Loblaw Companies Limited

NEWS RELEASE

Loblaw Reports 2022 Second Quarter Results

BRAMPTON, ONTARIO July 27, 2022 Loblaw Companies Limited (TSX: L) ("Loblaw" or the "Company") announced today its unaudited financial results for the second quarter ended June 18, 2022.[1]

Loblaw delivered strong operational and financial results as it continued to execute on retail excellence in its core businesses, while advancing its growth and efficiencies initiatives. Drug Retail performance continued to drive overall margin expansion, as sales benefited from growth in higher margin front-store categories. The positive trend in Food Retail continued with the Company's conventional stores performing well relative to peers and sales growth in its discount banners, heightened by the strength of the No Frills® and Maxi® hard-discount stores and the Company's value focused control brand no name®.

"Loblaw delivered consistent operating and financial results, as customers recognized the value, quality and convenience delivered through our diverse store formats, control brand products, and our PC Optimum loyalty program," said Galen G. Weston, Chairman and President, Loblaw Companies Limited. "In the quarter we also continued to pursue our strategic growth agenda, with the completion of our acquisition of Lifemark Health Group, bolstering our healthcare services offering and furthering our purpose to help Canadians Live Life Well."

2022 SECOND QUARTER HIGHLIGHTS

- Revenue was $12,847 million, an increase of $356 million, or 2.9%.
- Retail segment sales were $12,623 million, an increase of $341 million, or 2.8%.
  - Food Retail (Loblaw) same-stores sales increased by 0.9%.
  - Drug Retail (Shoppers Drug Mart) same-store sales increased by 5.6%.
- E-commerce sales decreased by 17.5%, lapping elevated online sales due to lockdowns last year.
- Operating income was $742 million, a decrease of $10 million, or 1.3%. Operating income was negatively impacted by $111 million as a result of a charge related to a President's Choice Bank ("PC Bank") commodity tax matter.
- Adjusted EBITDA[2] was $1,499 million, an increase of $128 million, or 9.3%.
- Retail segment adjusted gross profit percentage[2] was 31.4%, an increase of 50 basis points.
- Net earnings available to common shareholders of the Company were $387 million, an increase of $12 million or 3.2%. Diluted net earnings per common share were $1.16, an increase of $0.07, or 6.4%. Diluted net earnings per common share was negatively impacted by $0.25 per common share as a result of a charge related to a PC Bank commodity tax matter.
- Adjusted net earnings available to common shareholders of the Company[2] were $566 million, an increase of $102 million, or 22.0%.
- Adjusted diluted net earnings per common share[2] were $1.69, an increase of $0.34 or 25.2%.
- Repurchased for cancellation, 5.4 million common shares at a cost of $607 million and invested $302 million in capital expenditures. Retail segment free cash flow[2] was $840 million.
- Acquired Lifemark Health Group ("Lifemark") on May 10, 2022, adding to the Company's growing role as a healthcare service provider, with a network of health and wellness solutions, accessible in-person and digitally.
- PC Express™ Rapid Delivery announced, to make grocery and convenience items available to customers in an expected express delivery time of 30-minutes-or-less through a collaboration with DoorDash.

See "News Release Endnotes" at the end of this News Release.

CONSOLIDATED AND SEGMENT RESULTS OF OPERATIONS

The following tables provide key performance metrics for the Company by segment and same-store sales.

For the periods ended June 18, 2022 and June 19, 2021 (millions of Canadian dollars)	**2022 (12 weeks)** Retail	Financial Services	Elimin-ations	Consol-idated	2021 (12 weeks) Retail	Financial Services	Elimin-ations	Consol-idated
Revenue	**$12,623**	**$ 297**	**$ (73)**	**$12,847**	$12,282	$ 272	$ (63)	$12,491
Adjusted gross profit[2]	$3,962	$ 266	$ (73)	$ 4,155	$ 3,793	$ 231	$ (63)	$ 3,961
Adjusted gross profit %[2]	31.4 %	N/A	— %	32.3 %	30.9 %	N/A	— %	31.7 %
Operating income (loss)	**$ 811**	**$ (69)**	**$ —**	**$ 742**	$ 708	$ 44	$ —	$ 752
Adjusted operating Income[2]	938	42	—	980	830	44	—	874
Adjusted EBITDA[2]	$ 1,445	$ 54	$ —	$ 1,499	$ 1,316	$ 55	$ —	$ 1,371
Adjusted EBITDA margin[2]	11.4 %	N/A	— %	11.7 %	10.7 %	N/A	— %	11.0 %
Net interest expense and other financing charges	**$ 135**	**$ 17**	**$ —**	**$ 152**	$ 145	$ 16	$ —	$ 161
Adjusted net interest expense and other financing charges	135	17	—	152	145	16	—	161
Earnings (losses) before income taxes	**$ 676**	**$ (86)**	**$ —**	**$ 590**	$ 563	$ 28	$ —	$ 591
Income Taxes				$ 162				$ 157
Adjusted income taxes[2]				221				190
Net earnings attributable to non-controlling interests				$ 38				$ 56
Prescribed dividends on preferred shares in share capital				3				3
Net earnings available to common shareholders of the Company				**$ 387**				$ 375
Adjusted net earnings available to common shareholders of the Company[2]				566				464
Diluted net earnings per common share ($)				**$ 1.16**				$ 1.09
Adjusted diluted net earnings per common share[2] ($)				$ 1.69				$ 1.35
Diluted weighted average common shares outstanding (in millions)				**334.4**				342.9

For the periods ended June 18, 2022 and June 19, 2021 (millions of Canadian dollars except where otherwise indicated)	**2022 (12 weeks)** Sales	Same-store sales	2021 (12 weeks) Sales	Same-store sales
Food retail	**$ 8,981**	**0.9 %**	$ 8,878	(0.1)%
Drug retail	**3,642**	**5.6 %**	3,404	9.6 %
Pharmacy and healthcare services	**1,813**	**6.1 %**	1,656	17.2 %
Front store	**1,829**	**5.2 %**	1,748	3.6 %

RETAIL SEGMENT

- Retail segment sales were $12,623 million, an increase of $341 million, or 2.8%.
  - Food Retail (Loblaw) sales were $8,981 million and Food Retail same-store sales grew by 0.9% (2021 – declined by 0.1%).
    - The Consumer Price Index as measured by The Consumer Price Index for Food Purchased From Stores was 9.6% (2021 – 0.5%) which was generally in line with the Company's internal food inflation.
    - Food Retail basket size decreased and traffic increased.
  - Drug Retail (Shoppers Drug Mart) sales were $3,642 million, and Drug Retail same-store sales grew by 5.6% (2021 – 9.6%), with pharmacy and healthcare services same-store sales growth of 6.1% (2021 – 17.2%) and front store same-store sales growth of 5.2% (2021 – 3.6%). Pharmacy and healthcare services sales include Lifemark revenues from the date of acquisition of $49 million. Lifemark revenues are excluded from same-store sales.
    - On a same-store basis, the number of prescriptions dispensed increased by 2.3% (2021 – 0.3%) and the average prescription value increased by 3.6% (2021 – 15.9%).
- Operating income was $811 million, an increase of $103 million, or 14.5%.
- Adjusted gross profit[(2)] was $3,962 million, an increase of $169 million, or 4.5%. The adjusted gross profit percentage[(2)] of 31.4% increased by 50 basis points, primarily driven from favourable changes in Drug Retail sales mix. Food Retail margins were stable.
- Adjusted EBITDA[(2)] was $1,445 million, an increase of $129 million, or 9.8%. The increase was driven by an increase in adjusted gross profit[(2)], partially offset by an increase in SG&A. SG&A as a percentage of sales was 19.9%, a decrease of 30 basis points. The favourable decrease of 30 basis points was primarily due to lower COVID-19 related expenses, partially offset by higher costs from the normalization of post-lockdown expenses.
- Depreciation and amortization was $621 million, an increase of $18 million or 3.0%, primarily driven by an increase in IT assets and leased assets. Included in depreciation and amortization was the amortization of intangibles assets related to the acquisitions of Shoppers Drug Mart Corporation ("Shoppers Drug Mart") and Lifemark of $114 million (2021 – $117 million).
- On May 10, 2022, the Company acquired Lifemark for $832 million. Lifemark is the leading provider of outpatient physiotherapy, massage therapy, occupational therapy, chiropractic, mental health, and other ancillary rehabilitation services through its more than 300 clinics across Canada. Revenue of $49 million and nominal net earnings were contributed by Lifemark from the date of acquisition. Net earnings includes amortization related to the acquired intangible assets of $3 million.
- 1 food and drug store was opened, and 1 food and drug store was closed, resulting in a net increase in Retail square footage of 0.1 million square feet, or 0.1%.

FINANCIAL SERVICES SEGMENT

- Revenue was $297 million, an increase of $25 million or 9.2%. The increase was primarily driven by higher interest income and other credit card related fees from normalizing credit card receivable balances and higher interchange income from an increase in consumer spending, partially offset by lower sales attributable to The Mobile Shop™.
- Losses before income taxes were $86 million, a decrease in earnings of $114 million. The Financial Services business continues to benefit from the economic re-opening but earnings have decreased primarily due to a charge of $111 million related to a commodity tax matter.
- On July 19, 2022, the Tax Court of Canada ("Tax Court") released its decision relating to PC Bank, a subsidiary of the Company. The Tax Court ruled that PC Bank is not entitled to claim notional input tax credits for certain payments it made to Loblaws Inc. in respect of redemptions of loyalty points. PC Bank is planning to appeal the decision.

  Although the Company believes in the merits of its position, it recorded a charge during the second quarter of $111 million, inclusive of interest. The Company believes that this provision is sufficient to cover its liability from the initial reassessment period in 2009 through to the end of the second quarter of 2022, if the appeal is ultimately unsuccessful.

OUTLOOK[3]

Loblaw will continue to execute on retail excellence in its core grocery and pharmacy businesses while advancing its growth initiatives in 2022. In the third year of the pandemic, the Company's businesses remain well placed to service the everyday needs of Canadians. However, the Company cannot predict the precise impacts of COVID-19, the related industry volatility and inflationary environment on its 2022 financial results.

On a full year basis, the Company continues to expect:

- its Retail business to grow earnings faster than sales;
- to invest approximately $1.4 billion in capital expenditures, net of proceeds from property disposals, reflecting incremental store and distribution network investments; and
- to return capital to shareholders by allocating a significant portion of free cash flow to share repurchases.

Based on its year to date operating and financial performance and momentum exiting the second quarter, the Company expects full year adjusted net earnings per common share[2] growth in the mid-to-high teens.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE ("ESG")

In the second quarter, the Company progressed its ESG pillars:

- *Fighting Climate Change*: Loblaw has announced a phase out of front-end plastic bags nationwide by early 2023 and initiated pilot reusable container programs in select locations. The Company continues to drive industry and supplier adoption of Golden Design Rules for using better and less plastic packaging, working with the Canadian Plastics Pact; and
- *Advancing Social Equity*: As part of annual community investment efforts generating nearly $100 million, the Company raised and donated $2 million for the Ukrainian humanitarian response here and abroad, and $2.6 million to women's mental health, including through the annual LOVE YOU by Shoppers Drug Mart™ Run for Women.

NORMAL COURSE ISSUER BID PROGRAM

On a year-to-date basis, the Company repurchased 6.7 million common shares for cancellation at a cost of $755 million.

The Company participates in an automatic share purchase plan ("ASPP") with a broker in order to facilitate the repurchase of the Company's common shares under its Normal Course Issuer Bid. During the effective period of the ASPP, the Company's broker may purchase common shares at times when the Company would not be active in the market.

FORWARD-LOOKING STATEMENTS

This News Release contains forward-looking statements about the Company's objectives, plans, goals, aspirations, strategies, financial condition, results of operations, cash flows, performance, prospects, opportunities and legal and regulatory matters. Specific forward-looking statements in this News Release include, but are not limited to, statements with respect to the Company's anticipated future results, events and plans, strategic initiatives and restructuring, regulatory changes, and economic conditions. These specific forward-looking statements are contained throughout this News Release including, without limitation, in the "Consolidated Results of Operations" and "Outlook" section of this News Release. Forward-looking statements are typically identified by words such as "expect", "anticipate", "believe", "foresee", "could", "estimate", "goal", "intend", "plan", "seek", "strive", "will", "may", "should" and similar expressions, as they relate to the Company and its management.

Forward-looking statements reflect the Company's 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 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 those expressed, implied or projected in the forward-looking statements, including those described in the Company's MD&A in the Company's 2021 Annual Report - Financial Review and Section 4 "Risks" of the Company's 2021 Annual Information Form for the year ended January 1, 2022.

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 News Release. 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.

DECLARATION OF DIVIDENDS

Subsequent to the end of the second quarter of 2022, the Board of Directors declared a quarterly dividend on Common Shares and Second Preferred Shares, Series B.

Common Shares	$0.405 per common share, payable on October 1, 2022 to shareholders of record on September 15, 2022.
Second Preferred Shares, Series B	$0.33125 per share, payable on September 30, 2022 to shareholders of record on September 15, 2022.

EXCERPT OF NON-GAAP FINANCIAL MEASURES

The Company uses non-GAAP financial measures, as reconciled and fully described in Appendix 1 "Non-GAAP Financial Measures" of this News Release.

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.

The following table provides a summary of the differences between the Company's consolidated GAAP and Non-GAAP financial measures, which are reconciled and fully described in Appendix 1.

For the periods ended June 18, 2022 and June 19, 2021 (millions of Canadian dollars except where otherwise indicated)	**2022 (12 weeks)**			2021 (12 weeks)		
	GAAP	**Adjusting Items**	**Non-GAAP[2]**	GAAP	Adjusting Items	Non-GAAP[2]
EBITDA	**$ 1,375**	**$ 124**	**$ 1,499**	$ 1,366	$ 5	$ 1,371
Operating Income	**$ 742**	**$ 238**	**$ 980**	$ 752	$ 122	$ 874
Net interest expense and other financing charges	**152**	**—**	**152**	161	—	161
Earnings before income taxes	**$ 590**	**$ 238**	**$ 828**	$ 591	$ 122	$ 713
Deduct the following:						
Income Taxes	**162**	**59**	**221**	157	33	190
Non-controlling Interests	**38**	**—**	**38**	56	—	56
Prescribed dividends on preferred shares	**3**	**—**	**3**	3	—	3
Net earnings available to common shareholders of the Company[i]	**$ 387**	**$ 179**	**$ 566**	$ 375	$ 89	$ 464
Diluted net earnings per common share ($)	**$ 1.16**	**$ 0.53**	**$ 1.69**	$ 1.09	$ 0.26	$ 1.35
Diluted weighted average common shares (millions)	**334.4**	**—**	**334.4**	342.9	—	342.9

(i) Net earnings available to common shareholders of the Company are net earnings attributable to shareholders of the Company net of dividends declared on the Company's Second Preferred Shares, Series B.

The following table provides a summary of the Company's adjusting items which are reconciled and fully described in Appendix 1.

As at or for the periods ended June 18, 2022 and June 19, 2021 (millions of Canadian dollars except where otherwise indicated)	**2022 (12 weeks)**	2021 (12 weeks)
Operating Income	**$ 742**	$ 752
Add (Deduct) impact of the following:		
Amortization of intangible assets acquired with Shoppers Drug Mart	**$ 111**	$ 117
Amortization of intangible assets acquired with Lifemark	**3**	—
Charge related to PC Bank commodity tax matter	**111**	—
Lifemark transaction costs	**13**	—
Fair value adjustment on fuel and foreign currency contracts	**4**	(3)
Restructuring and other related costs	**—**	8
Gain on sale of non-operating properties	**(4)**	—
Adjusting Items	**$ 238**	$ 122
Adjusted Operating Income[(2)]	**$ 980**	$ 874
Net interest expense and other financing charges	**$ 152**	$ 161
Adjusted Net interest expense and other financing charges[(2)]	**$ 152**	$ 161
Income Taxes	**$ 162**	$ 157
Add the impact of the following:		
Tax impact of items included in adjusted earnings before taxes	**$ 59**	$ 33
Adjusting Items	**$ 59**	$ 33
Adjusted Income Taxes[(2)]	**$ 221**	$ 190

CORPORATE PROFILE

2021 Annual Report and 2022 Second Quarter Report to Shareholders

The Company's 2021 Annual Report and 2022 Second Quarter Report to Shareholders are available in the "Investors" section of the Company's website at loblaw.ca and on sedar.com.

Investor Relations

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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 "Investors" section of the Company's website at loblaw.ca.

Conference Call and Webcast

Loblaw Companies Limited will host a conference call as well as an audio webcast on July 27, 2022 at 10:00 a.m. (ET).

To access via tele-conference, please dial (416) 764-8688 or (888) 390-0546. The playback will be made available approximately two hours after the event at (416) 764-8677 or (888) 390-0541, access code: 854261#. To access via audio webcast, please go to the "Investor" section of loblaw.ca. Pre-registration will be available.

Full details about the conference call and webcast are available on the Loblaw Companies Limited website at loblaw.ca.

News Release Endnotes

(1) This News Release contains forward-looking information. See "Forward-Looking Statements" section of this News Release and the Company's 2021 Annual Report for a discussion of material factors that could cause actual results to differ materially from the forecasts and projections herein and of the material factors and assumptions that were used when making these statements. This News Release 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" section in Appendix 1 of this News Release, which includes the reconciliation of such non-GAAP measures to the most directly comparable GAAP measures.

(3) To be read in conjunction with the "Forward-Looking Statements" section of this News Release and the Company's 2021 Second Quarter Report to Shareholders.

APPENDIX 1: NON-GAAP FINANCIAL MEASURES

The Company uses the following non-GAAP financial measures and ratios: Retail segment gross profit; Retail segment adjusted gross profit; Retail segment adjusted gross profit percentage; adjusted earnings before income taxes, net interest expense and other financing charges and depreciation and amortization ("adjusted EBITDA"); adjusted EBITDA margin; adjusted operating income; adjusted net interest expense and other financing charges; adjusted income taxes; adjusted effective tax rate; adjusted net earnings available to common shareholders; adjusted diluted net earnings per common share, and free cash flow. The Company believes these non-GAAP financial measures and ratios provide useful information to both management and investors in measuring the financial performance and financial condition of the Company for the reasons outlined below.

Management uses these and other non-GAAP financial measures to exclude the impact of certain expenses and income that must be recognized under GAAP when analyzing underlying consolidated and segment operating performance, as the excluded items are not necessarily reflective of the Company's underlying operating performance and make comparisons of underlying financial performance between periods difficult. The Company excludes additional items if it believes doing so would result in a more effective analysis of underlying operating performance. The exclusion of certain items does not imply that they are non-recurring.

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.

Retail Segment Gross Profit, Retail Segment Adjusted Gross Profit and Retail Segment Adjusted Gross Profit Percentage The following tables reconcile adjusted gross profit by segment to gross profit by segment, which is reconciled to revenue and cost of merchandise inventories sold measures as reported in the consolidated statements of earnings for the periods ended as indicated. The Company believes that Retail segment gross profit and Retail segment adjusted gross profit are useful in assessing the Retail segment's underlying operating performance and in making decisions regarding the ongoing operations of the business.

Retail segment adjusted gross profit percentage is calculated as Retail segment adjusted gross profit divided by Retail segment revenue.

	2022 (12 weeks)				2021 (12 weeks)			
For the periods ended June 18, 2022 and June 19, 2021 (millions of Canadian dollars)	**Retail**	**Financial Services**	**Eliminations**	**Total**	Retail	Financial Services	Eliminations	Total
Revenue	**$12,623**	**$ 297**	**$ (73)**	**$12,847**	$12,282	$ 272	$ (63)	$ 12,491
Cost of merchandise inventories sold	**8,661**	**31**	**—**	**8,692**	8,489	41	—	8,530
Gross profit	**$ 3,962**	**$ 266**	**$ (73)**	**$ 4,155**	$ 3,793	$ 231	$ (63)	$ 3,961
Adjusted gross profit	**$ 3,962**	**$ 266**	**$ (73)**	**$ 4,155**	$ 3,793	$ 231	$ (63)	$ 3,961

	2022 (24 weeks)				2021 (24 weeks)			
For the periods ended June 18, 2022 and June 19, 2021 (millions of Canadian dollars)	**Retail**	**Financial Services**	**Eliminations**	**Total**	Retail	Financial Services	Eliminations	Total
Revenue	**$24,668**	**$ 571**	**$ (130)**	**$25,109**	$23,952	$ 525	$ (114)	$24,363
Cost of merchandise inventories sold	**16,963**	**64**	**—**	**17,027**	16,626	78	—	16,704
Gross profit	**$ 7,705**	**$ 507**	**$ (130)**	**$ 8,082**	$ 7,326	$ 447	$ (114)	$ 7,659
Adjusted gross profit	**$ 7,705**	**$ 507**	**$ (130)**	**$ 8,082**	$ 7,326	$ 447	$ (114)	$ 7,659

Adjusted Operating Income, Adjusted EBITDA and Adjusted EBITDA Margin The following tables reconcile adjusted operating income and adjusted EBITDA to operating income, which is reconciled to net earnings attributable to shareholders of the Company as reported in the consolidated statements of earnings for the periods ended as indicated. The Company believes that adjusted EBITDA is useful 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.

Adjusted EBITDA margin is calculated as adjusted EBITDA divided by revenue.

	2022 (12 weeks)			2021 (12 weeks)		
For the periods ended June 18, 2022 and June 19, 2021 (millions of Canadian dollars)	**Retail**	**Financial Services**	**Consolidated**	Retail	Financial Services	Consolidated
Net earnings attributable to shareholders of the Company			**$ 390**			$ 378
Add impact of the following:						
Non-controlling interests			**38**			56
Net interest expense and other financing charges			**152**			161
Income taxes			**162**			157
Operating income	**$ 811**	**$ (69)**	**$ 742**	$ 708	$ 44	$ 752
Add (deduct) impact of the following:						
Amortization of intangible assets acquired with Shoppers Drug Mart	**$ 111**	**$ —**	**$ 111**	$ 117	$ —	$ 117
Amortization of intangible assets acquired with Lifemark	**3**	**—**	**3**	—	—	—
Charge related to PC Bank commodity tax matter	**—**	**111**	**111**	—	—	—
Lifemark transaction costs	**13**	**—**	**13**	—	—	—
Fair value adjustment on fuel and foreign currency contracts	**4**	**—**	**4**	(3)	—	(3)
Restructuring and other related costs	**—**	**—**	**—**	8	—	8
Gain on sale of non-operating properties	**(4)**	**—**	**(4)**	—	—	—
Adjusting items	**$ 127**	**$ 111**	**$ 238**	$ 122	$ —	$ 122
Adjusted operating income	**$ 938**	**$ 42**	**$ 980**	$ 830	$ 44	$ 874
Depreciation and amortization	**621**	**12**	**633**	603	11	614
Less: Amortization of intangible assets acquired with Shoppers Drug Mart and Lifemark	**(114)**	**—**	**(114)**	(117)	—	(117)
Adjusted EBITDA	**$ 1,445**	**$ 54**	**$ 1,499**	$ 1,316	$ 55	$ 1,371

For the periods ended June 18, 2022 and June 19, 2021 (millions of Canadian dollars)	**2022 (24 weeks) Retail**	**Financial Services**	**Consolidated**	2021 (24 weeks) Retail	Financial Services	Consolidated
Net earnings attributable to shareholders of the Company			**$ 830**			$ 694
Add impact of the following:						
Non-controlling interests			**71**			75
Net interest expense and other financing charges			**294**			321
Income taxes			**285**			279
Operating income	**$ 1,501**	**$ (21)**	**$ 1,480**	$ 1,261	$ 108	$ 1,369
Add (deduct) impact of the following:						
Amortization of intangible assets acquired with Shoppers Drug Mart	**$ 228**	**$ —**	**$ 228**	$ 234	$ —	$ 234
Amortization of intangible assets acquired with Lifemark	**3**	**—**	**3**	—	—	—
Charge related to PC Bank commodity tax matter	**—**	**111**	**111**	—	—	—
Lifemark transaction costs	**16**	**—**	**16**	—	—	—
Gain on sale of non-operating properties	**(4)**	**—**	**(4)**	(5)	—	(5)
Fair value adjustment on fuel and foreign currency contracts	**(10)**	**—**	**(10)**	(11)	—	(11)
Restructuring and other related costs	**(15)**	**—**	**(15)**	12	—	12
Adjusting items	**$ 218**	**$ 111**	**$ 329**	$ 230	$ —	$ 230
Adjusted operating income	**$ 1,719**	**$ 90**	**$ 1,809**	$ 1,491	$ 108	$ 1,599
Depreciation and amortization	**1,242**	**22**	**1,264**	1,204	20	1,224
Less: Amortization of intangible assets acquired with Shoppers Drug Mart and Lifemark	**(231)**	**—**	**(231)**	(234)	—	(234)
Adjusted EBITDA	**$ 2,730**	**$ 112**	**$ 2,842**	$ 2,461	$ 128	$ 2,589

In addition to the items described in the Retail segment adjusted gross profit section above, when applicable, adjusted EBITDA was impacted by the following:

Amortization of intangible assets acquired with Shoppers Drug Mart The acquisition of Shoppers Drug Mart in 2014 included approximately $6,050 million of definite life intangible assets, which are being amortized over their estimated useful lives. Annual amortization associated with the acquired intangibles will be approximately $500 million until 2024 and will decrease thereafter.

Amortization of intangible assets acquired with Lifemark The acquisition of Lifemark in the second quarter of 2022 included approximately $299 million of definite life intangible assets, which are being amortized over their estimated useful lives.

Charge related to PC Bank commodity tax matter In the second quarter of 2022, the Company recorded a charge of $111 million, inclusive of interest. On July 19, 2022, the Tax Court released its decision and ruled that PC Bank is not entitled to claim notional input tax credits for certain payments it made to Loblaws Inc. in respect of redemptions of loyalty points. PC Bank is planning to appeal the decision.

Lifemark transaction costs In connection with the acquisition of Lifemark, the Company recorded $13 million of acquisition costs in operating income in the second quarter of 2022 (year-to-date – $16 million).

Gain/loss on sale of non-operating properties In the second quarter of 2022 and year-to-date, the Company disposed of non-operating properties to a third party and recorded a gain of $4 million (2021 – nil and $5 million year-to-date).

Fair value adjustment on fuel and foreign currency contracts The Company is exposed to commodity price and U.S. dollar exchange rate fluctuations. In accordance with the Company's commodity risk management policy, the Company enters into exchange traded futures contracts and forward contracts to minimize cost volatility relating to fuel prices and the U.S. dollar exchange rate. These derivatives are not acquired for trading or speculative purposes. Pursuant to the Company's derivative instruments accounting policy, changes in the fair value of these instruments, which include realized and unrealized gains and losses, are recorded in operating income. Despite the impact of accounting for these commodity and foreign currency derivatives on the Company's reported results, the derivatives have the economic impact of largely mitigating the associated risks arising from price and exchange rate fluctuations in the underlying commodities and U.S. dollar commitments.

Restructuring and other related costs The Company continuously evaluates strategic and cost reduction initiatives related to its store infrastructure, distribution networks and administrative infrastructure with the objective of ensuring a low cost operating structure. Only restructuring activities that are publicly announced related to these initiatives are considered adjusting items.

In the second quarter of 2022, the Company did not record any restructuring and other related recoveries or charges (2021 – charges of $8 million). Year-to-date, the Company recorded approximately $15 million (2021 – charges of $12 million) of restructuring and other related recoveries mainly in connection to the previously announced closure of two distribution centres in Laval and Ottawa. In the first quarter of 2022, the Company disposed of one of the distribution centres for proceeds of $26 million and recognized a gain of $19 million, which was partially offset by $4 million of restructuring and other related charges. The Company invested to build a modern and efficient expansion to its Cornwall distribution centre to serve its food and drug retail businesses in Ontario and Quebec and volumes have been transferred.

Adjusted Net Interest Expense and Other Financing Charges The following table reconciles adjusted net interest expense and other financing charges to net interest expense and other financing charges as reported in the consolidated statements of earnings for the periods ended as indicated. The Company believes that adjusted net interest expense and other financing charges is useful in assessing the Company's underlying financial performance and in making decisions regarding the financial operations of the business.

For the periods ended June 18, 2022 and June 19, 2021 (millions of Canadian dollars)	**2022 (12 weeks)**	2021 (12 weeks)	**2022 (24 weeks)**	2021 (24 weeks)
Net interest expense and other financing charges	**$ 152**	$ 161	**$ 294**	$ 321
Add (deduct) impact of the following:				
Recovery related to Glenhuron Bank Ltd.	**—**	—	**11**	—
Adjusted net interest expense and other financing charges	**$ 152**	$ 161	**$ 305**	$ 321

Adjusted Income Taxes and Adjusted Effective Tax Rate The following table reconciles adjusted income taxes to income taxes as reported in the consolidated statements of earnings for the periods ended as indicated. The Company believes that adjusted income taxes is useful in assessing the Company's underlying operating performance and in making decisions regarding the ongoing operations of its business.

Adjusted effective tax rate is calculated as adjusted income taxes divided by the sum of adjusted operating income less adjusted net interest (recovery)/expense and other financing charges.

For the periods ended June 18, 2022 and June 19, 2021 (millions of Canadian dollars except where otherwise indicated)	**2022 (12 weeks)**	2021 (12 weeks)	**2022 (24 weeks)**	2021 (24 weeks)
Adjusted operating income[(i)]	**$ 980**	$ 874	**$ 1,809**	$ 1,599
Adjusted net interest expense and other financing charges[(i)]	**152**	161	**305**	321
Adjusted earnings before taxes	**$ 828**	$ 713	**$ 1,504**	$ 1,278
Income taxes	**$ 162**	$ 157	**$ 285**	$ 279
Add (deduct) impact of the following:				
Tax impact of items included in adjusted earnings before taxes[(ii)]	**59**	33	**84**	62
Recovery related to Glenhuron Bank Ltd.	**—**	—	**33**	—
Adjusted income taxes	**$ 221**	$ 190	**$ 402**	$ 341
Effective tax rate	**27.4 %**	26.6 %	**24.0 %**	26.6 %
Adjusted income tax rate	**26.7 %**	26.6 %	**26.7 %**	26.7 %

(i) See reconciliations of adjusted operating income and adjusted net interest expense and other financing charges in the tables above.

(ii) See the adjusted operating income, adjusted EBITDA and adjusted EBITDA margin table and the adjusted net interest expense and other financing charges table above for a complete list of items included in adjusted earnings before taxes.

Adjusted Net Earnings Available to Common Shareholders and Adjusted Diluted Net Earnings Per Common Share
The following table reconciles adjusted net earnings available to common shareholders of the Company and adjusted net earnings attributable to shareholders of the Company to net earnings attributable to shareholders of the Company and then to net earnings available to common shareholders of the Company for the periods ended as indicated. The Company believes that adjusted net earnings available to common shareholders and adjusted diluted net earnings per common share are useful in assessing the Company's underlying operating performance and in making decisions regarding the ongoing operations of its business.

For the periods ended June 18, 2022 and June 19, 2021 (millions of Canadian dollars except where otherwise indicated)	**2022** **(12 weeks)**	2021 (12 weeks)	**2022** **(24 weeks)**	2021 (24 weeks)
Net earnings attributable to shareholders of the Company	**$ 390**	$ 378	**$ 830**	$ 694
Prescribed dividends on preferred shares in share capital	**(3)**	(3)	**(6)**	(6)
Net earnings available to common shareholders of the Company	**$ 387**	$ 375	**$ 824**	$ 688
Net earnings attributable to shareholders of the Company	**$ 390**	$ 378	**$ 830**	$ 694
Adjusting items (refer to the following table)	**179**	89	**201**	168
Adjusted net earnings attributable to shareholders of the Company	**$ 569**	$ 467	**$ 1,031**	$ 862
Prescribed dividends on preferred shares in share capital	**(3)**	(3)	**(6)**	(6)
Adjusted net earnings available to common shareholders of the Company	**$ 566**	$ 464	**$ 1,025**	$ 856
Diluted weighted average common shares outstanding (millions)	**334.4**	342.9	**335.5**	345.3

For the periods ended June 18, 2022 and June 19, 2021 (millions of Canadian dollars/ Canadian dollars)	**2022 (12 weeks)** Net Earnings (Losses) Available to Common Shareholders of the Company	**2022 (12 weeks)** Diluted Net Earnings (Losses) Per Common Share	2021 (12 weeks) Net Earnings (Losses) Available to Common Shareholders of the Company	2021 (12 weeks) Diluted Net Earnings (Losses) Per Common Share	**2022 (24 weeks)** Net Earnings (Losses) Available to Common Shareholders of the Company	**2022 (24 weeks)** Diluted Net Earnings (Losses) Per Common Share	2021 (24 weeks) Net Earnings (Losses) Available to Common Shareholders of the Company	2021 (24 weeks) Diluted Net Earnings (Losses) Per Common Share
As reported	**$ 387**	**$ 1.16**	$ 375	$ 1.09	**$ 824**	**$ 2.46**	$ 688	$ 1.99
Add (deduct) impact of the following:								
Amortization of intangible assets acquired with Shoppers Drug Mart	**$ 81**	**$ 0.24**	$ 86	$ 0.25	**$ 168**	**$ 0.50**	$ 172	$ 0.50
Amortization of intangible assets acquired with Lifemark	**2**	**0.01**	—	—	**2**	**0.01**	—	—
Charge related to PC Bank commodity tax matter	**86**	**0.25**	—	—	**86**	**0.25**	—	—
Lifemark transaction costs	**10**	**0.03**	—	—	**12**	**0.04**	—	—
Fair value adjustment on fuel and foreign currency contracts	**3**	**0.01**	(2)	—	**(8)**	**(0.02)**	(8)	(0.02)
Restructuring and other related costs	**—**	**—**	5	0.01	**(14)**	**(0.04)**	8	0.02
Recovery related to Glenhuron Bank Ltd.	**—**	**—**	—	—	**(42)**	**(0.13)**	—	—
Gain on sale of non-operating properties	**(3)**	**(0.01)**	—	—	**(3)**	**(0.01)**	(4)	(0.01)
Adjusting items	**$ 179**	**$ 0.53**	$ 89	$ 0.26	**$ 201**	**$ 0.60**	$ 168	$ 0.49
Adjusted	**$ 566**	**$ 1.69**	$ 464	$ 1.35	**$ 1,025**	**$ 3.06**	$ 856	$ 2.48

Free Cash Flow The following table reconciles, by reportable operating segments, free cash flow to cash flows from operating activities. The Company believes that free cash flow is the appropriate measure in assessing the Company's cash available for additional financing and investing activities.

	2022 (12 weeks)				2021 (12 weeks)			
For the periods ended June 18, 2022 and June 19, 2021 (millions of Canadian dollars)	**Retail**	**Financial Services**	**Eliminations[i]**	**Consolidated**	Retail	Financial Services	Eliminations[i]	Consolidated
Cash flows from (used in) operating activities	**$ 1,542**	**$ (314)**	**$ 17**	**$ 1,245**	$ 1,666	$ (50)	$ 19	$ 1,635
Less:								
Capital investments	**293**	**9**	**—**	**302**	252	6	—	258
Interest paid	**66**	**—**	**17**	**83**	68	—	19	87
Lease payments, net	**343**	**—**	**—**	**343**	337	—	—	337
Free cash flow[2]	**$ 840**	**$ (323)**	**$ —**	**$ 517**	$ 1,009	$ (56)	$ —	$ 953

(i) Interest paid is included in cash flows from operating activities under the Financial Services segment.

	2022 (24 weeks)				2021 (24 weeks)			
For the periods ended June 18, 2022 and June 19, 2021 (millions of Canadian dollars)	**Retail**	**Financial Services**	**Eliminations[i]**	**Consolidated**	Retail	Financial Services	Eliminations[i]	Consolidated
Cash flows from (used in) operating activities	**$2,290**	**$ (211)**	**$ 29**	**$ 2,108**	$ 2,247	$ 207	$ 33	$ 2,487
Less:								
Capital investments	**475**	**13**	**—**	**488**	449	12	—	461
Interest paid	**136**	**—**	**29**	**165**	140	—	33	173
Lease payments, net	**625**	**—**	**—**	**625**	612	—	—	612
Free cash flow[2]	**$ 1,054**	**$ (224)**	**$ —**	**$ 830**	$ 1,046	$ 195	$ —	$ 1,241

(i) Interest paid is included in cash flows used in operating activities under the Financial Services segment.