

Management's Discussion and Analysis

18. NON-GAAP FINANCIAL MEASURES

The Company reports its financial results in accordance with Canadian GAAP. It has historically also included in its Quarterly and Annual Reports certain non-GAAP financial measures and ratios. Over the past year, the Company has reviewed its practices with respect to the disclosure of non-GAAP financial measures. The Company considered the separate presentation of non-GAAP financial measures taking into account the discussion in the MD&A of the results of operations and the impact of specific events on these results of operations, the disclosure practices of its industry peers and best practices.

Based on this review, the Company decided that effective the first quarter of 2008 it would discontinue its use of the following non-GAAP financial measures: sales and sales growth excluding the impact of tobacco sales and VIEs, adjusted operating income and adjusted operating margin, adjusted EBITDA and adjusted EBITDA margin, and adjusted basic net earnings per common share from continuing operations. The Company will continue to discuss the impact of individual specific items that are important in understanding the ongoing operations including those that relate to sales, operating income and basic net earnings per common share.

The Company will continue to use the following non-GAAP financial measures: EBITDA and EBITDA margin, net debt, return on average total assets and free cash flow. The Company believes these non-GAAP financial measures provide useful information to both management and investors in measuring the financial performance and financial condition of the Company for the reasons outlined 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.

EBITDA and EBITDA margin

The following tables reconcile earnings before interest, income taxes, depreciation and amortization ("EBITDA") to Canadian GAAP net earnings from continuing operations reported in the consolidated statement of earnings for the 13 (2007 – 12) and 53 (2007 – 52) week periods ended as indicated. For each of its reportable operating segments, segment EBITDA is reconciled to segment operating income. EBITDA is useful to management in assessing the performance of the Company's ongoing operations and its ability to generate cash flows to fund its cash requirements, including the Company's capital investment program.

EBITDA margin is calculated as EBITDA divided by sales.

(\$ millions)	Quarter Ended December 31, 2008 (unaudited)			Year Ended December 31, 2008		
	Weston Foods	Loblaw	Consolidated	Weston Foods	Loblaw	Consolidated
Net earnings from continuing operations			\$ 356			\$ 645
Add (deduct) impact of the following:						
Minority interest			76			219
Income taxes			112			303
Interest expense and other financing charges			136			360
Gain on disposal of business			(335)			(335)
Operating income	\$ 30	\$ 315	\$ 345	\$ 154	\$ 1,038	\$ 1,192
Depreciation and amortization	14	124	138	58	585	643
Accelerated depreciation ⁽¹⁾	1		1	2		2
EBITDA	\$ 45	\$ 439	\$ 484	\$ 214	\$ 1,623	\$ 1,837

(1) Accelerated depreciation is included in restructuring and other charges in the consolidated statement of earnings as discussed in note 4 to the consolidated financial statements.

(\$ millions)	Quarter Ended December 31, 2007 (unaudited)			Year Ended December 31, 2007		
	Weston Foods	Loblaws	Consolidated	Weston Foods	Loblaws	Consolidated
Net earnings from continuing operations			\$ 110			\$ 374
Add (deduct) impact of the following:						
Minority interest			22			130
Income taxes			43			196
Interest (income) expense and other financing charges			(36)			175
Operating income	\$ 7	\$ 132	\$ 139	\$ 147	\$ 728	\$ 875
Depreciation and amortization	14	134	148	62	588	650
EBITDA	\$ 21	\$ 266	\$ 287	\$ 209	\$ 1,316	\$ 1,525

(\$ millions)	Year Ended December 31, 2006		
	Weston Foods	Loblaws	Consolidated
Net loss from continuing operations			\$ (47)
Add (deduct) impact of the following:			
Minority interest			(82)
Income taxes			242
Interest expense and other financing charges			263
Operating income	\$ 95	\$ 281	\$ 376
Depreciation and amortization	64	590	654
Accelerated depreciation ⁽¹⁾	15	2	17
EBITDA	\$ 174	\$ 873	\$ 1,047

(1) Accelerated depreciation is included in restructuring and other charges in the consolidated statement of earnings as discussed in note 4 to the consolidated financial statements.

Net Debt

The following table reconciles net debt excluding Exchangeable Debentures to Canadian GAAP measures reported in the consolidated balance sheet 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, short term investments and security deposits included in other assets, 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 could have been settled by the delivery of common shares of Domtar Corporation (see note 19 to the consolidated financial statements).

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(\$ millions)	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2006
Bank indebtedness	\$ 112	\$ 60	\$ 69
Commercial paper		609	838
Short term bank loans	453	250	178
Long term debt due within one year	415	432	27
Long term debt	5,308	5,494	5,918
Less: Cash and cash equivalents	1,465	1,076	1,090
Short term investments	694	461	314
Security deposits included in other assets	560	419	425
Net debt	3,569	4,889	5,201
Less: Exchangeable Debentures		157	220
Net debt excluding Exchangeable Debentures	\$ 3,569	\$ 4,732	\$ 4,981

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 sheet 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, security deposits included in other assets, assets of operations held for sale and the Domtar/Domtar (Canada) Paper Inc. investment (see note 19 to the consolidated financial statements) from the total assets used in this ratio.

(\$ millions)	As at December 31, 2008			
	Weston Foods	Loblaw	Discontinued Operations	Consolidated
Total assets	\$ 2,951	\$ 14,125	\$ 2,588	\$ 19,664
Less: Cash and cash equivalents	937	528		1,465
Short term investments	469	225		694
Security deposits included in other assets	123	437		560
Current assets of operations held for sale			2,588	2,588
Total assets	\$ 1,422	\$ 12,935	\$ –	\$ 14,357

(\$ millions)	As at December 31, 2007			
	Weston Foods	Loblaw	Discontinued Operations	Consolidated
Total assets	\$ 2,502	\$ 13,814	\$ 2,118	\$ 18,434
Less: Cash and cash equivalents	646	430		1,076
Short term investments	236	225		461
Security deposits included in other assets	97	322		419
Current assets of operations held for sale			238	238
Long term assets of operations held for sale			1,880	1,880
Domtar (Canada) Paper Inc. investment	157			157
Total assets	\$ 1,366	\$ 12,837	\$ –	\$ 14,203

As at December 31, 2006

(\$ millions)	Weston Foods	Loblaw	Discontinued Operations	Consolidated
Total assets	\$ 2,469	\$ 13,626	\$ 2,552	\$ 18,647
Less: Cash and cash equivalents	522	568		1,090
Short term investments	210	104		314
Security deposits included in other assets	101	324		425
Current assets of operations held for sale			283	283
Long term assets of operations held for sale			2,269	2,269
Domtar investment	215			215
Total assets	\$ 1,421	\$ 12,630	\$ -	\$ 14,051

Free Cash Flow

The following table reconciles free cash flow to Canadian GAAP measures reported in the consolidated cash flow statement for the quarters ended December 31, 2008 and December 31, 2007 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, 2008 (unaudited)	Quarter ended Dec. 31, 2007 (unaudited)	Year ended Dec. 31, 2008	Year ended Dec. 31, 2007	Year ended Dec. 31, 2006
Cash flows from operating					
activities of continuing operations	\$ 602	\$ 530	\$ 985	\$ 1,368	\$ 1,280
Less: Fixed asset purchases	383	185	807	658	1,006
Dividends on share capital	79	3	397	331	304
Free cash flow	\$ 140	\$ 342	\$ (219)	\$ 379	\$ (30)