ (697)	\$ 728	\$ 281	\$ 1,393	\$ 1,644	\$ 1,458
Add (deduct) impact of the following:							
Restructuring and other charges	36	35	222	44	86	1	25
Net effect of stock-based compensation and the associated equity derivatives	52	(6)	72	37	43		(4)
Inventory liquidation	3	68	15	68			
VIEs	(4)		(11)	(8)			
Goodwill impairment charge		800		800			
Ontario collective labour agreement		84		84			
Departure entitlement charge				12			
Goods and Services Tax and provincial sales taxes					40		
Direct costs associated with supply chain disruptions					30		
Adjusted operating income	219	284	1,026	1,318	1,592	1,645	1,479
Add (deduct) impact of the following:							
Depreciation and amortization	134	133	588	590	558	473	393
VIE depreciation and amortization	(6)	(5)	(33)	(24)	(26)		
Adjusted EBITDA	\$ 347	\$ 412	\$ 1,581	\$ 1,884	\$ 2,124	\$ 2,118	\$ 1,872

Management's Discussion and Analysis

Adjusted EBITDA and Margin

The table on page 56 of this MD&A reconciles adjusted earnings before interest, income taxes, depreciation and amortization ("EBITDA") to Canadian GAAP net earnings (loss) from continuing operations for the quarters ended December 31, 2007 and December 31, 2006 and the years ended December 31 as indicated. For each of its reportable operating segments, the tables on pages 19 and 24 of this MD&A reconcile segment adjusted EBITDA to segment operating income. Adjusted EBITDA is useful to management in assessing the Company's performance of its ongoing operations and its ability to generate cash flows to fund its cash requirements, including the Company's capital investment program.

Adjusted EBITDA margin is calculated as adjusted EBITDA divided by sales excluding the impact of tobacco sales and VIEs.

Adjusted Basic Net Earnings per Common Share from Continuing Operations

The following table reconciles adjusted basic net earnings per common share from continuing operations to Canadian GAAP basic net earnings (loss) per common share from continuing operations reported in the consolidated statements of earnings for the quarters ended December 31, 2007 and December 31, 2006 and the years ended December 31 as indicated. Items listed in the reconciliation below are excluded because the Company believes this allows for a more effective analysis of the operating performance of the Company. In addition, they affect the comparability of the financial results and could potentially distort the analysis of trends. The exclusion of these items does not imply that they are non-recurring. Adjusted basic net earnings per common share from continuing operations is useful to management in assessing the Company's performance and in making decisions regarding the ongoing operations of its business.

CONSOLIDATED

Per common share (\$)	Quarter ended Dec. 31, 2007 (unaudited)	Quarter ended Dec. 31, 2006 (unaudited)	Year ended Dec. 31, 2007	Year ended Dec. 31, 2006	Year ended Dec. 31, 2005	Year ended Dec. 31, 2004	Year ended Dec. 31, 2003
Basic net earnings (loss) per common share from continuing operations	\$ 1.07	\$ (3.42)	\$ 3.92	\$ 0.43	\$ 5.25	\$ 4.49	\$ 5.91
Add (deduct) impact of the following:							
Restructuring and other charges	0.13	0.20	0.72	0.36	0.42	0.58	0.24
Net effect of stock-based compensation and the associated equity derivatives	0.41	(0.03)	0.63	0.38	0.46	(0.01)	(0.08)
Commodity futures fair value adjustment	0.02	(0.01)	(0.10)		(0.02)		
Inventory liquidation		0.21	0.04	0.21			
VIEs	0.05		0.04		0.03		
Curtailement of post-retirement plan			(0.03)				
Loblaw goodwill impairment charge		3.84		3.84			
Ontario collective labour agreement		0.26		0.26			
Departure entitlement charge				0.04			
Direct costs associated with supply chain disruptions					0.09		
Goods and Services Tax and provincial sales taxes					0.14		
Accounting for Loblaw forward sale agreement	(0.64)	0.09	(0.81)	(0.40)	(0.77)	0.51	
Changes in statutory income tax rates	(0.15)		(0.15)	(0.14)	0.02		0.03
Resolution of certain income tax matters						(0.07)	(0.26)
Adjusted basic net earnings per common share from continuing operations	\$ 0.89	\$ 1.14	\$ 4.26	\$ 4.98	\$ 5.62	\$ 5.50	\$ 5.84

Net Debt

The following table reconciles net debt excluding Exchangeable Debentures to Canadian GAAP measures reported in the consolidated balance sheets as at the years ended as indicated. The Company calculates net debt as the sum of long term debt and short term debt less cash, cash equivalents and short term investments and believes this measure is useful in evaluating the amount of leverage employed. 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 as the Exchangeable Debentures can be settled by the delivery of common shares of Domtar Corporation (see note 18 to the consolidated financial statements).

(\$ millions)	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2003
Bank indebtedness	\$ 85	\$ 99	\$ 113	\$ 123	\$ 108
Commercial paper	609	838	498	840	696
Short term bank loans	250	178	138	102	67
Long term debt due within one year	432	27	361	222	307
Long term debt	5,494	5,918	5,913	6,004	5,829
Less: Cash and cash equivalents	1,353	1,219	1,540	1,008	965
Short term investments	603	610	50	388	545
Net debt	4,914	5,231	5,433	5,895	5,497
Less: Exchangeable Debentures	157	220	225	373	374
Net debt excluding Exchangeable Debentures	\$ 4,757	\$ 5,011	\$ 5,208	\$ 5,522	\$ 5,123

Total Assets

The following tables reconcile total assets used in the return on average total assets measure to Canadian GAAP measures reported in the consolidated balance sheets as at the years ended as indicated. The Company believes the return on average total assets ratio is useful in assessing the performance of operating assets and therefore excludes cash, cash equivalents, short term investments, assets of operations held for sale and the Domtar/Domtar (Canada) Paper Inc. investment (see note 18 to the consolidated financial statements) from the total assets used in this ratio.

(\$ millions)	As at December 31, 2007			
	Weston Foods	Loblaw	Discontinued Operations	Consolidated
Total assets	\$ 4,574	\$ 13,814	\$ -	\$ 18,388
Less: Cash and cash equivalents	679	674		1,353
Short term investments	300	303		603
Domtar (Canada) Paper Inc. investment	157			157
Total assets	\$ 3,438	\$ 12,837	\$ -	\$ 16,275

(\$ millions)	As at December 31, 2006			
	Weston Foods	Loblaw	Discontinued Operations	Consolidated
Total assets	\$ 4,969	\$ 13,626	\$ -	\$ 18,595
Less: Cash and cash equivalents	550	669		1,219
Short term investments	283	327		610
Domtar investment	215			215
Total assets	\$ 3,921	\$ 12,630	\$ -	\$ 16,551

Management's Discussion and Analysis

As at December 31, 2005

(\$ millions)	Weston Foods	Loblaw	Discontinued Operations	Consolidated
Total assets	\$ 4,680	\$ 13,901	\$ 12	\$ 18,593
Less: Cash and cash equivalents	624	916		1,540
Short term investments	46	4		50
Long term assets of discontinued operations			12	12
Domtar investment	220			220
Total assets	\$ 3,790	\$ 12,981	\$ –	\$ 16,771

As at December 31, 2004

(\$ millions)	Weston Foods	Loblaw	Discontinued Operations	Consolidated
Total assets	\$ 4,614	\$ 13,082	\$ 73	\$ 17,769
Less: Cash and cash equivalents	459	549		1,008
Short term investments	113	275		388
Current assets of discontinued operations			62	62
Long term assets of discontinued operations			11	11
Domtar investment	365			365
Total assets	\$ 3,677	\$ 12,258	\$ –	\$ 15,935

As at December 31, 2003

(\$ millions)	Weston Foods	Loblaw	Discontinued Operations	Consolidated
Total assets	\$ 4,780	\$ 12,230	\$ 268	\$ 17,278
Less: Cash and cash equivalents	347	618		965
Short term investments	167	378		545
Current assets of discontinued operations			179	179
Long term assets of discontinued operations			89	89
Domtar investment	367			367
Total assets	\$ 3,899	\$ 11,234	\$ –	\$ 15,133

Free Cash Flow

The following table reconciles free cash flow to Canadian GAAP measures reported in the consolidated cash flow statements for the quarters ended December 31, 2007 and December 31, 2006 and the years ended December 31 as indicated. The Company calculates free cash flow as cash flows from operating activities of continuing operations less fixed asset purchases and dividends. The Company believes free cash flow is a useful measure of the Company's cash available for additional funding and investing activities.

(\$ millions)	Quarter ended Dec. 31, 2007 (unaudited)	Quarter ended Dec. 31, 2006 (unaudited)	Year ended Dec. 31, 2007	Year ended Dec. 31, 2006	Year ended Dec. 31, 2005	Year ended Dec. 31, 2004	Year ended Dec. 31, 2003
Cash flows from operating activities of continuing operations	\$ 602	\$ 889	\$ 1,673	\$ 1,452	\$ 1,812	\$ 1,576	\$ 1,294
Less: Fixed asset purchases	206	307	722	1,121	1,358	1,425	1,502
Dividends	3	3	331	304	308	285	241
Free cash flow	\$ 393	\$ 579	\$ 620	\$ 27	\$ 146	\$ (134)	\$ (449)

The following table provides additional financial information.

	As at December 31, 2007	As at December 31, 2006	As at December 31, 2005
Market price per common share (\$)	\$ 54.08	\$ 75.60	\$ 86.31
Actual common shares outstanding (in millions)	129.1	129.1	129.0
Weighted average common shares outstanding (in millions)	129.1	129.0	129.0