

Loblaw
COMPANIES LIMITED

Q2 Second Quarter Report to Shareholders

24 WEEKS ENDING JUNE 15, 2013

2013 Second Quarter Report to Shareholders

2013 Second Quarter Summary[1]

- Basic net earnings per common share up 14.5% to $0.63 compared to $0.55 in the second quarter of 2012.
- EBITDA margin[2] of 6.8% compared to 6.4% in the second quarter of 2012.
- Revenue of $7,520 million, an increase of 2.0% over the second quarter of 2012.
- Retail sales growth of 1.9% and same-store sales[3] growth of 1.1%, compared to the second quarter of 2012.

"Earlier this month, we announced the successful IPO of Choice Properties REIT. In doing so, we unlocked significant value for shareholders, and established an attractive new growth platform for Loblaw. Last week we announced a transformational combination with Shoppers Drug Mart. These two transactions mark the beginning of a powerful new chapter for Loblaw," said Galen G. Weston, Executive Chairman, Loblaw Companies Limited. "Combining Loblaw and Shoppers Drug Mart will build on the strong base Vicente and his team have developed over the last two years, providing an excellent strategic complement to our existing assets, and setting the stage for further shareholder value creation."

"We are also pleased with our progress during this quarter. The investments we have made to advance our customer proposition once again translated into improved same-store sales performance in an intense competitive environment," continued Mr. Weston. "At the same time, better mix and good expense management delivered improved earnings. To reflect our year-to-date performance, we are raising our outlook to expect mid-single digit operating income growth for fiscal 2013."

Consolidated Quarterly Results of Operations

For the periods ended June 15, 2013 and June 16, 2012 (unaudited) (millions of Canadian dollars except where otherwise indicated)	**2013 (12 weeks)**	2012[4] (12 weeks)	$ Change	% Change	**2013 (24 weeks)**	2012[4] (24 weeks)	$ Change	% Change
Revenue	**$ 7,520**	$ 7,375	$ 145	2.0%	**$ 14,722**	$ 14,312	$ 410	2.9%
Operating income	**322**	290	32	11.0%	**631**	529	102	19.3%
Net earnings	**178**	156	22	14.1%	**349**	278	71	25.5%
Basic net earnings per common share ($)	**0.63**	0.55	0.08	14.5%	**1.24**	0.99	0.25	25.3%
Operating margin[3]	**4.3%**	3.9%			**4.3%**	3.7%		
EBITDA[2]	**$ 513**	$ 469	$ 44	9.4%	**$ 1,005**	$ 878	$ 127	14.5%
EBITDA margin[2]	**6.8%**	6.4%			**6.8%**	6.1%		

- The $145 million increase in revenue compared to the second quarter of 2012 was primarily driven by an increase in the Company's Retail segment.
- Operating income increased by $32 million compared to the second quarter of 2012 as a result of an increase in Retail operating income of $19 million and an increase in Financial Services operating income of $13 million. Operating income included the following notable items:
  - An $8 million charge (2012 – $10 million) related to the transition of certain Ontario conventional stores to the more cost effective and efficient operating terms under collective agreements ratified in 2010; and
  - A $6 million charge (2012 – $5 million) related to the effect of share-based compensation net of equity forwards.
- Operating margin[3] was 4.3% for the second quarter of 2013 compared to 3.9% in the same quarter in 2012.
- The increase in net earnings of $22 million compared to the second quarter of 2012 was primarily due to the increase in operating income, partially offset by an increase in the Company's effective income tax rate.

(1) This report contains forward-looking information. See Forward-Looking Statements on page 6 of this report for a discussion of material factors that could cause actual results to differ materially from forecasts and projections herein and of the material factors and assumptions that were used when making these statements. This report should be read in conjunction with Loblaw Companies Limited's filings with securities regulators made from time to time, all of which can be found at sedar.com and at loblaw.ca.

(2) See Non-GAAP Financial Measures on page 23 of this report.

(3) For financial definitions and ratios refer to the Glossary of Terms on page 103 of the 2012 Annual Report.

(4) Certain 2012 figures have been restated due to the implementation of revised IAS 19, "Employee Benefits". See the "Accounting Standards Implemented in 2013 and Changes in Significant Accounting Policies" section on page 20 of this report.

- Basic net earnings per common share were impacted by the following notable items:
  - A charge of $0.02 (2012 – $0.02) in the second quarter related to the transition of certain Ontario conventional stores to the operating terms under collective agreements ratified in 2010; and
  - A charge of $0.02 (2012 – $0.02) in the second quarter for the effect of share-based compensation net of equity forwards.
- In the second quarter of 2013, the Company invested $190 million in capital expenditures.

Retail Results of Operations

For the periods ended June 15, 2013 and June 16, 2012 (unaudited) (millions of Canadian dollars except where otherwise indicated)	**2013 (12 weeks)**	2012 (12 weeks)	$ Change	% Change	**2013 (24 weeks)**	2012 (24 weeks)	$ Change	% Change
Sales	**$ 7,372**	$ 7,236	$ 136	1.9%	**$ 14,409**	$ 14,044	$ 365	2.6%
Gross profit	**1,643**	1,611	32	2.0%	**3,219**	3,140	79	2.5%
Operating income	**294**	275	19	6.9%	**573**	500	73	14.6%
Same-store sales(1) growth (decline)	**1.1%**	0.2%			**1.9%**	(0.3)%		
Gross profit percentage	**22.3%**	22.3%			**22.3%**	22.4 %		
Operating margin(1)	**4.0%**	3.8%			**4.0%**	3.6 %		

- In the second quarter of 2013, the increase in Retail sales of $136 million, or 1.9%, over the same period in the prior year was impacted by the following factors:
  - Same-store sales(1) growth was 1.1% (2012 – 0.2%) and excluding gas bar was 1.0% (2012 – 0.3%);
  - Sales growth in food was modest;
  - Sales in drugstore were flat;
  - Sales growth in gas bar was strong;
  - Sales in general merchandise, excluding apparel, declined marginally;
  - Sales growth in apparel was strong;
  - The Company's average quarterly internal food price index was flat during the second quarter of 2013 (2012 – modest inflation), which was lower than the average quarterly national food price inflation of 1.5% (2012 – 2.5%) as measured by "The Consumer Price Index for Food Purchased from Stores" ("CPI"). CPI does not necessarily reflect the effect of inflation on the specific mix of goods sold in Loblaw stores; and
  - 23 corporate and franchise stores were opened and 13 corporate and franchise stores were closed in the last 12 months, resulting in a net increase of 0.4 million square feet, or 0.8%.
- In the second quarter of 2013, gross profit increased by $32 million compared to the second quarter of 2012 primarily driven by higher sales. In the second quarter of 2013, gross profit percentage was 22.3%, flat compared to the second quarter of 2012 and included a change in sales mix and continued investments in food margins, offset by margin improvements in general merchandise, including apparel, lower transportation costs and improved shrink.
- Operating income increased by $19 million compared to the second quarter of 2012, positively impacted by increased gross profit and the impact of foreign exchange, partially offset by increased operating costs, including depreciation and amortization. Operating margin(1) was 4.0% for the second quarter of 2013 compared to 3.8% in the same period in 2012.

(1) For financial definitions and ratios refer to the Glossary of Terms on page 103 of the 2012 Annual Report.

Financial Services Results of Operations

For the periods ended June 15, 2013 and June 16, 2012 (unaudited) (millions of Canadian dollars except where otherwise indicated)	**2013 (12 weeks)**	2012 (12 weeks)	$ Change	% Change	**2013 (24 weeks)**	2012 (24 weeks)	$ Change	% Change
Revenue	**$ 148**	$ 139	$ 9	6.5%	**$ 313**	$ 268	$ 45	16.8%
Operating income	**28**	15	13	86.7%	**58**	29	29	100.0%
Earnings before income taxes	**18**	4	14	350.0%	**37**	8	29	362.5%

(millions of Canadian dollars except where otherwise indicated) (unaudited)	**As at June 15, 2013**	As at June 16, 2012	$ Change	% Change
Average quarterly net credit card receivables	**$ 2,253**	$ 2,049	$ 204	10.0%
Credit card receivables	**2,279**	2,058	221	10.7%
Allowance for credit card receivables	**43**	36	7	19.4%
Annualized yield on average quarterly gross credit card receivables(1)	**13.5%**	12.7%		
Annualized credit loss rate on average quarterly gross credit card receivables(1)	**4.3%**	4.4%		

- Revenue for the second quarter of 2013 increased 6.5% compared to the second quarter of 2012. This increase was primarily driven by higher *PC* Telecom revenues resulting from growth in the Mobile Shop business and higher interest income from increased credit card receivable balances.
- Operating income and earnings before income taxes increased by $13 million and $14 million respectively compared to the second quarter of 2012. These increases were mainly attributable to the higher revenue described above, operational efficiencies and lower costs related to the renegotiation of vendor contracts, partially offset by investments in the Mobile Shop business.

Choice Properties Real Estate Investment Trust

Subsequent to the end of the quarter, in connection with its acquisition of approximately $7 billion of properties and related assets from Loblaw, Choice Properties Real Estate Investment Trust ("Choice Properties") completed a $460 million Initial Public Offering ("IPO") of its trust units (the "Units"), which included the exercise of a $60 million over-allotment option. In addition, Choice Properties also completed a $200 million offering of its Units to George Weston Limited. The Units were issued at a price of $10.00 per unit and gross proceeds were $660 million. After the exercise of the over-allotment option, Loblaw held an 81.7% effective interest in Choice Properties through ownership of 21,500,000 Units and 272,497,871 Class B Limited Partnership units, which are economically equivalent to and exchangeable for Units. At closing, the Company recorded transaction costs of approximately $40 million in net interest expense and other financing charges related to the completion of the IPO.

Concurrently, with the offering of the Units, Choice Properties completed a public offering of $600 million aggregate principal amount of senior unsecured debentures (the "Debentures"). The Debentures were comprised of $400 million Series A Debentures with a 5-year term and a coupon of 3.554% per annum and $200 million Series B Debentures with a 10-year term and a coupon of 4.903% per annum. A portion of the debt offering proceeds were used to replenish the cash used to repay the United States dollar ("USD") $150 million US Private Placement ("USPP") note that matured during the second quarter of 2013 and to early-settle the remaining USD $150 million USPP note during the third quarter of 2013, including the associated early-settlement costs of approximately $18 million, which will be recorded in net interest expense and other financing charges.

(1) For financial definitions and ratios refer to the Glossary of Terms on page 103 of the 2012 Annual Report.

Agreement to Acquire Shoppers Drug Mart Corporation

Subsequent to the end of the quarter, the Company entered into a definitive agreement to acquire all of the outstanding common shares of Shoppers Drug Mart Corporation ("Shoppers Drug Mart") for $33.18 in cash plus 0.5965 of a Loblaw common share per each Shoppers Drug Mart common share, on a fully pro-rated basis. Based on Loblaw's closing common share price on July 12, 2013, this would represent a purchase price of approximately $12.4 billion. The Company anticipates that the transaction will be completed within six to seven months. Completion is subject to various approvals, including Shoppers Drug Mart shareholder and court approvals, compliance with the *Competition Act* (Canada) and other regulatory approvals as well as certain other closing conditions customary in transactions of this nature.

In connection with this agreement the Company entered into committed bank facilities. These committed facilities consist of a $3.5 billion term loan and a $1.6 billion bridge loan that will only be utilized upon completion of the acquisition. As a result of the agreement and related commitments, Dominion Bond Rating Service ("DBRS") placed the credit ratings of Loblaw and Choice Properties under review with developing implications and Standard and Poor's ("S&P") placed Loblaw and Choice Properties on credit watch with negative implications. The Company expects DBRS and S&P to complete their reviews in the upcoming weeks.

Outlook(1)

The Company continued to make progress in executing its strategy in the second quarter. The resulting improvement in year-to-date financial performance compared to the first half of 2012, in addition to updated expectations for the remainder of the year, has led management to expect mid-single digit growth in operating income in 2013. This revised outlook compares to the prior expectation for modest, or low-single digit growth in operating income for the year(i).

The Company's information technology infrastructure implementation and related costs, as well as investments in price, assortment and labour, are expected to be offset by operating efficiencies.

The Canadian retail environment remains competitive and the Company continues to expect sales growth in 2013 to be moderated by ongoing competitor square footage expansions, a new competitor's entry into the market and generic drug deflation.

The Company also expects the following for full-year 2013:

- an effective tax rate in the range of 26% – 27%, compared to 24.9% in 2012;
- the adoption of amendments to the accounting standard related to employee benefits will result in a restatement of the 2012 consolidated financial statements to reflect a reduction in net earnings in that year by approximately $16 million or $0.06 per share; and
- capital expenditures to be approximately $1 billion, unchanged from 2012, with net new retail square footage growth of approximately 1%.

(i) Items excluded for the calculation of operating income are: the $61 million restructuring charge recorded in the fourth quarter of 2012; the $51 million gain recorded in the first quarter associated with amendments to certain defined benefit plans; and the costs associated with the creation and recently completed IPO of Choice Properties and the recently announced Shoppers Drug Mart agreement.

(1) See Forward-Looking Statements on page 6 of this report.

Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") for Loblaw Companies Limited and its subsidiaries (collectively, the "Company" or "Loblaw") should be read in conjunction with the Company's second quarter 2013 unaudited interim period condensed consolidated financial statements and the accompanying notes included in this Quarterly Report, the audited annual consolidated financial statements and the accompanying notes for the year ended December 29, 2012 and the related annual MD&A included in the Company's 2012 Annual Report – Financial Review ("2012 Annual Report").

The Company's second quarter 2013 unaudited interim period condensed consolidated financial statements and accompanying notes have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP"). These unaudited interim period condensed consolidated financial statements include the accounts of the Company and other entities that the Company controls and are reported in Canadian dollars.

A glossary of terms used throughout this Quarterly Report can be found on page 103 of the Company's 2012 Annual Report. In addition, this Quarterly Report includes the following terms: "adjusted debt(1) to rolling year EBITDA(1)", which is defined as adjusted debt(1) divided by cumulative EBITDA(1) for the latest four quarters; "rolling year return on average net assets(1)", which is defined as cumulative operating income for the latest four quarters divided by average net assets(1); "rolling year return on average shareholders' equity", which is defined as cumulative net earnings available to common shareholders for the latest four quarters divided by average total common shareholders' equity; and "free cash flow(1)", which is defined as cash flows from operating activities less the change in credit card receivables, fixed asset purchases and interest paid.

The information in this MD&A is current to July 23, 2013, unless otherwise noted.

Forward-Looking Statements

This Quarterly Report for the Company contains forward-looking statements about the Company's objectives, plans, goals, aspirations, strategies, financial condition, results of operations, cash flows, performance, prospects and opportunities. Specific forward-looking statements in this Quarterly Report include, but are not limited to, statements with respect to the Company's anticipated future results, planned capital expenditures, amount of pension plan contributions, status and impact of information technology ("IT") systems implementation, the Canadian retail environment and future plans. These specific forward-looking statements are contained throughout this Quarterly Report including, without limitation, in the Outlook section on page 22 of this MD&A. Forward-looking statements are typically identified by words such as "expect", "anticipate", "believe", "foresee", "could", "estimate", "goal", "intend", "plan", "seek", "strive", "will", "may" and "should" and similar expressions, as they relate to the Company and its management.

Forward-looking statements reflect the Company's current estimates, beliefs and assumptions, which are based on management's perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances. The Company's expectation of operating and financial performance in 2013 is based on certain assumptions including assumptions about revenue growth, anticipated cost savings and operating efficiencies, no unanticipated changes in the effective income tax rates, the Company's plan to increase net retail square footage by 1% and no unexpected adverse events or costs related to the Company's investments in IT and supply chain. The Company's estimates, beliefs and assumptions are inherently subject to significant business, economic, competitive and other uncertainties and contingencies regarding future events and as such, are subject to change. The Company can give no assurance that such estimates, beliefs and assumptions will prove to be correct.

Numerous risks and uncertainties could cause the Company's actual results to differ materially from the estimates, beliefs and assumptions expressed or implied in the forward-looking statements, including, but not limited to:

- failure to realize anticipated results, including revenue growth, anticipated cost savings or operating efficiencies from the Company's major initiatives, including those from restructuring;
- failure to realize benefits from investments in the Company's IT systems, including the Company's IT systems implementation, or unanticipated results from these initiatives;
- the inability of the Company's IT infrastructure to support the requirements of the Company's business;
- heightened competition, whether from current competitors or new entrants to the marketplace;
- changes in economic conditions including the rate of inflation or deflation, changes in interest and currency exchange rates and derivative and commodity prices;
- public health events including those related to food safety;
- failure to achieve desired results in labour negotiations, including the terms of future collective bargaining agreements, which could lead to work stoppages;

(1) See Non-GAAP Financial Measures on page 23 of this report.

- the inability of the Company to manage inventory to minimize the impact of obsolete or excess inventory and to control shrink;
- the impact of potential environmental liabilities;
- failure to respond to changes in consumer tastes and buying patterns;
- reliance on the performance and retention of third-party service providers including those associated with the Company's supply chain and apparel business;
- supply and quality control issues with vendors;
- changes to the regulation of generic prescription drug prices and the reduction of reimbursement under public drug benefit plans and the elimination or reduction of professional allowances paid by drug manufacturers;
- changes in the Company's income, commodity, other tax and regulatory liabilities including changes in tax laws, regulations or future assessments;
- any requirement of the Company to make contributions to its registered funded defined benefit pension plans or the multi-employer pension plans in which it participates in excess of those currently contemplated;
- the risk that the Company would experience a financial loss if its counterparties fail to meet their obligations in accordance with the terms and conditions of their contracts with the Company;
- the inability of the Company to collect on its credit card receivables;
- failure of Choice Properties Real Estate Investment Trust ("Choice Properties") to execute its plan and realize its forecasted results; and
- failure by the Company to complete the acquisition of Shoppers Drug Mart Corporation ("Shoppers Drug Mart") or to realize the anticipated strategic benefits or operational, competitive or cost synergies.

This is not an exhaustive list of the factors that may affect the Company's forward-looking statements. Other risks and uncertainties not presently known to the Company or that the Company presently believes are not material could also cause actual results or events to differ materially from those expressed in its forward-looking statements. Additional risks and uncertainties are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including the Enterprise Risks and Risk Management section of this MD&A and the Enterprise Risks and Risk Management section on pages 23 to 31 of the Company's 2012 Annual Report. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect the Company's expectations only as of the date of this MD&A. Except as required by law, the Company does not undertake to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Key Financial Performance Indicators

The Company has identified specific key financial performance indicators to measure the progress of short and long term objectives. Certain key financial performance indicators are set out below:

As at or for the periods ended June 15, 2013 and June 16, 2012 (unaudited) (millions of Canadian dollars except where otherwise indicated)	**2013** **(12 weeks)**	2012[1] (12 weeks)
Consolidated:		
Revenue growth	**2.0%**	1.3%
Operating income	**$ 322**	$ 290
EBITDA[2]	**513**	469
EBITDA margin[2]	**6.8%**	6.4%
Net earnings	**178**	156
Basic net earnings per common share ($)	**0.63**	0.55
Operating margin[3]	**4.3%**	3.9%
Cash and cash equivalents, short term investments and security deposits	**1,842**	1,885
Cash flows from operating activities	**572**	599
Adjusted debt[2] to rolling year EBITDA[2]	**2.0x**	2.2x
Free cash flow[2]	**392**	341
Interest coverage[2]	**4.0x**	3.5x
Rolling year return on average net assets[2]	**10.6%**	10.7%
Rolling year return on average shareholders' equity	**11.0%**	11.5%
Retail Segment:		
Same-store sales[3] growth	**1.1%**	0.2%
Gross profit	**$ 1,643**	$ 1,611
Gross profit percentage	**22.3%**	22.3%
Operating margin[3]	**4.0%**	3.8%
Financial Services Segment:		
Earnings before income taxes	**$ 18**	$ 4
Annualized yield on average quarterly gross credit card receivables[3]	**13.5%**	12.7%
Annualized credit loss rate on average quarterly gross credit card receivables[3]	**4.3%**	4.4%

(1) Certain 2012 figures have been restated due to the implementation of revised IAS 19, "Employee Benefits". See the "Accounting Standards Implemented in 2013 and Changes in Significant Accounting Policies" section on page 20 of this report.

(2) See Non-GAAP Financial Measures on page 23 of this report.

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Consolidated Results of Operations

For the periods ended June 15, 2013 and June 16, 2012 (unaudited) (millions of Canadian dollars except where otherwise indicated)	**2013 (12 weeks)**	2012[1] (12 weeks)	$ Change	% Change	**2013 (24 weeks)**	2012[1] (24 weeks)	$ Change	% Change
Revenue	**$ 7,520**	$ 7,375	$ 145	2.0%	**$ 14,722**	$ 14,312	$ 410	2.9%
Operating income	**322**	290	32	11.0%	**631**	529	102	19.3%
Net earnings	**178**	156	22	14.1%	**349**	278	71	25.5%
Basic net earnings per common share ($)	**0.63**	0.55	0.08	14.5%	**1.24**	0.99	0.25	25.3%
Operating margin[2]	**4.3%**	3.9%			**4.3%**	3.7%		
EBITDA[3]	**$ 513**	$ 469	$ 44	9.4%	**$ 1,005**	$ 878	$ 127	14.5%
EBITDA margin[3]	**6.8%**	6.4%			**6.8%**	6.1%		

Subsequent to the end of the second quarter of 2013, Choice Properties completed a $460 million Initial Public Offering ("IPO") of its trust units (the "Units"), a $200 million offering of its Units to George Weston Limited ("Weston") and a public offering of $600 million aggregate principal amount of senior unsecured debentures, as described in the Other Business Matters section on page 17 of this MD&A.

In addition, subsequent to the end of the quarter, the Company entered into a definitive agreement to acquire all of the outstanding common shares of Shoppers Drug Mart for $33.18 in cash plus 0.5965 of a Loblaw common share per each Shoppers Drug Mart common share, on a fully pro-rated basis. Based on Loblaw's closing common share price on July 12, 2013, this would represent a purchase price of approximately $12.4 billion as described on page 17 of this MD&A.

Revenue The $145 million increase in revenue compared to the second quarter of 2012 and the $410 million increase for the first two quarters of the year compared to the same periods in 2012 were driven by increases in both the Company's Retail and Financial Services segments, as described in the Reportable Operating Segments section below.

Operating Income Operating income increased by $32 million compared to the second quarter of 2012. Year-to-date operating income increased by $102 million compared to 2012. Retail operating income increased by $19 million compared to the second quarter of 2012 and $73 million year-to-date. Financial Services operating income increased by $13 million compared to the second quarter of 2012 and $29 million year-to-date. Operating income included the following notable items:

- An $8 million charge (2012 – $10 million) in the second quarter and $12 million (2012 – $25 million) year-to-date related to the transition of certain Ontario conventional stores to the more cost effective and efficient operating terms under collective agreements ratified in 2010;
- A $6 million charge (2012 – $5 million) in the second quarter and $14 million (2012 – $17 million) year-to-date related to the effect of share-based compensation net of equity forwards; and
- A $51 million gain year-to-date (2012 – nil) related to the defined benefit plan amendments recorded in the first quarter of 2013 impacting certain employees retiring after January 1, 2015. The Company will realize annual pre-tax savings of approximately $14 million related to these defined benefit plan amendments.

Operating margin[2] was 4.3% for the second quarter of 2013 compared to 3.9% in the same quarter in 2012. Year-to-date operating margin[2] was 4.3%, or 3.9% excluding the gain related to defined benefit plan amendments, compared to 3.7% in 2012.

Net Interest Expense and Other Financing Charges In the second quarter of 2013, net interest expense and other financing charges decreased by $1 million, or 1.2%, compared to the second quarter of 2012. Year-to-date net interest expense and other financing charges decreased by $4 million, or 2.5%, to $156 million compared to the second quarter of 2012. The year-to-date decrease was primarily as a result of the decline in net interest on the Company's net defined benefit obligation and a decrease in net interest related to certain financial derivative instruments.

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(3) See Non-GAAP Financial Measures on page 23 of this report.

Income Taxes Income tax expense for the second quarter of 2013 was $64 million (2012 – $53 million) and the effective income tax rate was 26.4% (2012 – 25.4%). The increase in the effective income tax rate over the second quarter of 2012 was primarily due to a decrease in income tax recoveries related to prior year matters, partially offset by a reduction in non-deductible amounts. Year-to-date income tax expense was $126 million (2012 – $91 million) and the effective tax rate was 26.5% (2012 – 24.7%). The year-to-date increase in the effective income tax rate over 2012 was primarily due to a decrease in income tax recoveries related to prior year matters.

Net Earnings Net earnings for the second quarter of 2013 increased by $22 million, or 14.1%, compared to the second quarter of 2012 and increased on a year-to-date basis by $71 million, or 25.5%, compared to the same period in 2012. Basic net earnings per common share for the second quarter of 2013 increased by 14.5%, to $0.63, from $0.55 in the second quarter of 2012 and year-to-date increased by 25.3% to $1.24 compared to $0.99 for the same period last year.

Basic net earnings per common share for the second quarter and year-to-date 2013 were impacted by the following notable items:

- A charge of $0.02 (2012 – $0.02) in the second quarter and $0.03 (2012 – $0.06) year-to-date related to the transition of certain Ontario conventional stores to the operating terms under collective agreements ratified in 2010;
- A charge of $0.02 (2012 – $0.02) in the second quarter and $0.04 (2012 – $0.06) year-to-date for the effect of share-based compensation net of equity forwards; and
- A $0.13 gain year-to-date (2012 – nil) related to the defined benefit plan amendments.

Reportable Operating Segments

Retail

For the periods ended June 15, 2013 and June 16, 2012 (unaudited) (millions of Canadian dollars except where otherwise indicated)	**2013 (12 weeks)**	2012 (12 weeks)	$ Change	% Change	**2013 (24 weeks)**	2012 (24 weeks)	$ Change	% Change
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Gross profit	**1,643**	1,611	32	2.0%	**3,219**	3,140	79	2.5%
Operating income	**294**	275	19	6.9%	**573**	500	73	14.6%
Same-store sales(1) growth (decline)	**1.1%**	0.2%			**1.9%**	(0.3)%		
Gross profit percentage	**22.3%**	22.3%			**22.3%**	22.4 %		
Operating margin(1)	**4.0%**	3.8%			**4.0%**	3.6 %		

Sales In the second quarter of 2013, the increase in Retail sales of $136 million, or 1.9%, over the same period in the prior year was impacted by the following factors:

- Same-store sales(1) growth was 1.1% (2012 – 0.2%) and excluding gas bar was 1.0% (2012 – 0.3%);
- Sales growth in food was modest;
- Sales in drugstore were flat;
- Sales growth in gas bar was strong;
- Sales in general merchandise, excluding apparel, declined marginally;
- Sales growth in apparel was strong;
- The Company's average quarterly internal food price index was flat during the second quarter of 2013 (2012 – modest inflation), which was lower than the average quarterly national food price inflation of 1.5% (2012 – 2.5%) as measured by "The Consumer Price Index for Food Purchased from Stores" ("CPI"). CPI does not necessarily reflect the effect of inflation on the specific mix of goods sold in Loblaw stores; and
- 23 corporate and franchise stores were opened and 13 corporate and franchise stores were closed in the last 12 months, resulting in a net increase of 0.4 million square feet, or 0.8%.

(1) For financial definitions and ratios refer to the Glossary of Terms on page 103 of the 2012 Annual Report.

On a year-to-date basis, sales increased by $365 million, or 2.6%, compared to the same period in 2012 driven primarily by the factors noted above. Year-to-date same-store sales[(1)] growth was 1.9% (2012 – decline of 0.3%) and excluding gas bar was 1.9% (2012 – decline of 0.3%).

Gross Profit In the second quarter of 2013, gross profit increased by $32 million compared to the second quarter of 2012 and increased by $79 million on a year-to-date basis compared to 2012. These increases were primarily driven by higher sales. In the second quarter of 2013, gross profit percentage was 22.3%, flat compared to the second quarter of 2012 and included a change in sales mix and continued investments in food margins, offset by margin improvements in general merchandise, including apparel, lower transportation costs and improved shrink. Year-to-date gross profit percentage was 22.3% compared to 22.4% in the same period of 2012. The decline in year-to-date gross profit percentage was primarily driven by continued investments in food margins and a change in sales mix, partially offset by margin improvements in general merchandise, including apparel and lower transportation costs.

Operating Income In the second quarter of 2013, operating income increased by $19 million compared to the second quarter of 2012, positively impacted by increased gross profit and the impact of foreign exchange, partially offset by increased operating costs, including depreciation and amortization. Operating margin[(1)] was 4.0%, for the second quarter of 2013 compared to 3.8% in the same period in 2012.

Year-to-date operating income increased by $73 million, including the $51 million gain related to the defined benefit plan amendments, compared to 2012. In addition to the notable items described in the Consolidated Results of Operations above, operating income was positively impacted by increased gross profit and the impact of foreign exchange, partially offset by increased operating costs, including depreciation and amortization. Year-to-date operating margin[(1)] was 4.0%, or 3.6% excluding the gain related to the defined benefit plan amendments, compared to 3.6% in the same period in 2012.

Financial Services

For the periods ended June 15, 2013 and June 16, 2012 (unaudited) (millions of Canadian dollars except where otherwise indicated)	**2013 (12 weeks)**	2012 (12 weeks)	$ Change	% Change	**2013 (24 weeks)**	2012 (24 weeks)	$ Change	% Change
Revenue	**$ 148**	$ 139	$ 9	6.5%	**$ 313**	$ 268	$ 45	16.8%
Operating income	**28**	15	13	86.7%	**58**	29	29	100.0%
Earnings before income taxes	**18**	4	14	350.0%	**37**	8	29	362.5%

(millions of Canadian dollars except where otherwise indicated) (unaudited)	**As at June 15, 2013**	As at June 16, 2012	$ Change	% Change
Average quarterly net credit card receivables	**$ 2,253**	$ 2,049	$ 204	10.0%
Credit card receivables	**2,279**	2,058	221	10.7%
Allowance for credit card receivables	**43**	36	7	19.4%
Annualized yield on average quarterly gross credit card receivables[(1)]	**13.5%**	12.7%		
Annualized credit loss rate on average quarterly gross credit card receivables[(1)]	**4.3%**	4.4%		

Revenue Revenue for the second quarter of 2013 increased by 6.5% compared to the second quarter of 2012. Year-to-date revenue increased by 16.8% compared to 2012. These increases were primarily driven by higher *PC* Telecom revenues resulting from growth in the Mobile Shop business and higher interest income from increased credit card receivable balances.

Operating Income and Earnings Before Income Taxes Operating income and earnings before income taxes increased by $13 million and $14 million respectively compared to the second quarter of 2012 and on a year-to-date basis both increased by $29 million compared to 2012. These increases were mainly attributable to the higher revenue described above, operational efficiencies and lower costs related to the renegotiation of vendor contracts, partially offset by investments in the Mobile Shop business.

(1) For financial definitions and ratios refer to the Glossary of Terms on page 103 of the 2012 Annual Report.

Liquidity and Capital Resources

Cash Flows

Major Cash Flow Components

For the periods ended June 15, 2013 and June 16, 2012 (unaudited) (millions of Canadian dollars except where otherwise indicated)	**2013 (12 weeks)**	2012 (12 weeks)	$ Change	% Change	**2013 (24 weeks)**	2012 (24 weeks)	$ Change	% Change
Cash flows from (used in):								
Operating activities	**$ 572**	$ 599	$ (27)	(4.5)%	**$ 543**	$ 542	$ 1	0.2 %
Investing activities	**(178)**	(152)	(26)	(17.1)%	**(367)**	(331)	(36)	(10.9)%
Financing activities	**(310)**	(185)	(125)	(67.6)%	**(487)**	(254)	(233)	(91.7)%

Cash Flows from Operating Activities Cash flows from operating activities were $572 million in the second quarter of 2013, a decrease of $27 million compared to the second quarter of 2012. This decrease was due to higher credit card receivables and a decrease in non-cash working capital, partially offset by higher EBITDA[(1)].

On a year-to-date basis, cash flows from operating activities were $543 million compared to $542 million in the same period in 2012.

Cash Flows used in Investing Activities Cash flows used in investing activities were $178 million in the second quarter of 2013, an increase of $26 million from the second quarter of 2012, primarily due to a decrease in cash from short term investments, an increase in cash placed in security deposits, partially offset by lower fixed asset purchases and lower intangible asset additions. In the second quarter of 2012, intangible asset additions included the purchase of prescription files from Zellers Inc. for approximately $30 million.

On a year-to-date basis, cash flows used in investing activities were $367 million compared to $331 million in 2012. The increase of $36 million was mainly due to increased purchases of short term investments, partially offset by lower fixed asset purchases and lower intangible asset additions.

Capital Investment and Store Activity

As at or for the periods ended June 15, 2013 and June 16, 2012 (unaudited)	**2013 (24 weeks)**	2012 (24 weeks)	% Change
Capital investment (millions of Canadian dollars)	**$ 309**	$ 367	(15.8)%
Corporate square footage (in millions)	**37.3**	37.5	(0.5)%
Franchise square footage (in millions)	**14.3**	13.7	4.4 %
Retail square footage (in millions)	**51.6**	51.2	0.8 %
Number of corporate stores	**574**	585	(1.9)%
Number of franchise stores	**483**	462	4.5 %
Percentage of corporate real estate owned	**72%**	72%	
Percentage of franchise real estate owned	**45%**	45%	
Average store size (square feet)			
Corporate	**65,000**	64,100	1.4 %
Franchise	**29,600**	29,600	—

(1) See Non-GAAP Financial Measures on page 23 of this report.

Cash Flows used in Financing Activities During the second quarter of 2013, cash flows used in financing activities were $310 million compared to $185 million in the second quarter of 2012. The increase of $125 million was primarily due to the repayment of US Private Placement ("USPP") debt of United States dollar ("USD") $150 million, partially offset by higher cash proceeds from the issuance of common shares upon the exercise of stock options.

On a year-to-date basis, cash flows used in financing activities were $487 million compared to $254 million in 2012. The increase of $233 million was due to the settlement of USPP debt of USD $150 million, the timing of cash dividends paid and the purchase of common shares under the Company's Normal Course Issuer Bid ("NCIB"), partially offset by higher cash proceeds from the issuance of common shares upon the exercise of stock options.

Free Cash Flow[1]

For the periods ended June 15, 2013 and June 16, 2012 (unaudited) (millions of Canadian dollars except where otherwise indicated)	**2013 (12 weeks)**	2012 (12 weeks)	$ Change	% Change	**2013 (24 weeks)**	2012 (24 weeks)	$ Change	% Change
Free cash flow[1]	**$ 392**	$ 341	$ 51	15.0%	**$ 50**	$ (27)	$ 77	285.2%

Free Cash Flow[1] For the second quarter of 2013, free cash flow[1] was $392 million compared to $341 million in the second quarter of 2012, an improvement of $51 million, which was primarily due to a decrease in fixed asset purchases.

On year-to-date basis, free cash flow[1] was $50 million compared to negative $27 million in the second quarter of 2012. The $77 million increase was primarily due to lower fixed asset purchases and higher cash flows from operating activities.

Defined Benefit Pension Plan Contributions During the first two quarters of 2013, the Company contributed $63 million (2012 – $63 million) to its registered funded defined benefit pension plans. The Company expects to contribute $39 million to these plans during the remainder of 2013, for total expected contributions for the year of $102 million compared to $150 million previously disclosed. The expected contributions have been reduced mainly due to rising solvency discount rates and improved returns on assets. The actual amount contributed may vary from the estimate based on changes in actuarial valuations, investment performance, volatility in discount rates, regulatory requirements and other factors. The Company also expects to continue making contributions for the remainder of 2013 to its defined contribution plans and the multi-employer pension plans in which it participates as well as benefit payments to the beneficiaries of the supplemental unfunded defined benefit pension plans, other defined benefit plans and other long term employee benefits plans.

Sources of Liquidity

Adjusted Debt[1] to Rolling Year EBITDA[1] The Company monitors its adjusted debt[1] to rolling year EBITDA[1] ratio as a measure to ensure it is operating under an efficient capital structure. As at June 15, 2013, the Company's adjusted debt[1] to rolling year EBITDA[1] ratio was 2.0x compared to 2.2x as at June 16, 2012. The decrease was driven primarily by the repayment of long term debt, which decreased adjusted debt[1], while increased operating income from the Retail segment contributed to an increase in the rolling year EBITDA[1].

The Company expects that cash and cash equivalents, short term investments, future operating cash flows and the amounts available to be drawn against its committed credit facilities will enable the Company to finance its capital investment program and fund its ongoing business requirements, including working capital, pension plan funding and financial obligations, over the next 12 months. The Company has traditionally obtained its long term financing primarily through a medium term note ("MTN") program.

The Company's $800 million committed credit facility ("Credit Facility") contains certain financial covenants with which the Company was in compliance throughout the quarter. As at the end of the second quarters of 2013 and 2012 and as at December 29, 2012, there were no amounts drawn under the Credit Facility.

As at June 15, 2013, the Company had agreements to cash collateralize certain of its uncommitted credit facilities up to an amount of $134 million (June 16, 2012 – $88 million; December 29, 2012 – $133 million), of which $121 million (June 16, 2012 – $85 million; December 29, 2012 – $97 million) was deposited with major financial institutions and classified as security deposits.

(1) See Non-GAAP Financial Measures on page 23 of this report.

During the second quarter of 2013, in connection with the filing of the preliminary prospectuses of Choice Properties, Standard & Poor's ("S&P") and Dominion Bond Rating Service ("DBRS") reaffirmed Loblaw's credit ratings, outlooks and trends. In addition, subsequent to the end of the second quarter of 2013, S&P reaffirmed Loblaw's annual credit ratings and outlooks. The following table sets out the current credit ratings of Loblaw:

	Dominion Bond Rating Service		Standard & Poor's	
Credit Ratings (Canadian Standards)	Credit Rating	Trend	Credit Rating	Outlook
Issuer rating	BBB	Stable	BBB	Stable
Medium term notes	BBB	Stable	BBB	Stable
Preferred shares	Pfd-3	Stable	P-3 (high)	Stable
Other notes and debentures	BBB	Stable	BBB	Stable

During the second quarter of 2013, in connection with the filing of the preliminary prospectuses of Choice Properties, S&P and DBRS also assigned Choice Properties credit ratings, trends and outlooks, which are comparable to the credit ratings for Loblaw. The following table sets out the current credit ratings of Choice Properties:

	Dominion Bond Rating Service		Standard & Poor's	
Credit Ratings (Canadian Standards)	Credit Rating	Trend	Credit Rating	Outlook
Issuer rating	BBB	Stable	BBB	Stable
Senior unsecured debentures – Series A and B	BBB	Stable	BBB	Stable

In connection with the definitive agreement to acquire all of the outstanding common shares of Shoppers Drug Mart, the Company entered into committed bank facilities subsequent to the end of the second quarter of 2013. These committed facilities consist of a $3.5 billion term loan and a $1.6 billion bridge loan that will only be utilized upon completion of the acquisition. As a result of the agreement and related commitments, DBRS placed the credit ratings of Loblaw and Choice Properties under review with developing implications and S&P placed Loblaw and Choice Properties on credit watch with negative implications. The Company expects DBRS and S&P to complete their reviews in the upcoming weeks.

The gross proceeds from Choice Properties' IPO and debt offering received subsequent to the end of the second quarter of 2013 were $660 million and $600 million, respectively. A portion of the debt offering proceeds were used to replenish the cash used to repay the USD $150 million USPP note that matured during the second quarter of 2013 and to early-settle the remaining USD $150 million USPP note during the third quarter of 2013, including the associated early-settlement costs of approximately $18 million, which will be recorded in net interest expense and other financing charges. The remaining proceeds received from the debt offering will be used to repay MTNs as they come due.

Subsequent to the end of the second quarter of 2013, in connection with Choice Properties' IPO, the Company amended the Credit Facility agreement to include certain adjustments to exclude the impact of Choice Properties from the Company's covenant calculations. In addition, Choice Properties entered into an agreement for a $500 million, 5 year senior unsecured committed credit facility provided by a syndicate of lenders which also contains certain financial covenants.

Independent Securitization Trusts The Company, through President's Choice Bank ("PC Bank"), participates in various securitization programs that provide the primary source of funds for the operation of its credit card business. PC Bank sells credit card receivables to Independent Securitization Trusts, including *Eagle Credit Card Trust® ("Eagle")* and Other Independent Securitization Trusts, from time to time depending on PC Bank's financing requirements. In the second quarter of 2013, *Eagle* filed a Short Form Base Shelf Prospectus which allows for the potential issuance of up to $1.5 billion of notes over a 25-month period. Subsequent to the end of the second quarter of 2013, PC Bank amended and extended the maturity date for one of its independent securitization trust agreements from the third quarter of 2014 to the third quarter of 2015, with no material impact to other terms and conditions.

The Company has arranged letters of credit on behalf of PC Bank, representing 9% (June 16, 2012 and December 29, 2012 – 9%) of the outstanding securitized liability for the benefit of the Other Independent Securitization Trusts in the amount of $81 million (June 16, 2012 and December 29, 2012 – $81 million). In the event of a major decline in the income flow from, or in the value of, the securitized credit card receivables, the Other Independent Securitization Trusts can draw upon these letters of credit to recover up to a maximum of the amount outstanding on the letters of credit. Under its securitization programs, PC Bank is required to maintain at all times a credit card receivable pool balance equal to a minimum of 107% of the outstanding securitized liability and was in compliance with this requirement throughout the quarter.

Guaranteed Investment Certificates The following table summarizes PC Bank's Guaranteed Investment Certificates ("GICs") activity, before commissions, for the second quarters and year-to-date 2013 and 2012:

(millions of Canadian dollars) (unaudited)	**June 15, 2013 (12 weeks)**	June 16, 2012 (12 weeks)	**June 15, 2013 (24 weeks)**	June 16, 2012 (24 weeks)
Balance, beginning of period	**$ 293**	$ 263	**$ 303**	$ 276
GICs sold	**—**	1	**—**	2
GICs matured	**(20)**	(29)	**(30)**	(43)
Balance, end of period	**$ 273**	$ 235	**$ 273**	$ 235

As at June 15, 2013, $39 million in GICs were recorded as long term debt due within one year (June 16, 2012 – $33 million; December 29, 2012 – $36 million).

Independent Funding Trusts As at June 15, 2013, the independent funding trusts had drawn $461 million (June 16, 2012 and December 29, 2012 – $459 million) from the revolving committed credit facility that is the source of funding to the independent funding trusts.

The Company provides credit enhancement in the form of a standby letter of credit for the benefit of the independent funding trusts representing not less than 10% of the principal amount of the loans outstanding. As at June 15, 2013, the Company had provided a letter of credit in the amount of $48 million (June 16, 2012 and December 29, 2012 – $48 million).

Capital Structure

Dividends The following table summarizes the Company's cash dividends declared for the second quarters and year-to-date 2013 and 2012:

	June 15, 2013[(i)] (12 weeks)	June 16, 2012 (12 weeks)	**June 15, 2013 (24 weeks)**	June 16, 2012 (24 weeks)
Dividends declared per share ($):				
Common share	**$ 0.24**	$ 0.21	**$ 0.46**	$ 0.42
Second Preferred Share, Series A	**$ 0.37**	$ 0.37	**$ 0.74**	$ 0.74

(i) Dividends declared on common shares have a payment date of July 1, 2013. Dividends declared on Second Preferred Shares, Series A have a payment date of July 31, 2013.

Subsequent to the end of the second quarter of 2013, the Board of Directors declared a quarterly dividend of $0.24 per common share payable October 1, 2013, and declared a quarterly dividend of $0.37 per Second Preferred Share, Series A, payable October 31, 2013. At the time such dividends are declared, the Company identifies on its website (loblaw.ca) the designation of eligible and ineligible dividends in accordance with the administrative position of the Canada Revenue Agency ("CRA").

Normal Course Issuer Bid During the second quarter of 2013, the Company renewed its NCIB to purchase on the Toronto Stock Exchange ("TSX") or enter into equity derivatives to purchase up to 14,103,672 of the Company's common shares, representing approximately 5% of the common shares outstanding. In accordance with the rules and by-laws of the TSX, the Company may purchase its shares at the then market price of such shares. During the second quarter of 2013, the Company entered into an automatic share repurchase agreement under its NCIB that permits the Company to buy back its shares during blackout periods in accordance with predetermined instructions.

During the first quarter of 2013, the Company purchased 1,103,500 common shares under its NCIB for cash consideration of $46 million and placed these shares into trusts for future settlement of the Company's Restricted Share Unit ("RSU") and Performance Share Unit ("PSU") obligations. This resulted in a charge to retained earnings of $40 million and a $6 million reduction in common share capital. During the first two quarters of 2012, the Company purchased for cancellation 111,746 common shares under its NCIB for cash consideration of $4 million, resulting in a charge to retained earnings of $3 million and a $1 million reduction in common share capital.

Financial Derivative Instruments

Cross Currency Swaps The Company uses cross currency swaps to reduce the exposure to exchange rate fluctuations relating to certain balance sheet items denominated in USD, including cash and long term debt.

As at June 15, 2013, Glenhuron Bank Limited ("Glenhuron") held cross currency swaps to exchange USD for Canadian dollars. The swaps mature by 2020 and are financial derivatives classified as fair value through profit or loss. Amounts receivable or payable arising from these swaps are settled in cash upon maturity.

During the second quarter of 2013, the Company settled its USD $150 million USPP cross currency swap, which matured on May 29, 2013. In 2008, this swap was designated as a cash flow hedge to manage the foreign exchange variability related to the USPP note that also matured on May 29, 2013. In 2011, the designated swap was no longer classified as a cash flow hedge and an unrealized foreign exchange gain of $5 million, net of tax of $2 million, was deferred in accumulated other comprehensive income. On settlement of the swap during the quarter, this gain was realized in operating income.

Subsequent to the end of the quarter, the Company settled its USD $150 million USPP cross currency swap in advance of its maturity on May 29, 2015. This settlement occurred in conjunction with the early payment of the underlying USD $150 million USPP note.

The following table summarizes the financial position of the Company's cross currency swaps:

	Glenhuron Cross Currency Swaps			USPP Cross Currency Swaps		
(millions of Canadian dollars) (unaudited)	**As at June 15, 2013**	As at June 16, 2012	As at December 29, 2012	**As at June 15, 2013**	As at June 16, 2012	As at December 29, 2012
Exchange amount	**$ 1,206**	$ 1,219	$ 1,199	**$ 148**	$ 296	$ 296
Cumulative unrealized foreign currency exchange rate receivable recorded in:						
Prepaid expenses and other assets	**$ 38**	$ 32	$ 20	**$ 8**	$ 6	$ 2
Other assets	**$ 44**	$ 79	$ 93	**$ —**	$ 9	$ 5

The Glenhuron cross currency swaps and USPP cross currency swaps offset the effect of translation (gains) losses on the underlying cash and cash equivalents, short term investments and security deposits of USD $1,078 million (2012 – USD $1,083 million) and USD $150 million (2012 – USD $300 million) USPP notes in long term debt, respectively.

The following table summarizes the changes in fair value of the Glenhuron cross currency swaps and the underlying exposures:

	Glenhuron Cross Currency Swaps			
(millions of Canadian dollars) (unaudited)	**June 15, 2013 (12 weeks)**	June 16, 2012 (12 weeks)	**June 15, 2013 (24 weeks)**	June 16, 2012 (24 weeks)
Fair value (gain) loss related to swaps recorded in operating income	**$ (7)**	$ 28	**$ 24**	$ —
Translation loss (gain) related to the underlying exposures	**$ 7**	$ (25)	**$ (21)**	$ —

The following table summarizes the changes in fair value of the USPP cross currency swaps and the underlying exposures:

	USPP Cross Currency Swaps			
(millions of Canadian dollars) (unaudited)	**June 15, 2013 (12 weeks)**	June 16, 2012 (12 weeks)	**June 15, 2013 (24 weeks)**	June 16, 2012 (24 weeks)
Fair value gain related to swaps recorded in operating income(i)	**$ (1)**	$ (6)	**$ (9)**	$ (2)
Translation loss related to the underlying exposures	**$ 1**	$ 7	**$ 9**	$ —

(i) Excludes the $7 million gain reclassified from accumulated other comprehensive income in the second quarter of 2013.

Interest Rate Swaps During the second quarter of 2013, the Company settled its notional $100 million interest rate swaps. As at June 15, 2013, a notional $50 million (June 16, 2012 and December 29, 2012 – $150 million) in interest rate swaps were outstanding that mature in the third quarter of 2013, on which the Company pays a fixed-rate of 8.25%. As at June 15, 2013 the fair value of these interest rate swaps of $2 million was recorded in trade payables and other liabilities (June 16, 2012 – $7 million recorded in trade payables and other liabilities and $5 million in other liabilities; December 29, 2012 – $5 million recorded in trade payables and other liabilities). In the second quarter of 2013, the Company recognized a $3 million fair value gain (2012 – $3 million) and a $3 million fair value gain (2012 – $3 million) year-to-date, in operating income related to these swaps. Subsequent to the end of the second quarter of 2013, the Company settled its remaining notional $50 million interest rate swaps.

Equity Forward Contracts During the first quarter of 2013, Glenhuron paid $16 million to settle the remaining equity forwards representing 1,103,500 Loblaw common shares. Glenhuron recognized a nominal loss in operating income related to these forwards.

Off-Balance Sheet Arrangements

During the second quarter of 2012, the Company increased its guarantee on behalf of PC Bank to MasterCard® International Incorporated from USD $180 million to USD $230 million, primarily due to an increase in active accounts.

Other Business Matters

IT and Other Systems Implementations The Company is undertaking a major upgrade of its IT infrastructure that began in 2010. This project constitutes one of the largest technology infrastructure programs ever implemented by the Company and is fundamental to its long term growth strategies. During the second quarter of 2013, the Company continued to make progress on the implementation of the new IT system and successfully implemented the system in five more distribution centres and 12 more stores. As at the end of the second quarter of 2013, the system has been implemented in six distribution centres and 15 stores, with little to no impact on the Company's customers. During the first quarter of 2013, the Company integrated the revenue posting function from its point of sale system with the new IT system. The new IT system is now the source of record for all transactional revenue data. Throughout the remainder of 2013, the Company will continue to roll-out the new IT system to the remaining distribution centres and a portion of the store network.

Choice Properties Real Estate Investment Trust Subsequent to the end of the quarter, in connection with its acquisition of approximately $7 billion of properties and related assets from Loblaw, Choice Properties completed a $460 million IPO of its Units, which included the exercise of a $60 million over-allotment option. In addition, Choice Properties also completed a $200 million offering of its Units to Weston. The Units were issued at a price of $10.00 per unit and gross proceeds were $660 million. After the exercise of the over-allotment option, Loblaw held an 81.7% effective interest in Choice Properties through ownership of 21,500,000 Units and 272,497,871 Class B Limited Partnership units, which are economically equivalent to and exchangeable for Units. At closing, the Company recorded transaction costs of approximately $40 million in net interest expense and other financing charges related to the completion of the IPO.

Concurrently, with the offering of the Units, Choice Properties completed a public offering of $600 million aggregate principal amount of senior unsecured debentures (the "Debentures"). The Debentures were comprised of $400 million Series A Debentures with a 5-year term and a coupon of 3.554% per annum and $200 million Series B Debentures with a 10-year term and a coupon of 4.903% per annum. A portion of the debt offering proceeds were used to replenish the cash used to repay the USD $150 million USPP note that matured during the second quarter of 2013 and to early-settle the remaining USD $150 million USPP note during the third quarter of 2013, including the associated early-settlement costs of approximately $18 million, which will be recorded in net interest expense and other financing charges.

Agreement to Acquire Shoppers Drug Mart Corporation Subsequent to the end of the quarter, the Company entered into a definitive agreement to acquire all of the outstanding common shares of Shoppers Drug Mart for $33.18 in cash plus 0.5965 of a Loblaw common share per each Shoppers Drug Mart common share, on a fully pro-rated basis. Based on Loblaw's closing common share price on July 12, 2013, this would represent a purchase price of approximately $12.4 billion. The maximum amount of cash to be paid by the Company will be approximately $6.7 billion and the maximum number of Loblaw common shares to be issued will be approximately 119.9 million, based on the number of Shoppers Drug Mart shares outstanding as of the date of the agreement.

The Company will finance the cash element of the transaction with available cash resources and committed bank facilities. These committed facilities consist of a $3.5 billion term loan and a $1.6 billion bridge loan that will only be utilized upon completion of the acquisition. The Company plans to replace the bridge loan primarily through issuance of unsecured notes. As part of the financing of the acquisition, the Company's controlling shareholder, Weston, has agreed to subscribe for approximately $500 million of additional Loblaw common shares.

The Company anticipates that the transaction will be completed within six to seven months. Completion is subject to various approvals, including Shoppers Drug Mart shareholder and court approvals, compliance with the *Competition Act* (Canada) and other regulatory approvals as well as certain other closing conditions customary in transactions of this nature. There can be no assurance that any such approvals will be obtained, that these conditions will be met or waived or that the Company will be able to successfully consummate the proposed transaction as currently contemplated or at all.

Quarterly Results of Operations

Under an accounting convention common in the food retail industry, the Company follows a 52-week reporting cycle which periodically necessitates a fiscal year of 53 weeks. 2013, 2012 and 2011 are 52-week fiscal years. The 52-week reporting cycle is divided into four quarters of 12 weeks each, except for the third quarter, which is 16 weeks in duration. The following is a summary of selected consolidated financial information derived from the Company's unaudited interim period condensed consolidated financial statements for each of the eight most recently completed quarters.

Summary of Consolidated Quarterly Results

	Second Quarter		First Quarter		Fourth Quarter		Third Quarter	
(millions of Canadian dollars except where otherwise indicated) (unaudited)	**2013 (12 weeks)**	**2012(1) (12 weeks)**	2013 (12 weeks)	2012(1) (12 weeks)	2012(1) (12 weeks)	2011(2) (12 weeks)	2012(1) (16 weeks)	2011(2) (16 weeks)
Revenue	**$ 7,520**	**$ 7,375**	$ 7,202	$ 6,937	$ 7,465	$ 7,373	$ 9,827	$ 9,727
Net earnings	**$ 178**	**$ 156**	$ 171	$ 122	$ 139	$ 174	$ 217	$ 236
Net earnings per common share								
Basic ($)	**$ 0.63**	**$ 0.55**	$ 0.61	$ 0.43	$ 0.49	$ 0.62	$ 0.77	$ 0.84
Diluted ($)	**$ 0.63**	**$ 0.55**	$ 0.60	$ 0.43	$ 0.46	$ 0.60	$ 0.75	$ 0.83
Average national food price inflation (as measured by CPI)	**1.5%**	**2.5%**	1.4%	3.7 %	1.5%	5.2%	1.8 %	4.9%
Retail same-store sales(3) growth (decline)	**1.1%**	**0.2%**	2.8%	(0.7)%	0.0%	2.5%	(0.2)%	1.3%

(1) Certain 2012 figures have been restated due to the implementation of revised IAS 19, "Employee Benefits". See the "Accounting Standards Implemented in 2013 and Changes in Significant Accounting Policies" section on page 20 of this report.
(2) As reported under the original IAS 19, "Employee Benefits", no information has been restated.
(3) For financial definitions and ratios refer to the Glossary of Terms on page 103 of the 2012 Annual Report.

Over the past eight quarters, net retail square footage increased by 0.8 million square feet to 51.6 million square feet.

Fluctuations in quarterly net earnings reflect the underlying operations of the Company and are impacted by seasonality, which is greatest in the fourth quarter and least in the first quarter, and the timing of holidays and were impacted by the following significant items:

- Costs related to the transition of certain Ontario conventional stores to the more cost effective and efficient operating terms of collective agreements ratified in 2010;
- Costs related to share-based compensation net of equity forwards;
- Gains related to defined benefit plan amendments recorded in the first quarter of 2013;
- Costs related to the incremental investment in IT and supply chain;
- Costs associated with reducing head office and administrative positions incurred in the fourth quarter of 2012;
- Fixed asset impairment charges and recoveries and other related charges;
- Start-up costs associated with the launch of the *Joe Fresh* brand in the United States incurred in the fourth quarter of 2011; and
- A gain recognized related to the sale of a portion of a property in North Vancouver, British Columbia in the third quarter of 2011.

Internal Control over Financial Reporting

Management is responsible for establishing and maintaining a system of disclosure controls and procedures to provide reasonable assurance that all material information relating to the Company and its subsidiaries is gathered and reported to senior management on a timely basis so that appropriate decisions can be made regarding public disclosure.

Management is also responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reports for external purposes in accordance with IFRS.

In designing such controls, it should be recognized that due to inherent limitations, any controls, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and may not prevent or detect misstatements. Additionally, management is required to use judgment in evaluating controls and procedures.

Changes in Internal Control Over Financial Reporting During the second quarter of 2013, the Company continued to successfully implement the new IT system at distribution centres and stores. These implementations resulted in a material change to the Company's internal controls over financial reporting due to the volume and value of transactions now being processed through the new IT system. The areas impacted are substantially the same as those impacted in the fourth quarter of 2012: Accounts Payable, Cash Management, Order Processing and Billing, Vendor Income, Costing, Inventory Management and Valuation and Credit Management.

Except for the preceding changes, there were no other changes in the Company's internal controls over financial reporting during the second quarter of 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Enterprise Risks and Risk Management

Detailed descriptions of the operating and financial risks and risk management strategies are included in the Enterprise Risks and Risk Management Section on page 23 of the MD&A in the Company's 2012 Annual Report. The following is an update to those risks and risk management strategies:

Systems Implementations The Company continued to undertake a major upgrade of its IT infrastructure in the second quarter of 2013 as described in the Other Business Matters section on page 17 of this MD&A. Completing the IT system deployment will require continued focus and investment. Failure to successfully migrate from legacy systems to the new IT system or disruption in the Company's current IT systems during the implementation of the new IT system, could result in a lack of accurate data to enable management to effectively achieve its strategic plan or manage the day-to-day operations of the business, causing significant disruptions to the business and potential financial losses. Failure to implement appropriate processes to support the new IT system could result in inefficiencies and duplication in processes and could negatively affect the reputation, operations, revenues and financial performance of the Company.

Regulatory During the second quarter of 2013, all provinces and territories reduced the reimbursement rates on six common generic prescription drugs and certain other provinces implemented further generic prescription drug reimbursement rate reductions. In addition, during the second quarter of 2013, Ontario eliminated all professional allowances paid by drug manufacturers to pharmacies. These actions, and any potential further announcements, impact pharmacy sales and therefore could have an adverse effect on the financial performance of the Company. The Company continues to identify opportunities to mitigate the impact of these amendments, including the introduction of programs to add new services and enhance existing services to attract customers, but despite these efforts, the amendments could have an adverse effect on the financial performance of the Company.

Real Estate Investment Trust Additional key risks to the Company as a result of the creation and recent IPO of Choice Properties are as follows:

Tax and Regulatory Choice Properties intends to comply with the requirements under the Tax Act at all relevant times such that it maintains its status as a "unit trust" and a "mutual fund trust" for purposes of the Tax Act. There can be no assurance that Canadian federal income tax laws and the administrative policies and assessing practices of the CRA respecting mutual fund trusts will not be changed in a manner that adversely affects unitholders, including Loblaw. Should Choice Properties cease to qualify as a mutual fund trust under the Tax Act, the taxation of Choice Properties and unitholders, including Loblaw, would be materially and adversely different in certain respects.

Unless the Real Estate Investment Trust ("REIT") Exception under the Tax Act applies to Choice Properties, the specified investment flow-through rules ("SIFT Rules") may have an adverse impact on the taxation of Choice Properties and on the taxation of distributions to unitholders, including Loblaw. Although, as of the date hereof, the Company believes that Choice Properties will be able to meet the requirements of the REIT Exception throughout 2013 and beyond, there can be no assurance that Choice Properties will be able to qualify for the REIT Exception such that Choice Properties and unitholders, including Loblaw, will not be subject to the SIFT Rules in 2013 or in future years. In the event that the SIFT Rules apply to Choice Properties, the impact to unitholders, including Loblaw, will depend in part on the amount of income distributed which would not be deductible by Choice Properties in computing its income in a particular year and what portions of Choice Properties' distributions constitute "non-portfolio earnings", other income and returns of capital. In addition, the application of the SIFT rules could have a material adverse effect on the trading price of the Units.

Interest Rate Choice Properties will require extensive financial resources to complete the implementation of its future investment and growth strategy. In addition to its credit facility, Choice Properties may enter into future financing agreements with variable interest rates if the current historical low level of interest rates continue. Given the historically low interest rates, there is a risk that interest rates will increase which could impact variable interest rates as well as the rates at which future financing and/or refinancing is obtained. An increase in interest rates could result in an increase in the Company's interest expense and negatively impact results of operations. Any increase in interest paid by Choice Properties to service debt could impact its ability to make distributions which could have a material adverse effect on the trading price of the Units.

Capital Availability The real estate industry is highly capital intensive. Choice Properties will require access to capital to maintain its properties, refinance its indebtedness as well as to fund its growth strategy and certain capital expenditures from time to time. Although Choice Properties expects to have access to its credit facility, there can be no assurance that it will otherwise have access to sufficient capital or access to capital on favourable terms for future property acquisitions, refinancing its indebtedness, financing or refinancing of properties, funding operating expenses or other purposes. Further, in certain circumstances, Choice Properties may not be able to borrow funds due to certain limitations. Failure by Choice Properties to access required capital could have a material adverse effect on the Company's ability to pay its financial or other obligations. An inability to access capital could also impact Choice Properties' ability to make distributions which could have an adverse material effect on the trading price of the Units.

Choice Properties Unit Price The Company is exposed to market price risk as a result of Units that are held by unitholders other than the Company. These Units will be presented as a liability on the Company's consolidated balance sheets as they are redeemable for cash at the option of the holder. The liability will be recorded at fair value at each reporting period based on the market price of the Units. The change in the fair value of the liability will negatively impact net earnings when the Unit price increases and positively impact net earnings when the Unit price declines.

Additional risks and uncertainties relating to Choice Properties are discussed in Choice Properties materials filed with the Canadian securities regulatory authorities from time to time.

Acquisition of Shoppers Drug Mart Corporation On July 15, 2013, the Company announced a definitive agreement under which it will acquire all of the outstanding common shares of Shoppers Drug Mart. The Company anticipates that the transaction will be completed within six to seven months. However, completion of this acquisition will be subject to various approvals, including a court approved plan of arrangement, Shoppers Drug Mart shareholder approval and compliance with the *Competition Act* (Canada) and certain other closing conditions customary in transactions of this nature. The successful execution and implementation of the acquisition requires significant effort on the part of the management of the Company. Failure to properly execute and implement this transaction or realize the anticipated strategic benefits or operational, competitive or cost synergies could adversely affect the reputation, operations and financial performance of the Company.

Accounting Standards Implemented in 2013 and Changes in Significant Accounting Policies

Fair Value Measurement In 2011, the International Accounting Standards Board (“IASB”) issued IFRS 13, “Fair Value Measurement” (“IFRS 13”), which establishes a single framework for the fair value measurement and disclosure of financial and non-financial assets and liabilities. The new standard unifies the definition of fair value and also introduces new concepts including ‘highest and best use’ and ‘principal markets’ for non-financial assets and liabilities. There are additional disclosure requirements, including increased fair value disclosure for financial instruments for interim and annual financial statements. The Company implemented this standard prospectively in the first quarter of 2013. There were no measurement impacts on the Company’s unaudited interim period condensed consolidated financial statements as a result of the adoption of IFRS 13.

Employee Benefits In 2011, the IASB revised International Accounting Standard ("IAS") 19, "Employee Benefits" ("IAS 19"). The most significant amendments for the Company and its significant accounting policies are the requirement to immediately recognize all unvested past service costs and the replacement of interest cost and expected return on plan assets with a net interest amount that is calculated by applying a prescribed discount rate to the net defined benefit obligation. Under the amendment, the Company continues to recognize actuarial gains and losses on plan assets and obligations through other comprehensive income, but has chosen to reclassify these amounts from accumulated other comprehensive income and record these actuarial gains and losses in retained earnings, consistent with its previous presentation. The Company implemented this standard retrospectively in the first quarter of 2013. The impact arising from the adoption of the amendments to IAS 19 is summarized as follows:

Consolidated Statements of Earnings and Comprehensive Income

Increase (Decrease) (millions of Canadian dollars except where otherwise indicated)	June 16, 2012 (12 weeks)	June 16, 2012 (24 weeks)	December 29, 2012 (52 weeks)
Selling, General and Administrative Expenses	$ —	$ —	$ 1
Operating Income	$ —	$ —	$ (1)
Net interest expense and other financing charges	4	9	20
Earnings Before Income Taxes	$ (4)	$ (9)	$ (21)
Income taxes	(1)	(2)	(5)
Net Earnings	$ (3)	$ (7)	$ (16)
Other comprehensive income, net of taxes	3	7	15
Total Comprehensive Income	$ —	$ —	$ (1)
Net Earnings per Common Share ($)			
Basic	$ (0.02)	$ (0.02)	$ (0.06)
Diluted	$ (0.01)	$ (0.03)	$ (0.05)

Consolidated Balance Sheets

Increase (Decrease) (millions of Canadian dollars)	As at June 16, 2012	As at December 29, 2012	As at January 1, 2012
Other long term liabilities	$ (3)	$ (2)	$ (3)
Shareholders' equity	$ 3	$ 2	$ 3

The amendments also require enhanced annual disclosures for defined benefit plans, including additional information on the characteristics and risks of those plans, which will be included in the Company's 2013 Annual Report – Financial Review.

Other Standards In addition to the above standards, the Company implemented the following standards and amendments effective January 1, 2013: IFRS 10, "Consolidated Financial Statements" ("IFRS 10"), IFRS 11, "Joint Arrangements", IFRS 12 "Disclosure of Interests in Other Entities", IAS 28, "Investments in Associates" and IAS 1, "Presentation of Financial Statements". There was no significant impact on the Company's unaudited interim period condensed consolidated financial statements as a result of the implementation of these standards.

As a result of the implementation of IFRS 10, the Company consolidates structured entities, if, based on an evaluation of the substance of its relationship with the Company, the Company concludes that it controls the structured entity. Structured entities are entities controlled by the Company which were designed so that voting or similar rights are not the dominant factor in deciding who controls the entity.

Restricted Share Unit Plan On January 2, 2013, the Company's RSU plan was amended to require settlement in common shares rather than in cash, prospectively for units settled subsequent to March 31, 2013. These awards are accounted for as equity-settled and vest after the end of a performance period, ranging from three to five years. The fair value of each RSU grant is measured based on the market value of a Loblaw common share less the net present value of the expected dividend stream at the date on which RSUs are awarded to each participant. The compensation expense is prorated over the performance period, with a corresponding increase to contributed surplus. Forfeitures are estimated at the grant date and are revised to reflect changes in expected or actual forfeitures. Upon settlement of the award, the amount recognized in contributed surplus for the award is reclassified to share capital, with any premium or discount applied to retained earnings.

Performance Share Unit Plan On January 2, 2013, the Company's PSU plan was amended to require settlement in common shares rather than in cash. These awards are accounted for as equity-settled and vest after the end of a three year performance period. The number of units that vest will vary based on the achievement of specified performance measures. The fair value of each PSU granted is measured based on the market value of a Loblaw common share less the net present value of the expected dividend stream at the date on which PSUs are awarded to each participant. The compensation expense is prorated over the performance period, with a corresponding increase to contributed surplus. Forfeitures are estimated at the grant date and are revised to reflect changes in expected or actual forfeitures. Upon settlement of the award, the amount recognized in contributed surplus for the award is reclassified to share capital, with any premium or discount applied to retained earnings.

Outlook[(1)]

The Company continued to make progress in executing its strategy in the second quarter. The resulting improvement in year-to-date financial performance compared to the first half of 2012, in addition to updated expectations for the remainder of the year, has led management to expect mid-single digit growth in operating income in 2013. This revised outlook compares to the prior expectation for modest, or low-single digit growth in operating income for the year[(i)].

The Company's IT infrastructure implementation and related costs, as well as investments in price, assortment and labour, are expected to be offset by operating efficiencies.

The Canadian retail environment remains competitive and the Company continues to expect sales growth in 2013 to be moderated by ongoing competitor square footage expansions, a new competitor's entry into the market and generic drug deflation.

The Company also expects the following for full-year 2013:

- an effective tax rate in the range of 26% – 27%, compared to 24.9% in 2012;
- the adoption of amendments to the accounting standard related to employee benefits will result in a restatement of the 2012 consolidated financial statements to reflect a reduction in net earnings in that year by approximately $16 million or $0.06 per share; and
- capital expenditures to be approximately $1 billion, unchanged from 2012, with net new retail square footage growth of approximately 1%.

(i) Items excluded for the calculation of operating income are: the $61 million restructuring charge recorded in the fourth quarter of 2012; the $51 million gain recorded in the first quarter associated with amendments to certain defined benefit plans; and the costs associated with the creation and recently completed IPO of Choice Properties and the recently announced Shoppers Drug Mart agreement.

(1) See Forward-Looking Statements on page 6 of this report.

Non-GAAP Financial Measures

The Company uses the following non-GAAP financial measures: EBITDA and EBITDA margin, interest and interest coverage, free cash flow, net assets, rolling year return on average net assets and adjusted debt and adjusted debt to rolling year EBITDA. 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 GAAP and therefore they may not be comparable to similarly titled measures presented by other publicly traded companies, and should not be construed as an alternative to other financial measures determined in accordance with GAAP.

EBITDA and EBITDA Margin The following table reconciles earnings before income taxes, net interest expense and other financing charges and depreciation and amortization ("EBITDA") to operating income, which is reconciled to GAAP net earnings measures reported in the condensed consolidated statements of earnings for the 12 and 24 week periods ended June 15, 2013 and June 16, 2012. EBITDA is useful to management in assessing the performance of its 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 revenue.

(millions of Canadian dollars) (unaudited)	**2013 (12 weeks)**	2012[(1)] (12 weeks)	**2013 (24 weeks)**	2012[(1)] (24 weeks)
Net earnings	**$ 178**	$ 156	**$ 349**	$ 278
Add impact of the following:				
Income taxes	**64**	53	**126**	91
Net interest expense and other financing charges	**80**	81	**156**	160
Operating income	**322**	290	**631**	529
Add impact of the following:				
Depreciation and amortization	**191**	179	**374**	349
EBITDA	**$ 513**	$ 469	**$ 1,005**	$ 878

Interest and Interest Coverage The following table reconciles interest expense used in the calculations of the interest coverage ratio to GAAP measures for the 12 and 24 week periods ended June 15, 2013 and June 16, 2012. The Company believes the interest coverage ratio is useful in assessing the Company's ability to cover its net interest expense with its operating income.

Interest expense is calculated as net interest expense and other financing charges plus interest capitalized on fixed assets. Interest coverage is calculated as operating income divided by interest expense.

(millions of Canadian dollars) (unaudited)	**2013 (12 weeks)**	2012[(1)] (12 weeks)	**2013 (24 weeks)**	2012[(1)] (24 weeks)
Net interest expense and other financing charges	**$ 80**	$ 81	**$ 156**	$ 160
Add: Interest capitalized to fixed assets	**1**	1	**1**	1
Interest expense	**$ 81**	$ 82	**$ 157**	$ 161

(1) Certain 2012 figures have been restated due to the implementation of revised IAS 19, "Employee Benefits". See the "Accounting Standards Implemented in 2013 and Changes in Significant Accounting Policies" section on page 20 of this report.

Free Cash Flow The following table reconciles free cash flow used in assessing the Company's financial condition to GAAP measures for the 12 and 24 week periods ended June 15, 2013 and June 16, 2012. In the first quarter of 2013, the Company refined its definition of free cash flow as cash flows from operating activities less the change in credit card receivables, fixed asset purchases and interest paid. The Company believes that this definition of free cash flow is the appropriate measure in assessing the Company's cash available for additional funding and investing activities.

(millions of Canadian dollars) (unaudited)	**2013 (12 weeks)**	2012 (12 weeks)	**2013 (24 weeks)**	2012 (24 weeks)
Cash flows from operating activities	**$ 572**	$ 599	**$ 543**	$ 542
Less: Change in credit card receivables	**(104)**	(71)	**26**	43
Fixed asset purchases	**190**	233	**309**	367
Interest paid	**94**	96	**158**	159
Free cash flow	**$ 392**	$ 341	**$ 50**	$ (27)

Net Assets The following table reconciles net assets used in the rolling year return on average net assets ratio to GAAP measures reported as at the periods ended as indicated. The Company believes the rolling year return on average net assets ratio is useful in assessing the return on operating assets.

Net assets is calculated as total assets less cash and cash equivalents, short term investments, security deposits and trade payables and other liabilities. Rolling year return on average net assets is calculated as cumulative operating income for the latest four quarters divided by average net assets.

(millions of Canadian dollars) (unaudited)	**As at June 15, 2013**	As at June 16, 2012	As at December 29, 2012
Total assets	**$ 17,717**	$ 17,269	$ 17,961
Less: Cash and cash equivalents	**771**	923	1,079
Short term investments	**847**	718	716
Security deposits	**224**	244	252
Trade payables and other liabilities	**3,482**	3,356	3,720
Net assets	**$ 12,393**	$ 12,028	$ 12,194

Adjusted Debt The following table reconciles adjusted debt used in the adjusted debt to rolling year EBITDA ratio to GAAP measures reported as at the periods ended as indicated. The Company believes that adjusted debt is relevant in assessing the amount of financial leverage employed.

The Company calculates debt as the sum of short term debt, long term debt, certain other liabilities and the fair value of related financial derivatives. The Company calculates adjusted debt as debt less Independent Securitization Trusts in short term and long term debt, independent funding trusts and PC Bank's GICs. Adjusted debt to rolling year EBITDA is calculated as adjusted debt divided by cumulative EBITDA for the latest four quarters.

(millions of Canadian dollars) (unaudited)	**As at June 15, 2013**	As at June 16, 2012	As at December 29, 2012
Short term debt	**$ 905**	$ 905	$ 905
Long term debt due within one year	**1,125**	226	672
Long term debt	**4,386**	5,369	4,997
Certain other liabilities	**39**	39	39
Fair value of financial derivatives related to the above	**(6)**	23	14
Total debt	**$ 6,449**	$ 6,562	$ 6,627
Less:			
Independent Securitization Trusts in short term debt	**905**	905	905
Independent Securitization Trusts in long term debt	**600**	600	600
Independent Funding Trusts	**461**	459	459
Guaranteed Investment Certificates	**273**	235	303
Adjusted debt	**$ 4,210**	$ 4,363	$ 4,360

The Second Preferred Shares, Series A are classified as capital securities and are excluded from the calculations of adjusted debt.

Additional Information

Additional information about the Company has been filed electronically with various securities regulators in Canada through the System for Electronic Document Analysis and Retrieval (SEDAR) and is available online at sedar.com and with the Office of the Superintendent of Financial Institutions (OSFI) as the primary regulator for the Company's subsidiary, PC Bank.

July 23, 2013
Toronto, Canada

Financial Results

Condensed Consolidated Statements of Earnings

(millions of Canadian dollars except where otherwise indicated) (unaudited)	**June 15, 2013 (12 weeks)**	June 16, 2012[1] (12 weeks)	**June 15, 2013 (24 weeks)**	June 16, 2012[1] (24 weeks)
Revenue	**$ 7,520**	$ 7,375	**$ 14,722**	$ 14,312
Cost of Merchandise Inventories Sold (note 8)	**5,741**	5,632	**11,215**	10,916
Selling, General and Administrative Expenses	**1,457**	1,453	**2,876**	2,867
Operating Income	**$ 322**	$ 290	**$ 631**	$ 529
Net interest expense and other financing charges (note 3)	**80**	81	**156**	160
Earnings Before Income Taxes	**$ 242**	$ 209	**$ 475**	$ 369
Income taxes (note 4)	**64**	53	**126**	91
Net Earnings	**$ 178**	$ 156	**$ 349**	$ 278
Net Earnings per Common Share ($) (note 5)				
Basic	**$ 0.63**	$ 0.55	**$ 1.24**	$ 0.99
Diluted	**$ 0.63**	$ 0.55	**$ 1.23**	$ 0.98

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

(1) Certain 2012 figures have been restated – see note 2.

Condensed Consolidated Statements of Comprehensive Income

(millions of Canadian dollars) (unaudited)	**June 15, 2013 (12 weeks)**	June 16, 2012[1] (12 weeks)	**June 15, 2013 (24 weeks)**	June 16, 2012[1] (24 weeks)
Net earnings	**$ 178**	$ 156	**$ 349**	$ 278
Other comprehensive (loss) income, net of taxes				
Items reclassified to profit or loss:				
Gain on derecognized derivative instrument (note 17)	**$ (5)**	$ —	**$ (5)**	$ —
Items that will not be reclassified to profit or loss:				
Net defined benefit plan actuarial (loss) gain (note 15)	**(5)**	(87)	**29**	(58)
Other comprehensive (loss) income	**$ (10)**	$ (87)	**$ 24**	$ (58)
Total Comprehensive Income	**$ 168**	$ 69	**$ 373**	$ 220

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

(1) Certain 2012 figures have been restated – see note 2.

Condensed Consolidated Statements of Changes in Shareholders' Equity

(millions of Canadian dollars except where otherwise indicated) (unaudited)	Common Share Capital	Retained Earnings[(1)]	Contributed Surplus	Accumulated Other Comprehensive Income	Total Shareholders' Equity[(1)]
Balance at December 29, 2012	**$ 1,567**	**$ 4,792**	**$ 55**	**$ 5**	**$ 6,419**
Net earnings	**$ —**	**$ 349**	**$ —**	**$ —**	**$ 349**
Other comprehensive income (loss)	**—**	**29**	**—**	**(5)**	**24**
Total Comprehensive Income	**$ —**	**$ 378**	**$ —**	**$ (5)**	**$ 373**
Net effect of share-based compensation (note 14 and 16)	**66**	**—**	**8**	**—**	**74**
Net effect of shares held in trust (note 14)	**(6)**	**(40)**	**—**	**—**	**(46)**
Dividends declared per common share – $0.46 (note 14)	**—**	**(129)**	**—**	**—**	**(129)**
	$ 60	**$ 209**	**$ 8**	**$ (5)**	**$ 272**
Balance at June 15, 2013	**$ 1,627**	**$ 5,001**	**$ 63**	**$ —**	**$ 6,691**

(millions of Canadian dollars except where otherwise indicated) (unaudited)	Common Share Capital	Retained Earnings[(1)]	Contributed Surplus	Accumulated Other Comprehensive Income	Total Shareholders' Equity[(1)]
Balance at December 31, 2011	$ 1,540	$ 4,417	$ 48	$ 5	$ 6,010
Net earnings	$ —	$ 278	$ —	$ —	$ 278
Other comprehensive loss	—	(58)	—	—	(58)
Total Comprehensive Income	$ —	$ 220	$ —	$ —	$ 220
Net effect of share-based compensation (note 14 and 16)	5	—	5	—	10
Common shares purchased for cancellation (note 14)	(1)	(3)	—	—	(4)
Dividends declared per common share – $0.42 (note 14)	—	(118)	—	—	(118)
	$ 4	$ 99	$ 5	$ —	$ 108
Balance at June 16, 2012	$ 1,544	$ 4,516	$ 53	$ 5	$ 6,118

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

(1) Certain 2012 figures have been restated – see note 2.

Condensed Consolidated Balance Sheets

(millions of Canadian dollars) (unaudited)	As at June 15, 2013	As at June 16, 2012(1)	As at December 29, 2012(1)
Assets			
Current Assets			
Cash and cash equivalents (note 6)	**$ 771**	$ 923	$ 1,079
Short term investments (note 6)	**847**	718	716
Accounts receivable	**479**	459	456
Credit card receivables (note 7)	**2,279**	2,058	2,305
Inventories (note 8)	**2,011**	1,890	2,007
Income taxes recoverable	**—**	5	—
Prepaid expenses and other assets	**149**	147	74
Assets held for sale	**26**	23	30
Total Current Assets	**$ 6,562**	$ 6,223	$ 6,667
Fixed Assets	**8,937**	8,765	8,973
Investment Properties	**97**	95	100
Goodwill and Intangible Assets (note 9)	**1,059**	1,063	1,057
Deferred Income Taxes	**260**	263	260
Security Deposits (note 6)	**224**	244	252
Franchise Loans Receivable (note 17)	**365**	358	363
Other Assets (note 10)	**213**	258	289
Total Assets	**$ 17,717**	$ 17,269	$ 17,961
Liabilities			
Current Liabilities			
Trade payables and other liabilities	**$ 3,482**	$ 3,356	$ 3,720
Provisions	**54**	40	78
Income taxes payable	**26**	—	21
Short term debt (note 11)	**905**	905	905
Long term debt due within one year (note 12)	**1,125**	226	672
Total Current Liabilities	**$ 5,592**	$ 4,527	$ 5,396
Provisions	**63**	47	59
Long Term Debt (note 12)	**4,386**	5,369	4,997
Deferred Income Taxes	**19**	18	18
Capital Securities	**223**	222	223
Other Liabilities (note 13)	**743**	968	849
Total Liabilities	**$ 11,026**	$ 11,151	$ 11,542
Shareholders' Equity			
Common Share Capital (note 14)	**$ 1,627**	$ 1,544	$ 1,567
Retained Earnings	**5,001**	4,516	4,792
Contributed Surplus (note 16)	**63**	53	55
Accumulated Other Comprehensive Income	**—**	5	5
Total Shareholders' Equity	**$ 6,691**	$ 6,118	$ 6,419
Total Liabilities and Shareholders' Equity	**$ 17,717**	$ 17,269	$ 17,961

Contingent liabilities (note 18). Financial guarantees (note 19). Subsequent events (note 20).

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

(1) Certain 2012 figures have been restated – see note 2.

Condensed Consolidated Statements of Cash Flow

(millions of Canadian dollars) (unaudited)	**June 15, 2013 (12 weeks)**	June 16, 2012[1] (12 weeks)	**June 15, 2013 (24 weeks)**	June 16, 2012[1] (24 weeks)
Operating Activities				
Net earnings	**$ 178**	$ 156	**$ 349**	$ 278
Income taxes (note 4)	**64**	53	**126**	91
Net interest expense and other financing charges (note 3)	**80**	81	**156**	160
Depreciation and amortization	**191**	179	**374**	349
Income taxes paid	**(64)**	(53)	**(128)**	(122)
Interest received	**17**	20	**27**	27
Settlement of equity forward contracts (note 17)	**—**	—	**(16)**	—
Settlement of cross currency swaps (note 17)	**8**	—	**8**	—
Change in credit card receivables (note 7)	**(104)**	(71)	**26**	43
Change in non-cash working capital	**204**	241	**(325)**	(292)
Fixed asset and other related impairments	**6**	—	**6**	3
Gain on disposal of assets	**—**	(2)	**(1)**	(2)
Gain on defined benefit plan amendments (note 15)	**—**	—	**(51)**	—
Other	**(8)**	(5)	**(8)**	7
Cash Flows from Operating Activities	**572**	599	**543**	542
Investing Activities				
Fixed asset purchases	**(190)**	(233)	**(309)**	(367)
Change in short term investments (note 6)	**3**	79	**(115)**	36
Proceeds from fixed asset sales	**9**	15	**11**	16
Change in franchise investments and other receivables	**17**	20	**25**	3
Change in security deposits (note 6)	**(17)**	8	**30**	22
Intangible asset additions	**—**	(41)	**(9)**	(41)
Cash Flows used in Investing Activities	**(178)**	(152)	**(367)**	(331)
Financing Activities				
Long term debt:				
Issued (note 12)	**—**	14	**10**	37
Retired (note 12)	**(198)**	(44)	**(224)**	(73)
Interest paid	**(94)**	(96)	**(158)**	(159)
Dividends paid	**(62)**	(59)	**(124)**	(59)
Common shares:				
Issued (note 14)	**44**	2	**55**	4
Purchased and held in trust (note 14)	**—**	—	**(46)**	—
Purchased for cancellation (note 14)	**—**	(2)	**—**	(4)
Cash Flows used in Financing Activities	**(310)**	(185)	**(487)**	(254)
Effect of foreign currency exchange rate changes on cash and cash equivalents	**(2)**	4	**3**	—
Change in cash and cash equivalents	**82**	266	**(308)**	(43)
Cash and cash equivalents, beginning of period	**689**	657	**1,079**	966
Cash and Cash Equivalents, End of Period	**$ 771**	$ 923	**$ 771**	$ 923

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

(1) Certain 2012 figures have been restated – see note 2.

Notes to the Unaudited Interim Period Condensed Consolidated Financial Statements

For the periods ended June 15, 2013 and June 16, 2012 (millions of Canadian dollars except where otherwise indicated)

Note 1. Nature and Description of the Reporting Entity

Loblaw Companies Limited is a Canadian public company incorporated in 1956 and is Canada's largest food retailer and a leading provider of drugstore, general merchandise and financial products and services. Its registered office is located at 22 St. Clair Avenue East, Toronto, Canada M4T 2S7. Loblaw Companies Limited and its subsidiaries are together referred to in these unaudited interim period condensed consolidated financial statements as the "Company" or "Loblaw".

The Company's parent is George Weston Limited ("Weston") which owns approximately 63% of the Company's outstanding common shares. The Company's ultimate parent is Wittington Investments, Limited. The remaining common shares are widely held.

The Company has two reportable operating segments: Retail and Financial Services (see note 21).

Subsequent to the end of the second quarter, Choice Properties Real Estate Investment Trust ("Choice Properties") completed its Initial Public Offering ("IPO"). Loblaw, which has a controlling interest in Choice Properties, will consolidate Choice Properties and report its operations through an additional segment in the third quarter of 2013.

Under an accounting convention common in the food distribution industry, the Company follows a 52-week reporting cycle which periodically necessitates a fiscal year of 53 weeks. 2013 and 2012 are 52-week fiscal years. The 52-week reporting cycle is divided into four quarters of 12 weeks each, except for the third quarter, which is 16 weeks in duration. Quarterly net earnings are affected by seasonality and the timing of holidays. The impact of seasonality is greatest in the fourth quarter and least in the first quarter.

Note 2. Significant Accounting Policies

The significant accounting policies and critical accounting estimates and judgments as disclosed in the Company's 2012 audited annual financial statements have been applied consistently in the preparation of these unaudited interim period condensed consolidated financial statements, except where noted below.

The Company's presentation and functional currency is Canadian dollars.

Statement of Compliance

The unaudited interim period condensed consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and International Accounting Standard ("IAS") 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB"). The unaudited interim period condensed consolidated financial statements should be read in conjunction with the Company's 2012 audited annual consolidated financial statements and accompanying notes.

These unaudited interim period condensed consolidated financial statements were authorized for issuance by the Company's Board of Directors ("Board") on July 23, 2013.

Accounting Standards Implemented in 2013

Fair Value Measurement In 2011, the IASB issued IFRS 13, "Fair Value Measurement" ("IFRS 13"), which establishes a single framework for the fair value measurement and disclosure of financial and non-financial assets and liabilities. The new standard unifies the definition of fair value and also introduces new concepts including 'highest and best use' and 'principal markets' for non-financial assets and liabilities. There are additional disclosure requirements, including increased fair value disclosure for financial instruments for interim and annual financial statements. The Company implemented this standard prospectively in the first quarter of 2013. There were no measurement impacts on the Company's unaudited interim period condensed consolidated financial statements as a result of the adoption of IFRS 13. The Company has included the additional disclosures required by this standard in note 17.

Employee Benefits In 2011, the IASB revised IAS 19, "Employee Benefits" ("IAS 19"). The most significant amendments for the Company are the requirement to immediately recognize all unvested past service costs and the replacement of interest cost and expected return on plan assets with a net interest amount that is calculated by applying a prescribed discount rate to the net defined benefit obligation. The Company implemented this standard retrospectively in the first quarter of 2013. The impact arising from the adoption of the amendments to IAS 19 is summarized as follows:

Consolidated Statements of Earnings and Comprehensive Income Increase (Decrease) (millions of Canadian dollars except where otherwise indicated)	June 16, 2012 (12 weeks)	June 16, 2012 (24 weeks)	December 29, 2012 (52 weeks)
Selling, General and Administrative Expenses	$ —	$ —	$ 1
Operating Income	$ —	$ —	$ (1)
Net interest expense and other financing charges	4	9	20
Earnings Before Income Taxes	$ (4)	$ (9)	$ (21)
Income taxes	(1)	(2)	(5)
Net Earnings	$ (3)	$ (7)	$ (16)
Other comprehensive income, net of taxes	3	7	15
Total Comprehensive Income	$ —	$ —	$ (1)
Net Earnings per Common Share ($)			
Basic	$ (0.02)	$ (0.02)	$ (0.06)
Diluted	$ (0.01)	$ (0.03)	$ (0.05)

Consolidated Balance Sheets Increase (Decrease) (millions of Canadian dollars)	As at June 16, 2012	As at December 29, 2012	As at January 1, 2012
Other long term liabilities	$ (3)	$ (2)	$ (3)
Shareholders' equity	$ 3	$ 2	$ 3

The amendments also require enhanced annual disclosures for defined benefit plans, including additional information on the characteristics and risks of those plans, which will be included in the Company's 2013 Annual Report – Financial Review.

Other Standards In addition to the above standards, the Company implemented the following standards and amendments effective January 1, 2013: IFRS 10, "Consolidated Financial Statements" ("IFRS 10"), IFRS 11, "Joint Arrangements", IFRS 12 "Disclosure of Interests in Other Entities", IAS 28, "Investments in Associates" and IAS 1, "Presentation of Financial Statements". There was no significant impact on the Company's unaudited interim period condensed consolidated financial statements as a result of the implementation of these standards.

Changes in Significant Accounting Policies

Basis of Consolidation The unaudited interim period condensed consolidated financial statements include the accounts of the Company and other entities that the Company controls in accordance with IFRS 10 and IAS 27 "Separate Financial Statements". Structured entities are consolidated under IFRS 10, if, based on an evaluation of the substance of its relationship with the Company, the Company concludes that it controls the structured entity. Structured entities are entities controlled by the Company which were designed so that voting or similar rights are not the dominant factor in deciding who controls the entity.

Post-Employment and Other Long term Employee Benefits The Company's net defined benefit plan obligations (assets) in respect of defined benefits are calculated separately for each plan. The net defined benefit plan obligations (assets) are actuarially calculated by a qualified actuary at the balance sheet date using the projected unit credit method.

The fair values of plan assets are deducted from the defined benefit plan obligations to arrive at the net defined benefit plan obligations (assets). Past service costs (credits) arising from plan amendments are recognized in operating income in the year that they arise. The actuarially determined net interest costs on the net defined benefit plan obligation are recognized in net interest expense and other financing charges.

At each balance sheet date, plan assets are measured at fair value and the defined benefit plan obligations (assets) are measured using assumptions which approximate their fair values at the reporting date, resulting in actuarial gains and losses from both of these measurements. These actuarial gains and losses are recognized through other comprehensive income and the Company has chosen to reclassify these amounts from accumulated other comprehensive income to retained earnings.

Restricted Share Unit Plan On January 2, 2013, the Company's Restricted Share Unit ("RSU") plan was amended to require settlement in common shares rather than in cash, prospectively for units settled subsequent to March 31, 2013. These awards are accounted for as equity-settled and vest after the end of a performance period, ranging from three to five years. The fair value of each RSU grant is measured based on the market value of a Loblaw common share less the net present value of the expected dividend stream at the date on which RSUs are awarded to each participant. The compensation expense is prorated over the performance period, with a corresponding increase to contributed surplus. Forfeitures are estimated at the grant date and are revised to reflect changes in expected or actual forfeitures. Upon settlement of the award, the amount recognized in contributed surplus for the award is reclassified to share capital, with any premium or discount applied to retained earnings.

Performance Share Unit Plan On January 2, 2013, the Company's Performance Share Unit ("PSU") plan was amended to require settlement in common shares rather than in cash. These awards are accounted for as equity-settled and vest after the end of a three year performance period. The number of units that vest will vary based on the achievement of specified performance measures. The fair value of each PSU granted is measured based on the market value of a Loblaw common share less the net present value of the expected dividend stream at the date on which PSUs are awarded to each participant. The compensation expense is prorated over the performance period, with a corresponding increase to contributed surplus. Forfeitures are estimated at the grant date and are revised to reflect changes in expected or actual forfeitures. Upon settlement of the award, the amount recognized in contributed surplus for the award is reclassified to share capital, with any premium or discount applied to retained earnings.

Note 3. Net Interest Expense and Other Financing Charges

(millions of Canadian dollars)	**June 15, 2013 (12 weeks)**	June 16, 2012[(1)] (12 weeks)	**June 15, 2013 (24 weeks)**	June 16, 2012[(1)] (24 weeks)
Interest expense and other financing charges:				
Long term debt	**$ 67**	$ 66	**$ 133**	$ 132
Borrowings related to credit card receivables	**8**	9	**17**	17
Net interest on net defined benefit obligation (note 15)	**5**	5	**10**	12
Independent funding trusts	**4**	3	**7**	7
Dividends on capital securities	**4**	4	**7**	7
Financial derivative instruments	**—**	2	**—**	2
Capitalized interest	**(1)**	(1)	**(1)**	(1)
	$ 87	$ 88	**$ 173**	$ 176
Interest income:				
Accretion income	**$ (5)**	$ (4)	**$ (10)**	$ (8)
Financial derivative instruments	**—**	—	**(3)**	(3)
Short term interest income	**(1)**	(2)	**(3)**	(4)
Security deposits	**(1)**	(1)	**(1)**	(1)
	$ (7)	$ (7)	**$ (17)**	$ (16)
Net interest expense and other financing charges	**$ 80**	$ 81	**$ 156**	$ 160

(1) Certain 2012 figures have been restated – see note 2.

Note 4. Income Taxes

Income tax expense for the second quarter of 2013 was $64 million (2012 – $53 million) and the effective income tax rate was 26.4% (2012 – 25.4%). The increase in the effective income tax rate over the second quarter of 2012 was primarily due to a decrease in income tax recoveries related to prior year matters, partially offset by a reduction in non-deductible amounts. Year-to-date income tax expense was $126 million (2012 – $91 million) and the effective tax rate was 26.5% (2012 – 24.7%). The year-to-date increase in the effective income tax rate over 2012 was primarily due to a decrease in income tax recoveries related to prior year matters.

Note 5. Basic and Diluted Net Earnings per Common Share

(millions of Canadian dollars except where otherwise indicated)	**June 15, 2013 (12 weeks)**	June 16, 2012[1] (12 weeks)	**June 15, 2013 (24 weeks)**	June 16, 2012[1] (24 weeks)
Net earnings for basic earnings per share	**$ 178**	$ 156	**$ 349**	$ 278
Impact of dividends on capital securities	**—**	4	**—**	7
Net earnings for diluted earnings per share	**$ 178**	$ 160	**$ 349**	$ 285
Weighted average common shares outstanding (note 14) (in millions)	**281.3**	281.4	**281.1**	281.4
Dilutive effect of capital securities (in millions)	**—**	7.3	**—**	7.3
Dilutive effect of share-based compensation (in millions)	**2.2**	0.2	**1.8**	0.3
Dilutive effect of certain other liabilities (in millions)	**0.7**	1.1	**0.7**	1.1
Diluted weighted average common shares outstanding (in millions)	**284.2**	290.0	**283.6**	290.1
Basic net earnings per common share ($)	**$ 0.63**	$ 0.55	**$ 1.24**	$ 0.99
Diluted net earnings per common share ($)	**$ 0.63**	$ 0.55	**$ 1.23**	$ 0.98

(1) Certain 2012 figures have been restated – see note 2.

For the second quarter of 2013, 11,731,007 (2012 – 12,091,866) and year-to-date 11,759,964 (2012 – 11,925,547) potentially dilutive instruments were excluded from the computation of diluted net earnings per common share as they were anti-dilutive.

Note 6. Cash and Cash Equivalents, Short Term Investments and Security Deposits

The components of cash and cash equivalents, short term investments and security deposits were as follows:

Cash and Cash Equivalents

(millions of Canadian dollars)	**As at June 15, 2013**	As at June 16, 2012	As at December 29, 2012
Cash	**$ 243**	$ 162	$ 185
Cash equivalents:			
Bankers' acceptances	**227**	50	279
Government treasury bills	**164**	388	322
Bank term deposits	**32**	75	—
Corporate commercial paper	**98**	235	238
Government agencies securities	**7**	—	11
Other	**—**	13	44
Total cash and cash equivalents	**$ 771**	$ 923	$ 1,079

Short Term Investments

(millions of Canadian dollars)	**As at June 15, 2013**	As at June 16, 2012	As at December 29, 2012
Bankers' acceptances	**$ —**	$ 1	$ 33
Government treasury bills	**208**	383	282
Corporate commercial paper	**336**	140	151
Government agency securities	**213**	184	237
Other	**90**	10	13
Total short term investments	**$ 847**	$ 718	$ 716

Security Deposits

(millions of Canadian dollars)	**As at June 15, 2013**	As at June 16, 2012	As at December 29, 2012
Cash	**$ 92**	$ 85	$ 90
Government treasury bills	**104**	110	126
Government agency securities	**28**	49	36
Total security deposits	**$ 224**	$ 244	$ 252

As at June 15, 2013, the Company had agreements to cash collateralize certain of its uncommitted credit facilities up to an amount of $134 million (June 16, 2012 – $88 million; December 29, 2012 – $133 million), of which $121 million (June 16, 2012 – $85 million; December 29, 2012 – $97 million) was deposited with major financial institutions and classified as security deposits.

Note 7. Credit Card Receivables

The components of credit card receivables were as follows:

(millions of Canadian dollars)	**As at June 15, 2013**	As at June 16, 2012	As at December 29, 2012
Gross credit card receivables	**$ 2,322**	$ 2,094	$ 2,348
Allowance for credit card receivables	**(43)**	(36)	(43)
Credit card receivables	**$ 2,279**	$ 2,058	$ 2,305
Securitized to independent securitization trusts:			
Securitized to *Eagle Credit Card Trust®*	**600**	600	600
Securitized to Other Independent Securitization Trusts	**905**	905	905

The Company, through President's Choice Bank ("PC Bank"), participates in various securitization programs that provide the primary source of funds for the operation of its credit card business. PC Bank sells credit card receivables to Independent Securitization Trusts, including *Eagle Credit Card Trust® ("Eagle"*) and Other Independent Securitization Trusts, from time to time depending on PC Bank's financing requirements.

The Company consolidates *Eagle* as a structured entity pursuant to IFRS 10. The associated liability of *Eagle* is recorded in long term debt.

The credit card receivables associated with the Other Independent Securitization Trusts are not derecognized by the Company since PC Bank is required to absorb a portion of the related credit card losses. As a result, the Company has not transferred substantially all of the risks and rewards relating to these assets and continues to recognize these assets in credit card receivables. The associated liabilities are secured by the credit card receivables and are accounted for as financing transactions. The associated liabilities are included in short term debt based on their characteristics and are carried at amortized cost (see note 11).

The Company has arranged letters of credit on behalf of PC Bank, representing 9% (June 16, 2012 and December 29, 2012 – 9%) of the outstanding securitized liability for the benefit of the Other Independent Securitization Trusts in the amount of $81 million (June 16, 2012 and December 29, 2012 – $81 million). In the event of a major decline in the income flow from, or in the value of, the securitized credit card receivables, the Other Independent Securitization Trusts can draw upon these letters of credit to recover up to a maximum of the amount outstanding on the letters of credit. Under its securitization programs, PC Bank is required to maintain at all times a credit card receivable pool balance equal to a minimum of 107% of the outstanding securitized liability and was in compliance with this requirement throughout the quarter.

Note 8. Inventories

For inventories recorded as at June 15, 2013, the Company recorded $13 million (June 16, 2012 – $16 million) as an expense for the write-down of inventories below cost to net realizable value. The write-down was included in cost of merchandise inventories sold in the condensed consolidated statements of earnings. There were no reversals of previously recorded write-downs of inventories during the periods ended June 15, 2013 and June 16, 2012.

Note 9. Goodwill and Intangible Assets

During the second quarter of 2012, the Company had $41 million of intangible asset additions, of which $30 million was related to the purchase of prescription files from Zellers Inc., which the Company classified as definite life intangible assets.

Note 10. Other Assets

(millions of Canadian dollars)	**As at June 15, 2013**	As at June 16, 2012	As at December 29, 2012
Fair value of cross currency swaps (note 17)	**$ 44**	$ 88	$ 98
Sundry investments and other receivables	**136**	132	159
Accrued benefit plan asset	**5**	—	—
Other	**28**	38	32
Other assets	**$ 213**	$ 258	$ 289

Note 11. Short Term Debt

The outstanding short term debt balances relate to the associated liabilities of the independent securitization trusts, excluding *Eagle,* which is included in long term debt (see note 12).

Subsequent to the end of the second quarter of 2013, PC Bank amended and extended the maturity date for one of its independent securitization trust agreements from the third quarter of 2014 to the third quarter of 2015, with no material impact to other terms and conditions.

Note 12. Long Term Debt

Loblaw Companies Limited Notes As at June 15, 2013, the Company recorded $650 million (June 16, 2012 – nil; December 29, 2012 – $200 million) of its Medium Term Notes as long term debt due within one year.

Guaranteed Investment Certificates The following table summarizes PC Bank's Guaranteed Investment Certificates ("GICs") activity, before commissions, for the second quarters and year-to-date 2013 and 2012:

(millions of Canadian dollars)	**June 15, 2013 (12 weeks)**	June 16, 2012 (12 weeks)	**June 15, 2013 (24 weeks)**	June 16, 2012 (24 weeks)
Balance, beginning of period	**$ 293**	$ 263	**$ 303**	$ 276
GICs sold	**—**	1	**—**	2
GICs matured	**(20)**	(29)	**(30)**	(43)
Balance, end of period	**$ 273**	$ 235	**$ 273**	$ 235

As at June 15, 2013, $39 million in GICs were recorded as long term debt due within one year (June 16, 2012 – $33 million; December 29, 2012 – $36 million).

Independent Securitization Trust As at June 15, 2013, *Eagle* had $600 million (June 16, 2012 and December 29, 2012 – $600 million) in notes outstanding, of which $250 million (June 16, 2012 – nil; December 29, 2012 – $250 million) was recorded as long term debt due within one year.

Independent Funding Trusts As at June 15, 2013, the independent funding trusts had drawn $461 million (June 16, 2012 and December 29, 2012 – $459 million) from the revolving committed credit facility that is the source of funding to the independent funding trusts.

The Company provides credit enhancement in the form of a standby letter of credit for the benefit of the independent funding trusts representing not less than 10% of the principal amount of the loans outstanding. As at June 15, 2013, the Company had provided a letter of credit in the amount of $48 million (June 16, 2012 and December 29, 2012 – $48 million).

Committed Credit Facilities As at June 15, 2013, June 16, 2012 and December 29, 2012, the Company had not drawn on its $800 million committed credit facility.

Subsequent to the end of the second quarter of 2013, in connection with Choice Properties' IPO, the Company amended the Credit Facility agreement to include certain adjustments to exclude the impact of Choice Properties from the Company's covenant calculations. In addition, Choice Properties entered into an agreement for a $500 million, 5 year senior unsecured committed credit facility ("Choice Properties Credit Facility") provided by a syndicate of lenders which also contains certain financial covenants. The Choice Properties Credit Facility will accrue interest based on short term floating interest rates.

Private Placement Notes During the second quarter of 2013, the Company repaid its United States dollar ("USD") $150 million U.S. private placement ("USPP") note that matured on May 29, 2013. As at June 15, 2013, the Company held a remaining USPP note for $153 million in Canadian dollars (June 16, 2012 – USPP notes of $306 million; December 29, 2012 – USPP notes of $300 million), which was recorded in long term debt due within one year (June 16, 2012 – $153 million; December 29, 2012 – $150 million).

Subsequent to the end of the quarter, the Company settled its remaining USD $150 million USPP note in advance of its May 29, 2015 maturity date and related cross currency swap (see note 17). As a result, the USPP Canadian equivalent of $153 million has been recorded as long term debt due within one year as at June 15, 2013. The Company incurred approximately $18 million of early-settlement costs related to this transaction, which will be recorded as net interest expense and other financing charges.

Note 13. Other Liabilities

(millions of Canadian dollars)	**As at June 15, 2013**	As at June 16, 2012[(1)]	As at December 29, 2012[(1)]
Net defined benefit plan obligation	**$ 419**	$ 634	$ 529
Other long term employee benefit obligation	**112**	117	116
Deferred vendor allowances	**20**	28	24
Share-based compensation liability (note 16)	**13**	13	20
Other	**179**	176	160
Other liabilities	**$ 743**	$ 968	$ 849

(1) Certain 2012 figures have been restated – see note 2.

Note 14. Share Capital

Common Shares (authorized – unlimited) Common shares issued are fully paid and have no par value. The activity in the common shares issued and outstanding during the period was as follows:

	June 15, 2013 (24 weeks)			June 16, 2012 (24 weeks)		
	Number of Common Shares		**Common Share Capital**	Number of Common Shares		Common Share Capital
Issued and outstanding, beginning of period	**281,680,157**	**$**	**1,567**	281,385,318	$	1,540
Issued for settlement of stock options	**1,576,197**		**66**	122,569		5
Purchased for cancellation	**—**		**—**	(111,746)		(1)
Issued and outstanding, end of period	**283,256,354**	**$**	**1,633**	281,396,141	$	1,544
Shares held in trust (note 15)	**(1,101,932)**	**$**	**(6)**	–		–
Issued and outstanding net of shares held in trust, end of period	**282,154,422**	**$**	**1,627**	281,396,141	$	1,544
Weighted average outstanding, net of shares held in trust	**281,066,441**			281,399,755		

Dividends The following table summarizes the Company's cash dividends declared for the second quarters and year-to-date 2013 and 2012:

		June 15, 2013[(i)] **(12 weeks)**		June 16, 2012 (12 weeks)		**June 15, 2013 (24 weeks)**		June 16, 2012 (24 weeks)
Dividends declared per share ($):								
Common share	**$**	**0.24**	$	0.21	**$**	**0.46**	$	0.42
Second Preferred Share, Series A	**$**	**0.37**	$	0.37	**$**	**0.74**	$	0.74

(i) Dividends declared on common shares have a payment date of July 1, 2013. Dividends declared on Second Preferred Shares, Series A have a payment date of July 31, 2013.

For financial statement presentation purposes, Second Preferred Shares, Series A dividends of $4 million (2012 – $4 million) and $7 million (2012 – $7 million) for the 12 and 24 weeks ended June 15, 2013 and June 16, 2012, respectively, are included as a component of net interest expense and other financing charges in the condensed consolidated statements of earnings (see note 3).

Subsequent to the end of the second quarter of 2013, the Board declared a quarterly dividend of $0.24 per common share payable October 1, 2013, and declared a quarterly dividend of $0.37 per Second Preferred Share, Series A, payable October 31, 2013.

Normal Course Issuer Bid During the second quarter of 2013, the Company renewed its Normal Course Issuer Bid ("NCIB") to purchase on the Toronto Stock Exchange ("TSX") or enter into equity derivatives to purchase up to 14,103,672 of the Company's common shares, representing approximately 5% of the common shares outstanding. In accordance with the rules and by-laws of the TSX, the Company may purchase its shares at the then market price of such shares. During the second quarter of 2013, the Company entered into an automatic share repurchase agreement under its NCIB that permits the Company to buy back its shares during blackout periods in accordance with predetermined instructions.

During the first quarter of 2013, the Company purchased 1,103,500 common shares under its NCIB for cash consideration of $46 million and placed these shares into trusts for future settlement of the Company's RSU and PSU obligations. This resulted in a charge to retained earnings of $40 million and a $6 million reduction in common share capital. During the first two quarters of 2012, the Company purchased for cancellation 111,746 common shares under its NCIB for cash consideration of $4 million, resulting in a charge to retained earnings of $3 million and a $1 million reduction in common share capital.

Note 15. Post-Employment and Other Long Term Employee Benefits

The costs and actuarial losses (gains) related to the Company's post-employment and other long term employee benefits were recorded as follows:

(millions of Canadian dollars)	**June 15, 2013 (12 weeks)**	June 16, 2012[(1)] (12 weeks)	**June 15, 2013 (24 weeks)**	June 16, 2012[(1)] (24 weeks)
Post-employment benefit cost recognized in operating income[(2)]	**$ 34**	$ 34	**$ 19**	$ 70
Other long term employee benefits cost recognized in operating income	**6**	6	**11**	10
Net interest on net defined benefit obligation included in net interest expense and other financing charges (note 3)	**5**	5	**10**	12
Actuarial losses (gains) before income taxes recognized in other comprehensive (loss) income	**7**	117	**(40)**	78

(1) Certain 2012 figures have been restated – see note 2.
(2) Included in the 2013 year-to-date post-employment benefit cost recognized in operating income is a $51 million gain, recorded in the first quarter of 2013, related to the announced amendments to certain of the Company's defined benefit plans impacting certain employees retiring after January 1, 2015.

The post-employment benefit cost included costs for the Company's defined benefit plans, defined contribution pension plans and the multi-employer pension plans in which it participates. The other long term employee benefits cost included costs for the Company's long term disability plan. The actuarial losses in the second quarter of 2013 were primarily due to lower than expected returns on assets, while year-to-date returns on assets were higher than expected, which resulted in actuarial gains recognized in other comprehensive (loss) income. The actuarial losses recognized in other comprehensive (loss) income in the second quarter and year-to-date of 2012 were primarily due to lower than expected discount rates and lower than expected returns on assets.

Note 16. Share-Based Compensation

The Company's net share-based compensation expense recognized in selling, general and administrative expenses related to its stock option, RSU and PSU plans, including the equity forwards of Glenhuron Bank Limited ("Glenhuron"), a wholly owned subsidiary of the Company, was:

(millions of Canadian dollars)	**June 15, 2013 (12 weeks)**	June 16, 2012 (12 weeks)	**June 15, 2013 (24 weeks)**	June 16, 2012 (24 weeks)
Stock option plan expense	**$ 3**	$ 4	**$ 8**	$ 8
RSU and PSU plan expense	**3**	—	**6**	3
Equity forwards expense	**—**	1	**—**	6
Net share-based compensation expense	**$ 6**	$ 5	**$ 14**	$ 17

The carrying amount of the Company's share-based compensation arrangements including stock option, RSU, PSU, Director Deferred Share Unit and Executive Deferred Share unit plans are recorded on the consolidated balance sheet as follows:

(millions of Canadian dollars)	**As at June 15, 2013**	As at June 16, 2012	As at December 29, 2012
Trade payables and other liabilities	**$ —**	$ 9	$ 11
Other liabilities	**13**	13	20
Contributed surplus	**63**	53	55

Stock Option Plan The following is a summary of the Company's stock option plan activity:

(Number of Options)	**June 15, 2013 (12 weeks)**	June 16, 2012 (12 weeks)	**June 15, 2013 (24 weeks)**	June 16, 2012 (24 weeks)
Outstanding options, beginning of period	**13,565,786**	14,507,527	**12,538,928**	10,750,993
Granted	**9,867**	12,281	**1,480,134**	4,567,302
Exercised	**(1,262,844)**	(65,731)	**(1,576,197)**	(122,569)
Forfeited/cancelled	**(216,402)**	(331,836)	**(297,716)**	(531,756)
Expired	**—**	—	**(48,742)**	(541,729)
Outstanding options, end of period	**12,096,407**	14,122,241	**12,096,407**	14,122,241

During the second quarter of 2013, the Company granted stock options with a weighted average exercise price of $46.54 (2012 – $32.88) and $40.60 year-to-date (2012 – $34.92). In addition, the Company issued common shares on the exercise of stock options with a weighted average share price during the second quarter of $47.68 (2012 – $32.30) and $46.38 year-to-date (2012 – $33.49), and received cash consideration of $44 million (2012 – $2 million) during the quarter and $55 million (2012 – $4 million) year-to-date.

The fair value of stock options granted during the second quarter was nominal (2012 – nominal) and $11 million year-to-date (2012 – $27 million). The assumptions used to measure the fair value of options granted during the second quarter of 2013 and the second quarter of 2012 under the Black-Scholes valuation model at the grant date were as follows:

	June 15, 2013 (12 weeks)	June 16, 2012 (12 weeks)
Expected dividend yield(1)	**2.1%**	2.6%
Expected share price volatility(2)	**19.7% – 23.8%**	22.6% – 24.8%
Risk-free interest rate(3)	**1.2% – 1.4%**	1.4% – 1.6%
Expected life of options(4)	**4.2 – 6.5 years**	4.4 – 6.4 years

(1) The expected dividend yield is estimated based on the annual dividend prior to the stock option grant date and the closing share price as at the stock option grant date.
(2) The expected share price volatility is estimated based on the Company's historical volatility over a period consistent with the expected life of the options.
(3) The risk-free interest rate is estimated based on the Government of Canada bond yield in effect at the grant date for a term to maturity equal to the expected life of the options.
(4) The effect of expected exercise of options prior to expiry is incorporated into the weighted average expected life of the options, which is based on historical experience and general option holder behaviour.

Estimated forfeiture rates are incorporated into the measurement of stock option plan expense. The forfeiture rate applied as at June 15, 2013 was 15.0% (June 16, 2012 – 16.3%; December 29, 2012 – 15.0%).

Equity Forward Contracts A summary of Glenhuron's equity forward contracts is as follows (see note 16):

	As at June 15, 2013	As at June 16, 2012	As at December 29, 2012
Outstanding contracts (in millions)	**—**	1.1	1.1
Average forward price per share ($)	**$ —**	$ 56.55	$ 56.59
Interest expense per share ($)	**$ —**	$ 0.12	$ 0.16
Unrealized market loss recorded in trade payables and other liabilities (millions of Canadian dollars)	**$ —**	$ 26	$ 16

During the first quarter of 2013, Glenhuron paid $16 million to settle its remaining equity forward contract representing 1,103,500 Loblaw common shares.

Restricted Share Unit Plan The following is a summary of the Company's RSU plan activity:

(Number of Awards)	**June 15, 2013 (12 weeks)**	June 16, 2012 (12 weeks)	**June 15, 2013 (24 weeks)**	June 16, 2012 (24 weeks)
RSUs, beginning of period	**1,109,147**	1,469,799	**1,038,271**	1,119,496
Granted	**22,903**	1,058	**345,296**	376,742
Settled	**(2,972)**	(254,026)	**(242,122)**	(268,777)
Forfeited	**(13,641)**	(24,132)	**(26,008)**	(34,762)
RSUs, end of period	**1,115,437**	1,192,699	**1,115,437**	1,192,699
RSUs settled (millions of Canadian dollars)	**$ —**	$ 8	**$ 10**	$ 9

The fair value of RSUs granted during the second quarter was $1 million (2012 – nominal) and $14 million year-to-date (2012 – $12 million).

Performance Share Unit Plan The following is a summary of the Company's PSU plan activity:

(Number of Awards)	**June 15, 2013 (12 weeks)**	June 16, 2012 (12 weeks)	**June 15, 2013 (24 weeks)**	June 16, 2012 (24 weeks)
PSUs, beginning of period	**331,586**	50,818	**50,818**	—
Granted	**1,903**	—	**282,671**	50,818
Forfeited/cancelled	**(4,060)**	—	**(4,060)**	—
PSUs, end of period	**329,429**	50,818	**329,429**	50,818

The fair value of PSUs granted during the second quarter was nominal (2012 – nil) and $11 million year-to-date (2012 – $2 million).

During the first quarter of 2013, the Company's RSU and PSU plans were amended to require settlement in shares rather than in cash. As a result, $11 million previously recorded at fair value in trade payables and other liabilities and other liabilities was reclassified to contributed surplus. During the first quarter of 2013, the Company established a trust for each of the RSU and PSU plans to facilitate the purchase of shares for future settlement upon vesting. The trusts are considered structured entities and are consolidated in the Company's financial statements with the cost of the acquired shares recorded at book value as a reduction to share capital (see note 14). Any premium on the acquisition of the shares above book value is applied to retained earnings until the shares are issued to settle RSU and PSU plan obligations. During the second quarter of 2013, the Company settled 2,972 RSUs, of which 1,568 units were settled in shares through the trust established for the RSU plan, resulting in a nominal increase to share capital and retained earnings.

Note 17. Financial Instruments

The following table provides a comparison of the carrying and fair values for each classification of financial instruments as at June 15, 2013:

(millions of Canadian dollars)	Financial instruments required to be classified as fair value through profit or loss	Financial instruments designated as fair value through profit or loss	Loans and receivables (amortized cost)	Other financial liabilities (amortized cost)	Total carrying amount	Total fair value
Cash and cash equivalents	$ —	$ 771	$ —	$ —	$ 771	$ 771
Short term investments	—	847	—	—	847	847
Security deposits	—	224	—	—	224	224
Accounts receivable	—	—	479	—	479	479
Credit card receivables	—	—	2,279	—	2,279	2,279
Derivatives included in prepaid expenses and other assets	47	—	—	—	47	47
Franchise Loans Receivable	—	—	365	—	365	365
Derivatives included in other assets	44	—	—	—	44	44
Certain other assets	—	—	74	—	74	74
Total financial assets	$ 91	$ 1,842	$ 3,197	$ —	$ 5,130	$ 5,130
Trade payables and other liabilities	$ —	$ —	$ —	$ 3,479	$ 3,479	$ 3,479
Derivatives included in trade payables and other liabilities	3	—	—	—	3	3
Short term debt	—	—	—	905	905	905
Long Term debt	—	—	—	5,511	5,511	6,167
Capital Securities	—	—	—	223	223	236
Certain other liabilities	—	—	—	42	42	42
Total financial liabilities	$ 3	$ —	$ —	$ 10,160	$ 10,163	$ 10,832

The following table presents the fair value hierarchy of financial assets and financial liabilities, excluding those classified as amortized cost that are short term in nature, as at June 15, 2013:

(millions of Canadian dollars)	Level 1	Level 2	Level 3	Total fair value
Financial assets				
Classified as fair value through profit or loss	$ —	$ 91	$ —	$ 91
Designated as fair value through profit or loss	335	1,507	—	1,842
Loans and receivables (amortized cost)	—	9	430	439
Financial liabilities				
Classified as fair value through profit or loss	$ —	$ 2	$ 1	$ 3
Other financial liabilities (amortized cost)	236	6,167	42	6,445

There were no transfers between levels of the fair value hierarchy.

The level 3 financial instruments classified as fair value through profit or loss consists of embedded derivatives on purchase orders placed in countries that do not trade in USD, which is the transacting and settlement currency. The valuation technique used for this embedded derivative is a market approach, which is based on the differential in exchange rates and timing of settlement. The significant unobservable input used in the fair value measurement is the cost of purchase orders. Significant increases (decreases) in any of the inputs would result in a significantly higher (lower) fair value measurement.

The fair value of the embedded foreign currency derivative classified as Level 3 included in trade payables and other liabilities as at June 15, 2013 was $1 million (June 16, 2012 – $2 million; December 29, 2012 – $1 million). During the second quarter of 2013, a fair value gain of $2 million was recorded in operating income and a nominal gain was recorded year-to-date. A 1% increase (decrease) in foreign currency exchange rates would result in a $1 million gain (loss) in fair value.

During the second quarter of 2013, financial instruments designated as fair value through profit or loss recognized a loss of $7 million and a gain of $21 million year-to-date in earnings before income taxes. In addition, during the second quarter of 2013 a gain of $21 million and loss of $2 million year-to-date was recorded in earnings before income taxes related to financial instruments required to be classified as fair value through profit or loss.

During the second quarter of 2013, net interest expense of $77 million and $153 million year-to-date was recorded related to financial instruments not classified or designated as fair value through profit or loss.

The following is a discussion of the Company's derivative instruments:

Cross Currency Swaps As at June 15, 2013, Glenhuron held cross currency swaps to exchange USD for Canadian dollars. The swaps mature by 2020 and are financial derivatives classified as fair value through profit or loss. Amounts receivable or payable arising from these swaps are settled in cash upon maturity.

During the second quarter of 2013, the Company settled its USD $150 million USPP cross currency swap, which matured on May 29, 2013. In 2008, this swap was designated as a cash flow hedge to manage the foreign exchange variability related to the USPP note that also matured on May 29, 2013. In 2011, the designated swap was no longer classified as a cash flow hedge and an unrealized foreign exchange gain of $5 million, net of tax of $2 million, was deferred in accumulated other comprehensive income. On settlement of the swap during the quarter, this gain was realized in operating income.

Subsequent to the end of the quarter, the Company settled its USD $150 million USPP cross currency swap in advance of its maturity on May 29, 2015. This settlement occurred in conjunction with the early payment of the underlying USD $150 million USPP note (see note 12).

The following table summarizes the financial position of the Company's cross currency swaps:

	Glenhuron Cross Currency Swaps			USPP Cross Currency Swaps		
(millions of Canadian dollars)	**As at June 15, 2013**	As at June 16, 2012	As at December 29, 2012	**As at June 15, 2013**	As at June 16, 2012	As at December 29, 2012
Exchange amount	**$ 1,206**	$ 1,219	$ 1,199	**$ 148**	$ 296	$ 296
Cumulative unrealized foreign currency exchange rate receivable recorded in:						
Prepaid expenses and other assets	**$ 38**	$ 32	$ 20	**$ 8**	$ 6	$ 2
Other assets	**$ 44**	$ 79	$ 93	**$ —**	$ 9	$ 5

The Glenhuron cross currency swaps and USPP cross currency swaps offset the effect of translation (gains) losses on the underlying cash and cash equivalents, short term investments and security deposits of USD $1,078 million (2012 – USD $1,083 million) and USD $150 million (2012 – USD $300 million) USPP notes in long term debt, respectively.

The following table summarizes the changes in fair value of the Glenhuron cross currency swaps and the underlying exposures:

	Glenhuron Cross Currency Swaps			
(millions of Canadian dollars)	**June 15, 2013 (12 weeks)**	June 16, 2012 (12 weeks)	**June 15, 2013 (24 weeks)**	June 16, 2012 (24 weeks)
Fair value (gain) loss related to swaps recorded in operating income	**$ (7)**	$ 28	**$ 24**	$ —
Translation loss (gain) related to the underlying exposures	**$ 7**	$ (25)	**$ (21)**	$ —

The following table summarizes the changes in fair value of the USPP cross currency swaps and the underlying exposures:

	USPP Cross Currency Swaps			
(millions of Canadian dollars)	**June 15, 2013 (12 weeks)**	June 16, 2012 (12 weeks)	**June 15, 2013 (24 weeks)**	June 16, 2012 (24 weeks)
Fair value gain related to swaps recorded in operating income[i]	**$ (1)**	$ (6)	**$ (9)**	$ (2)
Translation loss related to the underlying exposures	**$ 1**	$ 7	**$ 9**	$ —

(i) Excludes the $7 million gain reclassified from accumulated other comprehensive income in the second quarter of 2013.

Interest Rate Swaps During the second quarter of 2013, the Company settled its notional $100 million interest rate swaps. As at June 15, 2013, a notional $50 million (June 16, 2012 and December 29, 2012 – $150 million) in interest rate swaps were outstanding that mature in the third quarter of 2013, on which the Company pays a fixed-rate of 8.25%. As at June 15, 2013 the fair value of these interest rate swaps of $2 million was recorded in trade payables and other liabilities (June 16, 2012 – $7 million recorded in trade payables and other liabilities and $5 million in other liabilities; December 29, 2012 – $5 million recorded in trade payables and other liabilities). In the second quarter of 2013, the Company recognized a $3 million fair value gain (2012 – $3 million) and a $3 million fair value gain (2012 – $3 million) year-to-date, in operating income related to these swaps. Subsequent to the end of the second quarter of 2013, the Company settled its remaining notional $50 million interest rate swaps.

Equity Forward Contracts During the first quarter of 2013, Glenhuron paid $16 million to settle the remaining equity forwards representing 1,103,500 Loblaw common shares. Glenhuron recognized a nominal loss in operating income related to these forwards.

Other Derivatives The Company also maintains other financial derivatives including foreign exchange forwards, electricity forwards and fuel exchange traded futures and options. During the second quarter of 2013, the Company recognized a nominal gain (2012 – $4 million loss) and $2 million gain year-to-date (2012 – $2 million loss) in operating income. As at June 15, 2013, a cumulative unrealized gain receivable of $1 million (June 16, 2012 – $1 million; December 29, 2012 – nominal) was recorded in prepaid expenses and other assets.

Franchise Loans Receivable and Franchise Investments in Other Assets The value of Loblaw franchise loans receivable of $365 million (June 16, 2012 – $358 million; December 29, 2012 – $363 million) was recorded on the consolidated balance sheets. During the second quarter of 2013, the Company recorded an impairment loss of $2 million (2012 – $4 million) and an impairment loss of $5 million (2012 – $6 million) year-to-date in operating income related to these loans receivable.

The value of Loblaw franchise investments of $65 million (June 16, 2012 – $59 million; December 29, 2012 – $64 million) was recorded in other assets. During the second quarter of 2013, the Company recorded impairment losses of $1 million (2012 – $1 million gain) and $6 million (2012 – $4 million) year-to-date in operating income related to these investments.

Valuation process The determination of the fair value of financial instruments is performed by the Company's treasury and financial reporting departments on a quarterly basis. There was no change in the valuation techniques applied to financial instruments during the first half of 2013. The following table describes the valuation techniques used in the determination of the fair values of financial instruments:

Type	Valuation Approach
Cash and cash equivalents, short term investments and security deposits	The carrying amount approximates fair value due to the short term maturity of these instruments.
Accounts receivable, credit card receivables, trade payables and other liabilities and short term debt	The carrying amount approximates fair value due to the short term maturity of these instruments.
Franchise loans receivable	The carrying amount approximates fair value due to the minimal fluctuations in the forward interest rate and the sufficiency provisions recorded for all impaired receivables.
Derivative financial instruments	Specific valuation techniques used to value derivative financial instruments include: • Quoted market prices or dealer quotes for similar instruments; • The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves; and • The fair value of cross currency swaps is determined by forward and spot foreign exchange rates. The fair value of certain swaps is determined by an external valuator with experience in the financial markets.
Long term debt, capital securities and other financial instruments	The fair value is based on the present value of contractual cash flows, discounted at the Company's current incremental borrowing rate for similar types of borrowing arrangements or, where applicable, quoted market prices.

Note 18. Contingent Liabilities

Legal Proceedings The Company is the subject of various legal proceedings and claims that arise in the ordinary course of business. The outcome of all of these proceedings and claims is uncertain. However, based on information currently available, these proceedings and claims, individually and in the aggregate, are not expected to have a material impact on the Company.

Tax The Company is involved in and potentially subject to tax audits from various governments and regulatory agencies relating to income, capital and commodity taxes on an ongoing basis. As a result, from time to time, taxing authorities may disagree with the positions and conclusions taken by the Company in its tax filings or legislation may be amended, which could lead to assessments and reassessments. These assessments and reassessments may have a material impact on the Company's financial statements in future periods.

During 2012, the Company received indication from the Canada Revenue Agency that it intends to proceed with a reassessment with regard to the tax treatment of the Company's wholly owned subsidiary, Glenhuron. At this stage, it is not possible to quantify the amount of the proposed reassessment. While the Company does not expect the ultimate outcome to be material, such matters cannot be predicted with certainty and could result in a material charge for the Company in future periods.

Indemnification Provisions The Company from time to time enters into agreements in the normal course of its business, such as service and outsourcing arrangements and leases, 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 breaches of representation and warranty or with future claims for certain liabilities, including liabilities related to tax and environmental matters. The terms of these indemnification provisions vary in duration and may extend for an unlimited period of time. Given the nature of such 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.

Note 19. Financial Guarantees

During the second quarter of 2012, the Company increased its guarantee on behalf of PC Bank to MasterCard® International Incorporated from USD $180 million to USD $230 million, primarily due to an increase in active accounts.

Note 20. Subsequent Events

Initial Public Offering of Choice Properties Real Estate Investment Trust

Subsequent to the end of the quarter, in connection with its acquisition of approximately $7 billion of properties and related assets from Loblaw, Choice Properties completed a $460 million IPO of its trust units (the "Units"), which included the exercise of a $60 million over-allotment option. In addition, Choice Properties also completed a $200 million offering of its Units to Weston. The Units were issued at a price of $10.00 per unit and gross proceeds were $660 million. After the exercise of the over-allotment option, Loblaw held an 81.7% effective interest in Choice Properties through ownership of 21,500,000 Units and 272,497,871 Class B Limited Partnership units, which are economically equivalent to and exchangeable for Units. At closing, the Company recorded transaction costs of approximately $40 million in net interest expense and other financing charges related to the completion of the IPO.

Concurrently, with the offering of the Units, Choice Properties completed a public offering of $600 million aggregate principal amount of senior unsecured debentures (the "Debentures"). The Debentures were comprised of $400 million Series A Debentures with a 5-year term and a coupon of 3.554% per annum and $200 million Series B Debentures with a 10-year term and a coupon of 4.903% per annum. A portion of the debt offering proceeds were used to replenish the cash used to repay the USD $150 million USPP note that matured during the second quarter of 2013 and to early-settle the remaining USD $150 million USPP note during the third quarter of 2013, including the associated early-settlement costs of approximately $18 million, which will be recorded in net interest expense and other financing charges.

The Company will consolidate Choice Properties as a result of its controlling interest and will continue to account for the portfolio of properties on a historical cost basis in the consolidated financial statements. The Units held by non-controlling interests will be presented as a liability on the Company's consolidated balance sheet as the Units are redeemable for cash at the option of the holder. The liability will be recorded at fair value each reporting period based on the market price of the Units with changes recorded in net interest expense and other financing charges.

Agreement to Acquire Shoppers Drug Mart Corporation

Subsequent to the end of the quarter, the Company entered into a definitive agreement to acquire all of the outstanding common shares of Shoppers Drug Mart Corporation ("Shoppers Drug Mart") for $33.18 in cash plus 0.5965 of a Loblaw common share per each Shoppers Drug Mart common share, on a fully pro-rated basis. Based on Loblaw's closing common share price on July 12, 2013, this would represent a purchase price of approximately $12.4 billion. The maximum amount of cash to be paid by the Company will be approximately $6.7 billion and the maximum number of Loblaw common shares to be issued will be approximately 119.9 million, based on the number of Shoppers Drug Mart shares outstanding as of the date of the agreement.

The Company will finance the cash element of the transaction with available cash resources and committed bank facilities. These committed facilities consist of a $3.5 billion term loan and a $1.6 billion bridge loan that will only be utilized upon completion of the acquisition. The Company plans to replace the bridge loan primarily through issuance of unsecured notes. As part of the financing of the acquisition, the Company's controlling shareholder, Weston, has agreed to subscribe for approximately $500 million of additional Loblaw common shares.

The Company anticipates that the transaction will be completed within six to seven months. Completion is subject to various approvals, including Shoppers Drug Mart shareholder and court approvals, compliance with the *Competition Act* (Canada) and other regulatory approvals as well as certain other closing conditions customary in transactions of this nature. There can be no assurance that any such approvals will be obtained, that these conditions will be met or waived or that the Company will be able to successfully consummate the proposed transaction as currently contemplated or at all.

Note 21. Segment Information

The Company has two reportable operating segments with all material operations carried out in Canada:

- The Retail segment, which consists primarily of food and also includes drugstore, gas bars, apparel and other general merchandise; and
- The Financial Services segment, which includes credit card services, a retail loyalty program, insurance brokerage services, personal banking services provided by a major Canadian chartered bank, deposit taking services and telecommunication services.

Information regarding the operations of each reportable operating segment is included below:

(millions of Canadian dollars)	**June 15, 2013 (12 weeks)**	June 16, 2012 (12 weeks)	**June 15, 2013 (24 weeks)**	June 16, 2012 (24 weeks)
Revenue				
Retail	**$ 7,372**	$ 7,236	**$ 14,409**	$ 14,044
Financial services[(i)]	**148**	139	**313**	268
Consolidated	**$ 7,520**	$ 7,375	**$ 14,722**	$ 14,312

(i) Included in financial services revenue is $65 million (June 16, 2012 – $61 million) during the second quarter of 2013 and $141 million (2012 – $123 million) year-to-date of interest income.

(millions of Canadian dollars)	**June 15, 2013 (12 weeks)**	June 16, 2012 (12 weeks)	**June 15, 2013 (24 weeks)**	June 16, 2012 (24 weeks)
Depreciation and Amortization				
Retail	**$ 189**	$ 176	**$ 369**	$ 344
Financial services	**2**	3	**5**	5
Consolidated	**$ 191**	$ 179	**$ 374**	$ 349

(millions of Canadian dollars)	**June 15, 2013 (12 weeks)**	June 16, 2012 (12 weeks)	**June 15, 2013 (24 weeks)**	June 16, 2012 (24 weeks)
Operating Income				
Retail	**$ 294**	$ 275	**$ 573**	$ 500
Financial services	**28**	15	**58**	29
Consolidated	**$ 322**	$ 290	**$ 631**	$ 529

(millions of Canadian dollars)	**June 15, 2013 (12 weeks)**	June 16, 2012[(1)] (12 weeks)	**June 15, 2013 (24 weeks)**	June 16, 2012[(1)] (24 weeks)
Net Interest Expense and Other Financing Charges				
Retail	**$ 70**	$ 70	**$ 135**	$ 139
Financial services	**10**	11	**21**	21
Consolidated	**$ 80**	$ 81	**$ 156**	$ 160

(1) Certain 2012 figures have been restated – see note 2.

(millions of Canadian dollars)		As at June 15, 2013		As at June 16, 2012		As at December 29, 2012
Total Assets						
Retail	**$**	**15,203**	$	14,958	$	15,474
Financial services		**2,514**		2,311		2,487
Consolidated	**$**	**17,717**	$	17,269	$	17,961

(millions of Canadian dollars)		June 15, 2013 (12 weeks)		June 16, 2012 (12 weeks)		June 15, 2013 (24 weeks)		June 16, 2012 (24 weeks)
Additions to Fixed Assets and Goodwill and Intangibles								
Retail	**$**	**189**	$	268	**$**	**317**	$	399
Financial services		**1**		6		**1**		9
Consolidated	**$**	**190**	$	274	**$**	**318**	$	408

Earnings Coverage Exhibit to the Unaudited Interim Period Condensed Consolidated Financial Statements

The following is the Company's updated earnings coverage ratio for the rolling 52-week period ended June 15, 2013 in connection with the Company's Short Form Base Shelf Prospectus dated December 21, 2012.

Earnings coverage on financial liabilities[(1)]	3.65 times

The earnings coverage ratio on financial liabilities is equal to consolidated net earnings (before interest on short term debt and long term debt, dividends on capital securities and income taxes) divided by consolidated interest on short term and long term debt and dividends on capital securities. For the purposes of calculating the earnings coverage ratio set forth above, long term debt includes the current portion of long term debt.

(1) The Company's earnings coverage ratio has been calculated using certain 2012 figures that have been restated due to the implementation of revised IAS 19 "Employee Benefits" – see note 2.

Financial Summary[1]

As at or for the periods ended June 15, 2013 and June 16, 2012 (unaudited) (millions of Canadian dollars except where otherwise indicated)	**2013** **(12 weeks)**	2012[2] (12 weeks)
Consolidated Results of Operations		
Revenue	**$ 7,520**	$ 7,375
Operating income	**322**	290
EBITDA[3]	**513**	469
Net interest expense and other financing charges	**80**	81
Net earnings	**178**	156
Consolidated Financial Position and Cash Flows		
Adjusted debt[3]	**4,210**	4,363
Cash and cash equivalents, short term investments and security deposits	**1,842**	1,885
Cash flows from operating activities	**572**	599
Capital Investment	**190**	233
Free cash flow[3]	**392**	341
Consolidated Per Common Share ($)		
Basic net earnings	**0.63**	0.55
Consolidated Financial Measures and Ratios		
Revenue growth	**2.0%**	1.3%
Operating margin[1]	**4.3%**	3.9%
EBITDA margin[3]	**6.8%**	6.4%
Interest coverage[3]	**4.0x**	3.5x
Adjusted debt[3] to rolling year EBITDA[3]	**2.0x**	2.2x
Rolling year return on average net assets[3]	**10.6%**	10.7%
Rolling year return on average shareholders' equity	**11.0%**	11.5%
Retail Results of Operations		
Sales	**7,372**	7,236
Gross profit	**1,643**	1,611
Operating income	**294**	275
Retail Operating Statistics		
Same-store sales[1] growth	**1.1%**	0.2%
Gross profit percentage	**22.3%**	22.3%
Operating margin[1]	**4.0%**	3.8%
Retail square footage (in millions)	**51.6**	51.2
Number of corporate stores	**574**	585
Number of franchise stores	**483**	462
Financial Services Results of Operations		
Revenue	**148**	139
Operating income	**28**	15
Earnings before income taxes	**18**	4
Financial Services Operating Measures and Statistics		
Average quarterly net credit card receivables	**2,253**	2,049
Credit card receivables	**2,279**	2,058
Allowance for credit card receivables	**43**	36
Annualized yield on average quarterly gross credit card receivables[1]	**13.5%**	12.7%
Annualized credit loss rate on average quarterly gross credit card receivables[1]	**4.3%**	4.4%

(1) For financial definitions and ratios refer to the Glossary beginning on page 103 of the Company's 2012 Annual Report.
(2) Certain 2012 figures have been restated (see note 2 of the unaudited interim period condensed consolidated financial statements).
(3) See Non-GAAP financial measures beginning on page 23 of the Management's Discussion and Analysis in this report.

Corporate Profile

The Company is a subsidiary of George Weston Limited and is Canada's largest food retailer and a leading provider of drugstore, general merchandise and financial products and services. The Company has two reportable operating segments: Retail and Financial Services. Loblaw and its franchisees together are among the largest private sector employers in Canada, employing approximately 134,000 full-time and part-time employees across more than 1,000 corporate and franchise stores from coast to coast. Through its portfolio of store formats, Loblaw is committed to providing Canadians with a wide range of products and services to meet the everyday household demands of Canadian consumers. Loblaw is known for the quality, innovation and value of its food offering. It offers one of Canada's strongest control brand programs, including the unique *President's Choice*, *no name* and *Joe Fresh* brands. In addition, through its subsidiaries, the Company makes available to consumers *President's Choice Financial* services and offers the *PC* points and *PC* Plus loyalty programs.

The Company's mission is to be Canada's best food, health and home retailer by exceeding customer expectations through innovative products at great prices. As one of the country's leading retailers, reaching 14 million consumers each week, the Company is uniquely positioned to deliver on its purpose – *Live Life Well* – and to provide Canadians with products, services, value and experience to enrich their lives. The Company delivers on this purpose through its strategy to strengthen its competitive position with a winning customer proposition and efficient and cost-effective operations fueled by growth opportunities in emerging and complementary businesses.

Trademarks

Loblaw Companies Limited and its subsidiaries own a number of trademarks. Several subsidiaries are licensees of additional trademarks. These trademarks are the exclusive property of Loblaw Companies Limited or the licensor and where used in this report, are in italics.

Shareholder Information

Registrar and Transfer Agent

Computershare Investor Services Inc.	Toll free: 1-800-564-6253
100 University Avenue	(Canada and U.S)
Toronto, Canada	Fax: (416) 263-9394
M5J 2Y1	Toll free fax: 1-888-453-0330
International direct dial:	(514) 982-7555

To change your address or eliminate multiple mailings or for other shareholder account inquiries, please contact Computershare Investor Services Inc.

Investor Relations

Investor inquiries, contact:	Media inquiries, contact:
Jonathan Ross	Julija Hunter
Director, Investor Relations	Vice President, Public Relations
(905) 861-2153	(905) 861-2437
investor@loblaw.ca	pr@loblaw.ca

Additional financial information has been filed electronically with various securities regulators in Canada through the System for Electronic Document Analysis and Retrieval (SEDAR) and with the Office of the Superintendent of Financial Institutions (OSFI) as the primary regulator for the Company's subsidiary, President's Choice Bank. The Company holds an analyst call shortly following the release of its quarterly results. These calls are archived in the Investor Centre section of the Company's website loblaw.ca.

Conference Call and Webcast

Loblaw Companies Limited will host a conference call as well as an audio webcast on July 24, 2013 at 11:00am (EST).

To access via tele-conference, please dial (647) 427-7450. The playback will be made available two hours after the event at (416) 849-0833, access code: 97883192. To access via audio webcast, please visit the Investor Centre section at loblaw.ca. Pre-registration will be available.

Full details are available on the Loblaw Companies Limited website at loblaw.ca.

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