Loblaw
Companies
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NEWS RELEASE

Loblaw Reports 2018 Second Quarter Results(1)

BRAMPTON, ONTARIO July 25, 2018 Loblaw Companies Limited (TSX: L) ("Loblaw" or the "Company") today announced its unaudited financial results for the second quarter ended June 16, 2018. The Company's 2018 Second Quarter Report to Shareholders will be available in the Investors section of the Company's website at loblaw.ca and will be filed with SEDAR and available at sedar.com.

"Our base businesses continued to perform well in a very competitive marketplace despite significant cost pressures," said Galen G. Weston, Chairman and Chief Executive Officer, Loblaw Companies Limited. "We are executing our strategy, improving processes, reducing cost and expanding our digital presence to deliver the best in food, health and beauty, for Canadians."

2018 SECOND QUARTER HIGHLIGHTS

The second quarter of 2018 included the negative impacts of minimum wage increases and incremental healthcare reform. The following highlights also reflect the impact of the consolidation of franchises, the disposition of gas bar operations and the acquisition of Canadian Real Estate Investment Trust ("CREIT") by Choice Properties' Real Estate Investment Trust ("Choice Properties").

- Revenue was $10,923 million, a decrease of $157 million, or 1.4%, compared to the second quarter of 2017.
- Normalized for the disposition of the gas bar operations, Retail segment sales were $10,600 million, an increase of $105 million, or 1.0%, compared to the second quarter of 2017.
    - Food retail (Loblaw) same-store sales growth was 0.8%, excluding gas bar operations.
    - Drug retail (Shoppers Drug Mart) same-store sales growth was 1.7%, with pharmacy same-store sales growth of 0.3% and front store same-store sales growth of 3.0%.
- Operating income was $561 million, a decrease of $66 million, or 10.5%, compared to the second quarter of 2017.
- Adjusted EBITDA(2) was $1,027 million, an increase of $41 million, or 4.2%, compared to the second quarter of 2017.
- Net earnings available to common shareholders of the Company were $50 million, a decrease of $309 million, or 86.1%, compared to the second quarter of 2017. Diluted net earnings per common share were $0.13, a decrease of $0.77, or 85.6%, compared to the second quarter of 2017.
    - Net earnings available to common shareholders of the Company were negatively impacted in the second quarter of 2018 by the change in fair value adjustment to the Trust Unit Liability and costs related to Choice Properties' acquisition of CREIT.
- Adjusted net earnings available to common shareholders of the Company(2) were $421 million, a decrease of $25 million or 5.6%, compared to the second quarter of 2017.
    - Normalized for the disposition of gas bar operations, adjusted net earnings available to common shareholders of the Company(2) decreased by approximately $12 million, primarily driven by the Retail segment.
- Adjusted diluted net earnings per common share(2) were $1.11, flat compared to the second quarter of 2017.
    - Normalized for the disposition of gas bar operations, adjusted diluted net earnings per common share(2) increased by approximately 3.7% or $0.04 per common share due to the favourable impact of the repurchase of common shares.
- The Company repurchased 4.6 million common shares at a cost of $300 million.

In the second quarter of 2018, Choice Properties completed the acquisition of CREIT. The acquisition resulted in an increase in consolidated revenue of approximately $69 million, adjusted EBITDA(2) of approximately $48 million and net interest expense and other financing charges of approximately $48 million in the second quarter of 2018. The acquisition had a nominal impact on adjusted net earnings available to common shareholders of the Company(2).

The disposition of the Company's gas bar operations, in the third quarter of 2017, had a negative year-over-year impact on financial performance in the second quarter of 2018. The disposition negatively impacted Retail sales growth by $376 million, EBITDA[(2)] by approximately $20 million, net earnings available to common shareholders of the Company by approximately $13 million and diluted net earnings per common share by approximately $0.04 per common share.

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

CONSOLIDATED RESULTS OF OPERATIONS

For the periods ended June 16, 2018 and June 17, 2017 (millions of Canadian dollars except where otherwise indicated)	**2018 (12 weeks)**	2017[4] (12 weeks)	$ Change	% Change	**2018 (24 weeks)**	2017[4] (24 weeks)	$ Change	% Change
Revenue	**$ 10,923**	$ 11,080	$ (157)	(1.4)%	**$ 21,290**	$ 21,484	$ (194)	(0.9)%
Operating income	**561**	627	(66)	(10.5)%	**1,041**	1,122	(81)	(7.2)%
Adjusted EBITDA[2]	**1,027**	986	41	4.2 %	**1,903**	1,854	49	2.6 %
Adjusted EBITDA margin[2]	**9.4%**	8.9%			**8.9%**	8.6%		
Net earnings attributable to shareholders of the Company	**$ 53**	$ 362	$ (309)	(85.4)%	**$ 433**	$ 597	$ (164)	(27.5)%
Net earnings available to common shareholders of the Company[i]	**50**	359	(309)	(86.1)%	**427**	591	(164)	(27.7)%
Adjusted net earnings available to common shareholders of the Company[2]	**421**	446	(25)	(5.6)%	**782**	812	(30)	(3.7)%
Diluted net earnings per common share ($)	**$ 0.13**	$ 0.90	$ (0.77)	(85.6)%	**$ 1.12**	$ 1.47	$ (0.35)	(23.8)%
Adjusted diluted net earnings per common share[2] ($)	**$ 1.11**	$ 1.11	$ —	— %	**$ 2.05**	$ 2.02	$ 0.03	1.5 %
Diluted weighted average common shares outstanding (millions)	**379.4**	400.3			**382.0**	401.3		

(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.

Net earnings available to common shareholders of the Company in the second quarter of 2018 were $50 million ($0.13 per common share), a decrease of $309 million ($0.77 per common share) compared to the second quarter of 2017. The decrease included the decline in underlying operating performance of approximately $12 million, excluding the unfavourable impact of the disposition of gas bar operations of approximately $13 million, and the unfavourable year-over-year net impact of adjusting items totaling $284 million, as described below:

- the decline in underlying operating performance of $25 million ($0.06 per common share) was primarily due to the Retail segment (excluding the impact of the consolidation of franchises) driven by the unfavourable impact of the disposition of gas bar operations of approximately $13 million, an increase in selling, general and administrative expenses ("SG&A"), a decrease in adjusted gross profit[2] and an increase in depreciation and amortization.
- the unfavourable year-over-year net impact of adjusting items totaling $284 million ($0.77 per common share) was primarily due to the following:
    - the change in fair value adjustment to the Trust Unit Liability of $193 million ($0.51 per common share);
    - acquisition and other costs related to Choice Properties' acquisition of CREIT of $100 million ($0.26 per common share); and
    - the change in fair value adjustment to investment properties of $8 million ($0.02 per common share);

    partially offset by,
    - the favourable impact of the reversal of provisions in the second quarter of 2018 related to the Loblaw Card Program of $8 million ($0.02 per common share); and
    - the change in fair value adjustment on fuel and foreign currency contracts of $4 million ($0.01 per common share).
- the decrease in diluted net earnings per common share also included the favourable impact of the repurchase of common shares ($0.06 per common share).

The Choice Properties segment included the positive adjusted EBITDA[2] contribution from the acquisition of CREIT, which was offset by an increase in adjusted net interest expense and other financing charges[2] related to the acquisition. The increase in adjusted net interest expense and other financing charges[2] related to the acquisition included interest expense on Choice Properties issuance of unsecured senior debentures, higher distributions from Trust units issued to former CREIT unitholders as part of the acquisition consideration and interest expense on debt acquired as part of the acquisition.

Adjusted net earnings available to common shareholders of the Company[2] in the second quarter of 2018 were $421 million ($1.11 per common share), a decrease of $25 million (flat per common share), compared to the second quarter of 2017. Normalized for the disposition of gas bar operations, adjusted net earnings available to common shareholders of the Company[2] decreased by approximately $12 million, as described above. Adjusted diluted net earnings per common share[2] also included the favourable impact of the repurchase of common shares ($0.06 per common share). Normalized for the disposition of gas bar operations, adjusted diluted net earnings per common share[2] increased by approximately 3.7%.

REPORTABLE OPERATING SEGMENTS

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

- The Retail segment consists primarily of corporate and franchise-owned retail food and Associate-owned drug stores, which includes in-store pharmacies and other health and beauty products, apparel and other general merchandise, and provides the *PC Optimum* program. This segment is comprised of several operating segments that are aggregated primarily due to similarities in the nature of products and services offered for sale in the retail operations and the customer base. Prior to July 17, 2017, the Retail segment also included gas bar operations.
- The Financial Services segment provides credit card services, the *PC Optimum* program, insurance brokerage services, Guaranteed Investment Certificates and telecommunication services. As a result of the wind-down of *PC Financial* banking services, the Financial Services segment no longer offers personal banking services.
- Choice Properties owns, manages and develops a high quality portfolio of commercial retail, industrial, office and residential properties across Canada. The Choice Properties segment information presented below reflects the accounting policies of Choice Properties, which may differ from those of the consolidated Company. Differences in policies are eliminated in Consolidation and Eliminations. As of May 4, 2018, the Choice Properties segment includes the acquisition of CREIT.

Retail Segment

For the periods ended June 16, 2018 and June 17, 2017 (millions of Canadian dollars except where otherwise indicated)	**2018 (12 weeks)**	2017[5] (12 weeks)	$ Change	% Change	**2018 (24 weeks)**	2017[5] (24 weeks)	$ Change	% Change
Sales	**$ 10,600**	$ 10,871	$ (271)	(2.5)%	**$ 20,755**	$ 21,079	$ (324)	(1.5)%
Operating income	**568**	578	(10)	(1.7)%	**967**	1,024	(57)	(5.6)%
Adjusted gross profit[2]	**3,127**	3,051	76	2.5 %	**6,106**	5,937	169	2.8 %
Adjusted gross profit %[2]	**29.5%**	28.1%			**29.4%**	28.2%		
Adjusted EBITDA[2]	**$ 911**	$ 930	$ (19)	(2.0)%	**$ 1,703**	$ 1,741	$ (38)	(2.2)%
Adjusted EBITDA margin[2]	**8.6%**	8.6%			**8.2%**	8.3%		
Depreciation and amortization	**$ 363**	$ 353	$ 10	2.8 %	**$ 724**	$ 705	$ 19	2.7 %

For the periods ended June 16, 2018 and June 17, 2017 (millions of Canadian dollars except where otherwise indicated)	**2018 (12 weeks)**		2017[5] (12 weeks)		**2018 (24 weeks)**		2017[5] (24 weeks)	
	Sales	**Same-store sales**	Sales	Same-store sales	**Sales**	**Same-store sales**	Sales	Same-store sales
Food retail	**$ 7,676**	**0.8%**	$ 7,988	1.2%	**$ 14,947**	**1.3%**	$ 15,423	0.0%
Drug retail	**2,924**	**1.7%**	2,883	3.7%	**5,808**	**2.7%**	5,656	2.4%
Pharmacy	**1,383**	**0.3%**	1,377	2.9%	**2,776**	**1.9%**	2,720	2.1%
Front Store	**1,541**	**3.0%**	1,506	4.5%	**3,032**	**3.4%**	2,936	2.5%

Sales, operating income, adjusted gross profit[2], adjusted gross profit percentage[2], adjusted EBITDA[2], adjusted EBITDA margin[2] and depreciation and amortization include the impacts of the consolidation of franchises and disposition of gas bar operations.

Sales Retail segment sales in the second quarter of 2018 were $10,600 million, a decrease of $271 million, or 2.5%, compared to the second quarter of 2017. Excluding the consolidation of franchises, Retail segment sales decreased by $370 million, or 3.5%, primarily driven by the following factors:

- The impact of the disposition of gas bar operations of $376 million; and
- The impact of incremental healthcare reform on Drug retail;

partially offset by,

- Food retail same-store sales growth was 0.8% (2017 – growth of 1.0%) for the quarter, after excluding gas bar operations. The timing of Easter had a nominal impact on food retail same-store sales growth in the second quarter of 2018. In the second quarter of 2017, food retail same-store sales were relatively flat excluding the favourable impact of the timing of Easter. Including gas bar operations, food retail same-store sales growth was 0.8% (2017 – 1.2%).
- The Company's Food retail average quarterly internal food price index was marginally lower than (2017 – marginally higher than) the average quarterly national food price inflation of 0.1% (2017 – deflation of 1.4%), 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 the Company's stores.
- Drug retail same-store sales growth was 1.7% (2017 – 3.7%) and was comprised of pharmacy same-store sales growth of 0.3% (2017 – 2.9%) and front store same-store sales growth of 3.0% (2017 – 4.5%). The timing of Easter had a nominal impact on drug retail same-store sales growth in the second quarter of 2018. In the second quarter of 2017, excluding the favourable impact of the timing of Easter, Drug retail same-store sales growth was approximately 2.9%.
- 16 food and drug stores were opened and 23 food and drug stores were closed in the last 12 months, resulting in a net increase in Retail square footage of 0.1 million square feet, or 0.1%.

The redemption of Loblaw Cards resulted in the delivery of approximately $36 million of free products to customers in the second quarter of 2018 and $53 million year-to-date, which was provided for in the fourth quarter of 2017. The redemptions did not benefit sales or the Company's financial performance and Management does not believe it had a significant impact on food retail same-store-sales.

Operating Income Operating income in the second quarter of 2018 was $568 million, a decrease of $10 million compared to the second quarter of 2017. The decrease in operating income included a decline in underlying operating performance of $31 million and the favourable year-over-year net impact of adjusting items totaling $21 million, as described below:

- the decline in underlying operating performance of $31 million, including the unfavourable impact of the disposition of gas bar operations, was driven by an increase in SG&A and depreciation and amortization partially offset by an increase in adjusted gross profit[(2)]. The decline in underlying operating performance also included the favourable year-over-year contribution from the consolidation of franchises of $10 million; and
- the favourable year-over-year net impact of adjusting items totaling $21 million was primarily due to the following:
  - the favourable impact of the reversal of provisions in the second quarter of 2018 related to the Loblaw Card Program of $11 million; and
  - the change in fair value adjustment on fuel and foreign currency contracts of $5 million.

Adjusted Gross Profit[(2)] Adjusted gross profit[(2)] in the second quarter of 2018 was $3,127 million, an increase of $76 million compared to the second quarter of 2017. Adjusted gross profit percentage[(2)] of 29.5% increased by 140 basis points compared to the second quarter of 2017. Excluding the consolidation of franchises, adjusted gross profit[(2)] decreased by $7 million. Adjusted gross profit percentage[(2)], excluding the consolidation of franchises, was 27.9%, an increase of 90 basis points compared to the second quarter of 2017. The increase in adjusted gross profit percentage[(2)] was primarily due to the favourable impact from the disposition of gas bar operations of approximately 70 basis points. Margins were positively impacted by Food retail and negatively impacted by healthcare reform.

Adjusted EBITDA[(2)] Adjusted EBITDA[(2)] in the second quarter of 2018 was $911 million, a decrease of $19 million compared to the second quarter of 2017 and included the favourable impact of the consolidation of franchises of $13 million and the unfavourable impact of the disposition of gas bar operations of approximately $20 million. The decrease in adjusted EBITDA[(2)] of $19 million was driven by an increase in SG&A of $95 million partially offset by an increase in adjusted gross profit[(2)] as described above. SG&A as a percentage of sales was 20.9%, an increase of 140 basis points compared to the second quarter of 2017. Excluding the consolidation of franchises, SG&A increased $25 million. SG&A as a percentage of sales, excluding the consolidation of franchises, was 19.3%, an unfavourable increase of 90 basis points compared to the second quarter of 2017 primarily driven by:

- the unfavourable impact from the disposition of gas bar operations of approximately 60 basis points;
- higher store costs driven by minimum wage increases; and
- the unfavourable impact of foreign exchange;

partially offset by,

- previously announced cost saving initiatives.

Depreciation and Amortization Depreciation and amortization in the second quarter of 2018 was $363 million, an increase of $10 million compared to the second quarter of 2017 primarily driven by the consolidation of franchises and an increase in information technology ("IT") assets. Included in depreciation and amortization was the amortization of intangible assets related to the acquisition of Shoppers Drug Mart Corporation ("Shoppers Drug Mart") of $119 million (2017 – $121 million).

Other Retail Business Matters

Consolidation of Franchises The Company has more than 500 franchise food retail stores in its network. As at the end of the second quarter of 2018, 352 of these stores were consolidated for accounting purposes under a new, simplified franchise agreement ("Franchise Agreement") implemented in 2015.

The Company will convert the remaining franchises to the Franchise Agreement as existing agreements expire, at the end of which all franchises will be consolidated. The following table provides the total impact of the consolidation of franchises included in the consolidated results of the Company.

For the periods ended June 16, 2018 and June 17, 2017 (millions of Canadian dollars unless where otherwise indicated)	**2018 (12 weeks)**	2017 (12 weeks)	**2018 (24 weeks)**	2017 (24 weeks)
Number of Consolidated Franchise stores, beginning of period	**331**	225	**310**	200
Add: Net number of Consolidated Franchise stores in the period	**21**	16	**42**	41
Number of Consolidated Franchise stores, end of period	**352**	241	**352**	241
Sales	**$ 254**	$ 155	**$ 453**	$ 296
Adjusted gross profit[(2)]	**243**	160	**445**	299
Adjusted EBITDA[(2)]	**25**	12	**32**	19
Depreciation and amortization	**13**	10	**25**	19
Operating income	**12**	2	**7**	—
Net income attributable to non-controlling interests	**12**	3	**7**	2

Operating income included in the table above does not significantly impact net earnings available to common shareholders of the Company as the related income is largely attributable to non-controlling interests.

Financial Services Segment

For the periods ended June 16, 2018 and June 17, 2017 (millions of Canadian dollars except where otherwise indicated)	**2018** **(12 weeks)**	2017[4] (12 weeks)	$ Change	% Change	**2018** **(24 weeks)**	2017[4] (24 weeks)	$ Change	% Change
Revenue	**$ 242**	$ 226	$ 16	7.1%	**$ 472**	$ 439	$ 33	7.5%
Earnings before income taxes	**36**	27	9	33.3%	**97**	55	42	76.4%

(millions of Canadian dollars except where otherwise indicated)	**As at June 16, 2018**	As at June 17, 2017	$ Change	% Change
Average quarterly net credit card receivables	**$ 2,977**	$ 2,841	$ 136	4.8%
Credit card receivables	**3,029**	2,908	121	4.2%
Allowance for credit card receivables	**153**	48	105	218.8%
Annualized yield on average quarterly gross credit card receivables	**13.0%**	13.3%		
Annualized credit loss rate on average quarterly gross credit card receivables	**3.3%**	4.0%		

Earnings Before Income Taxes Earnings before income taxes in the second quarter of 2018 were $36 million, an increase of $9 million compared to the second quarter of 2017, primarily driven by:

- higher interest and net interchange income attributable to the growth in the credit card portfolio; and
- higher year-over-year interchange income due to an industry-wide reduction in interchange rates imposed on MasterCard® issuers affecting the first half of 2017;

partially offset by,

- higher customer acquisition costs; and
- higher IT costs mainly due to investments in digital strategy.

Credit Card Receivables As at June 16, 2018, credit card receivables were $3,029 million, an increase of $121 million compared to June 17, 2017. This increase was primarily driven by growth in the average customer balance and active customer base as a result of continued investments in customer acquisition, marketing and product initiatives, partially offset by an increase in allowances due to the adoption of IFRS 9, “Financial Instruments” (“IFRS 9”). As at June 16, 2018, the allowance for credit card receivables was $153 million, an increase of $105 million compared to June 17, 2017, primarily due to the adoption of IFRS 9.

Choice Properties Segment

For the periods ended June 16, 2018 and June 17, 2017 (millions of Canadian dollars except where otherwise indicated)	**2018 (12 weeks)**	2017 (12 weeks)	$ Change	% Change	**2018 (24 weeks)**	2017 (24 weeks)	$ Change	% Change
Revenue	**$ 295**	$ 209	$ 86	41.1 %	**$ 510**	$ 412	$ 98	23.8 %
Net interest expense and other financing charges(i)	**355**	98	257	262.2 %	**(94)**	311	(405)	(130.2)%
Net income (loss)(ii)	**(321)**	42	(363)	(864.3)%	**306**	66	240	363.6 %
Funds from operations(iii)(2)	**156**	108	48	44.4 %	**262**	217	45	20.7 %

(i) Net interest expense and other financing charges includes a fair value adjustment on Class B Limited Partnership units.

(ii) Choice Properties qualifies as a "mutual fund trust" under the Income Tax Act (Canada) and therefore net income (loss) is equal to earnings before income taxes.

(iii) Funds from operations is calculated for management purposes and excludes the accelerated amortization of debt premium of $37 million.

Net income (loss) Net loss in the second quarter of 2018 was a loss of $321 million, a decrease of $363 million compared to the second quarter of 2017, primarily driven by:

- acquisition and other costs related to the acquisition of CREIT of $108 million;
- the unfavourable change in fair value adjustment to investment properties of $61 million; and
- the increase in net interest expense and other financing charges;

partially offset by,

- an increase in net operating income from the properties acquired as part of the acquisition of CREIT;
- an increase in net operating income from existing properties; and
- additional net operating income generated from acquisitions and tenant openings in newly developed leasable space.

Funds from operations(2) Funds from operations(2) in the second quarter of 2018 were $156 million, an increase of $48 million compared to the second quarter of 2017, primarily driven by the acquisition of CREIT. The increase included additional property operating income attributable to the acquired portfolio, partially offset by higher interest expense due to the issuance of new unsecured senior debentures related to the acquisition, and an increase in distributions declared on the Class B limited Partnership units due to additional units issued as partial consideration for CREIT.

Other Choice Properties' Business Matters

Acquisition of Investment Properties In the second quarter of 2018, Choice Properties acquired one investment property from third-party vendors for an aggregate purchase price of $2 million, which was fully settled in cash.

Choice Properties' Acquisition of CREIT On May 4, 2018, Choice Properties acquired all the assets and assumed all the liabilities, including outstanding debt, of CREIT for total consideration of $3,708 million. The consideration was comprised of $1,652 million of cash and the issuance of 182,836,481 Trust Units.

In anticipation of the acquisition, Choice Properties arranged a new $1,500 million committed revolving credit facility. Concurrent with closing of the acquisition of CREIT, Choice Properties repaid and cancelled its existing credit facilities prior to the acquisition and those acquired from CREIT.

Also, concurrent with the closing of the acquisition, the Company, Choice Properties' controlling unitholder, converted all of its outstanding Class C LP Units with the face value of $925 million into Class B LP Units of Choice Properties Limited Partnership. Choice Properties issued to the Company 70,881,226 Class B LP Units upon the conversion and the shortfall in value of approximately $99 million was paid in cash. In connection with this conversion, the Company recognized capital gains income tax expense of $8 million in contributed surplus.

The cash portion of the acquisition and other transactions in relation to CREIT was financed as follows:

- $1,300 million of proceeds from the issuance of senior unsecured debentures Series K and L; and
- $800 million was obtained through two unsecured term loan facilities, of which $175 million is due in four years and $625 million is due in five years.

The preliminary purchase equation is based on management's best estimate of fair value. The actual amount allocated to certain identifiable net assets could vary as the purchase equation is finalized. The preliminary purchase price allocation at the acquisition date is as follows:

(millions of Canadian dollars)		
Net Assets Acquired:		
Cash and cash equivalents	$	28
Accounts receivable and other assets		45
Mortgages, loans and notes receivable		204
Equity accounted joint ventures		683
Investment properties		4,730
Intangible assets		30
Goodwill		355
Trade payables and other liabilities		(171)
Long term debt		(1,841)
Deferred income tax liabilities		(355)
Total Net Assets Acquired	$	3,708

Choice Properties has one year to finalize the fair value of the assets acquired and the liabilities assumed.

The goodwill is generated on consolidation of Choice Properties and is attributable to deferred income tax recorded on temporary differences arising between the fair value of the investment properties acquired and their respective income tax bases for the Company's effective ownership interest in Choice Properties. The goodwill arising from this acquisition is not deductible for tax purposes. Management has preliminarily allocated this goodwill to the Retail segment.

The following table provides the impacts of the acquisition of CREIT on the Choice Properties segment in the second quarter of 2018:

(millions of Canadian dollars unless where otherwise indicated)		**2018 (12 weeks)**
Revenue	**$**	**70**
Net income (loss)		**25**

On a year-to-date pro forma basis, the impact of the CREIT acquisition on Choice Properties segment revenue and net income in the first half of 2018 would have amounted to approximately $210 million and $75 million, respectively, excluding the impact of acquisition transaction costs and any adjustment to the fair value of the investment properties acquired. This pro forma information incorporates the effect of the preliminary purchase equation as if the acquisition had been effective December 31, 2017.

The following table provides the impacts of the acquisition of CREIT on the consolidated results of the Company in the second quarter of 2018:

(millions of Canadian dollars unless where otherwise indicated)		**2018 (12 weeks)**
Revenue	**$**	**69**
Adjusted EBITDA(2)		**48**
Adjusted net interest expense and other financing charges(2)		**48**
Adjusted net earnings available to common shareholders of the Company(2)		**—**
Adjusted diluted net earnings per common share(2) ($)		**—**

On a year-to-date pro forma basis, the impact of the CREIT acquisition on the Company's revenue and net income in the first half of 2018 would have amounted to approximately $207 million and $10 million, respectively, excluding the impact of acquisition transaction costs and any adjustment to the fair value of the investment properties acquired. This pro forma information incorporates the effect of the preliminary purchase equation as if the acquisition had been effective December 31, 2017.

DECLARATION OF DIVIDENDS

Subsequent to the end of the second quarter of 2018, the Board of Directors declared a quarterly dividend on Common Shares and Second Preferred Shares, Series B.

Common Shares	$0.295 per common share, payable on October 1, 2018 to shareholders of record on September 15, 2018
Second Preferred Shares, Series B	$0.33125 per share, payable on September 30, 2018 to shareholders of record on September 15, 2018

OUTLOOK[3]

Loblaw is focused on its strategic framework, delivering best in food and health and beauty, using data driven insights underpinned by process and efficiency excellence. This framework is supported by the Company's financial plan of maintaining a stable trading environment that targets positive same-store sales and stable gross margin, creating efficiencies to deliver operating leverage, investing for the future and returning capital to shareholders.

Headwinds from minimum wage increases and healthcare reform will negatively impact the Company's financial performance in 2018. The first half of the year was characterized by incremental cost headwinds and a very competitive retail market. In the second half, management expects cost pressures to increase, including from the newly imposed surtax on certain US imports. Management continues to focus on overcoming these headwinds.

In 2018, on a full-year comparative basis, normalized for the disposition of the gas bar business and the impact of the CREIT acquisition, the Company expects to:

- deliver positive same-store sales and stable gross margin in its Retail segment in a highly competitive market;
- deliver essentially flat adjusted net earnings growth with positive adjusted earnings per share growth based on our share buyback program;
- invest approximately $1.3 billion in capital expenditures, including $1.0 billion in its Retail segment; and
- return capital to shareholders by allocating a significant portion of free cash flow to share repurchases.

NON-GAAP FINANCIAL MEASURES

The Company uses the following non-GAAP financial measures: 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 income tax rate; adjusted net earnings available to common shareholders; adjusted diluted net earnings per common share; and with respect to Choice Properties: funds from operations. 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.

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.

For details on the nature of items excluded in the calculation of any of the non-GAAP financial measures detailed below see the "Non-GAAP Financial Measures" section of the Company's 2018 Second Quarter Report to Shareholders.

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 condensed 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.

					2018 (12 weeks)					2017[4][5] (12 weeks)
For the periods ended June 16, 2018 and June 17, 2017 (millions of Canadian dollars)	**Retail**	**Financial Services**	**Choice Properties**	**Consolidation & Eliminations**	**Consolidated**	Retail	Financial Services	Choice Properties	Consolidation & Eliminations	Consolidated
Revenue	**$ 10,600**	**$ 242**	**$ 295**	**$ (214)**	**$ 10,923**	$ 10,871	$ 226	$ 209	$ (226)	$ 11,080
Cost of Merchandise Inventories Sold	**7,473**	**26**	**—**	**—**	**7,499**	7,820	22	—	—	7,842
Gross Profit	**$ 3,127**	**$ 216**	**$ 295**	**$ (214)**	**$ 3,424**	$ 3,051	$ 204	$ 209	$ (226)	$ 3,238
Add (deduct) impact of the following:										
Impact of healthcare reform on inventory balances	**—**	**—**	**—**	**—**	**—**	—	—	—	—	—
Adjusted Gross Profit	**$ 3,127**	**$ 216**	**$ 295**	**$ (214)**	**$ 3,424**	$ 3,051	$ 204	$ 209	$ (226)	$ 3,238

					2018 (24 weeks)					2017[4][5] (24 weeks)
For the periods ended June 16, 2018 and June 17, 2017 (millions of Canadian dollars)	**Retail**	**Financial Services**	**Choice Properties**	**Consolidation & Eliminations**	**Consolidated**	Retail	Financial Services	Choice Properties	Consolidation & Eliminations	Consolidated
Revenue	**$ 20,755**	**$ 472**	**$ 510**	**$ (447)**	**$ 21,290**	$ 21,079	$ 439	$ 412	$ (446)	$ 21,484
Cost of Merchandise Inventories Sold	**14,668**	**48**	**—**	**—**	**14,716**	15,142	40	—	—	15,182
Gross Profit	**$ 6,087**	**$ 424**	**$ 510**	**$ (447)**	**$ 6,574**	$ 5,937	$ 399	$ 412	$ (446)	$ 6,302
Add (deduct) impact of the following:										
Impact of healthcare reform on inventory balances	**19**	**—**	**—**	**—**	**19**	—	—	—	—	—
Adjusted Gross Profit	**$ 6,106**	**$ 424**	**$ 510**	**$ (447)**	**$ 6,593**	$ 5,937	$ 399	$ 412	$ (446)	$ 6,302

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 condensed 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.

					2018 (12 weeks)					2017[4][5] (12 weeks)
For the periods ended June 16, 2018 and June 17, 2017 (millions of Canadian dollars)	**Retail**	**Financial Services**	**Choice Properties**	**Consolidation & Eliminations**	**Consolidated**	Retail	Financial Services	Choice Properties	Consolidation & Eliminations	Consolidated
Net earnings attributable to shareholders of the Company					**$ 53**					$ 362
Add (deduct) impact of the following:										
Non-Controlling Interests					**12**					3
Net interest expense and other financing charges					**370**					127
Income taxes					**126**					135
Operating income	**$ 568**	**$ 52**	**$ 34**	**$ (93)**	**$ 561**	$ 578	$ 40	$ 140	$ (131)	$ 627
Add (deduct) impact of the following:										
Amortization of intangible assets acquired with Shoppers Drug Mart	**$ 119**	**$ —**	**$ —**	**$ —**	**$ 119**	$ 121	$ —	$ —	$ —	$ 121
CREIT acquisition and other related costs	**—**	**—**	**108**	**—**	**108**	—	—	—	—	—
Fair value adjustment on investment properties	**1**	**—**	**9**	**—**	**10**	—	—	—	—	—
Pension annuities and buy-outs	**1**	**—**	**—**	**—**	**1**	—	—	—	—	—
Wind-down of *PC Financial* banking services	**—**	**(3)**	**—**	**—**	**(3)**	—	—	—	—	—
Restructuring and other related costs	**(5)**	**—**	**—**	**—**	**(5)**	—	—	—	—	—
Fair value adjustment on fuel and foreign currency contracts	**(6)**	**—**	**—**	**—**	**(6)**	(1)	—	—	—	(1)
Loblaw Card Program	**(11)**	**—**	**—**	**—**	**(11)**	—	—	—	—	—
Adjusting Items	**$ 99**	**$ (3)**	**$ 117**	**$ —**	**$ 213**	$ 120	$ —	$ —	$ —	$ 120
Adjusted operating income	**$ 667**	**$ 49**	**$ 151**	**$ (93)**	**$ 774**	$ 698	$ 40	$ 140	$ (131)	$ 747
Depreciation and amortization	**363**	**3**	**—**	**6**	**372**	353	2	—	5	360
Less: Amortization of intangible assets acquired with Shoppers Drug Mart	**(119)**	**—**	**—**	**—**	**(119)**	(121)	—	—	—	(121)
Adjusted EBITDA	**$ 911**	**$ 52**	**$ 151**	**$ (87)**	**$ 1,027**	$ 930	$ 42	$ 140	$ (126)	$ 986

In addition to the item described in the Retail segment adjusted gross profit[2] section above, adjusted EBITDA was impacted by the following new adjusting item in the second quarter of 2018:

Fair value adjustment to investment properties In conjunction with the acquisition of CREIT, the Company elected to change the measurement of investment properties from cost model to fair value model. Prior to the second quarter of 2018, the Company recognized investment properties at cost less accumulated depreciation and any accumulated impairment losses. Under the fair value model, investment properties are initially measured at cost and subsequently measured at fair value. Fair value is determined based on available market evidence. If market evidence is not readily available in less active markets, the Company uses alternative valuation methods such as discounted cash flow projections or recent transaction prices. Gains and losses on fair value are recognized in operating income in the period in which they are incurred. Gains and losses from disposal of investment properties are determined by comparing the fair value of disposal proceeds and the carrying amount and are recognized in operating income.

For the periods ended June 16, 2018 and June 17, 2017 (millions of Canadian dollars)	**2018 (24 weeks)**					2017[4][5] (24 weeks)				
	Retail	**Financial Services**	**Choice Properties**	**Consolidation & Eliminations**	**Consolidated**	Retail	Financial Services	Choice Properties	Consolidation & Eliminations	Consolidated
Net earnings attributable to shareholders of the Company					**$ 433**					$ 597
Add impact of the following:										
Non-Controlling Interests					**7**					2
Net interest expense and other financing charges					**383**					288
Income taxes					**218**					235
Operating income	**$ 967**	**$ 128**	**$ 212**	**$ (266)**	**$ 1,041**	$ 1,024	$ 82	$ 377	$ (361)	$ 1,122
Add (deduct) impact of the following:										
Amortization of intangible assets acquired with Shoppers Drug Mart	**$ 240**	**$ —**	**$ —**	**$ —**	**$ 240**	$ 242	$ —	$ —	$ —	$ 242
CREIT acquisition and other related costs	**—**	**—**	**120**	**—**	**120**	—	—	—	—	—
Impact of healthcare reform on inventory balances	**19**	**—**	**—**	**—**	**19**	—	—	—	—	—
Fair value adjustment on investment properties	**1**	**—**	**9**	**—**	**10**	—	—	—	—	—
Loblaw Card Program	**8**	**—**	**—**	**—**	**8**	—	—	—	—	—
Pension annuities and buy-outs	**1**	**—**	**—**	**—**	**1**	7	—	—	—	7
Restructuring and other related costs	**(6)**	**—**	**—**	**—**	**(6)**	—	—	—	—	—
Fair value adjustment on fuel and foreign currency contracts	**(11)**	**—**	**—**	**—**	**(11)**	5	—	—	—	5
Wind-down of *PC Financial* banking services	**—**	**(20)**	**—**	**—**	**(20)**	—	—	—	—	—
Adjusting Items	**$ 252**	**$ (20)**	**$ 129**	**$ —**	**$ 361**	$ 254	$ —	$ —	$ —	$ 254
Adjusted operating income	**$ 1,219**	**$ 108**	**$ 341**	**$ (266)**	**$ 1,402**	$ 1,278	$ 82	$ 377	$ (361)	$ 1,376
Depreciation and amortization	**724**	**5**	**—**	**12**	**741**	705	5	—	10	720
Less: Amortization of intangible assets acquired with Shoppers Drug Mart	**(240)**	**—**	**—**	**—**	**(240)**	(242)	—	—	—	(242)
Adjusted EBITDA	**$ 1,703**	**$ 113**	**$ 341**	**$ (254)**	**$ 1,903**	$ 1,741	$ 87	$ 377	$ (351)	$ 1,854

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 condensed 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 16, 2018 and June 17, 2017 (millions of Canadian dollars)	**2018 (12 weeks)**	2017 (12 weeks)	**2018 (24 weeks)**	2017 (24 weeks)
Net interest expense and other financing charges	**$ 370**	$ 127	**$ 383**	$ 288
Add (deduct) impact of the following:				
Fair value adjustment to the Trust Unit Liability	**(192)**	1	**(68)**	(35)
Adjusted net interest expense and other financing charges	**$ 178**	$ 128	**$ 315**	$ 253

Adjusted Income Taxes and Adjusted Income Tax Rate The following table reconciles adjusted income taxes to income taxes as reported in the condensed 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 income tax rate is calculated as adjusted income taxes divided by the sum of adjusted operating income less adjusted net interest expense and other financing charges.

For the periods ended June 16, 2018 and June 17, 2017 (millions of Canadian dollars except where otherwise indicated)	**2018 (12 weeks)**	2017[(4)] (12 weeks)	**2018 (24 weeks)**	2017[(4)] (24 weeks)
Adjusted operating income[(i)]	**$ 774**	$ 747	**$ 1,402**	$ 1,376
Adjusted net interest expense and other financing charges[(i)]	**178**	128	**315**	253
Adjusted earnings before taxes	**$ 596**	$ 619	**$ 1,087**	$ 1,123
Income taxes	**$ 126**	$ 135	**$ 218**	$ 235
Add impact of the following:				
Tax impact of items included in adjusted earnings before taxes[(ii)]	**34**	32	**74**	68
Adjusted income taxes	**$ 160**	$ 167	**$ 292**	$ 303
Effective tax rate	**66.0%**	27.0%	**33.1%**	28.2%
Adjusted income tax rate	**26.8%**	27.0%	**26.9%**	27.0%

(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 16, 2018 and June 17, 2017 (millions of Canadian dollars except where otherwise indicated)	**2018 (12 weeks)**	2017[(4)] (12 weeks)	**2018 (24 weeks)**	2017[(4)] (24 weeks)
Net earnings attributable to shareholders of the Company	**$ 53**	$ 362	**$ 433**	$ 597
Prescribed dividends on preferred shares in share capital	**(3)**	(3)	**(6)**	(6)
Net earnings available to common shareholders of the Company	**$ 50**	$ 359	**$ 427**	$ 591
Net earnings attributable to shareholders of the Company	**$ 53**	$ 362	**$ 433**	$ 597
Adjusting items (refer to the following table)	**371**	87	**355**	221
Adjusted net earnings attributable to shareholders of the Company	**$ 424**	$ 449	**$ 788**	$ 818
Prescribed dividends on preferred shares in share capital	**(3)**	(3)	**(6)**	(6)
Adjusted net earnings available to common shareholders of the Company	**$ 421**	$ 446	**$ 782**	$ 812
Diluted weighted average common shares outstanding (millions)	**379.4**	400.3	**382.0**	401.3

The following table reconciles adjusted net earnings available to common shareholders of the Company and adjusted diluted net earnings per common share to net earnings available to common shareholders of the Company and diluted net earnings per common share for the periods ended as indicated.

	2018 (12 weeks)		2017[4] (12 weeks)		**2018 (24 weeks)**		2017[4] (24 weeks)	
For the periods ended June 16, 2018 and June 17, 2017 (millions of Canadian dollars/Canadian dollars)	**Net Earnings Available to Common Shareholders of the Company**	**Diluted Net Earnings Per Common Share**	Net Earnings Available to Common Shareholders of the Company	Diluted Net Earnings Per Common Share	**Net Earnings Available to Common Shareholders of the Company**	**Diluted Net Earnings Per Common Share**	Net Earnings Available to Common Shareholders of the Company	Diluted Net Earnings Per Common Share
As reported	**$ 50**	**$ 0.13**	$ 359	$ 0.90	**$ 427**	**$ 1.12**	$ 591	$ 1.47
Add (deduct) impact of the following:								
Amortization of intangible assets acquired with Shoppers Drug Mart	**$ 87**	**$ 0.23**	$ 88	$ 0.21	**$ 176**	**$ 0.45**	$ 177	$ 0.44
CREIT acquisition and other related costs	**100**	**0.26**	—	—	**109**	**0.29**	—	—
Fair value adjustment to the Trust Unit Liability[(i)]	**192**	**0.51**	(1)	—	**68**	**0.18**	35	0.09
Impact of healthcare reform on inventory balances	**—**	**—**	—	—	**14**	**0.04**	—	—
Fair value adjustment on investment properties	**8**	**0.02**	—	—	**8**	**0.02**	—	—
Loblaw Card Program	**(8)**	**(0.02)**	—	—	**6**	**0.02**	—	—
Pension annuities and buy-outs	**1**	**—**	—	—	**1**	**—**	5	0.01
Restructuring and other related costs	**(3)**	**(0.01)**	—	—	**(4)**	**(0.01)**	—	—
Fair value adjustment on fuel and foreign currency contracts	**(4)**	**(0.01)**	—	—	**(8)**	**(0.02)**	4	0.01
Wind-down of *PC Financial* banking services	**(2)**	**—**	—	—	**(15)**	**(0.04)**	—	—
Adjusting items	**$ 371**	**$ 0.98**	$ 87	$ 0.21	**$ 355**	**$ 0.93**	$ 221	$ 0.55
Adjusted	**$ 421**	**$ 1.11**	$ 446	$ 1.11	**$ 782**	**$ 2.05**	$ 812	$ 2.02

(i) Gains or losses related to the fair value adjustment to the Trust Unit Liability are not subject to tax.

Choice Properties' Funds from Operations The following table reconciles Choice Properties' Funds from Operations to net income (loss) for the periods ended as indicated. Choice Properties considers Funds from Operations to be a useful measure of operating performance as it adjusts for items included in net income (loss) that do not arise from operating activities or do not necessarily provide an accurate depiction of the Trust's performance.

For the periods ended June 16, 2018 and June 17, 2017 (millions of Canadian dollars)	**2018 (12 weeks)**	2017 (12 weeks)	**2018 (24 weeks)**	2017 (24 weeks)
Net income (loss)	**$ (321)**	$ 42	**$ 306**	$ 66
Add (deduct) impact of the following:				
Fair value adjustments on Class B Limited Partnership units	**191**	—	**(364)**	118
CREIT acquisition and other related costs	**108**	—	**120**	—
Fair value adjustments on investment properties	**69**	8	**36**	(85)
Distributions on Class B Limited Partnership units	**68**	58	**127**	115
Accelerated amortization of debt premium	**37**	—	**37**	—
Fair value adjustments on unit-based compensation	**1**	—	**(4)**	1
Fair value adjustments of investment property held in equity accounted joint venture	**1**	—	**1**	1
Capitalized interest on equity accounted joint venture	**1**	—	**1**	—
Internal expenses for leasing	**1**	—	**2**	1
Funds from operations	**$ 156**	$ 108	**$ 262**	$ 217

SEGMENT INFORMATION

The Company has three reportable operating segments with all material operations carried out in Canada. The Company's chief operating decision maker evaluates segment performance on the basis of adjusted EBITDA(2) and adjusted operating income(2), as reported to internal management, on a periodic basis.

Information for each reportable operating segment is included below:

	2018 (12 weeks)					2017(4)(5) (12 weeks)				
For the periods ended June 16, 2018 and June 17, 2017 (millions of Canadian dollars)	**Retail**	**Financial Services**	**Choice Properties**	**Consolidation & Eliminations(i)**	**Consolidated**	Retail	Financial Services	Choice Properties	Consolidation & Eliminations(i)	Consolidated
Revenue(ii)	**$ 10,600**	**$ 242**	**$ 295**	**$ (214)**	**$ 10,923**	$ 10,871	$ 226	$ 209	$ (226)	$ 11,080
Operating income	$ 568	$ 52	$ 34	$ (93)	$ 561	$ 578	$ 40	$ 140	$ (131)	$ 627
Net interest expense and other financing charges	74	16	355	(75)	370	73	13	98	(57)	127
Earnings Before Income Taxes	**$ 494**	**$ 36**	**$ (321)**	**$ (18)**	**$ 191**	$ 505	$ 27	$ 42	$ (74)	$ 500
Operating Income	**$ 568**	**$ 52**	**$ 34**	**$ (93)**	**$ 561**	$ 578	$ 40	$ 140	$ (131)	$ 627
Depreciation and Amortization	363	3	—	6	372	353	2	—	5	360
Adjusting items(iii)	99	(3)	117	—	213	120	—	—	—	120
Less: amortization of intangible assets acquired with Shoppers Drug Mart	(119)	—	—	—	(119)	(121)	—	—	—	(121)
Adjusted EBITDA(iii)	$ 911	$ 52	$ 151	$ (87)	$ 1,027	$ 930	$ 42	$ 140	$ (126)	$ 986
Depreciation and Amortization(iv)	244	3	—	6	253	232	2	—	5	239
Adjusted Operating Income	**$ 667**	**$ 49**	**$ 151**	**$ (93)**	**$ 774**	$ 698	$ 40	$ 140	$ (131)	$ 747

(i) Consolidation and Eliminations includes the following items:

- Revenue includes the elimination of $133 million (2017 – $133 million) of rental revenue, $50 million (2017 – $49 million) of cost recovery, and $10 million (2017 – nil) of lease surrender, recognized by Choice Properties generated from the Retail Segment. Revenue also includes the reclassification of $21 million (2017 – $44 million) related to *PC* MasterCard® loyalty awards in the Financial Services Segment.
- Adjusted operating income includes the elimination of the $133 million (2017 – $133 million) of rental revenue and $10 million (2017 – nil) of lease surrender revenue, described above, the elimination of a $61 million loss (2017 – $8 million loss) recognized by Choice Properties related to the fair value adjustments on investment properties, which are classified as Fixed Assets by the Company and measured at cost; the recognition of $6 million (2017 – $5 million) of depreciation expense for certain investment properties recorded by Choice Properties; the elimination of intercompany charges of $5 million (2017 – $1 million); and the elimination of $1 million loss in 2017 recognized by Choice Properties related to the fair value adjustments on investment properties in the joint venture.
- Net interest expense and other financing charges includes the elimination of $75 million (2017 – $69 million) of interest expense included in Choice Properties related to debt owing to the Company, accretion income earned on intercompany Class C Units of $37 million, and a fair value loss of $191 million (2017 – nil) recognized by Choice Properties on Class B Limited Partnership units held by the Company. Net interest and other financing charges also includes Unit distributions to external unitholders of $36 million (2017 – $13 million), which excludes distributions paid to the Company and a $192 million fair value loss (2017 – gain of $1 million) on the Company's Trust Unit Liability.

(ii) Included in Financial Services revenue is $101 million (2017 – $95 million) of interest income.

(iii) Certain items are excluded from operating income to derive adjusted EBITDA(2). Adjusted EBITDA(2) is used internally by management when analyzing segment underlying performance.

(iv) Depreciation and amortization for the calculation of adjusted EBITDA(2) excludes $119 million (2017 – $121 million) of amortization of intangible assets acquired with Shoppers Drug Mart.

For the periods ended June 16, 2018 and June 17, 2017					**2018 (24 weeks)**					2017[4][5] (24 weeks)
(millions of Canadian dollars)	**Retail**	**Financial Services**	**Choice Properties**	**Consolidation & Eliminations[i]**	**Consolidated**	Retail	Financial Services	Choice Properties	Consolidation & Eliminations[i]	Consolidated
Revenue[ii]	**$ 20,755**	**$ 472**	**$ 510**	**$ (447)**	**$ 21,290**	$ 21,079	$ 439	$ 412	$ (446)	$ 21,484
Operating income	$ 967	$ 128	$ 212	$ (266)	$ 1,041	$ 1,024	$ 82	$ 377	$ (361)	$ 1,122
Net interest expense and other financing charges	148	31	(94)	298	383	145	27	311	(195)	288
Earnings before Income Taxes	**$ 819**	**$ 97**	**$ 306**	**$ (564)**	**$ 658**	$ 879	$ 55	$ 66	$ (166)	$ 834
Operating Income	**$ 967**	**$ 128**	**$ 212**	**$ (266)**	**$ 1,041**	$ 1,024	$ 82	$ 377	$ (361)	$ 1,122
Depreciation and Amortization	724	5	—	12	741	705	5	—	10	720
Adjusting items[iii]	252	(20)	129	—	361	254	—	—	—	254
Less: amortization of intangible assets acquired with Shoppers Drug Mart	(240)	—	—	—	(240)	(242)	—	—	—	(242)
Adjusted EBITDA[iii]	$ 1,703	$ 113	$ 341	$ (254)	$ 1,903	$ 1,741	$ 87	$ 377	$ (351)	$ 1,854
Depreciation and Amortization[iv]	484	5	—	12	501	463	5	—	10	478
Adjusted Operating Income	**$ 1,219**	**$ 108**	**$ 341**	**$ (266)**	**$ 1,402**	$ 1,278	$ 82	$ 377	$ (361)	$ 1,376

(i) Consolidation and Eliminations includes the following items:

- Revenue includes the elimination of $266 million (2017 – $266 million) of rental revenue, $100 million (2017 – $94 million) of cost recovery, and $10 million (2017 – nil) of lease surrender, recognized by Choice Properties generated from the Retail Segment. Revenue also includes the reclassification of $71 million (2017 – $86 million) related to *PC* MasterCard® loyalty awards in the Financial Services Segment.
- Adjusted operating income includes the elimination of the $266 million (2017 – $266 million) of rental revenue and $10 million (2017 - nil) of lease surrender as described above, the elimination of a $28 million loss (2017 – $85 million gain) recognized by Choice Properties related to the fair value adjustments on investment properties, which are classified as Fixed Assets by the Company and measured at cost; the recognition of $12 million (2017 – $10 million) of depreciation expense for certain investment properties recorded by Choice Properties; and the elimination of intercompany charges of $6 million (2017 – $1 million); and the elimination of $1 million loss in 2017 recognized by Choice Properties related to the fair value adjustments on investment properties in the joint venture.
- Net interest expense and other financing charges includes the elimination of $146 million (2017 – $138 million) of interest expense included in Choice Properties related to debt owing to the Company, accretion income earned on intercompany Class C Units of $37 million, and a fair value gain of $364 million (2017 – loss of $118 million) recognized by Choice Properties on Class B Limited Partnership units held by the Company. Net interest and other financing charges also includes Unit distributions to external unitholders of $49 million (2017 – $26 million), which excludes distributions paid to the Company and a $68 million fair value loss (2017 – loss of $35 million) on the Company's Trust Unit Liability.

(ii) Included in Financial Services revenue is $203 million (2017 – $192 million) of interest income.

(iii) Certain items are excluded from operating income to derive adjusted EBITDA[2]. Adjusted EBITDA[2] is used internally by management when analyzing segment underlying performance.

(iv) Depreciation and amortization for the calculation of adjusted EBITDA[2] excludes $240 million (2017 – $242 million) of amortization of intangible assets acquired with Shoppers Drug Mart.

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 including minimum wage increases and further healthcare reform, future liquidity, planned capital investments, and the status and impact of IT systems implementations. These specific forward-looking statements are contained throughout this News Release including, without limitation, in the "Outlook" and "Choice Properties Segment" sections 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 expectation of operating and financial performance in 2018 is based on certain assumptions including assumptions about anticipated minimum wage increases, healthcare reform impacts, cost savings, operating efficiencies and anticipated benefits from strategic initiatives. 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 Section 12 "Enterprise Risks and Risk Management" of the Management Discussion and Analysis in the 2017 Annual Report and the Company's 2017 Annual Information Form ("AIF") (for the year ended December 30, 2017). Such risks and uncertainties include:

- changes to the regulation of generic prescription drug prices, the reduction of reimbursements under public drug benefit plans and the elimination or reduction of professional allowances paid by drug manufacturers;
- failure to effectively manage the Company's loyalty program;
- the inability of the Company's IT infrastructure to support the requirements of the Company's business, or the occurrence of any internal or external security breaches, denial of service attacks, viruses, worms and other known or unknown cybersecurity or data breaches;
- failure to execute the Company's e-commerce initiative or to adapt its business model to the shifts in the retail landscape caused by digital advances;
- failure to realize benefits from investments in the Company's new IT systems;
- failure to effectively respond to consumer trends or heightened competition, whether from current competitors or new entrants to the marketplace;
- changes to any of the laws, rules, regulations or policies applicable to the Company's business, including increases to minimum wage;
- public health events including those related to food and drug safety;
- failure to realize the anticipated benefits, including revenue growth, anticipated cost savings or operating efficiencies, associated with the Company's investment in major initiatives that support its strategic priorities, including Choice Properties failure to realize the anticipated benefits from the acquisition of CREIT;
- adverse outcomes of legal and regulatory proceedings and related matters;
- reliance on the performance and retention of third party service providers, including those associated with the Company's supply chain and apparel business, including issues with vendors in both advanced and developing markets;
- failure to achieve desired results in labour negotiations, including the terms of future collective bargaining agreements;
- the inability of the Company to manage inventory to minimize the impact of obsolete or excess inventory and to control shrink; and
- changes in economic conditions, including economic recession or changes in the rate of inflation or deflation, employment rates and household debt, political uncertainty, tariff disputes, which may include newly imposed surtaxes, interest rates, currency exchange rates or derivative and commodity prices.

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 ("securities regulators") from time to time, including, without limitation, the section entitled "Risks" in the Company's 2017 AIF (for the year ended December 30, 2017). 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.

CORPORATE PROFILE

2017 Annual Report and 2018 Second Quarter Report to Shareholders

The Company's 2017 Annual Report and 2018 Second Quarter Report to Shareholders is 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 25, 2018 at 10:00 a.m. (ET).

To access via tele-conference, please dial (647) 427-7450 or (888) 231-8191. The playback will be made available approximately two hours after the event at (416) 849-0833 or (855) 859-2056, access code: 7378906. To access via audio webcast, please go to the "Investors" 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 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 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.

(4) Comparative figures have been restated as a result of the implementation of IFRS 15, "Revenue from Contracts with Customers". See note 2 in the Company's 2018 second quarter unaudited interim period condensed consolidated financial statements.

(5) Comparative figures have been restated to conform with current year presentation.