Loblaw COMPANIES LIMITED

NEWS RELEASE

Loblaw Companies Limited Reports a 65.1% Increase in Adjusted Operating Income[(2)] for the Second Quarter of 2014[(1)]

BRAMPTON, ONTARIO July 24, 2014 Loblaw Companies Limited (TSX: L) ("Loblaw" or the "Company") today announced its unaudited financial results for the second quarter ended June 14, 2014. The Company's second quarter report will be available in the Investor Centre section of the Company's website at loblaw.ca and will be filed with SEDAR and available at sedar.com.

With the completion of the acquisition of Shoppers Drug Mart Corporation ("Shoppers Drug Mart"), the second quarter results include the full quarter consolidation of Shoppers Drug Mart and the associated acquisition related accounting adjustments, as reported in the Retail operating segment. A summary of Shoppers Drug Mart operating results for the second quarter ended June 14, 2014 is included as Addendum A to this News Release on page 24. In addition, combined Retail segment comparative figures, on an adjusted basis, including Loblaw and Shoppers Drug Mart for the four quarters prior to the acquisition of Shoppers Drug Mart is provided in Addendum B on page 25.

"The second quarter of 2014 marked the opening of the next chapter for Loblaw, combining the number one food retailer in Canada with the number one pharmacy and beauty retailer," said Galen G. Weston, President and Executive Chairman, Loblaw Companies Limited. "And while the industry backdrop continues to be challenging, this quarter we advanced our business both financially and operationally, including delivering strong same-store sales growth, as well as solid operational performance.

"For the balance of the year, we expect to continue to improve our competitive positioning, advance our businesses and realize material synergies related to the transaction," concluded Mr. Weston.

2014 Second Quarter Highlights[(1)]

- Revenue of $10,307 million, an increase of 37.1% over the second quarter of 2013. Excluding the impact of the acquisition of Shoppers Drug Mart, revenue increased by 2.4% compared to the second quarter of 2013.
- Adjusted operating income[(2)] up 65.1% to $540 million compared to $327 million in the second quarter of 2013. Excluding the impact of the Shoppers Drug Mart acquisition, adjusted operating income[(2)] decreased by $6 million, or 1.8%, compared to the second quarter of 2013, including a charge of $22 million (2013 – $8 million) related to the transition of certain grocery stores to more cost effective and efficient operating terms under collective agreements.
- Adjusted EBITDA[(2)] up 54.2% to $799 million compared to $518 million in the second quarter of 2013. Excluding the impact of the Shoppers Drug Mart acquisition, adjusted EBITDA[(2)] was flat compared to the second quarter of 2013, including a charge of $22 million (2013 – $8 million) related to the transition of certain grocery stores to more cost effective and efficient operating terms under collective agreements.
- Adjusted basic net earnings per common share[(2)] up 17.2% to $0.75 compared to $0.64 in the second quarter of 2013.
- Basic net loss per common share[(3)], including charges of $1.88 related to certain Shoppers Drug Mart acquisition related amounts, inventory matters and certain other adjustments[(i)], of $1.13 compared to basic net earnings per common share[(3)] of $0.63 in the second quarter of 2013.
- Retail sales growth was 37.0% compared to the second quarter of 2013. Excluding the impact of the acquisition of Shoppers Drug Mart, retail sales growth was 1.6% and same-store sales[(3)] growth was 1.8%. Retail same-store sales[(3)] growth was positively impacted by approximately 0.1% due to the shift in the timing of Easter.

See footnote legend on page 27.

(i) Basic net loss per common share[(3)] of $1.13 in the second quarter of 2014 included the recognition of a portion of the Shoppers Drug Mart purchase-related fair value adjustments for inventory sold ($1.14 per share), the amortization of intangible assets ($0.23 per share), a charge related to inventory measurement and other conversion differences associated with the implementation of a perpetual inventory system ($0.35 per share), the costs associated with the acquisition of Shoppers Drug Mart ($0.11 per share) and certain other adjustments ($0.05 per share).

- Shoppers Drug Mart sales were $2,609 million during the quarter. On a same-store basis, Shoppers Drug Mart sales increased 2.5% over the second quarter of 2013. On a same-store basis, pharmacy sales increased 2.5% and front store sales increased 2.4% over the second quarter of 2013.
- The Company realized net synergies of approximately $8 million in the quarter associated with the acquisition of Shoppers Drug Mart.
- Free cash flow(2) was $801 million for the second quarter and $381 million year-to-date.

Consolidated Quarterly Results of Operations

For the periods ended June 14, 2014 and June 15, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	**2014 (12 weeks)**	2013(4,5) (12 weeks)	$ Change	% Change	**2014 (24 weeks)**	2013(4,5) (24 weeks)	$ Change	% Change
Revenue	**$ 10,307**	$ 7,520	$ 2,787	37.1 %	**$ 17,599**	$ 14,722	$ 2,877	19.5 %
Revenue excluding Shoppers Drug Mart	***7,698***	*7,520*	*178*	*2.4 %*	***14,990***	*14,722*	*268*	*1.8 %*
EBITDA(2)	**(72)**	512	(584)	(114.1)%	**399**	1,024	(625)	(61.0)%
Adjusted EBITDA(2)	**799**	518	281	54.2 %	**1,285**	979	306	31.3 %
Adjusted EBITDA margin(2)	**7.8%**	6.9%			**7.3%**	6.6%		
Adjusted EBITDA excluding Shoppers Drug Mart	***$ 518***	*$ 518*	*$ —*	*— %*	***$ 1,004***	*$ 979*	*$ 25*	*2.6 %*
Adjusted EBITDA margin excluding Shoppers Drug Mart	***6.7%***	*6.9%*			***6.7%***	*6.6%*		
Operating (loss) income	**$ (456)**	$ 321	$ (777)	(242.1)%	**$ (180)**	$ 650	$ (830)	(127.7)%
Adjusted operating income(2)	**540**	327	213	65.1 %	**831**	605	226	37.4 %
Adjusted operating margin(2)	**5.2%**	4.3%			**4.7%**	4.1%		
Adjusted operating income excluding Shoppers Drug Mart	***$ 321***	*$ 327*	*$ (6)*	*(1.8)%*	***$ 612***	*$ 605*	*$ 7*	*1.2 %*
Net interest expense and other financing charges	**150**	80	70	87.5 %	**265**	156	109	69.9 %
Net (loss) earnings	**(456)**	177	(633)	(357.6)%	**(336)**	363	(699)	(192.6)%
Adjusted net earnings(2)	**301**	181	120	66.3 %	**457**	330	127	38.5 %
Basic net (loss) earnings per common share(3) ($)	**(1.13)**	0.63	(1.76)	(279.4)%	**(0.98)**	1.29	(2.27)	(176.0)%
Adjusted basic net earnings per common share(2) ($)	**0.75**	0.64	0.11	17.2 %	**1.34**	1.17	0.17	14.5 %

In the second quarter of 2014, with the acquisition of Shoppers Drug Mart, the Company's results include the full quarter consolidation of Shoppers Drug Mart. The Shoppers Drug Mart acquired assets have been recognized in the Company's financial results at their fair value, including:

- A fair value increase to Shoppers Drug Mart's inventory on the date of acquisition of $798 million, which will be recognized in cost of merchandise inventories sold over the remainder of 2014, with a resulting negative impact on gross profit. In the second quarter of 2014, $622 million of the fair value was recognized from inventory sold; and
- A $6 billion increase for the acquisition of definite life intangibles assets which will be amortized over their estimated useful lives. In the second quarter of 2014, $125 million of amortization was recognized in operating income.

In the second quarter of 2014, the Company has also recognized $52 million of costs associated with the acquisition of Shoppers Drug Mart in operating income.

With the upgrade of its information technology ("IT") infrastructure, the Company expects to complete the conversion of its corporate grocery stores to a perpetual inventory management system in 2014. The implementation of a perpetual inventory system, combined with visibility to integrated costing information provided by the new IT systems enables the Company to estimate the cost of inventory using a more precise system-generated average cost. By the second quarter of 2014, a sufficient number of corporate grocery stores had been converted to allow the Company to record the impact of this inventory measurement and other conversion differences associated with implementation of a perpetual inventory system. The impact was estimated to be a $190 million decrease to the value of the inventory, which was recognized in gross profit in the second quarter of 2014.

As a result of the repayment of $1.6 billion of the $3.5 billion term loan facility, the Company recorded a $14 million charge related to the accelerated amortization of deferred financing costs in net interest and other financing charges.

The above impacts, as well as certain other items, have been excluded from the Company's adjusted metrics in order to provide a better reflection of the Company's underlying operating performance. See Non-GAAP Financial Measures on page 13. The Company does not anticipate any significant additional Shoppers Drug Mart acquisition costs to be incurred. The Company expects the following non-cash adjustments to negatively impact its results in future periods as follows:

- annual amortization of approximately $550 million associated with the acquired intangibles over the next ten years and decreasing thereafter;
- remaining inventory fair value adjustment of $176 million over the remainder of 2014 as the acquired inventory is sold, the majority of which will be incurred in the third quarter of 2014;
- further adjustments related to inventory measurement and other conversion differences associated with the implementation of a perpetual inventory system will be recorded, if necessary, as the Company converts its remaining corporate grocery stores; and
- the Company may incur further accelerated amortization of deferred financing costs should the Company make significant one-time repayments on the term loan facility.

The Company's results in the second quarter of 2014 also included a charge of $22 million (2013 – $8 million) related to the transition of certain grocery stores to more cost effective and efficient operating terms under collective agreements.

Revenue

- Revenue increased by $2,787 million compared to the second quarter of 2013, primarily due to the acquisition of Shoppers Drug Mart. Excluding the impact of the acquisition, consolidated revenue increased by 2.4% due to increases in the Company's Retail and Financial Services segments.

EBITDA[(2)]

- EBITDA[(2)] decreased by $584 million compared to the second quarter of 2013. EBITDA[(2)] was negatively impacted by the charge related to the inventory measurement and other conversion differences associated with implementation of a perpetual inventory system ($190 million), the recognition of the fair value increment on the acquired Shoppers Drug Mart inventory sold ($622 million) as well as the costs related to the acquisition of Shoppers Drug Mart ($52 million).
- Adjusted EBITDA[(2)] increased by $281 million compared to the second quarter of 2013, primarily driven by the acquisition of Shoppers Drug Mart. Adjusted EBITDA margin[(2)] was 7.8% for the second quarter of 2014 compared to 6.9% in the same quarter in 2013. Excluding the impact of the acquisition of Shoppers Drug Mart, adjusted EBITDA[(2)] was flat compared to the second quarter of 2013, driven by a decrease in adjusted EBITDA[(2)] in the Company's Retail segment, which included a charge of $22 million (2013 – $8 million) related to the transition of certain stores to more cost effective and efficient operating terms under collective agreements, partially offset by an increase in adjusted EBITDA[(2)] in the Financial Services segment. Excluding the impact of the acquisition of Shoppers Drug Mart, adjusted EBITDA margin[(2)] was 6.7% compared to 6.9% in the same quarter in 2013.

Synergies

- The Company realized net synergies of approximately $8 million in the quarter associated with the acquisition of Shoppers Drug Mart, primarily in cost of goods sold.

Operating Income

- Operating income decreased by $777 million compared to the second quarter of 2013. Operating income was negatively impacted by the factors described in EBITDA(2) above and the amortization of intangible assets of $125 million related to the acquisition of Shoppers Drug Mart.
- Adjusted operating income(2) increased by $213 million compared to the second quarter of 2013, primarily driven by the acquisition of Shoppers Drug Mart. Excluding the impact of the acquisition of Shoppers Drug Mart, adjusted operating income(2) decreased by $6 million, including a charge of $22 million (2013 – $8 million) related to the transition of certain grocery stores to more cost effective and efficient operating terms under collective agreements and an incremental increase in depreciation and amortization of $6 million.

Net Interest Expense and Other Financing Charges

- Net interest expense and other financing charges increased by $70 million compared to the second quarter of 2013 and included a $14 million charge related to the accelerated amortization of deferred financing costs due to the repayment of $1.6 billion of the $3.5 billion term loan facility and an unfavourable $8 million fair value adjustment related to the Trust Unit Liability for the change in the fair value of Choice Properties Real Estate Investment Trust's ("Choice Properties") Trust Units ("Units") held by unitholders other than the Company. Excluding these impacts, net interest expense and other financing charges increased by $48 million, driven by higher interest on long term debt, primarily as a result of debt incurred to finance the acquisition of Shoppers Drug Mart and Trust Unit distributions.

Income Taxes

- The income tax recovery was $150 million for the second quarter of 2014 compared to income tax expense of $64 million for the second quarter of 2013. The effective tax rate for the second quarter of 2014 was 24.8% compared to 26.6% for the second quarter of 2013. The decrease in the effective tax rate over the second quarter of 2013 was primarily due to an increase in non-deductible items, including the fair value adjustments on the Trust Unit Liability. After excluding the tax impact of items excluded from adjusted net earnings(2), the effective income tax rate on adjusted net earnings(2) was 26.9% (2013 – 26.7%).

Net (Loss) Earnings

- Net earnings decreased by $633 million compared to the second quarter of 2013 due to a net loss of $456 million, primarily driven by the decrease in operating income, the increase in net interest expense and other financing charges, partially offset by the change in income taxes as described above.
- Adjusted net earnings(2) increased by $120 million to $301 million compared to the second quarter of 2013, primarily driven by higher adjusted operating income(2), mainly as a result of the acquisition of Shoppers Drug Mart, partially offset by higher net interest and other financing charges after excluding certain items described above and the increase in income tax expense on adjusted net earnings(2).

Basic Net (Loss) Earnings Per Common Share(3)

- Basic net loss per common share(3) of $1.13 in the second quarter of 2014 included the recognition of a portion of the Shoppers Drug Mart purchase-related fair value adjustments for inventory sold ($1.14 per share), the amortization of intangible assets ($0.23 per share), a charge related to inventory measurement and other conversion differences associated with the implementation of a perpetual inventory system ($0.35 per share), the costs associated with the acquisition of Shoppers Drug Mart ($0.11 per share) and certain other adjustments ($0.05 per share). This compares to basic net earnings per common share(3) of $0.63 in the second quarter of 2013.
- Adjusted basic net earnings per common share(2) were $0.75 in the second quarter of 2014 compared to adjusted basic net earnings per common share(2) of $0.64 in the second quarter of 2013, primarily due to the increase in adjusted net earnings as described above, partially offset by the dilutive effect of the 119.5 million common shares issued as part of the total consideration for the acquisition of Shoppers Drug Mart.

Capital Investment

- In the second quarter of 2014, the Company invested $222 million (2013 – $190 million) in capital expenditures.

Free Cash Flow(2)

- For the second quarter of 2014, free cash flow(2) was $801 million compared to $392 million in the second quarter of 2013. The increase in free cash flow(2) was primarily due to an increase in net earnings before non-cash items, reflecting the acquisition of Shoppers Drug Mart.

Adjusted Debt[2]

- The Company's adjusted debt[2] increased significantly as a result of the Shoppers Drug Mart acquisition. At closing, adjusted debt[2] increased to approximately $11.1 billion. During the second quarter of 2014, the Company made progress towards its debt reduction targets by repaying a $350 million Medium Term Note ("MTN") at maturity, resulting in an adjusted debt[2] balance of $10.7 billion as at June 14, 2014.
- During the second quarter of 2014, the Company also sold $1.5 billion of Transferor Notes to third parties and used the proceeds to repay a portion of its term loan. The overall consolidated impact was neutral to adjusted debt[2].

Retail Segment

For the periods ended June14, 2014 and June 15, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	**2014** (12 weeks)	2013[4,5] (12 weeks)	$ Change	% Change	**2014** (24 weeks)	2013[4,5] (24 weeks)	$ Change	% Change
Sales	**$ 10,097**	$ 7,372	$ 2,725	37.0 %	**$ 17,192**	$ 14,409	$ 2,783	19.3 %
Gross profit	**1,840**	1,642	198	12.1 %	**3,443**	3,238	205	6.3 %
Adjusted gross profit[2]	**2,652**	1,642	1,010	61.5 %	**4,255**	3,238	1,017	31.4 %
EBITDA[2]	**(117)**	482	(599)	(124.3)%	**313**	961	(648)	(67.4)%
Adjusted EBITDA[2]	**748**	488	260	53.3 %	**1,187**	916	271	29.6 %
Operating (loss) income	**(496)**	293	(789)	(269.3)%	**(256)**	592	(848)	(143.2)%
Adjusted operating income[2]	**494**	299	195	65.2 %	**743**	547	196	35.8 %

For the periods ended June 14, 2014 and June 15, 2013 (unaudited)	**2014** (12 weeks)	2013[4,5] (12 weeks)	**2014** (24 weeks)	2013[4,5] (24 weeks)
Same-store sales[3] growth[i]	**1.8%**	1.1%	**1.3%**	1.9%
Adjusted gross profit %[2]	**26.3%**	22.3%	**24.7%**	22.5%
Adjusted EBITDA margin[2]	**7.4%**	6.6%	**6.9%**	6.4%
Adjusted operating margin[2]	**4.9%**	4.1%	**4.3%**	3.8%

(i) Same-store sales growth excludes the results of Shoppers Drug Mart.

Except as noted, the discussion of Retail operating results below focuses on Retail segment results excluding Shoppers Drug Mart. For a discussion of Shoppers Drug Mart results, please see Addendum A on page 24.

Sales

For the periods ended June14, 2014 and June 15, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	2014 (12 weeks)	2013[4] (12 weeks)	$ Change	% Change	2014 (24 weeks)	2013[4] (24 weeks)	$ Change	% Change
Retail sales	**$ 10,097**	$ 7,372	$ 2,725	37.0%	**$ 17,192**	$ 14,409	$ 2,783	19.3%
Shoppers Drug Mart	**2,609**				**2,609**			
Excluding Shoppers Drug Mart	**$ 7,488**	$ 7,372	$ 116	1.6%	**$ 14,583**	$ 14,409	$ 174	1.2%

- In the second quarter of 2014, the increase in Retail sales of $2,725 million, or 37.0%, over the same period in the prior year included $2,609 million of sales related to Shoppers Drug Mart. Excluding the impact of the acquisition of Shoppers Drug Mart, Retail sales increased by $116 million, or 1.6%, compared to the same period in the prior year, as a result of the following factors:
  - Same-store sales[3] growth was 1.8% (2013 – 1.1%) and was positively impacted by approximately 0.1% due to the shift in the timing of Easter. Normalized for the shift, same-store sales[3] growth for the quarter was approximately 1.7%. Same-store sales[3] growth excluding gas bar for the quarter was 1.7% (2013 – 1.0%) and normalized for the effect of the shift in the timing of Easter, was approximately 1.6%;
  - Sales growth in food was moderate;
  - Sales in drugstore declined marginally;
  - Sales growth in gas bar was moderate;
  - Sales in general merchandise, excluding apparel, declined marginally;
  - Sales growth in retail apparel was moderate, while wholesale apparel sales declined significantly;
  - The Company's average quarterly internal food price index was in line with (2013 – lower than) the average quarterly national food price inflation of 2.5% (2013 –1.5%) as measured by "The Consumer Price Index for Food Purchased from Stores" ("CPI"). CPI does not necessarily reflect the effect of inflation on the specific mix of goods sold in Loblaw stores; and
  - 22 corporate and franchise stores were opened and 12 corporate and franchise stores were closed in the last 12 months, resulting in a net increase of 0.4 million square feet, or 0.8%.
- During the second quarter of 2014, Shoppers Drug Mart opened two new drug stores and closed five smaller pharmacy format stores.

Gross Profit

For the periods ended June14, 2014 and June 15, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	2014 (12 weeks)	2013[4,5] (12 weeks)	$ Change	% Change	2014 (24 weeks)	2013[4,5] (24 weeks)	$ Change	% Change
Retail gross profit	**$ 1,840**	$ 1,642	$ 198	12.1%	**$ 3,443**	$ 3,238	$ 205	6.3%
Adjustments[2]	**812**	—			**812**	—		
Adjusted Retail gross profit[2]	**$ 2,652**	$ 1,642	$ 1,010	61.5%	**$ 4,255**	$ 3,238	$ 1,017	31.4%
Adjusted gross profit %[2]	**26.3%**	22.3%			**24.7%**	22.5%		
Shoppers Drug Mart	**$ 999**				**$ 999**			
Excluding Shoppers Drug Mart	**$ 1,653**	$ 1,642	$ 11	0.7%	**$ 3,256**	$ 3,238	$ 18	0.6%
Adjusted gross profit %[2]	**22.1%**	22.3%			**22.3%**	22.5%		

- In the second quarter of 2014, gross profit increased by $198 million and included a $190 million charge related to inventory measurement and other conversion differences associated with implementation of a perpetual inventory system and the recognition of the fair value increment of $622 million on Shoppers Drug Mart inventory sold.
- Adjusted gross profit[2] increased by $1,010 million and included $999 million of adjusted gross profit related to the Shoppers Drug Mart acquisition. Adjusted gross profit[2] percentage was 26.3% compared to 22.3% in the second quarter of 2013.
- Excluding the impact of acquisition of Shoppers Drug Mart, adjusted gross profit percentage[2] decreased by 20 basis points to 22.1%. The decrease in adjusted gross profit percentage[2] was primarily due to a decrease in retail margins and higher shrink due to investments in fresh assortment.
- Excluding the impact of the acquisition of Shoppers Drug Mart, adjusted gross profit[2] increased by $11 million, or 0.7%, compared to the same period in 2013, driven by higher sales, partially offset by a decline in gross profit percentage.

EBITDA[2]

For the periods ended June14, 2014 and June 15, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	**2014** (12 weeks)	2013[4,5] (12 weeks)	$ Change	% Change	**2014** (24 weeks)	2013[4,5] (24 weeks)	$ Change	% Change
EBITDA[2]	**$ (117)**	$ 482	$ (599)	(124.3)%	**$ 313**	$ 961	$ (648)	(67.4)%
Adjustments[2]	**865**	6			**874**	(45)		
Adjusted Retail EBITDA[2]	**$ 748**	$ 488	$ 260	53.3 %	**$ 1,187**	$ 916	$ 271	29.6 %
Shoppers Drug Mart	**281**				**281**			
Excluding Shoppers Drug Mart	**$ 467**	$ 488	$ (21)	(4.3)%	**$ 906**	$ 916	$ (10)	(1.1)%

- EBITDA[2] decreased by $599 million compared to the second quarter of 2013 and was negatively impacted by a charge related to inventory measurement and other conversion differences associated with implementation of a perpetual inventory system, recognition of the fair value increment on inventory sold recorded on the acquisition of Shoppers Drug Mart, and by costs related to the acquisition of Shoppers Drug Mart.
- Adjusted EBITDA[2] increased by $260 million compared to the second quarter of 2013 and included $281 million of adjusted EBITDA[2] related to the Shoppers Drug Mart acquisition.
- Excluding the impact of the acquisition of Shoppers Drug Mart, adjusted EBITDA[2] decreased by $21 million and included a $14 million year-over-year increase in charges related to the transition of certain stores to more cost effective and efficient operating terms under collective agreements. The remaining decline was primarily driven by investments in the Company's franchise business, gains from the settlement of foreign exchange related financial derivative instruments recorded in the second quarter of 2013 and higher other operating costs, partially offset by supply chain and labour efficiencies, and higher gross profit.
- For the second quarter of 2014, adjusted EBITDA margin[2] was 7.4% compared to 6.6% in the same period in 2013 primarily driven by the inclusion of Shoppers Drug Mart. Excluding the impact of the acquisition, adjusted EBITDA margin[2] was 6.2% compared to 6.6% in the second quarter of 2013.

Operating (Loss) Income

For the periods ended June14, 2014 and June 15, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	**2014** (12 weeks)	2013[4,5] (12 weeks)	$ Change	% Change	**2014** (24 weeks)	2013[4,5] (24 weeks)	$ Change	% Change
Retail operating (loss) income	**$ (496)**	$ 293	$ (789)	(269.3)%	**$ (256)**	$ 592	$ (848)	(143.2)%
Adjustments[2]	**990**	6			**999**	(45)		
Adjusted Retail operating income[2]	**$ 494**	$ 299	$ 195	65.2 %	**$ 743**	$ 547	$ 196	35.8 %
Shoppers Drug Mart	**219**				**219**			
Excluding Shoppers Drug Mart	**$ 275**	$ 299	$ (24)	(8.0)%	**$ 524**	$ 547	$ (23)	(4.2)%

- Operating income decreased by $789 million compared to the second quarter of 2013 and was negatively impacted by the adjustments described above to EBITDA[2] and the amortization of intangible assets recorded on the acquisition of Shoppers Drug Mart. Adjusted operating income[2] increased by $195 million compared to the second quarter of 2013, and included $219 million of adjusted operating income[2] related to the Shoppers Drug Mart acquisition. Excluding the impact of the acquisition, adjusted operating income[2] decreased by $24 million, driven by the decrease in adjusted EBITDA[2] described above and an increase in depreciation and amortization[2] of $3 million.

Financial Services Segment

For the periods ended June 14, 2014 and June 15, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	2014(i) (12 weeks)	2013 (12 weeks)	$ Change	% Change	2014(i) (24 weeks)	2013 (24 weeks)	$ Change	% Change
Revenue	**$ 192**	$ 148	$ 44	29.7%	**$ 372**	$ 313	$ 59	18.8%
Operating income	**38**	28	10	35.7%	**74**	58	16	27.6%
Earnings before income taxes	**26**	18	8	44.4%	**49**	37	12	32.4%

(millions of Canadian dollars except where otherwise indicated) (unaudited)	As at June 14, 2014	As at June 15, 2013	$ Change	% Change
Average quarterly net credit card receivables	**$ 2,499**	$ 2,253	$ 246	10.9%
Credit card receivables	**2,561**	2,279	282	12.4%
Allowance for credit card receivables	**48**	43	5	11.6%
Annualized yield on average quarterly gross credit card receivables(3)	**13.8%**	13.5%		
Annualized credit loss rate on average quarterly gross credit card receivables(3)	**4.7%**	4.3%		

(i) For segment presentation purposes, the results are for the period ended June 30, 2014, consistent with Financial Services' fiscal calendar. Adjustments to June 14, 2014 are included in Consolidation and Eliminations. See Non-GAAP Financial Measures beginning on page 13. This represents a change from the previous quarters whereby results were presented consistent with the Company's reporting calendar. The results for 2013 have not been restated.

- Revenue for the second quarter of 2014 increased by 29.7% compared to the second quarter of 2013. This increase was primarily driven by higher interest income and interchange income as a result of growth in the credit card portfolio.
- Operating income and earnings before income taxes increased by $10 million and $8 million, respectively, compared to the second quarter of 2013. These increases were mainly attributable to higher revenue described above, partially offset by higher operating costs as a result of an increase in the active customer base, higher credit losses from increased credit card receivable balances and higher costs associated with Financial Services' loyalty program.
- As at June 14, 2014, credit card receivables were $2,561 million, an increase of $282 million compared to June 15, 2013. This increase was primarily driven by growth in the active customer base as a result of continued investment in customer acquisitions and marketing initiatives over the past two years. As at June 14, 2014, the allowance for credit card receivables was $48 million, an increase of $5 million compared to June 15, 2013, primarily due to the growth in the credit card portfolio.

Choice Properties Segment

For the periods ended June 14, 2014 and June 15, 2013 (unaudited) (millions of Canadian dollars)	2014(i) (12 weeks)	2013(ii) (12 weeks)	2014(i) (24 weeks)	2013(ii) (24 weeks)
Revenue	**$ 170**	$ —	**$ 337**	$ —
Operating income	**122**	—	**240**	—
Adjusted operating income(2)	**128**	—	**252**	—
Net interest expense and other financing charges	**124**	—	**250**	—

For the periods ended June 14, 2014 and June 15, 2013 (unaudited) (millions of Canadian dollars except where otherwise indicated)	2014(i) (12 weeks)	2013(ii) (12 weeks)	2014(i) (24 weeks)	2013(ii) (24 weeks)
Net operating income(2)	**$ 119**	$ —	**$ 234**	$ —
Funds from operations(2)	**34**	—	**121**	—
Adjusted funds from operations(2)	**69**	—	**138**	—
Adjusted funds from operations per unit diluted(2) ($)	**0.18**	—	**0.37**	—
Adjusted funds from operations payout ratio(2)	**88.3%**	—%	**88.1%**	—%

(i) For segment presentation purposes, the results are for the period ended June 30, 2014, consistent with Choice Properties' fiscal calendar. Adjustments to June 14, 2014 are included in Consolidation and Eliminations. See Non-GAAP Financial Measures beginning on page 13.

(ii) Choice Properties was created in the third quarter of 2013 and as a result there are no comparative figures.

- Revenue for the second quarter of 2014 was $170 million, of which $152 million was generated from tenants within the Retail segment. Revenue consists of base rent and operating cost and property tax recoveries.
- Operating income for the second quarter of 2014 was $122 million after taking into account $6 million of general and administrative costs. Adjusted operating income(2) for the second quarter of 2014 was $128 million.
- Net operating income(2) for the second quarter of 2014 was $119 million, which consisted of cash rental revenue less property operating costs.
- Funds from operations(2) and adjusted funds from operations(2) for the second quarter of 2014 were $34 million and $69 million, respectively.
- Results of Choice Properties operations for the second quarter of 2014 were slightly better than the financial forecast included in Choice Properties' equity and debt prospectuses dated June 26, 2013, primarily driven by incremental income from properties acquired since that date.
- In the second quarter of 2014, Choice Properties acquired 20 investment properties from the Company for an aggregate purchase price of approximately $200 million, which was settled through the issuance of 11,259,208 Class B Limited Partnership units and $81 million in cash.
- Transferor Notes of $1.5 billion held by Loblaw were replaced with notes containing the same principal amounts, interest rates and maturities. Loblaw subsequently sold the replacement notes to unrelated parties.

Acquisition of Shoppers Drug Mart Corporation

On March 28, 2014, the Company acquired all of the outstanding shares of Shoppers Drug Mart for total consideration of $12.3 billion, comprised of approximately $6.6 billion of cash and the issuance of approximately 119.5 million common shares of the Company.

The cash portion of the acquisition of Shoppers Drug Mart was financed as follows:

- $3.5 billion was obtained through an unsecured term loan facility bearing interest at a rate equal to the Bankers' Acceptance rate plus 1.75% and maturing March 28, 2019;
- $1.6 billion of proceeds from the issuance of unsecured notes in the third quarter of 2013;
- $500 million was received in consideration of the issuance of 10.5 million common shares to George Weston Limited; and
- approximately $1.0 billion was used from cash on hand.

Loblaw expects to achieve annualized synergies of $300 million in the third full year following the close of the transaction (net of related costs). First year synergies are expected to be generated primarily from improved cost of goods sold and from purchasing efficiencies in goods not for resale.

Pursuant to a Consent Agreement reached with the Competition Bureau in the first quarter of 2014, the Company was required to divest 14 Shoppers Drug Mart stores and four of the Company's franchise grocery stores, as well as nine pharmacy operations of the Company. This was subsequently revised to 16 Shoppers Drug Mart stores and two of the Company's franchise grocery stores. The planned divestitures for the nine in-store pharmacies remain unchanged. The divestitures are expected to be completed in the third quarter of 2014, subject to approval by the Competition Bureau, and are not expected to have a material impact on the operations of the Company or the planned synergies.

On July 21, 2014, subsequent to the end of the second quarter, the Competition Bureau approved the sale of the two franchise grocery stores, two of the Shoppers Drug Mart stores and approved the licensing of the nine in-store pharmacies to unrelated parties.

Based on a preliminary assessment, the Company recognized the following amounts of net tangible assets, goodwill and intangible assets in the second quarter of 2014:

(millions of Canadian dollars except where otherwise indicated) (unaudited)			**Estimated Useful Life**
Fair Value of Net Tangible Assets Acquired	**$**	**539**	
Goodwill		**2,259**	
Prescription files		5,040	11 years
Brands		3,340	indefinite
Optimum loyalty program		490	18 years
Other		605	5 to 10 years
Total Intangible Assets		**9,475**	
Total Net Assets Acquired	**$**	**12,273**	

The Company has one year to finalize the fair value of net tangible assets, goodwill and intangible assets, however, the Company does not expect significant changes from the amounts presented above.

In the second quarter of 2014, the Company incurred costs related to the acquisition of $52 million, which were recorded in selling, general and administrative expenses.

Upon closing of the acquisition, all amounts owing on Shoppers Drug Mart's revolving bank credit facility were repaid and the facility was cancelled. In addition, upon closing, the Company guaranteed the outstanding principal amount of Shoppers Drug Mart MTNs of $500 million, along with accrued interest. The Company has also provided guarantees to various Canadian banks in support of the financing obtained by Shoppers Drug Mart's licensees ("Associates"). An Associate is a pharmacist-owner of a corporation that is licensed to operate a retail drug store at a specific location using Shoppers Drug Mart's trademarks.

Declaration of Dividends

Subsequent to the end of the second quarter of 2014, the Board of Directors declared a quarterly dividend on Loblaw Companies Limited common shares of $0.245 payable October 1, 2014 to shareholders of record on September 15, 2014 and a dividend on the Second Preferred Shares, Series A of $0.37 per share payable October 31, 2014 to shareholders of record on October 15, 2014.

Outlook[(1)]

The Company continues to successfully execute on its strategy against the backdrop of an extremely competitive supermarket environment and the deflationary pressure of regulatory drug reform. In its supermarket business, the Company will continue to focus on investing in the customer proposition to drive sales growth while surfacing efficiencies in its business to offset these investments. The acquisition of Shoppers Drug Mart provides the Company with increased scale and improved competitive positioning with the Canadian consumer, and also creates opportunities to realize significant synergies - particularly in cost of goods sold and expense in areas such as goods not for resale.

The Company expects the following in 2014:

- the supermarket environment to be competitive but stable;
- deflationary pressures from the impact of drug reform to moderate, with greater visibility for the balance of the year;
- its business divisions to achieve financial and operational performance, on an adjusted basis and excluding synergies, in line with 2013 performance trends; and
- to achieve $100 million in synergies in the first twelve months following the transaction. For 2014, synergies are projected to ramp up through the third and fourth quarter.

Forward-Looking Statements

This News Release for the Company contains forward-looking statements about the Company's objectives, plans, goals, aspirations, strategies, financial condition, results of operations, cash flows, performance, prospects and opportunities. Specific forward-looking statements in this News Release include, but are not limited to, statements with respect to the Company's anticipated future results and events, targeted synergies expected following the acquisition of Shoppers Drug Mart, future liquidity, planned capital expenditures, amount of pension plan contributions, status and impact of IT systems implementation and future plans. These specific forward-looking statements are contained throughout this News Release including, without limitation, in the Outlook section and the Consolidated Results of Operations 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" and "should" and similar expressions, as they relate to the Company and its management.

Forward-looking statements reflect the Company's current estimates, beliefs and assumptions, which are based on management's perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances. The Company's expectation of operating and financial performance in 2014 is based on certain assumptions including assumptions about revenue growth, anticipated cost savings and operating efficiencies, and competitive square footage growth. 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 Enterprise Risks and Risk Management section of the MD&A on pages 28 to 35 of the 2013 Annual Report – Financial Review ("2013 Annual Report"), the Enterprise Risks and Risk Management section of the MD&A included in the Company's 2014 Second Quarter Report to Shareholders and the Company's Updated and Restated Annual Information Form (for the year ended December 31, 2013; updated June 2, 2014). Such risks and uncertainties include:

- failure by the Company to realize the anticipated strategic benefits or operational, competitive and cost synergies expected following the acquisition of Shoppers Drug Mart;
- failure to realize benefits from investments in the Company's IT systems, including the Company's IT systems implementation, or unanticipated results from these initiatives;
- failure to realize anticipated results, including revenue growth, anticipated cost savings or operating efficiencies from the Company's major initiatives, including those from restructuring;
- the inability of the Company's IT infrastructure to support the requirements of the Company's business;
- failure to achieve desired results in labour negotiations, including the terms of future collective bargaining agreements, which could lead to work stoppages;
- public health events including those related to food and drug safety;
- heightened competition, whether from current competitors or new entrants to the marketplace;
- changes in economic conditions, including the rate of inflation or deflation, changes in interest and currency exchange rates and derivative and commodity prices;
- changes in the Company's income, capital, commodity, property and other tax and regulatory liabilities including changes in tax laws, regulations or future assessments;
- changes to the regulation of generic prescription drug prices and the reduction of reimbursements under public drug benefit plans and the elimination or reduction of professional allowances paid by drug manufacturers;
- the inability of the Company to manage inventory to minimize the impact of obsolete or excess inventory and to control shrink; and
- changes in the Company's estimate of inventory cost as a result of its IT system upgrade.

This is not an exhaustive list of the factors that may affect the Company's forward-looking statements. Other risks and uncertainties not presently known to the Company or that the Company presently believes are not material could also cause actual results or events to differ materially from those expressed in its forward-looking statements. Additional risks and uncertainties are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time. Information on risks and uncertainties related to Shoppers Drug Mart are disclosed in the Information Statement filed by the Company on August 20, 2013, the Shoppers Drug Mart 2013 annual MD&A filed by Shoppers Drug Mart on February 20, 2014 and the Company's Updated and Restated Annual Information Form (for the year ended December 31, 2013; updated June 2, 2014). 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.

Non-GAAP Financial Measures

The Company uses the following non-GAAP financial measures: EBITDA, adjusted EBITDA, adjusted EBITDA margin, adjusted operating income, adjusted operating margin, adjusted net earnings, adjusted basic net earnings per common share, free cash flow, adjusted debt and with respect to Choice Properties, net operating income, funds from operations, adjusted funds from operations, adjusted funds from operations per unit diluted and adjusted funds from operations payout ratio. Beginning in the second quarter of 2014, the Company has introduced two new financial measures: Retail segment adjusted gross profit and Retail segment adjusted gross profit percentage. 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 consolidated and segment underlying 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. From time to time, the Company may exclude 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.

Beginning in the first quarter of 2014, the Company no longer excludes the impact of share-based compensation when analyzing consolidated and segment underlying operating performance. As a result, prior year adjusted EBITDA and adjusted EBITDA margin, adjusted operating income and adjusted operating margin, and adjusted net earnings and adjusted basic net earnings per common share were restated to conform with the current year's presentation. Beginning in the second quarter of 2014, the Company no longer excludes net interest expense incurred in connection with the financing related to the acquisition of Shoppers Drug Mart when analyzing consolidated underlying operating performance. These amounts were excluded from adjusted net earnings and adjusted basic net earnings per common share in periods prior to the closing of the acquisition of Shoppers Drug Mart, and will not be restated.

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 Adjusted Gross Profit and Retail Segment Adjusted Gross Profit Percentage The following table reconciles Retail segment adjusted gross profit to gross profit measures reported in the condensed consolidated statements of earnings for the 12 and 24 weeks ended June 14, 2014 and June 15, 2013. The Company believes that Retail segment adjusted gross profit is 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 adjusted Retail segment gross profit divided by Retail sales.

(millions of Canadian dollars) (unaudited)	**2014 (12 weeks)**	2013[(5)] (12 weeks)	**2014 (24 weeks)**	2013[(5)] (24 weeks)
Retail segment gross profit	**$ 1,840**	$ 1,642	**$ 3,443**	$ 3,238
Add impact of the following:				
Recognition of fair value increment on inventory sold	**622**	—	**622**	—
Charge related to inventory measurement and other conversion differences	**190**	—	**190**	—
Retail segment adjusted gross profit	**$ 2,652**	$ 1,642	**$ 4,255**	$ 3,238

Recognition of fair value increment on inventory sold In connection with the acquisition of Shoppers Drug Mart, acquired assets and liabilities were recorded on the Company's condensed consolidated balance sheets at their fair value. This resulted in a fair value adjustment to Shoppers Drug Mart inventory on the date of acquisition of $798 million representing the difference between inventory cost and its fair value. This difference will be recognized in cost of sales as the inventory is sold over the remainder of 2014, with a resulting negative impact on gross profit. In the second quarter of 2014 and year-to-date, $622 million was recognized in gross profit and operating income.

Charge related to inventory measurement and other conversion differences for the Company's corporate grocery stores With the upgrade of its IT infrastructure, the Company expects to complete the conversion of its corporate grocery stores to a perpetual inventory management system in 2014. The implementation of a perpetual inventory system, combined with visibility to integrated costing information provided by the new IT systems, enabled the Company to estimate the cost of inventory using a more precise system-generated average cost. By the second quarter of 2014, sufficient corporate grocery stores had been converted to enable the Company to record the impact of the inventory measurement and other conversion differences associated with implementation of a perpetual inventory system. The impact was estimated to be a $190 million decrease in the value of the inventory, which was recognized in gross profit and operating income in the second quarter of 2014 and year-to-date.

EBITDA, Adjusted EBITDA, Adjusted EBITDA Margin, Adjusted Operating Income and Adjusted Operating Margin The following table reconciles earnings (loss) before income taxes, net interest expense and other financing charges and depreciation and amortization ("EBITDA"), adjusted EBITDA and adjusted operating income to operating income, which is reconciled to GAAP net earnings measures reported in the unaudited interim period condensed consolidated statements of earnings for the 12 and 24 weeks ended June 14, 2014 and June 15, 2013. 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. The Company also believes that adjusted operating income is useful in assessing the Company's underlying operating performance and in making decisions regarding the ongoing operations of the business.

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

					2014 (12 weeks)					2013(i) (12 weeks)
(millions of Canadian dollars) (unaudited)	**Retail**	**Financial Services(ii)**	**Choice Properties(ii)**	**Consolidation and Eliminations**	**Consolidated**	**Retail**	**Financial Services**	**Choice Properties**	**Consolidation and Eliminations**	**Consolidated**
Net (loss) earnings					**$ (456)**					$ 177
Add (deduct) impact of the following:										
Net interest expense and other financing charges					**150**					80
Income taxes					**(150)**					64
Operating (loss) income	**$ (496)**	**$ 38**	**$ 122**	**$ (120)**	**$ (456)**	$ 293	$ 28	$ —	$ —	$ 321
Depreciation and amortization	**379**	**2**	**—**	**3**	**384**	189	2	—	—	191
EBITDA	**$ (117)**	**$ 40**	**$ 122**	**$ (117)**	**$ (72)**	$ 482	$ 30	$ —	$ —	$ 512
Operating (loss) income	**$ (496)**	**$ 38**	**$ 122**	**$ (120)**	**$ (456)**	$ 293	$ 28	$ —	$ —	$ 321
Add (deduct) impact of the following:										
Recognition of fair value increment on inventory sold	**622**	**—**	**—**	**—**	**622**	—	—	—	—	—
Charge related to inventory measurement and other conversion differences	**190**	**—**	**—**	**—**	**190**	—	—	—	—	—
Amortization of intangible assets acquired with Shoppers Drug Mart(iii)	**125**	**—**	**—**	**—**	**125**	—	—	—	—	—
Shoppers Drug Mart acquisition related costs	**52**	**—**	**—**	**—**	**52**	—	—	—	—	—
Choice Properties general and administrative costs	**(1)**	**—**	**6**	**—**	**5**	—	—	—	—	—
Fixed asset and other related impairments	**2**	**—**	**—**	**—**	**2**	6	—	—	—	6
Adjusted operating income	**$ 494**	**$ 38**	**$ 128**	**$ (120)**	**$ 540**	$ 299	$ 28	$ —	$ —	$ 327
Depreciation and amortization(ii)	**254**	**2**	**—**	**3**	**259**	189	2	—	—	191
Adjusted EBITDA	**$ 748**	**$ 40**	**$ 128**	**$ (117)**	**$ 799**	$ 488	$ 30	$ —	$ —	$ 518

(i) Certain 2013 figures have been amended. See note 2 of the Company's unaudited condensed consolidated financial statements included in the 2014 Second Quarter Report to Shareholders.

(ii) For segment presentation purposes, the results are for the period ended June 30, 2014, consistent with Financial Services' and Choice Properties' fiscal calendars. Adjustments to June 14, 2014 are included in Consolidation and Eliminations.

(iii) Depreciation and amortization for the calculation of adjusted EBITDA excludes $125 million (2013 – nil) of amortization of intangible assets acquired with Shoppers Drug Mart.

(millions of Canadian dollars) (unaudited)	2014 (24 weeks) Retail	Financial Services[ii]	Choice Properties[ii]	Consolidation and Eliminations	Consolidated	2013[i] (24 weeks) Retail	Financial Services	Choice Properties	Consolidation and Eliminations	Consolidated
Net (loss) earnings					**$ (336)**					$ 363
Add (deduct) impact of the following:										
Net interest expense and other financing charges					**265**					156
Income taxes					**(109)**					131
Operating (loss) income	**$ (256)**	**$ 74**	**$ 240**	**$ (238)**	**$ (180)**	$ 592	$ 58	$ —	$ —	$ 650
Depreciation and amortization	**569**	**4**	**—**	**6**	**579**	369	5	—	—	374
EBITDA	**$ 313**	**$ 78**	**$ 240**	**$ (232)**	**$ 399**	$ 961	$ 63	$ —	$ —	$ 1,024
Operating (loss) income	**$ (256)**	**$ 74**	**$ 240**	**$ (238)**	**$ (180)**	$ 592	$ 58	$ —	$ —	$ 650
Add (deduct) impact of the following:										
Recognition of fair value increment on inventory sold	**622**	**—**	**—**	**—**	**622**	—	—	—	—	—
Charge related to inventory measurement and other conversion differences	**190**	**—**	**—**	**—**	**190**	—	—	—	—	—
Amortization of intangible assets acquired with Shoppers Drug Mart[iii]	**125**	**—**	**—**	**—**	**125**	—	—	—	—	—
Defined benefit plan amendments	**—**	**—**	**—**	**—**	**—**	(51)	—	—	—	(51)
Shoppers Drug Mart acquisition related costs	**60**	**—**	**—**	**—**	**60**	—	—	—	—	—
Choice Properties general and administrative costs	**(2)**	**—**	**11**	**—**	**9**	—	—	—	—	—
Fixed asset and other related impairments	**4**	**—**	**1**	**—**	**5**	6	—	—	—	6
Adjusted operating income	**$ 743**	**$ 74**	**$ 252**	**$ (238)**	**$ 831**	$ 547	$ 58	$ —	$ —	$ 605
Depreciation and amortization[iii]	**444**	**4**	**—**	**6**	**454**	369	5	—	—	374
Adjusted EBITDA	**$1,187**	**$ 78**	**$ 252**	**$ (232)**	**$ 1,285**	$ 916	$ 63	$ —	$ —	$ 979

(i) Certain 2013 figures have been amended. See note 2 of the Company's unaudited condensed consolidated financial statements included in the 2014 Second Quarter Report to Shareholders.

(ii) For segment presentation purposes, the results are for the period ended June 30, 2014, consistent with Financial Services' and Choice Properties' fiscal calendars. Adjustments to June 14, 2014 are included in Consolidation and Eliminations.

(iii) Depreciation and amortization for the calculation of adjusted EBITDA excludes $125 million (2013 – nil) of amortization of intangible assets acquired with Shoppers Drug Mart.

Amortization of intangible assets acquired with Shoppers Drug Mart The acquisition of Shoppers Drug Mart in the second quarter of 2014 included approximately $6 billion of definite life intangible assets, which will be amortized over their estimated useful lives. During the second quarter of 2014 and year-to-date, $125 million of amortization was recognized in operating income. Annual amortization associated with the acquired intangibles will be approximately $550 million over the next ten years.

Defined benefit plan amendments During the first quarter of 2013, the Company announced amendments to certain of its defined benefit plans impacting certain employees retiring after January 1, 2015. As a result, the Company recorded a gain of $51 million in the first quarter of 2013.

Shoppers Drug Mart acquisition related costs In connection with the agreement to acquire all of the outstanding common shares of Shoppers Drug Mart, in the second quarter of 2014 the Company recorded $52 million and year-to-date $60 million of acquisition costs in operating income. No significant additional costs related to the acquisition are anticipated.

Choice Properties general and administrative costs During the second quarter of 2014, the Company recorded $5 million and year-to-date $9 million of incremental general and administrative costs incurred by Choice Properties in operating income.

Fixed asset and other related impairments At each balance sheet date, the Company assesses and, when required, records impairments and recoveries of previous impairments related to the carrying value of its fixed assets, investment properties and intangible assets. In the second quarter of 2014, the Company recorded a charge of $2 million (2013 – $6 million) and year-to-date $5 million (2013 – $6 million) related to fixed asset and other related impairments.

Adjusted Net Earnings and Adjusted Basic Net Earnings Per Common Share The Company believes adjusted net earnings and adjusted basic 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.

The following table reconciles adjusted net earnings and adjusted basic net earnings per common share to GAAP net earnings and basic net earnings per common share reported for the 12 and 24 week periods ended June 14, 2014 and June 15, 2013:

(millions of Canadian dollars/Canadian dollars) (unaudited)	**2014 (12 weeks)**		2013[5] (12 weeks)		**2024 (24 weeks)**		2013[5] (24 weeks)	
Net (loss) earnings/basic net (loss) earnings per common share	**$ (456)**	**$ (1.13)**	$ 177	$ 0.63	**$ (336)**	**$ (0.98)**	$ 363	$ 1.29
Add (deduct) impact of the following:								
Recognition of fair value increment on inventory sold	**457**	**1.14**	—	—	**457**	**1.33**	—	—
Charge related to inventory measurement and other conversion differences	**139**	**0.35**	—	—	**139**	**0.41**	—	—
Amortization of intangible assets acquired with Shoppers Drug Mart[i]	**92**	**0.23**	—	—	**92**	**0.27**	—	—
Defined benefit plan amendments	**—**	**—**	—	—	**—**	**—**	(37)	(0.13)
Shoppers Drug Mart acquisition related costs	**45**	**0.11**	—	—	**64**	**0.19**	—	—
Choice Properties general and administrative costs	**4**	**0.01**	—	—	**7**	**0.02**	—	—
Fixed asset and other related impairments	**2**	**—**	4	0.01	**4**	**0.01**	4	0.01
Fair value adjustment of Trust Unit Liability	**8**	**0.02**	—	—	**20**	**0.06**	—	—
Accelerated amortization of deferred financing costs	**10**	**0.02**	—	—	**10**	**0.03**	—	—
Adjusted net earnings/adjusted basic net earnings per common share	**$ 301**	**$ 0.75**	$ 181	$ 0.64	**$ 457**	**$ 1.34**	$ 330	$ 1.17

Shoppers Drug Mart acquisition related costs In addition to the acquisition related costs recorded in operating income noted above, during the first quarter of 2014, $15 million of additional net interest expense on a pre-tax basis was incurred in connection with the financing related to the acquisition of Shoppers Drug Mart. These financing charges were recorded in net interest expense and other financing charges. As of the acquisition date, these costs are no longer excluded from adjusted net earnings and adjusted basic net earnings per common share as they are now part of ongoing business operations.

Fair value adjustment of Trust Unit Liability The Company is exposed to market price fluctuations as a result of the Units held by unitholders other than the Company. These Units are presented as a liability on the Company's condensed consolidated balance sheets as they are redeemable for cash at the option of the holder, subject to certain restrictions. This liability is recorded at fair value at each reporting period based on the market price of Units at the end of the period. In the second quarter of 2014, the Company recorded a loss of $8 million (2013 – nil) and year-to-date a loss of $20 million (2013 – nil) in net interest expense and other financing charges related to the fair value adjustment on the Trust Unit Liability.

Accelerated Amortization of Deferred Financing Costs In the second quarter of 2014, the Company recorded a $14 million charge related to the accelerated amortization of deferred financing costs due to the repayment of $1.6 billion of the $3.5 billion term loan facility on a pre-tax basis.

Free Cash Flow The following table reconciles free cash flow used in assessing the Company's financial condition to GAAP measures for the 12 and 24 weeks ended June 14, 2014 and June 15, 2013. The Company believes that free cash flow is the appropriate measure in assessing the Company's cash available for additional financing and investing activities.

(millions of Canadian dollars) (unaudited)	**2014 (12 weeks)**	2013 (12 weeks)	**2014 (24 weeks)**	2013 (24 weeks)
Cash flows from operating activities	**$ 959**	$ 572	**$ 913**	$ 543
Less: Change in credit card receivables	**(162)**	(104)	**(23)**	26
Fixed asset purchases	**222**	190	**338**	309
Interest paid	**98**	94	**217**	158
Free cash flow	**$ 801**	$ 392	**$ 381**	$ 50

Adjusted Debt The following table reconciles adjusted debt to GAAP measures reported as at the periods ended as indicated. The Company believes that adjusted debt is relevant in assessing the amount of financial leverage employed. The Company changed its definition of adjusted debt in the second quarter of 2014 to include capital securities to better align with management's definition for deleveraging purposes.

(millions of Canadian dollars) (unaudited)	**As at June 14, 2014**	As at June 15, 2013	As at December 28, 2013
Bank indebtedness	**$ 335**	$ —	$ —
Short term debt	**605**	905	605
Long term debt due within one year	**74**	1,125	1,008
Long term debt	**11,797**	4,386	6,672
Trust unit liability	**715**	—	688
Capital securities	**224**	223	224
Certain other liabilities	**34**	39	39
Fair value of financial derivatives related to the above	**—**	(6)	—
Total debt	**$ 13,784**	$ 6,672	$ 9,236
Less:			
Independent Securitization Trusts in short term debt	**605**	905	605
Independent Securitization Trusts in long term debt	**750**	600	750
Independent Funding Trusts	**476**	461	475
Trust Unit Liability	**715**	—	688
Guaranteed Investment Certificates	**528**	273	430
Adjusted debt	**$ 10,710**	$ 4,433	$ 6,288

Adjusted debt to rolling year adjusted EBITDA is calculated as adjusted debt divided by cumulative adjusted EBITDA for the latest four quarters.

Choice Properties Net Operating Income The following table reconciles Choice Properties' net operating income to GAAP measures for the 12 and 24 week periods ended June 14, 2014 and June 15, 2013. The Company believes net operating income is useful in measuring Choice Properties operating performance and the performance of the real estate properties.

(millions of Canadian dollars) (unaudited)	**2014(i) (12 weeks)**	2013 (12 weeks)	**2014(i) (24 weeks)**	2013 (24 weeks)
Rental revenue	**$ 170**	$ —	**$ 337**	$ —
Reverse - Straight-line rental revenue	**(8)**	—	**(17)**	—
	162	—	**320**	—
Property Operating Costs	**(43)**	—	**(86)**	—
Net Operating Income	**$ 119**	$ —	**$ 234**	$ —

(i) For segment presentation purposes, the results are for the period ended June 30, 2014, consistent with Choice Properties' fiscal calendar. Adjustments to June 14, 2014 are included in Consolidation and Eliminations.

Choice Properties Funds from Operations, Adjusted Funds from Operations, Adjusted Funds from Operations per Unit Diluted and Adjusted Funds from Operations Payout Ratio The following table reconciles Choice Properties' funds from operations and adjusted funds from operations to GAAP measures for the 12 and 24 week periods ended June 14, 2014 and June 15, 2013. The Company believes funds from operations is useful in measuring Choice Properties operating performance and the performance of the real estate properties, and that adjusted funds from operations is useful in measuring economic performance and is indicative of Choice Properties ability to pay distributions.

(millions of Canadian dollars) (unaudited)	**2014(i) (12 weeks)**	2013 (12 weeks)	**2014(i) (24 weeks)**	2013 (24 weeks)
Net income	**$ (2)**	$ —	**$ (10)**	$ —
Fair value adjustments on Class B Limited Partnership units	**(11)**	—	**37**	—
Distributions on Class B Limited Partnership units	**47**	—	**93**	—
Amortization of tenant improvement allowances	**—**	—	**1**	—
Funds from Operations	**$ 34**	$ —	**$ 121**	$ —
Straight-line rental revenue	**(8)**	—	**(17)**	—
Amortization of finance charges	**52**	—	**51**	—
Unit-based compensation expense	**1**	—	**1**	—
Sustaining property and leasing capital expenditures, normalized(ii)	**(10)**	—	**(18)**	—
Adjusted Funds from Operations	**$ 69**	$ —	**$ 138**	$ —

(i) For segment presentation purposes, the results are for the period ended June 30, 2014, consistent with Choice Properties' fiscal calendar. Adjustments to June 14, 2014 are included in Consolidation and Eliminations.

(ii) Seasonality impacts the timing of capital expenditures. The adjusted funds from operations calculation was adjusted for this factor to make the quarters more comparable.

Adjusted funds from operations per unit diluted is calculated as adjusted funds from operations divided by Choice Properties' diluted weighted average units outstanding, which were 379.7 million in the second quarter of 2014.

Adjusted funds from operations payout ratio is calculated as Choice Properties' distribution per unit, which was $0.162501 in the second quarter of 2014, divided by adjusted funds from operations per unit diluted.

Selected Financial Information

The following includes selected quarterly financial information, which is prepared by management in accordance with International Financial Reporting Standards ("IFRS") and is based on the Company's 2014 Second Quarter Report to Shareholders. This financial information does not contain all interim period disclosures required by IFRS, and accordingly, should be read in conjunction with the Company's 2013 Annual Report and 2014 Second Quarter Report to Shareholders, which are available in the Investor Centre section of the Company's website at loblaw.ca.

Condensed Consolidated Statements of Earnings

(millions of Canadian dollars except where otherwise indicated) (unaudited)	**June 14, 2014 (12 weeks)**	June 15, 2013[5] (12 weeks)	**June 14, 2014 (24 weeks)**	June 15, 2013[5] (24 weeks)
Revenue	**$ 10,307**	$ 7,520	**$ 17,599**	$ 14,722
Cost of Merchandise Inventories Sold	**8,271**	5,742	**13,776**	11,196
Selling, General and Administrative Expenses	**2,492**	1,457	**4,003**	2,876
Operating (Loss) Income	**$ (456)**	$ 321	**$ (180)**	$ 650
Net interest expense and other financing charges	**150**	80	**265**	156
(Loss) Earnings Before Income Taxes	**$ (606)**	$ 241	**$ (445)**	$ 494
Income taxes	**(150)**	64	**(109)**	131
Net (Loss) Earnings	**$ (456)**	$ 177	**$ (336)**	$ 363
Net (Loss) Earnings per Common Share ($)				
Basic	**$ (1.13)**	$ 0.63	**$ (0.98)**	$ 1.29
Diluted	**$ (1.13)**	$ 0.62	**$ (0.98)**	$ 1.28
Weighted Average Common Shares Outstanding (millions)				
Basic	**403.0**	281.3	**342.2**	281.1
Diluted	**403.0**	284.2	**342.2**	283.6

Condensed Consolidated Balance Sheets

(millions of Canadian dollars) (unaudited)		**As at June 14, 2014**		As at June 15, 2013(5)		As at December 28, 2013(5)
Assets						
Current Assets						
Cash and cash equivalents	**$**	**1,179**	$	771	$	2,260
Short term investments		**47**		847		290
Accounts receivable		**1,021**		476		579
Credit card receivables		**2,561**		2,279		2,538
Inventories		**4,297**		2,012		2,097
Income taxes recoverable		**24**		—		—
Prepaid expenses and other assets		**226**		149		75
Assets held for sale		**44**		26		22
Total Current Assets	**$**	**9,399**	$	6,560	$	7,861
Fixed Assets		**10,774**		8,937		9,105
Investment Properties		**148**		97		99
Intangible Assets		**9,471**		116		111
Goodwill		**3,209**		943		943
Deferred Income Taxes Assets		**298**		261		261
Security Deposits		**97**		224		1,701
Franchise Loans Receivable		**380**		365		375
Other Assets		**249**		213		285
Total Assets	**$**	**34,025**	$	17,716	$	20,741
Liabilities						
Current Liabilities						
Bank indebtedness	**$**	**335**	$	—	$	—
Trade payables and other liabilities		**4,576**		3,482		3,797
Provisions		**55**		54		66
Income taxes payable		**—**		26		37
Short term debt		**605**		905		605
Long term debt due within one year		**74**		1,125		1,008
Associate interest		**170**		—		—
Total Current Liabilities	**$**	**5,815**	$	5,592	$	5,513
Provisions		**65**		63		56
Long Term Debt		**11,797**		4,386		6,672
Trust Unit Liability		**715**		—		688
Deferred Income Taxes Liabilities		**2,043**		19		34
Capital Securities		**224**		223		224
Other Liabilities		**763**		743		554
Total Liabilities	**$**	**21,422**	$	11,026	$	13,741
Shareholders' Equity						
Common Shares	**$**	**7,816**	$	1,627	$	1,642
Retained Earnings		**4,694**		5,000		5,271
Contributed Surplus		**92**		63		87
Accumulated Other Comprehensive Income		**1**		—		—
Total Shareholders' Equity	**$**	**12,603**	$	6,690	$	7,000
Total Liabilities and Shareholders' Equity	**$**	**34,025**	$	17,716	$	20,741

Condensed Consolidated Statements of Cash Flows

(millions of Canadian dollars) (unaudited)	June 14, 2014 (12 weeks)	June 15, 2013[5] (12 weeks)	June 14, 2014 (24 weeks)	June 15, 2013[5] (24 weeks)
Operating Activities				
Net (loss) earnings	**$ (456)**	$ 177	**$ (336)**	$ 363
Income taxes	**(150)**	64	**(109)**	131
Net interest expense and other financing charges	**150**	80	**265**	156
Depreciation and amortization	**384**	191	**579**	374
Income taxes paid	**(88)**	(64)	**(169)**	(128)
Interest received	**13**	17	**21**	27
Settlement of equity forward contracts	**—**	—	**—**	(16)
Settlement of cross currency swaps	**—**	8	**—**	8
Change in credit card receivables	**(162)**	(104)	**(23)**	26
Change in non-cash working capital	**395**	205	**(196)**	(344)
Fixed asset and other related impairments	**2**	6	**5**	6
Loss (gain) on disposal of assets	**4**	—	**4**	(1)
Recognition of fair value increment on inventory sold	**622**	—	**622**	—
Charge related to inventory measurement and other conversion differences	**190**	—	**190**	—
Gain on defined benefit plan amendments	**—**	—	**—**	(51)
Other	**55**	(8)	**60**	(8)
Cash Flows from Operating Activities	**$ 959**	$ 572	**$ 913**	$ 543
Investing Activities				
Acquisition of Shoppers Drug Mart Corporation, net of cash acquired	**(6,619)**	—	**(6,619)**	—
Fixed asset purchases	**(222)**	(190)	**(338)**	(309)
Change in short term investments	**(8)**	3	**243**	(115)
Proceeds from fixed asset sales	**2**	9	**12**	11
Change in franchise investments and other receivables	**(19)**	17	**(13)**	25
Change in security deposits	**1,600**	(17)	**1,604**	30
Intangible asset additions	**(17)**	—	**(18)**	(9)
Other	**(3)**	—	**(3)**	—
Cash Flows used in Investing Activities	**$ (5,286)**	$ (178)	**$ (5,132)**	$ (367)
Financing Activities				
Change in bank indebtedness	**40**	—	**40**	—
Change in Associate Interest	**(4)**	—	**(4)**	—
Long Term Debt				
Issued	**5,165**	—	**5,634**	10
Retired	**(2,474)**	(198)	**(2,600)**	(224)
Deferred debt financing costs	**(29)**	—	**(29)**	—
Interest paid	**(98)**	(94)	**(217)**	(158)
Dividends paid	**(125)**	(62)	**(193)**	(124)
Common Shares				
Issued	**554**	44	**564**	55
Purchased and held in trust	**—**	—	**—**	(46)
Purchased for cancellation	**(59)**	—	**(59)**	—
Cash Flows from (used in) Financing Activities	**$ 2,970**	$ (310)	**$ 3,136**	$ (487)
Effect of foreign currency exchange rate changes on cash and cash equivalents	**(1)**	(2)	**2**	3
Change in cash and cash equivalents	**$ (1,358)**	$ 82	**$ (1,081)**	$ (308)
Cash and cash equivalents, beginning of period	**2,537**	689	**2,260**	1,079
Cash and Cash Equivalents, End of Period	**$ 1,179**	$ 771	**$ 1,179**	$ 771

Segment Information

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

- The Retail segment consists primarily of retail food and Associate-owned drug stores, and also includes in-store pharmacies and other health and beauty products, gas bars, and apparel and other general merchandise;
- The Financial Services segment, which provides credit card services, a retail loyalty program, insurance brokerage services, personal banking services provided by a major Canadian chartered bank, deposit taking services and telecommunication services; and
- The Choice Properties segment, which owns and leases income-producing commercial properties. The Choice Properties segment information presented below reflects the accounting policies of Choice Properties, which may differ from those of the consolidated Company. Any differences in policies are eliminated in Consolidation and Eliminations.

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:

				June 14, 2014 (12 weeks)						June 15, 2013(i) (12 weeks)
(millions of Canadian dollars) (unaudited)	**Retail**	**Financial Services(ii)**	**Choice Properties(ii)**	**Consolidation and Eliminations(iii)**	**Total**	Retail	Financial Services(ii)	Choice Properties	Consolidation and Eliminations	Total
Revenue(iv)	**$10,097**	**$ 192**	**$ 170**	**$ (152)**	**$ 10,307**	$ 7,372	$ 148	$ —	$ —	$ 7,520
EBITDA(v)	**$ (117)**	**$ 40**	**$ 122**	**$ (117)**	**$ (72)**	$ 482	$ 30	$ —	$ —	$ 512
Adjusting Items(v)	**$ 865**	**$ —**	**$ 6**	**$ —**	**$ 871**	$ 6	$ —	$ —	$ —	$ 6
Adjusted EBITDA(v)	**$ 748**	**$ 40**	**$ 128**	**$ (117)**	**$ 799**	$ 488	$ 30	$ —	$ —	$ 518
Depreciation and Amortization(vi)	**$ 254**	**$ 2**	**$ —**	**$ 3**	**$ 259**	$ 189	$ 2	$ —	$ —	$ 191
Adjusted Operating Income(v)	**$ 494**	**$ 38**	**$ 128**	**$ (120)**	**$ 540**	$ 299	$ 28	$ —	$ —	$ 327
Net interest expense and other financing charges	**$ 97**	**$ 12**	**$ 124**	**$ (83)**	**$ 150**	$ 70	$ 10	$ —	$ —	$ 80

(i) Certain 2013 figures have been amended. See note 2 of the Company's unaudited condensed consolidated financial statements included in the 2014 Second Quarter Report to Shareholders.

(ii) For segment presentation purposes, the results are for the period ended June 30, 2014, consistent with Financial Services' and Choice Properties' fiscal calendars. Adjustments to June 14, 2014 are included in Consolidation and Eliminations.

(iii) Consolidation and Eliminations includes the following items:

- Revenue includes the elimination of $117 million of rental revenue and $35 million of cost recovery recognized by Choice Properties, generated from the Retail segment.
- Operating income includes the elimination of the $117 million impact of rental revenue described above and the recognition of $3 million of depreciation expense for certain investment properties recorded by Choice Properties and measured at fair value.
- Net interest expense and other financing charges includes the elimination of $105 million of interest expense included in Choice Properties related to debt owing to the Company; Unit distributions to external unitholders of $11 million, which excludes distributions paid to the Company, which are reflected as a reduction of equity in Choice Properties, and presented as interest expense for the consolidated Company; the elimination of an $11 million fair value gain recognized by Choice Properties on Class B Limited Partnership units held by the Company; the elimination of $8 million of Choice Properties interest expense incurred to June 30, 2014 and an $8 million fair value loss on the Company's Trust Unit Liability.

(iv) Included in Financial Services revenue is $86 million (June 15, 2013 – $65 million) of interest income.

(v) Certain items are excluded from operating income and EBITDA to derive adjusted operating income and adjusted EBITDA, respectively. Adjusted operating income and adjusted EBITDA are used internally by management when analyzing segment underlying performance.

(vi) Depreciation and amortization for the calculation of adjusted EBITDA excludes $125 million (2013 – nil) of amortization of intangible assets acquired with Shoppers Drug Mart.

(millions of Canadian dollars) (unaudited)	June 14, 2014 (24 weeks) Retail	Financial Services[ii]	Choice Properties[ii]	Consolidation and Eliminations[iii]	Total	June 15, 2013[i] (24 weeks) Retail	Financial Services[ii]	Choice Properties	Consolidation and Eliminations	Total
Revenue[iv]	**$17,192**	**$ 372**	**$ 337**	**$ (302)**	**$17,599**	$14,409	$ 313	$ —	$ —	$14,722
EBITDA[v]	**$ 313**	**$ 78**	**$ 240**	**$ (232)**	**$ 399**	$ 961	$ 63	$ —	$ —	$ 1,024
Adjusting Items[v]	**$ 874**	**$ —**	**$ 12**	**$ —**	**$ 886**	$ (45)	$ —	$ —	$ —	$ (45)
Adjusted EBITDA[v]	**$ 1,187**	**$ 78**	**$ 252**	**$ (232)**	**$ 1,285**	$ 916	$ 63	$ —	$ —	$ 979
Depreciation and Amortization[vi]	**$ 444**	**$ 4**	**$ —**	**$ 6**	**$ 454**	$ 369	$ 5	$ —	$ —	$ 374
Adjusted Operating Income[v]	**$ 743**	**$ 74**	**$ 252**	**$ (238)**	**$ 831**	$ 547	$ 58	$ —	$ —	$ 605
Net interest expense and other financing charges	**$ 167**	**$ 25**	**$ 250**	**$ (177)**	**$ 265**	$ 135	$ 21	$ —	$ —	$ 156

(i) Certain 2013 figures have been amended. See note 2 of the Company's unaudited condensed consolidated financial statements included in the 2014 Second Quarter Report to Shareholders.

(ii) For segment presentation purposes, the results are for the period ended June 30, 2014, consistent with Financial Services' and Choice Properties' fiscal calendars. Adjustments to June 14, 2014 are included in Consolidation and Eliminations.

(iii) Consolidation and Eliminations includes the following items:

- Revenue includes the elimination of $232 million of rental revenue and $70 million of cost recovery recognized by Choice Properties, received from the Retail segment.
- Operating income includes the elimination of the $232 million impact of rental revenue described above and the recognition of $6 million of depreciation expense for certain investment properties recorded by Choice Properties and measured at fair value.
- Net interest expense and other financing charges includes the elimination of $174 million of interest expense included in Choice Properties related to debt owing to the Company; Unit distributions to external unitholders of $22 million, which excludes distributions paid to the Company, which are reflected as a reduction of equity in Choice Properties, and presented as interest expense for the consolidated Company; the elimination of a $37 million fair value loss recognized by Choice Properties on Class B Limited Partnership units held by the Company; the elimination of $8 million of Choice Properties interest expense incurred to June 30, 2014; and a $20 million fair value loss on the Company's Trust Unit Liability.

(iv) Included in Financial Services revenue is $175 million (June 15, 2013 – $141 million) of interest income.

(v) Certain items are excluded from operating income and EBITDA to derive adjusted operating income and adjusted EBITDA, respectively. Adjusted operating income and adjusted EBITDA are used internally by management when analyzing segment underlying performance.

(vi) Depreciation and amortization for the calculation of adjusted EBITDA excludes $125 million (2013 – nil) of amortization of intangible assets acquired with Shoppers Drug Mart.

Addendum A – Shoppers Drug Mart Results

Shoppers Drug Mart results are included in the Company's consolidated results beginning on the date of acquisition. As a result, in the first four quarters following the acquisition, the Company's prior year comparative figures do not include Shoppers Drug Mart. To provide some context and assist readers in their understanding of the Company's underlying performance for the second quarter of 2014, the Company has provided a brief discussion of Shoppers Drug Mart comparative operating results below, recognizing that over time such comparative financial information will become less relevant.

Below is a summary of Shoppers Drug Mart operating results for the 12 week periods ended June 14, 2014 and June 15, 2013. The 2014 adjusted measures below exclude acquisition related items outlined in the Non-GAAP section of this News Release.

For the periods ended June 14, 2014 and June 15, 2013 (unaudited) (millions of Canadian dollars)	**2014** **(12 weeks)**	2013(i) (12 weeks)	$ Change	% Change
Sales	**$ 2,609**	$ 2,538	$ 71	2.8%
Adjusted gross profit	**999**	980	19	1.9%
Adjusted EBITDA	**281**	278	3	1.1%
Adjusted operating income	**219**	215	4	1.9%

(i) Prior period figures have been restated to reflect the impact of certain purchase-related adjustments and policy alignments. See Addendum B for details.

The following provides an overview of Shoppers Drug Mart's operating performance for the quarter ended June 14, 2014 compared to the quarter ended June 15, 2013.

- Sales were $2.6 billion, an increase of 2.8% over the same period in the prior year, driven by sales gains in the front of the store and continued strength in prescription count growth. On a same-store basis, sales increased 2.5% during the quarter.
- Pharmacy sales were $1.2 billion in the second quarter of 2014, an increase of 2.5% compared to the same period in the prior year, as growth in the number of prescriptions filled at retail was partially offset by a further reduction in average prescription value. On a same-store basis, pharmacy sales increased 2.5% in the quarter. During the second quarter of 2014, the number of prescriptions dispensed at retail increased 4.1% compared to the same period of the prior year and was up 3.8% on a same-store basis. Year-over-year, average prescription value at retail declined a further 1.7% during the second quarter of 2014, largely the result of further reductions in generic prescription reimbursement rates due to ongoing drug system reform initiatives, along with increasing generic prescription utilization rates. Generic molecules comprised 62.8% of the prescriptions dispensed in the second quarter of 2014 compared to 61.3% in the same period of the prior year.
- Front store sales were $1.4 billion, an increase of 3.0% compared to the same period of the prior year, led by strong growth in food and cosmetics. On a same-store basis, front store sales increased 2.4% during the second quarter of 2014.
- During the second quarter of 2014, two new drug stores were opened and five smaller pharmacy format stores were closed. Year-over-year, retail selling square footage increased 1.8%.

Adjusted EBITDA for the second quarter of 2014 was $281 million compared to adjusted EBITDA of $278 million in the same period of the prior year, and included approximately $10 million of synergies achieved in the second quarter of 2014, primarily in cost of goods sold. Year-over-year, gross profit dollars increased by 1.9% in the second quarter of 2014, primarily due to increased sales. Selling, general and administrative expenses, excluding depreciation and amortization, increased by 2.3% compared to the same period last year, driven largely by higher store-level expenses, primarily occupancy and labour.

Addendum B – Retail Segment Comparative Results on an Adjusted Basis

Shoppers Drug Mart results are included in the Company's consolidated results beginning on the date of acquisition. As a result, until the second quarter of 2015, the Company's prior year comparative figures will not include Shoppers Drug Mart. To provide readers with some additional context to understand the underlying business performance of the Company's operations, the Company has provided certain limited estimated comparative financial information below. This information is the Company's best estimate of prior year's quarterly results after reflecting the alignment of accounting policies, and other adjustments for comparability.

For the Shoppers Drug Mart figures presented below, the Acquisition Alignment column includes adjustments to make the 2013 reported results comparable with those that will be reported in 2014. In addition, significant fixed asset gains and losses and fixed asset and other related impairments have been removed from adjusted operating income and adjusted EBITDA(2), to be consistent with the Company's calculation of those measures.

For details on the calculation of Loblaw Retail adjusted operating income(2) and adjusted EBITDA(2), please refer to the Non-GAAP Measures section on page 13 of this News Release. For the Loblaw Retail figures presented below, the Vendor Allowances and Other column provides the impact of the change in the Company's accounting policy for vendor allowances and reflects changes to the items the Company excludes from adjusted operating income(2) and adjusted EBITDA(2). See "Accounting Standards Implemented in 2014 and Changes to Significant Accounting Policies" section beginning page 35 of Company's 2014 Second Quarter Report to Shareholders for further information.

(millions of Canadian dollars) (unaudited)									**First Quarter 2013 (12 weeks)**
	Shoppers Drug Mart			Loblaw Retail			**Total Combined Retail Segment - Revised**		
	Reported	Acquisition Alignment	Revised	Reported	Vendor Allowances	Revised	**Reported**	**Total Changes**	**Revised**
Sales	2,486	—	2,486	7,037	—	7,037	**9,523**	**—**	**9,523**
Gross profit	957	—	957	1,576	20	1,596	**2,533**	**20**	**2,553**
Adjusted operating income	175	2	177	228	20	248	**403**	**22**	**425**
Adjusted EBITDA	250	(10)	240	408	20	428	**658**	**10**	**668**

(millions of Canadian dollars) (unaudited)									**Second Quarter 2013 (12 weeks)**
	Shoppers Drug Mart			Loblaw Retail			**Total Combined Retail Segment - Revised**		
	Reported	Acquisition Alignment	Revised	Reported	Vendor Allowances	Revised	**Reported**	**Total Changes**	**Revised**
Sales	2,538	—	2,538	7,372	—	7,372	**9,910**	**—**	**9,910**
Gross profit	980	—	980	1,643	(1)	1,642	**2,623**	**(1)**	**2,622**
Adjusted operating income	212	3	215	300	(1)	299	**512**	**2**	**514**
Adjusted EBITDA	288	(10)	278	489	(1)	488	**777**	**(11)**	**766**

(millions of Canadian dollars) (unaudited)	Shoppers Drug Mart			Loblaw Retail			**Third Quarter 2013 (16 weeks) Total Combined Retail Segment - Revised**		
	Reported(i)	Acquisition Alignment	Revised	Reported	Vendor Allowances And Other(ii)	Revised	**Reported**	**Total Changes**	**Revised**
Sales	3,287	—	3,287	9,772	—	9,772	**13,059**	**—**	**13,059**
Gross profit	1,259	—	1,259	2,104	(6)	2,098	**3,363**	**(6)**	**3,357**
Adjusted operating income	251	(10)	241	357	(15)	342	**608**	**(25)**	**583**
Adjusted EBITDA	342	(14)	328	606	(15)	591	**948**	**(29)**	**919**

(i) As reported by Shoppers Drug Mart, adjusted operating income and adjusted EBITDA excluded $14 million of transaction costs related to the acquisition.

(ii) For Loblaw Retail, in addition to the change in vendor allowances, the Company has eliminated the adjustment of $10 million of equity-based compensation expense and $1 million of income related to Choice Properties general and administrative costs previously impacting the calculation of adjusted operating income and adjusted EBITDA.

(millions of Canadian dollars) (unaudited)	Shoppers Drug Mart			Loblaw Retail			**Fourth Quarter 2013 (12 weeks) Total Combined Retail Segment - Revised**		
	Reported(i)	Acquisition Alignment	Revised	Reported(ii)	Vendor Allowances And Other(ii)	Revised	**Reported**	**Total Changes**	**Revised**
Sales	2,747	—	2,747	7,419	—	7,419	**10,166**	**—**	**10,166**
Gross profit	1,068	—	1,068	1,643	(18)	1,625	**2,711**	**(18)**	**2,693**
Adjusted operating income	242	6	248	273	(24)	249	**515**	**(18)**	**497**
Adjusted EBITDA	320	(11)	309	464	(24)	440	**784**	**(35)**	**749**

(i) As reported by Shoppers Drug Mart, adjusted operating income and adjusted EBITDA excluded $3 million of transaction costs related to the acquisition.

(ii) For Loblaw Retail, in addition to the change in vendor allowances, the Company has eliminated the adjustment of $8 million of equity-based compensation expense and $2 million of income related to Choice Properties general and administrative costs previously impacting the calculation of adjusted operating income and adjusted EBITDA.

(millions of Canadian dollars) (unaudited)	Shoppers Drug Mart			Loblaw Retail			**First Quarter 2014 (12 weeks) Total Combined Retail Segment - Revised**		
	Reported(i)	Acquisition Alignment	Revised	Reported	Vendor Allowances And Other(ii)	Revised	**Reported**	**Total Changes**	**Revised**
Sales	2,518	—	2,518	7,095	—	7,095	**9,613**	**—**	**9,613**
Gross profit	966	—	966	1,580	23	1,603	**2,546**	**23**	**2,569**
Adjusted operating income	177	2	179	226	24	250	**403**	**26**	**429**
Adjusted EBITDA	250	(11)	239	416	24	440	**666**	**13**	**679**

(i) As reported by Shoppers Drug Mart, adjusted operating income and adjusted EBITDA excluded $7 million of transaction costs related to the acquisition.

(ii) For Loblaw Retail, in addition to the change in vendor allowances, the Company has eliminated the adjustment of $1 million of income related to Choice Properties general and administrative costs previously impacting the calculation of adjusted operating income and adjusted EBITDA.

2013 Annual Report and 2014 Second Quarter Report to Shareholders

The Company's 2013 Annual Report and 2014 Second Quarter Report to Shareholders are available in the Investor Centre section of the Company's website at loblaw.ca or at 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.

Conference Call and Webcast

Loblaw Companies Limited will host a conference call as well as an audio webcast on July 24, 2014 at 11:00 a.m. (EST).

To access via tele-conference please dial (416) 642-5212. The playback will be made available two hours after the event at (647) 436-0148, access code: 9950696. To access via audio webcast please visit loblaw.ca, go to Investor Centre and click on webcast. Pre-registration will be available.

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

Footnote Legend

(1) This News Release contains forward-looking information. See Forward-Looking Statements on page 12 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 beginning on page 13 of this News Release.

(3) For financial definitions and ratios refer to the Glossary of Terms on page 109 of the 2013 Annual Report.

(4) Certain 2013 non-GAAP financial measures have been restated to conform with the current year's presentation. See Non-GAAP Financial Measures beginning on page 13 of this News Release.

(5) Certain 2013 figures have been amended. See note 2 of the Company's unaudited condensed consolidated financial statements included in the 2014 Second Quarter Report to Shareholders.