

15. 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, including this Financial 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. For the following tables, the annual non-GAAP financial measures for the years 2006 through to 2002, are for the 52 or 53 weeks ended or as at December 30, 2006; December 31, 2005; January 1, 2005; January 3, 2004; and December 28, 2002, respectively.

Sales and Sales Growth Excluding the Impact of VIEs

These financial measures exclude the impact on sales from the consolidation by the Company of certain independent franchisees which resulted from the implementation of AcG 15 retroactively without restatement effective January 2, 2005. This impact on sales is excluded because the Company believes this allows for a more effective analysis of the operating performance of the Company. Both the current and comparative measures reflect the retroactive implementation of EIC 156. 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 VIEs” on pages 8 and 25 of this MD&A.

Adjusted Operating Income and Margin

The following table reconciles adjusted operating income to Canadian GAAP operating income reported in the consolidated statements of earnings for the twelve week periods ended December 30, 2006 and December 31, 2005 and the years ended as previously 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 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.

(\$ millions)	2006 (12 weeks)	2005 (12 weeks)	2006 (52 weeks)	2005 (52 weeks)	2004 (52 weeks)	2003 (53 weeks)	2002 (52 weeks)
Operating (loss) income	\$ (695)	\$ 394	\$ 289	\$ 1,401	\$ 1,652	\$ 1,467	\$ 1,303
Add (deduct) impact of the following:							
Goodwill impairment charge	800		800				
Ontario collective labour agreement	84		84				
Inventory liquidation	68		68				
Net effect of stock-based compensation and the associated equity forwards	(6)	27	37	43		(4)	14
Restructuring and other charges	35	6	44	86			
Departure entitlement charge			12				
Goods and Services Tax and provincial sales taxes				40			
Direct costs associated with supply chain disruptions		10		30			
VIEs		4	(8)				
The <i>Real Canadian Superstore</i> labour arrangement						25	
Adjusted operating income	\$ 286	\$ 441	\$ 1,326	\$ 1,600	\$ 1,652	\$ 1,488	\$ 1,317

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

Adjusted EBITDA and Margin

The following table reconciles adjusted earnings before interest, income taxes, depreciation and amortization ("EBITDA") to adjusted operating income which is reconciled to Canadian GAAP operating income reported in the consolidated statements of earnings, in the table above, for the twelve week periods ended December 30, 2006 and December 31, 2005 and the years ended as previously indicated. 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.

(\$ millions)	2006 (12 weeks)	2005 (12 weeks)	2006 (52 weeks)	2005 (52 weeks)	2004 (52 weeks)	2003 (53 weeks)	2002 (52 weeks)
Adjusting operating income	\$ 286	\$ 441	\$ 1,326	\$ 1,600	\$ 1,652	\$ 1,488	\$ 1,317
Add (deduct) impact of the following:							
Depreciation and amortization	133	140	590	558	473	393	354
VIE depreciation and amortization	(5)	(8)	(24)	(26)			
Adjusted EBITDA	\$ 414	\$ 573	\$ 1,892	\$ 2,132	\$ 2,125	\$ 1,881	\$ 1,671

Management's Discussion and Analysis

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

Adjusted Net Earnings

Adjusted net earnings can be reconciled to Canadian GAAP net earnings reported in the consolidated statements of earnings by excluding the net earnings impact associated with the items included in the adjusted basic net earnings per common share table below. Adjusted net earnings is useful to management in assessing the Company's performance and in making decisions regarding the ongoing operations of its business. Certain items are excluded from the comparable GAAP measure 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 they are non-recurring.

Adjusted Basic Net Earnings per Common Share

The following table reconciles adjusted basic net earnings per common share to Canadian GAAP basic net earnings per common share measures reported in the consolidated statements of earnings for the twelve week periods ended December 30, 2006 and December 31, 2005 and the years ended as previously 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 they are non-recurring. Adjusted basic net earnings per common share is useful to management in assessing the Company's performance and in making decisions regarding the ongoing operations of its business.

	2006 (12 weeks)	2005 (12 weeks)	2006 (52 weeks)	2005 (52 weeks)	2004 (52 weeks)	2003 (53 weeks)	2002 (52 weeks)
Basic net (loss) earnings per common share	\$ (2.76)	\$.73	\$ (.80)	\$ 2.72	\$ 3.53	\$ 3.07	\$ 2.64
Add (deduct) impact of the following:							
Goodwill impairment charge	2.92		2.92				
Ontario collective labour agreement	.20		.20				
Inventory liquidation	.16		.16				
Net effect of stock-based compensation and the associated equity forwards	(.02)	.15	.17	.22		(.06)	.04
Restructuring and other charges	.09	.01	.11	.20			
Departure entitlement charge			.03				
Changes in statutory income tax rates		.01	(.06)	.01		.03	
Goods and Services Tax and provincial sales taxes				.10			
Direct costs associated with supply chain disruptions		.02		.07			
VIEs	(.01)	.02	(.01)	.03			
Resolution of certain income tax matters					(.05)		
The <i>Real Canadian Superstore</i> labour arrangement						.06	
Adjusted basic net earnings per common share	\$ 0.58	\$.94	\$ 2.72	\$ 3.35	\$ 3.48	\$ 3.10	\$ 2.68

Net Debt

The following table reconciles net debt used in the net debt to equity ratio to Canadian GAAP measures reported in the consolidated balance sheets as at the years ended as previously 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. The net debt to equity ratio is useful in assessing the amount of leverage employed.

(\$ millions)	2006	2005	2004	2003	2002
Bank indebtedness	\$ 1	\$ 30	\$ 28	\$ 38	\$ —
Commercial paper	647	436	473	603	533
Long term debt due within one year	27	161	216	106	106
Long term debt	4,212	4,194	3,935	3,956	3,420
Less: Cash and cash equivalents	669	916	549	618	823
Short term investments	327	4	275	378	304
Net debt	\$3,891	\$3,901	\$3,828	\$3,707	\$2,932

Free Cash Flow

The following table reconciles free cash flow to Canadian GAAP measures reported in the consolidated cash flow statements as at the years ended as previously indicated. The Company calculates free cash flow as cash flows from operating activities 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 requirements.

(\$ millions)	2006	2005	2004	2003	2002
Cash flows from operating activities	\$ 1,180	\$ 1,489	\$ 1,443	\$ 1,032	\$ 998
Less: Fixed asset purchases	937	1,156	1,258	1,271	1,079
Dividends	173	230	209	198	127
Free cash flow	\$ 70	\$ 103	\$ (24)	\$ (437)	\$ (208)

Total Assets

The following table reconciles total assets used in the return on average total assets to Canadian GAAP measures reported in the consolidated balance sheets as at the years ended as previously indicated. The Company believes the return on average total assets ratio is useful in assessing the performance of its operating assets and therefore excludes cash, cash equivalents and short term investments from the total assets used in the ratio.

(\$ millions)	2006	2005	2004	2003	2002
Total assets	\$ 13,486	\$ 13,761	\$ 12,949	\$ 12,113	\$ 11,047
Less: Cash and cash equivalents	669	916	549	618	823
Short term investments	327	4	275	378	304
Total assets	\$ 12,490	\$ 12,841	\$ 12,125	\$ 11,117	\$ 9,920