metro

2016 Annual Report

Company profile

With annual sales of over $12 billion and over 65,000 employees, METRO is a leader in food and pharmaceutical distribution in Québec and Ontario, where it operates or supplies a network of 942 food stores under several banners including Metro, Metro Plus, Super C, Food Basics, Adonis and Première Moisson, as well as 258 drugstores under the Brunet, Metro Pharmacy and Drug Basics banners.

2016 Highlights

Sales of $12,787.9 million, up 4.6%

Net earnings of $586.2 million, up 12.9%

Fully diluted net earnings per share of $2.39, up 18.9%

Return on equity of 21.9%, exceeding 14% for the 23rd consecutive year

Dividends per share increase of 19.3%, the 22nd consecutive year of dividend growth

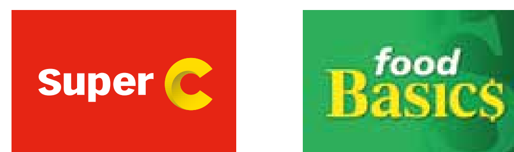
Closing share price of $44.09, up 23.4%

Retail network

	Québec	Ontario	Total
SUPERMARKETS	204 METRO METRO PLUS	134 METRO	338
DISCOUNT STORES	93 SUPER C	125 FOOD BASICS	218
NEIGHBOURHOOD STORES			
MARCHÉ RICHELIEU	59		
MARCHÉ AMI	187		
MARCHÉ EXTRA	104		
TOTAL			350
PARTNERS			
ADONIS	9	2	11
PREMIÈRE MOISSON	24	1	25
TOTAL	680	262	942
DRUGSTORES	184 BRUNET BRUNET PLUS BRUNET CLINIQUE CLINI PLUS	74 PHARMACY DRUG BASICS	258

Supermarkets

Discount stores



Neighbourhood stores

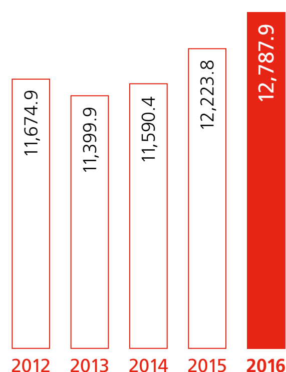
Partners

Drugstores

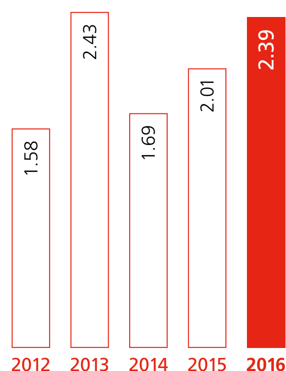
Forward-Looking Information: For any information on statements in this Annual Report that are of a forward-looking nature, see section on "Forward-looking information" on page 23 in the Management's Discussion and Analysis (MD&A)

Financial Highlights

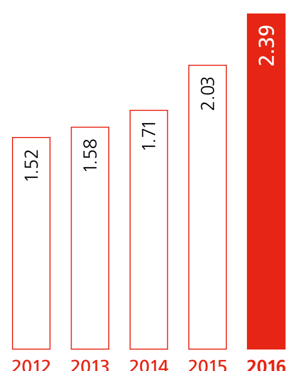
Sales
(millions of dollars)



Fully diluted net earnings per share
(dollars)



Adjusted fully diluted net earnings per share from continuing operations[2]
(dollars)



	2016 52 WEEKS	2015 52 WEEKS	2014 52 WEEKS	2013 52 WEEKS	2012 53 WEEKS
Operating results (millions of dollars)					
Sales	12,787.9	12,223.8	11,590.4	11,399.9	11,674.9
OI[1]	931.3	857.8	781.5	765.3	813.9
Net earnings	586.2	519.3	456.2	703.9	478.4
Adjusted net earnings from continuing operations[2]	586.2	523.6	460.9	460.7	460.6
Cash flows from operating activities	707.4	678.3	433.1	566.0	546.1
Financial structure (millions of dollars)					
Total assets	5,606.1	5,387.1	5,279.5	5,064.2	5,154.9
Non-current debt	1,231.0	1,145.1	1,044.7	650.0	973.9
Equity	2,693.2	2,657.2	2,684.1	2,799.8	2,532.7
Per share (dollars)					
Basic net earnings	2.41	2.03	1.70	2.44	1.59
Fully diluted net earnings	2.39	2.01	1.69	2.43	1.58
Adjusted fully diluted net earnings from continuing operations[2]	2.39	2.03	1.71	1.58	1.52
Book value	11.52	11.00	10.59	10.21	8.69
Dividends	0.5367	0.4500	0.3833	0.3217	0.2792
Financial ratios (%)					
OI[1]/Sales	7.3	7.0	6.7	6.7	7.0
Return on equity	21.9	19.4	16.6	26.4	19.4
Non-current debt/total capital	31.4	30.1	28.0	18.8	27.8
Share price (dollars)					
High	48.19	38.10	24.93	25.27	19.89
Low	35.61	24.27	20.00	18.84	14.59
Closing price (At year-end)	44.09	35.73	24.62	21.58	19.47

[1] Operating income before depreciation and amortization and associate's earnings
[2] See table on "Net earnings adjustments" and section on "Non-IFRS measurements" on pages 14 and 23 in the MD&A

Message from the Chair of the Board

Dear Shareholders,

Building on the momentum of 2015, METRO recorded another year of very strong results in 2016, highlighted by sales growth of 4.6%, an 18.9% increase in diluted net earnings per share and return on equity of 21.9%.

I wish to congratulate our President and all the members of the METRO team for their thorough planning and solid execution. We are proud to be able to count on such an experienced management team.

Board of Directors

Once again this year, the Board reviewed and approved the Corporation's strategic plan and supported management in ongoing initiatives and projects.

The Board continued to improve the Corporation's governance. Amongst other things, the Board approved a new code of conduct for employees which updates the ethical standards that were already in place. In addition, the Board adopted a policy circumscribing the possibility for its directors to join the board of other publicly traded companies. This policy notably limits the number of public company boards that a director may join. The details concerning the code of conduct and the policy on external boards can be found in the *Management Proxy Circular*.

Mr. Serge Ferland, who has been a director of the Corporation for the past 20 years, has decided to retire from the Board. Mr. Ferland is an affiliated Metro store owner who has been operating two supermarkets since 1981. On behalf of the Board of Directors, I would like to thank him for his advice, his contribution and the devotion that he has shown over the course of his mandate. Mr. Ferland will not be replaced and as a result, the number of Board members will be reduced from 14 to 13 in 2017. The Board feels that this size is adequate to carry out its mandate.

Diversity

METRO recognizes the value of diversity, particularly in terms of experience, expertise and representation of women and men on the Board of Directors. In light of recent recommendations made by organizations with respect to governance, the Corporation decided in 2016 to increase its minimum target of representation of women or men on the Board from 25% to 30%. In 2017, our Board will continue to include five women who represent 38% of its members.

I would like to thank the Board members for their cooperation and their commitment in making METRO a successful company. And finally, thank you to our shareholders for their continued trust.

Réal Raymond
Chair of the Board

Message from the President and CEO

Dear Shareholders,

I am pleased to present our Annual Report for the fiscal year ended on September 24, 2016.

METRO had an excellent year again in 2016. Our sustained investments in our store network, effective merchandising strategies tailored to our customers' needs and our disciplined execution drove strong increases in both sales and net earnings. Our market share grew in both Québec and Ontario in what continues to be a highly competitive environment. All of our banners contributed to our strong performance.

Sales reached $12,787.9 million in 2016, up 4.6% over last year and same-store sales were up 3.7%. Net earnings of $586.2 million increased 12.9% over the previous year and diluted net earnings per share were $2.39, up 18.9%. Return on equity reached 21.9% in fiscal 2016, exceeding 14% for the 23rd consecutive year.

METRO's share price increased from $35.73 at the start of the year to close at $44.09, up 23% for the year, 104% over the last three years and 196% over the last five years.

Exceeding our customers' expectations

We continued to execute on our store capital plan which accounted for the majority of the $350 million invested in 2016. In total, we opened six stores and carried out major renovations in 43 others. We also continued to invest in employee training in order to offer our customers superior service.

In Québec, major renovations and expansions were carried out in 11 Metro stores. We also opened three new Super C stores in La Prairie, Saint-Georges and Lavaltrie and relocated two others in Jonquière and Rivière-du-Loup.

In Ontario, we opened one new Metro store in Pembroke and a new Food Basics in Bracebridge as well as remodeled 12 Metro stores and 13 Food Basics stores.

While our overall food retail footprint has only expanded slightly over the last five years, we are more present today in the discount segment, thereby capturing a growing proportion of consumers who shop the discount format. As such, several Metro supermarkets were converted to our discount banners and most new store openings have been in the discount segment. At the same time, we continued to remodel and expand our Metro stores such that their average size increased over the years to allow a more complete and diversified offer of products and services.

In our Metro stores, we also continued to focus on our loyalty programs, *metro&moi* in Québec and *Air Miles®* in Ontario, as well as on personalizing our offerings. However, our first priority remains our commitment to offer great value to our customers with quality fresh products, the right assortment, superior service and fair prices. The Metro brand was recognized again in 2016 as one of the Top 25 brands in Canada by *Canadian Business* magazine.

These investments and initiatives contributed to improving the customer experience in each of our banners, resulting in higher sales, average basket and tonnage, especially of fresh products, consistent with our strategy.

Message from the President and CEO
(continued)

Metro – Candiac, Québec

Food Basics – Bracebridge, Ontario

Brunet – Saint-Émile, Québec

Partnerships
Two new Adonis stores were opened in 2016, one in Laval and the other in the Griffintown neighbourhood of Montréal. Adonis now operates 11 stores, nine of which are located in Québec. Since our partnership began in late 2011, we have opened seven new Adonis stores and have deployed several distinctive Adonis products in our Metro stores.

Première Moisson opened its first store in Québec City. Moreover, we continued to deploy Première Moisson's products in our Metro stores, particularly in Québec but also in Ontario, using various concepts to offer a differentiated experience to our customers with respect to bakery, pastry and deli products.

Private labels
Once again this year, the quality of our private label products *Selection* and *Irresistibles* was recognized by our customers who increasingly chose our products and by the industry through several awards. METRO won more awards than any other company at the Canadian Grand Prix New Product Awards ceremony, thanks to the *Irresistibles* product line, which dominated the Private Label – Food category.

Pharmacy activities
Our pharmacy division continued to grow in Québec with the opening of three new Brunet pharmacies in Laval, Montréal and Saint-Émile in the Québec City area. We also expanded, remodeled or relocated 12 other pharmacies throughout Québec. Brunet was the first banner in Québec to launch a full vaccination program, supported by more than 125 outlets, as well as a travelers' health program and *The Active Health Challenge* digital interactive application.

In Ontario, we opened a new pharmacy in a Metro store in Sudbury and remodeled six others.

The Québec government has adopted new laws that could have an impact on us as a wholesaler and on our franchised pharmacists. We understand the government's objective to control the cost of the Public Drug Insurance Plan, but we believe that some of the proposals, such as tenders for the exclusive distribution of generic drugs, would not be in the best interest of the population and would be very difficult to implement.

Solid financial situation

Our financial situation remains very healthy. At the end of fiscal 2016, the percentage of non-current debt on the aggregate of the non-current debt and equity was 31.4%. We also had an unused revolving credit facility of over $415 million. Our solid balance sheet and liquidity position allow us to continue to invest in our network and pursue strategic acquisitions for our company.

Shareholder return remains a priority at METRO. Our annual dividend increased for the 22nd consecutive year in 2016. At $0.5367 per share, our dividend increased by 19.3% over last year and represented 24% of 2015 adjusted net earnings[1], all in accordance with the target announced in January of 2014.

We continued to apply our excess liquidity to our share buyback program in the normal course of activities. For the period between September 10, 2015, and September 9, 2016, the Corporation repurchased over 9,800,000 Common Shares at an average price of $38.26 for a total consideration of $376.6 million, which represents 4.1% of the issued and outstanding shares in September 2015.

Over the past five years, we have returned over $2.3 billion to our shareholders in the form of dividends and share buybacks.

Outlook[2]

Our results reinforce our strong belief that our customer-first strategy is the right one if it is well executed on a consistent basis. We expect our industry to remain intensely competitive in 2017. The first half of fiscal 2017 will bring the added challenge of cycling through a high inflation period at the same time last year, which will put some pressure on our sales growth. However, METRO has shown in the past that it can continue to grow profitably in this type of environment.

We plan to invest some $350 million in our network in 2017, mainly for new store openings, expansions and remodels. We will also add online grocery shopping to our physical store network as part of our overall digital strategy intended to position METRO as the retailer providing the food experience best suited to consumers' needs for the years to come. Last October, we launched the first phase of our online grocery shopping service in the Montréal area beginning with 3 stores and we plan to deploy this service to other geographic areas as demand increases.

As METRO prepares to celebrate its 70th anniversary in 2017, we are better positioned than ever before to address future challenges. We will continue to build on our past successes and on our values to deliver on our vision to provide the best customer experience in all of our banners. This vision is supported by our strategic priorities: build a strong and differentiated METRO brand, open additional discount food stores, gain efficiencies wherever we can to reduce operating costs and finally, pursue acquisitions that will strengthen the Corporation over the long term.

In closing, we know that our success depends first and foremost on the strength of our team and the commitment of thousands of individuals to deliver on our customer promises. I would like to congratulate and thank all my colleagues and our retailers for their engagement and contribution to our excellent results in 2016. I also thank our Board members for their support and guidance, as well as our shareholders for their trust.

Eric R. La Flèche
President and Chief Executive Officer

[1] See table on "Net earnings adjustments" and section on "Non-IFRS measurements" on pages 14 and 23 in the MD&A
[2] See section on "Forward-looking information" on page 23 in the MD&A

VISION

The best customer experience in each of our banners

MISSION

Exceed our customers' expectations every day to earn their long-term loyalty

PILLARS

customer focus | **best team** | **execution** | **efficiency**

corporate responsibility

profitable growth

Corporate Responsibility

We believe that our Corporate Responsibility roadmap is an asset that helps us deal with a constantly evolving environment. Our 2016-2020 Plan allows us to align our efforts, prioritize our actions and make real progress with respect to our social and environmental performance.

Investing in the communities in which we operate

Every year, METRO contributes to several fundraising campaigns devoted to health, education, culture and the fight against poverty. On an annual basis, we donate an amount equal to 1% of METRO's average net earnings over the three previous fiscal years.

One More Bite

In cooperation with several food banks throughout Québec, METRO implemented a food recovery program in its supermarkets. In 2016, more than 140 community organizations received over 20,000 kg of food each week and were able to cook meals and redistribute food to thousands of people in need every week. The program was also launched in Toronto and we are determined to extend it to as many stores and regions as possible.

Centraide – United Way

The 2016 METRO Centraide campaign was an unprecedented success, raising a grand total of $1.3 million in the province of Québec, including $860,000 for the Greater Montréal Campaign. As a result, METRO and its employees contributed to supporting some 360 community organizations and half a million people in need.

You can learn more about METRO's Corporate Responsibility goals and achievements by consulting the documentation available at *metro.ca/responsibility.*

MD&A and Consolidated Financial Statements

for the year ended September 24, 2016

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The following Management's Discussion and Analysis sets out the financial position and consolidated results of METRO INC. for the fiscal year ended September 24, 2016, and should be read in conjunction with the annual consolidated financial statements and the accompanying notes as at September 24, 2016. This report is based upon information as at November 25, 2016 unless otherwise indicated. Additional information, including the Annual Information Form and Certification Letters for fiscal 2016, is available on the SEDAR website at www.sedar.com.

OVERVIEW

The Corporation is a leader in food and pharmaceutical industry in Québec and Ontario.

The Corporation, as a retailer or a distributor, operates under different grocery banners in the traditional supermarket and discount segments. For those consumers wanting service, variety, freshness and quality, we operate 338 supermarkets under the Metro and Metro Plus banners. The 218 discount stores operating under the Super C and Food Basics banners offer products at low prices to consumers who are both cost-and quality-conscious. The Adonis banner, which currently has 11 stores, is specialized in perishables and Mediterranean and Middle-Eastern products. The majority of these stores are owned by the Corporation or by structured entities and their financial statements are consolidated with those of the Corporation. Independent owners bound to the Corporation by leases or affiliation agreements operate a large number of Metro and Metro Plus stores. Supplying these stores contributes to our sales. The Corporation also acts as a distributor by providing neighbourhood grocery stores with banners that reflect their environment and customer base. Their purchases are included in the Corporation's sales. The Corporation also operates Première Moisson, a company specialized in bakery, pastry, charcutery and other food offerings prepared on an artisanal basis and respectful of great traditions. Première Moisson sells its products to the Corporation’s stores, to restaurant and distribution chains as well as directly to consumers in its 25 shops.

The Corporation also acts as franchisor and distributor for 184 franchised Brunet Plus, Brunet, Brunet Clinique, and Clini Plus drugstores, owned by independent pharmacists. The Corporation also operates 74 drugstores under Metro Pharmacy and Drug Basics banners and their sales are included in the Corporation's sales. Our sales also include the supply of non-franchised drugstores and various health centres.

GOAL, MISSION AND STRATEGY

The Corporation’s goal is to provide the best customer experience in each of our banners.

Our mission is to exceed our customers’ expectations day in and day out to earn their long-term loyalty.

The four pillars of our business strategy are : customer focus, best team, execution and efficiency.

We put the customer at the heart of every decision. In our supermarkets and our discount stores, friendly service, a pleasant and efficient shopping experience, quality products and competitive prices are our priorities.

The best team consists of leaders who put the Corporation’s interests first. Employee growth and leadership development and succession planning ensure its continued strength.

Execution and efficiency means high operating standards across the board, a results-driven corporate culture, engaging all employees and monitoring performance so as to react swiftly.

Our business strategy is founded on corporate responsibility. The fundamental purpose of our actions is to ensure profitable growth for all: employees, shareholders, business partners and the communities that we serve.

[1] See table on "Net earnings adjustments" and section on "Non-IFRS measurements"
[2] See section on "Forward-looking information"

KEY PERFORMANCE INDICATORS

We evaluate the Corporation's overall performance using the following principal indicators:

- sales:
  - Same-store sales growth;
  - dollar value of the average basket (average customer transaction) and number of transactions;
  - average weekly sales;
  - average weekly sales per square foot;
  - percentage of sales represented by customers who are loyalty program members;
  - market share;
  - customer satisfaction;
- gross margins percentage;
- sales per hour worked by store to assess productivity;
- operating income before depreciation and amortization and associate's earnings as a percentage of sales;
- net earnings as a percentage of sales;
- net earnings per share growth;
- return on equity;
- retail network investments:
  - dollar value and nature of store investments;
  - number of stores;
  - average store square footage;
  - network's total square footage.

KEY ACHIEVEMENTS IN FISCAL 2016

Our sales in 2016 rose 4.6% over those for 2015. Our customer-first strategies and our investments in our retail network enabled us to increase our sales in a very competitive market. Net earnings increased by 12.9% and fully diluted net earnings per share by 18.9% over those for 2015. This performance is due to higher sales volume and discipline in all our operations. We realized several projects over the fiscal year, including the following major ones:

- Along with our retailers, we opened 8 new stores and carried out major expansions and renovations of 43 stores for a gross expansion of 428,300 square feet and a net increase of 135,100 square feet or 0.7% of our retail network.

- In the fall of 2015, we launched the Québec Metro banner's *My kind of savings* program. The program is designed to help our customers discover weekly deals, locked down low prices and new products in order to enjoy the full value of shopping at Metro.

- Super C continued its growth, adding new stores and delivering on its *Zero Compromise* advertising campaign promises to customers that products are always fresh, always in stock and always at great prices.

- In Ontario, an environment that remains highly competitive, Food Basics and Metro positioned themselves favourably through their ever innovative response to consumer expectations.

- We developed and implemented an easy-to-use customized digital e-commerce platform that was tested over the summer by employees and rolled out on October 25, 2016, to two stores in the Montréal area and one in Laval.

- The *metro&moi* program was rated tops with consumers in the grocery category by the Bond Loyalty Report.

- Our *Just for Me* project won two Boomerang contest prizes. Boomerang prizes reward excellence in digital platform innovations.

- Our local purchasing program established in Québec in 2013 continue to grow in 2016 with 133 suppliers now active. In June 2016, Metro launched the program in Ontario for agri-food products so that it now has a formal process in both of the provinces where it operates.

(1) See table on "Net earnings adjustments" and section on "Non-IFRS measurements"
(2) See section on "Forward-looking information"

- In 2016, we released our Corporate Responsibility Report which marks the end of our first road map launched in 2010 and presents the results we achieved in fiscal 2015. These results include surpassing our targets of a 25% reduction in our landfilled waste as compared to 2010 and a 10% reduction in our energy consumption as compared to 2010. We also unveiled our new 2016-2020 Corporate Responsibility Plan.

- We launched the *One More Bite* program. Thanks to this program, food that would otherwise have been thrown out or composted is now being recovered by regional food bank outlets in Québec and various community organizations in Ontario. Unsold products are saved and then redistributed to local organizations, who cook the products and then offer meals to those in need. All in all, there are 103 participating stores in the two provinces.

- Metro private labels, which grew by 320 new products, continue to stand out for product quality and originality, winning numerous prizes again this year, including PAC Global Leadership Awards, Vertex Awards and Design Gallery Awards.

- The Richelieu banner celebrated its 75th anniversary and revamped its look with a modern logo and updated store concept. This new retail signature makes our Marché Richelieu *Prêt pour l'avenir*.

- Brunet launched its *Active Health Challenge* interactive tool that helps users develop an active lifestyle with mind and body wellness tips. Brunet's growth continued with the opening of three new pharmacies.

- We opened two new Adonis stores, one in Laval and the other in the Griffintown neighbourhood of Montréal, bringing the total number of stores to nine in Québec and two in Ontario.

- We opened a new Première Moisson bakery in Québec City, the first in the region. Also, the Première Moisson brand product offering in Québec and Ontario Metro stores continued to expand.

- We continued our normal course issuer bid program, buying back over eight million shares on the market over the fiscal year.

(1) See table on "Net earnings adjustments" and section on "Non-IFRS measurements"
(2) See section on "Forward-looking information"

SELECTED ANNUAL INFORMATION

(Millions of dollars, unless otherwise indicated)	**2016**	2015	Change %	2014	Change %
Sales	**12,787.9**	12,223.8	4.6	11,590.4	5.5
Net earnings attributable to equity holders of the parent	**571.5**	506.1	12.9	447.1	13.2
Net earnings attributable to non-controlling interests	**14.7**	13.2	11.4	9.1	45.1
Net earnings	**586.2**	519.3	12.9	456.2	13.8
Basic net earnings per share	**2.41**	2.03	18.7	1.70	19.4
Fully diluted net earnings per share	**2.39**	2.01	18.9	1.69	18.9
Adjusted net earnings[1]	**586.2**	523.6	12.0	460.9	13.6
Adjusted fully diluted net earnings per share[1]	**2.39**	2.03	17.7	1.71	18.7
Return on equity *(%)*	**21.9**	19.4	—	16.6	—
Dividends per share *(Dollars)*	**0.5367**	0.4500	19.3	0.3833	17.4
Total assets	**5,606.1**	5,387.1	4.1	5,279.5	2.0
Current and non-current portions of debt	**1,246.5**	1,161.6	7.3	1,057.1	9.9

Corporation sales were $12,787.9 million in 2016, up 4.6% from 2015 sales. Sales for 2015 were $12,223.8 million, up 5.5% from $11,590.4 million in 2014. In 2016, same-store sales were up 3.7% while our aggregate food basket experienced inflation of 2.0%. In 2015, same-store sales were up 4.0% while our aggregate food basket experienced inflation of 3.3%. After slowing slightly in the first two quarters of 2014, our sales improved in the second half of the year. Through disciplined investing, we lowered our retail prices to protect our market share and have seen encouraging sales momentum across all our banners.

Net earnings for fiscal 2016 reached $586.2 million, up 12.9% from the previous fiscal year. Net earnings for fiscal 2015 were $519.3 million, up 13.8% from $456.2 million in fiscal 2014. Fully diluted net earnings per share were $2.39 in 2016, an increase of 18.9% from the previous year. Fully diluted net earnings per share for 2015 were $2.01 versus $1.69 in fiscal 2014, an increase of 18.9%.

We recorded non-recurring items for two of these three fiscal years. In 2015, we incurred after-tax Series A notes early redemption fees of $4.3 million. In 2014, we decided to consolidate our Québec produce and dairy distribution operations at our new distribution centre in Laval and close our decades-old Québec City produce warehouse. Non-recurring closure costs of $4.7 million after taxes were recorded as a result of this decision.

Excluding these non-recurring items, net earnings for 2016 were $586.2 million, up 12.0% from adjusted net earnings[1] of $523.6 million in 2015 which were up 13.6% versus $460.9 million in 2014. Fully diluted net earnings per share for 2016 were $2.39, up 17.7% from adjusted fully diluted net earnings per share[1] of $2.03 in 2015 which were up 18.7% versus $1.71 in 2014.

Return on equity totalled 21.9% in 2016, 19.4% in 2015 and 16.6% in 2014. Dividends per share were $0.5367 in 2016, $0.45 in 2015 and $0.3833 in 2014 representing $127.1 million, $111.9 million and $100.6 million respectively, or 24.3%, 24.3% and 21.8% of the previous fiscal years' adjusted net earnings[1]. Total assets were $5,606.1 million in 2016, $5,387.1 million in 2015 and $5,279.5 million in 2014. Debt was $1,246.5 million in 2016, $1,161.6 million in 2015 and $1,057.1 million in 2014.

[1] See table on "Net earnings adjustments" and section on "Non-IFRS measurements"
[2] See section on "Forward-looking information"

OUTLOOK

Our results reinforce our strong belief that our customer-first strategy is the right one if it is well executed on a consistent basis. We expect[2] our industry to remain[2] intensely competitive in 2017. The first half of fiscal 2017 will bring[2] the added challenge of cycling through a high inflation period at the same time last year, which will put[2] some pressure on our sales growth. However, METRO has shown in the past that it can continue to grow profitably in this type of environment.

We plan[2] to invest some $350 million[2] in our network in 2017, mainly for new store openings, expansions and remodels. We will also add[2] online grocery shopping to our physical store network as part of our overall digital strategy intended to position METRO as the retailer providing the food experience best suited to consumers' needs for the years to come. Last October we launched the first phase of our online grocery shopping service in the Montreal area beginning with 3 stores and we plan[2] to deploy this service to other geographic areas as demand increases.

[1] See table on "Net earnings adjustments" and section on "Non-IFRS measurements"
[2] See section on "Forward-looking information"

OPERATING RESULTS

SALES

Sales for fiscal 2016 totalled $12,787.9 million compared to $12,223.8 million for fiscal 2015, an increase of 4.6%, and same-store sales were up 3.7%.

OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION AND ASSOCIATE'S EARNINGS

This earnings measurement excludes financial costs, taxes, early redemption fees, depreciation and amortization and associate's earnings.

Operating income before depreciation and amortization and associate's earnings for fiscal 2016 totalled $931.3 million or 7.3% of sales versus $857.8 million or 7.0% of sales for fiscal 2015.

Gross margin on sales for fiscal 2015 and 2016 was 19.7%. Operating expenses as a percentage of sales for 2016 was 12.4% versus 12.7% for 2015, leveraging our sales growth.

DEPRECIATION AND AMORTIZATION, NET FINANCIAL COSTS AND EARLY REDEMPTION FEES

Total depreciation and amortization expense for fiscal 2016 was $182.8 million versus $177.0 million for fiscal 2015.

For fiscal 2016, net financial costs totalled $61.4 million compared to $58.7 million in 2015. In addition, early redemption fees of $5.9 million of Series A Notes were incurred in the first quarter of 2015.

SHARE OF AN ASSOCIATE'S EARNINGS

Our share of earnings in Alimentation Couche-Tard was $91.1 million for fiscal 2016 versus $64.3 million in 2015.

INCOME TAXES

The income tax expense of $192.0 million for fiscal 2016 and $161.2 million for fiscal 2015 represented effective tax rates of 24.7% and 23.7% respectively.

NET EARNINGS

Net earnings for fiscal 2016 were $586.2 million, an increase of 12.9% over net earnings of $519.3 million for fiscal 2015. Fully diluted net earnings per share rose 18.9% to $2.39 from $2.01 last year.

ADJUSTED NET EARNINGS[1]

Excluding after-tax Series A Notes early redemption fees of $4.3 million in fiscal 2015, net earnings and fully diluted net earnings per share of 2016 were up 12.0% and 17.7% over adjusted net earnings[1] and adjusted fully diluted net earnings per share[1] of 2015.

Net earnings adjustments

	2016		2015		Change *(%)*	
	(Millions of dollars)	**Fully diluted EPS *(Dollars)***	*(Millions of dollars)*	Fully diluted EPS *(Dollars)*	Net earnings	Fully diluted EPS
Net earnings	**586.2**	**2.39**	519.3	2.01	12.9	18.9
Early redemption fees after taxes	**—**	**—**	4.3	0.02		
Adjusted net earnings[1]	**586.2**	**2.39**	523.6	2.03	12.0	17.7

[1] See table on "Net earnings adjustments" and section on "Non-IFRS measurements"
[2] See section on "Forward-looking information"

QUARTERLY HIGHLIGHTS

(Millions of dollars, unless otherwise indicated)	**2016**	2015	Change *(%)*
Sales			
Q1[3]	**2,961.6**	2,840.5	4.3
Q2[3]	**2,882.0**	2,707.1	6.5
Q3[4]	**4,015.4**	3,842.3	4.5
Q4[3]	**2,928.9**	2,833.9	3.4
Fiscal	**12,787.9**	12,223.8	4.6
Net earnings			
Q1[3]	**139.8**	112.5	24.3
Q2[3]	**124.9**	111.6	11.9
Q3[4]	**176.5**	163.5	8.0
Q4[3]	**145.0**	131.7	10.1
Fiscal	**586.2**	519.3	12.9
Adjusted net earnings[1]			
Q1[3]	**139.8**	116.8	19.7
Q2[3]	**124.9**	111.6	11.9
Q3[4]	**176.5**	163.5	8.0
Q4[3]	**145.0**	131.7	10.1
Fiscal	**586.2**	523.6	12.0
Fully diluted net earnings per share *(Dollars)*			
Q1[3]	**0.56**	0.43	30.2
Q2[3]	**0.51**	0.43	18.6
Q3[4]	**0.72**	0.64	12.5
Q4[3]	**0.60**	0.52	15.4
Fiscal	**2.39**	2.01	18.9
Adjusted fully diluted net earnings per share[1] *(Dollars)*			
Q1[3]	**0.56**	0.45	24.4
Q2[3]	**0.51**	0.43	18.6
Q3[4]	**0.72**	0.64	12.5
Q4[3]	**0.60**	0.52	15.4
Fiscal	**2.39**	2.03	17.7

[3] 12 weeks
[4] 16 weeks

Sales in the first quarter of 2016 reached $2,961.6 million, up 4.3% compared to $2,840.5 million in the first quarter of 2015. Same-store sales increased by 2.8% (3.8% in the same quarter of 2015). Our aggregate food basket inflation was 2.8%. The merchandising strategies of our different banners, combined with our continued investments in our retail stores, contributed to our sales growth in a very competitive market.

Sales in the second quarter of 2016 reached $2,882.0 million, up 6.5% compared to $2,707.1 million in the second quarter of 2015. Same-store sales increased by 5.0% (4.5% in the same quarter of 2015). Our aggregate food basket inflation was 3.0%. Our constant focus on customer expectations and major investments in our stores fueled our growth in a highly competitive market.

[1] See table on "Net earnings adjustments" and section on "Non-IFRS measurements"
[2] See section on "Forward-looking information"

Sales in the third quarter of 2016 reached $4,015.4 million, up 4.5% compared to $3,842.3 million in the third quarter of 2015. Same-store sales increased by 3.9% (4.3% in the same quarter of 2015). Our aggregate food basket inflation declined from the previous two quarters to a level of 1.5%. Our multi-store formats, our efficient merchandising strategies and our in-store execution all contributed to our growth.

Sales in the fourth quarter of 2016 reached $2,928.9 million, up 3.4% compared to $2,833.9 million in the fourth quarter of 2015. Same-store sales increased by 2.8% (3.4% in the same quarter of 2015), while our food basket inflation was 0.7%. Our effective merchandising strategies combined with solid store execution contributed to our sales growth.

Net earnings for the first quarter of 2016 were $139.8 million, an increase of 24.3% over net earnings of $112.5 million for the same quarter of 2015. Fully diluted net earnings per share rose 30.2% to $0.56 from $0.43 for the first quarter of 2015. Excluding after-tax Series A Notes early redemption fees of $4.3 million in the first quarter of 2015, net earnings and fully diluted net earnings per share for the first quarter of 2016 were up 19.7% and 24.4% over adjusted net earnings[(1)] and adjusted fully diluted net earnings per share[(1)] for 2015.

Net earnings for the second quarter of 2016 were $124.9 million, an increase of 11.9% over net earnings of $111.6 million for the same quarter of 2015. Fully diluted net earnings per share rose 18.6% to $0.51 from $0.43 in 2015.

Net earnings for the third quarter of 2016 were $176.5 million, an increase of 8.0% over net earnings of $163.5 million for the same quarter of 2015. Fully diluted net earnings per share rose 12.5% to $0.72 from $0.64 in 2015.

Net earnings for the fourth quarter of 2016 were $145.0 million, an increase of 10.1% over net earnings of $131.7 million for the same quarter of 2015. Fully diluted net earnings per share rose 15.4% to $0.60 from $0.52 in 2015.

	2016					2015				
(Millions of dollars)	**Q1**	**Q2**	**Q3**	**Q4**	**Fiscal**	Q1	Q2	Q3	Q4	Fiscal
Net earnings	**139.8**	**124.9**	**176.5**	**145.0**	**586.2**	112.5	111.6	163.5	131.7	519.3
Early redemption fees after taxes	**—**	**—**	**—**	**—**	**—**	4.3	—	—	—	4.3
Adjusted net earnings[(1)]	**139.8**	**124.9**	**176.5**	**145.0**	**586.2**	116.8	111.6	163.5	131.7	523.6

	2016					2015				
Per share *(Dollars)*	**Q1**	**Q2**	**Q3**	**Q4**	**Fiscal**	Q1	Q2	Q3	Q4	Fiscal
Fully diluted net earnings	**0.56**	**0.51**	**0.72**	**0.60**	**2.39**	0.43	0.43	0.64	0.52	2.01
Early redemption fees after taxes	**—**	**—**	**—**	**—**	**—**	0.02	—	—	—	0.02
Adjusted fully diluted net earnings[(1)]	**0.56**	**0.51**	**0.72**	**0.60**	**2.39**	0.45	0.43	0.64	0.52	2.03

[(1)] *See table on "Net earnings adjustments" and section on "Non-IFRS measurements"*
[(2)] *See section on "Forward-looking information"*

CASH POSITION

OPERATING ACTIVITIES

Operating activities generated cash flows of $707.4 million over fiscal 2016 compared to $678.3 million for the corresponding period of 2015. This increase is attributable to higher pre-tax earnings net of our share in an associate's earnings, and the variance between the net change in non-cash working capital items in 2016 and that in 2015.

INVESTING ACTIVITIES

Over fiscal 2016, investing activities required $328.3 million versus $253.1 million in 2015. Higher fixed and intangible asset acquisitions of $54.8 million, as well as $35.0 million in business acquisition explain the increase.

During fiscal 2016, we and our retailers opened 8 new stores and carried out major expansions and renovations of 43 stores for a gross expansion of 428,300 square feet and a net increase of 135,100 square feet or 0.7% of our retail network.

FINANCING ACTIVITIES

Over fiscal 2016, we utilized $373.1 million in funds versus $439.7 million in 2015. This variation is attributable primarily to a $86.7 million lower redemption of shares in 2016.

FINANCIAL POSITION

We do not anticipate[(2)] any liquidity risk and consider our financial position at the end of the fiscal 2016 as very solid. We had an unused authorized revolving credit facility of $415.4 million. Our non-current debt corresponded to 31.4% of the combined total of non-current debt and equity (non-current debt/total capital).

At the end of fiscal 2016, the main elements of our non-current debt were as follows:

	Interest Rate	Maturity	Balance *(Millions of dollars)*
Revolving Credit Facility	Rates fluctuate with changes in bankers' acceptance rates	November 3, 2021	184.6
Series C Notes	3.20% fixed rate	December 1, 2021	300.0
Series B Notes	5.97% fixed rate	October 15, 2035	400.0
Series D Notes	5.03% fixed rate	December 1, 2044	300.0

At the end of fiscal 2016, we had foreign exchange forward contracts and cross currency interest rate swaps to hedge against the effect of foreign exchange rate fluctuations on our future foreign-denominated purchases of goods and services and on our US borrowings.

Our main financial ratios were as follows:

	As at September 24, 2016	As at September 26, 2015
Financial structure		
Non-current debt *(Millions of dollars)*	**1,231.0**	1,145.1
Equity *(Millions of dollars)*	**2,693.2**	2,657.2
Non-current debt/total capital *(%)*	**31.4**	30.1

	Fiscal Year	
	2016	2015
Results		
Operating income before depreciation and amortization and associate's earnings/Financial costs *(Times)*	**15.2**	14.6

(1) See table on "Net earnings adjustments" and section on "Non-IFRS measurements"
(2) See section on "Forward-looking information"

CAPITAL STOCK

(Thousands)	Common Shares issued 2016	2015
Balance – beginning of year	**242,285**	254,231
Share redemption	**(8,477)**	(12,676)
Stock options exercised	**703**	730
Balance – end of year	**234,511**	242,285
Balance as at November 25, 2016 and November 27, 2015	**231,699**	239,395

(Thousands)	Treasury shares 2016	2015
Balance – beginning of year	**743**	761
Acquisition	**165**	200
Release	**(243)**	(218)
Balance – end of year	**665**	743
Balance as at November 25, 2016 and November 27, 2015	**665**	743

STOCK OPTIONS PLAN

	As at November 25, 2016	**As at September 24, 2016**	As at September 26, 2015
Stock options *(Thousands)*	**3,461**	**3,483**	3,838
Exercise prices *(Dollars)*	**14.55 to 44.73**	**14.55 to 44.73**	11.66 to 35.94
Weighted average exercise price *(Dollars)*	**23.72**	**23.67**	20.34

PERFORMANCE SHARE UNIT PLAN

	As at November 25, 2016	**As at September 24, 2016**	As at September 26, 2015
Performance share units *(Thousands)*	**664**	**664**	741

NORMAL COURSE ISSUER BID PROGRAM

Under the normal course issuer bid program covering the period between September 10, 2015 and September 9, 2016, the Corporation repurchased 9,842,328 Common Shares at an average price of $38.26 for a total of $376.6 million.

The Corporation decided to renew its normal course issuer bid program as an additional option for using excess funds in the Corporation's best interest. The Board of Directors authorized the Corporation to repurchase, in the normal course of business, between September 12, 2016 and September 11, 2017, up to 12,000,000 of its Common Shares representing approximately 5.1% of its issued and outstanding shares at the close of the Toronto Stock Exchange on August 31, 2016. Repurchases are made through the stock exchange at market price and in accordance with its policies and regulations, and in any other manner allowed by the stock exchange and by any other securities regulatory agency, including private transactions. Between September 12, 2016 and November 25, 2016, the Corporation has repurchased 3,247,380 Common Shares at an average price of $41.83 for a total of $135.9 million.

(1) See table on "Net earnings adjustments" and section on "Non-IFRS measurements"
(2) See section on "Forward-looking information"

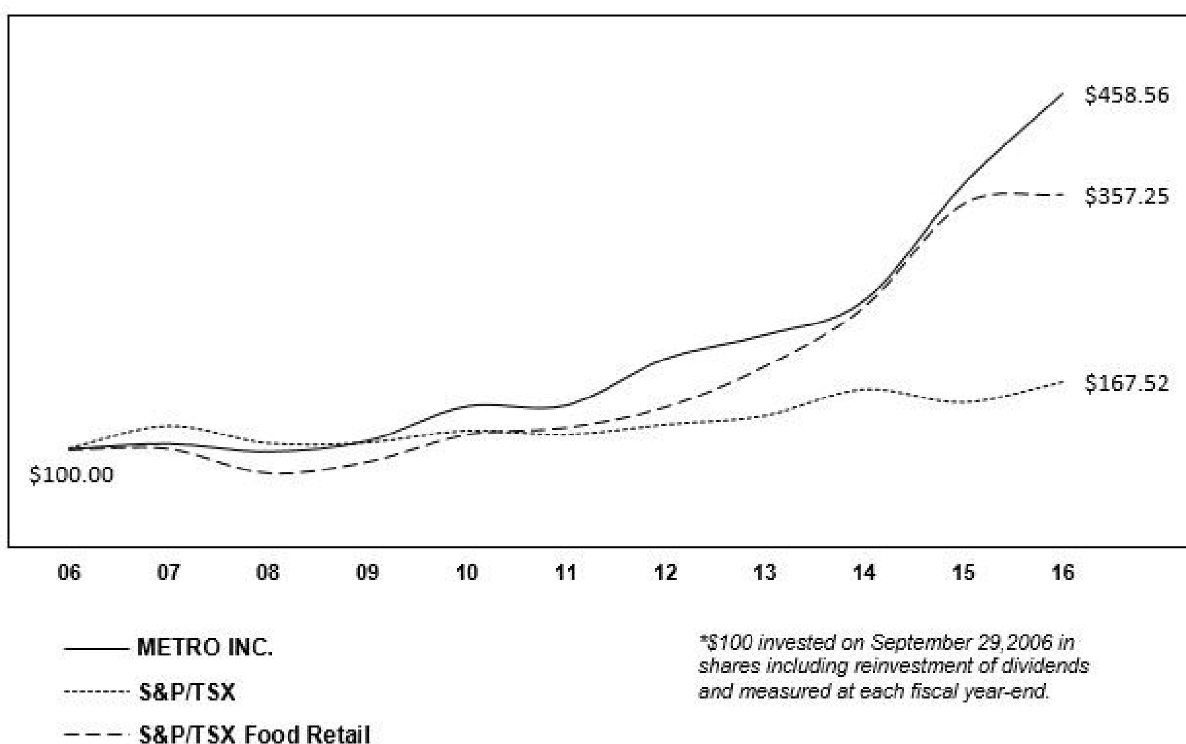
DIVIDEND POLICY

For the 22nd consecutive year, the Corporation paid quarterly dividends to its shareholders. The annual dividend increased by 19.3%, to $0.5367 per share compared to $0.45 in 2015, for total dividends of $127.1 million in 2016 compared to $111.9 million in 2015. Dividends paid in 2016 represented 24.3% of adjusted net earnings[1] of 2015, in accordance with the payout target communicated to shareholders in January 2014.

SHARE TRADING

The value of METRO shares remained in the $35.61 to $48.19 range throughout fiscal 2016 ($24.27 to $38.10 in 2015). A total of 144.4 million shares traded on the TSX during this fiscal year (184.5 million in 2015). The closing price on Friday, September 23, 2016 was $44.09, compared to $35.73 at the end of fiscal 2015. Since fiscal year-end, the value of METRO shares has remained in the $38.60 to $43.99 range. The closing price on November 25, 2016 was $41.77. METRO shares have maintained sustained growth over the last 10 years, reflecting a performance superior to that of the S&P/TSX index and the Canadian Food Industry sector index.

COMPARATIVE SHARE PERFORMANCE (10 YEARS)*



(1) See table on "Net earnings adjustments" and section on "Non-IFRS measurements"
(2) See section on "Forward-looking information"

SOURCES OF FINANCING

Our operating activities as well as increased debt generated in 2016 cash flows in the amount of $707.4 million and $79.7 million respectively. These major cash flows were used to finance our investing activities, including $348.6 million in business, fixed and intangible assets acquisition, to redeem shares for an amount of $331.3 million, to pay dividends of $127.1 million, and to carry out other investing and financing activities.

On December 1, 2014, the Corporation issued a private placement of $300.0 million aggregate principal amount of Series C unsecured senior notes, bearing interest at a fixed nominal rate of 3.20% and maturing December 1, 2021, and $300.0 million aggregate principal amount of Series D unsecured senior notes, bearing interest at a fixed nominal rate of 5.03% and maturing December 1, 2044. The Corporation decided to allocate the proceeds to repayment of existing debt and other general corporate purposes. On December 5, 2014, the Corporation paid off its $335,0 million unsecured renewable revolving credit facility which had a weighted average interest rate of 2.39%. The Corporation also redeemed, on December 31, 2014, its $200.0 million aggregate principal amount of Series A Notes, at a fixed nominal rate of 4.98%, maturing October 15, 2015. Early redemption fees of $5.9 million were recorded in 2015.

At 2016 fiscal year-end, our financial position mainly consisted of cash and cash equivalents in the amount of $27.5 million, a Revolving Credit Facility of $600.0 million maturing in 2021, $184.6 million of which were used, Series C Notes in the amount of $300.0 million maturing in 2021, Series B Notes in the amount of $400.0 million maturing in 2035 and Series D Notes in the amount of $300.0 million maturing in 2044.

We believe that cash flows from next year's operating activities should be sufficient to finance the Corporation's investing activities, including approximately $350 million[2] in fixed and intangible asset acquisitions.

CONTRACTUAL OBLIGATIONS

Payment commitments by fiscal year (capital and interest)

(Millions of dollars)	Facility and loans	Notes	Finance lease commitments	Service contract commitments	Operating lease commitments	Lease and sublease commitments[5]	Total
2017	16.7	48.6	5.9	73.3	182.5	44.4	371.4
2018	7.7	48.6	5.4	69.1	167.3	41.8	339.9
2019	6.6	48.6	4.5	60.0	146.4	39.7	305.8
2020	7.7	48.6	3.5	23.2	124.0	35.8	242.8
2021	5.2	48.6	2.1	—	106.1	32.4	194.4
2022 and thereafter	206.7	1,685.3	20.0	—	495.9	196.8	2,604.7
	250.6	1,928.3	41.4	225.6	1,222.2	390.9	4,059.0

[5] The Corporation has lease commitments with varying terms through 2035, to lease premises which it sublets to clients, generally under the same conditions.

RELATED PARTY TRANSACTIONS

During fiscal 2016, we supplied supermarkets held by a member of the Board of Directors and paid fees to Dunnhumby Canada, a joint venture, for analysis of our customer sales data. These transactions were carried out in the normal course of business and recorded at exchange value. They are itemized in note 26 to the consolidated financial statements.

[1] *See table on "Net earnings adjustments" and section on "Non-IFRS measurements"*
[2] *See section on "Forward-looking information"*

FOURTH QUARTER

(Millions of dollars, except for net earnings per share)	**2016**	2015	Change %
Sales	**2,928.9**	2,833.9	3.4
Operating income before depreciation and amortization and associate's earnings	**221.6**	207.4	6.8
Net earnings	**145.0**	131.7	10.1
Fully diluted net earnings per share	**0.60**	0.52	15.4
Cash flows from:			
Operating activities	**224.0**	248.0	—
Investing activities	**(94.9)**	(115.1)	—
Financing activities	**(101.6)**	(116.5)	—

SALES

Sales in the fourth quarter of 2016 reached $2,928.9 million, up 3.4% compared to $2,833.9 million in the fourth quarter of 2015. Same-store sales increased by 2.8% (3.4% in the same quarter last year), while our food basket inflation was 0.7%. Our effective merchandising strategies combined with solid store execution contributed to our sales growth.

OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION AND ASSOCIATE'S EARNINGS

Operating income before depreciation and amortization and associate's earnings (Alimentation Couche-Tard) for the fourth quarter of 2016 totalled $221.6 million or 7.6% of sales versus $207.4 million or 7.3% of sales for the same quarter last year.

Gross margin on sales for the fourth quarter of 2016 was 19.8% compared to 20.0% for the corresponding quarter of 2015. Operating expenses as a percentage of sales for the fourth quarter was 12.2% versus 12.6% for the fourth quarter of 2015, leveraging our sales growth.

DEPRECIATION AND AMORTIZATION AND NET FINANCIAL COSTS

Total depreciation and amortization expense for the fourth quarter of 2016 was $43.9 million versus $42.9 million for the corresponding quarter of 2015.

Net financial costs for the fourth quarter of 2016 totalled $14.0 million compared to $13.4 for the same quarter last year.

SHARE OF AN ASSOCIATE'S EARNINGS

Our share of earnings in Alimentation Couche-Tard was $23.8 million for the fourth quarter of 2016 versus $21.4 million for the corresponding quarter of 2015.

INCOME TAXES

The 2016 fourth quarter income tax expense of $42.5 million represented an effective tax rate of 22.7% compared with the 2015 fourth quarter tax expense of $40.8 million for an effective tax rate of 23.7%.

NET EARNINGS

Net earnings for the fourth quarter of 2016 were $145.0 million, an increase of 10.1% over net earnings of $131.7 million for the fourth quarter of 2015. Fully diluted net earnings per share rose 15.4% to $0.60 from $0.52 last year.

[1] See table on "Net earnings adjustments" and section on "Non-IFRS measurements"
[2] See section on "Forward-looking information"

CASH POSITION

Operating activities

Operating activities generated cash flows of $224.0 million in the fourth quarter of 2016 compared to $248.0 million for the corresponding quarter of 2015. The decrease is attributable to the variance between the net change in non-cash working capital items in 2016 and that in 2015.

Investing activities

Investing activities required outflows of $94.9 million in the fourth quarter versus $115.1 million for the corresponding quarter of 2015. This decrease is attributable to lower fixed and intangible asset acquisitions in 2016 than in 2015.

Financing activities

We utilized $101.6 million in funds in the fourth quarter of 2016 versus $116.5 million in the same quarter of 2015. This variance is attributable primarily to a lower redemption of shares, in the amount of $71.4 million, in 2016 compared to 2015 and to the smaller net debt increase of $49.9 million.

DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation adopted a risk management policy, approved by the Board of Directors in April 2010, setting forth guidelines relating to its use of derivative financial instruments. These guidelines prohibit the use of derivatives for speculative purposes. During fiscal 2016, the Corporation used derivative financial instruments as described in notes 2 and 28 to the consolidated financial statements.

NEW ACCOUNTING POLICIES

ADOPTED IN 2016

Presentation of financial statements

In fiscal 2016, the Corporation elected early adoption of the amendments to IAS 1 “Presentation of Financial Statements“. The amendments clarified materiality, order of notes to financial statements, disclosure of accounting policies as well as aggregation and disaggregation of items presented in the financial statements. In the consolidated statements of financial position, the Corporation has aggregated the various equity items.

ISSUED BUT NOT YET EFFECTIVE

Financial instruments

IFRS 9 “Financial Instruments” replaces IAS 39 “Financial Instruments: Recognition and Measurement” and includes the following significant changes:

- a single approach to determine whether a financial asset is measured at amortized cost or fair value;
- a new hedge accounting model to enable financial statement users to better understand an entity’s risk exposure and its risk management activities;
- a new impairment model for financial assets based on expected credit losses.

IFRS 9 shall be applied to fiscal years beginning on or after January 1, 2018. Earlier application is permitted. The Corporation will assess, in due course, the impact of this new standard on its consolidated financial statements.

Revenue from contracts with customers

IFRS 15 “Revenue from Contracts with Customers” replaces IAS 18 “Revenue”, IAS 11 “Construction Contracts”, and related interpretations. Under IFRS 15, revenue is recognized when control of the goods or services is transferred to the customer rather than when the significant risks and rewards are transferred. The new standard also requires additional disclosures through notes to financial statements. IFRS 15 shall be applied to fiscal years beginning on or after January 1, 2018. Earlier application is permitted. The Corporation will assess, in due course, the impact of this new standard on its consolidated financial statements.

(1) See table on "Net earnings adjustments" and section on "Non-IFRS measurements"
(2) See section on "Forward-looking information"

Leases

IFRS 16 “Leases” replaces IAS 17 “Leases” and related interpretations. Under IFRS 16, which provides a single model for leases abolishing the current distinction between finance leases and operating leases, most leases will be recognized in the statement of financial position. Certain exemptions will apply for short-term leases and leases of low-value assets. IFRS 16 shall be applied to fiscal years beginning on or after January 1, 2019. Earlier application is permitted under certain conditions. The Corporation will assess, in due course, the impact of this new standard on its consolidated financial statements.

FORWARD-LOOKING INFORMATION

We have used, throughout this annual report, different statements that could, within the context of regulations issued by the Canadian Securities Administrators, be construed as being forward-looking information. In general, any statement contained in this report that does not constitute a historical fact may be deemed a forward-looking statement. Expressions such as “expect”, “remain”, “bring”, “put”, “plan”, "add", “anticipate”, "expect", "estimate" and other similar expressions are generally indicative of forward-looking statements. The forward-looking statements contained in this report are based upon certain assumptions regarding the Canadian food industry, the general economy, our annual budget, as well as our 2017 action plan.

These forward-looking statements do not provide any guarantees as to the future performance of the Corporation and are subject to potential risks, known and unknown, as well as uncertainties that could cause the outcome to differ significantly. The arrival of a new competitor is an example of those described under the “Risk Management” section of this annual report that could have an impact on these statements. We believe these statements to be reasonable and relevant as at the date of publication of this report and represent our expectations. The Corporation does not intend to update any forward-looking statement contained herein, except as required by applicable law.

NON-IFRS MEASUREMENTS

In addition to the International Financial Reporting Standards (IFRS) earnings measurements provided, we have included certain non-IFRS earnings measurements. These measurements are presented for information purposes only. They do not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measurements presented by other public companies.

ADJUSTED NET EARNINGS FROM CONTINUING OPERATIONS, ADJUSTED FULLY DILUTED NET EARNINGS PER SHARE FROM CONTINUING OPERATIONS, ADJUSTED NET EARNINGS AND ADJUSTED FULLY DILUTED NET EARNINGS PER SHARE

Adjusted net earnings from continuing operations, adjusted fully diluted net earnings per share from continuing operations, adjusted net earnings and adjusted fully diluted net earnings per share are earnings measurements that exclude non-recurring items. They are non-IFRS measurements. We believe that presenting earnings without non-recurring items leaves readers of financial statements better informed as to the current period and corresponding prior year's period's earnings, thus enabling them to better evaluate the Corporation's performance and judge its future outlook.

CONTROLS AND PROCEDURES

The President and Chief Executive Officer, and the Executive Vice President, Chief Financial Officer and Treasurer of the Corporation, are responsible for the implementation and maintenance of disclosure controls and procedures (DC&P), and of the internal control over financial reporting (ICFR), as provided for in National Instrument 52-109 regarding the Certification of Disclosure in Issuers' Annual and Interim Filings. They are assisted in this task by the Disclosure Committee, which is comprised of members of the Corporation's senior management.

An evaluation was completed under their supervision in order to measure the effectiveness of DC&P and ICFR. Based on this evaluation, the President and Chief Executive Officer and the Executive Vice President, Chief Financial Officer and Treasurer of the Corporation concluded that the DC&P and the ICFR were effective as at the end of the fiscal year ended September 24, 2016.

(1) See table on "Net earnings adjustments" and section on "Non-IFRS measurements"
(2) See section on "Forward-looking information"

Therefore, the design of the DC&P provides reasonable assurance that material information relating to the Corporation is made known to it by others, particularly during the period in which the annual filings are being prepared, and that the information required to be disclosed by the Corporation in its annual filings, interim filings and other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

Furthermore, the design of the ICFR provides reasonable assurance regarding the reliability of the Corporation's financial reporting and the preparation of its financial statements for external purposes in accordance with IFRS.

SIGNIFICANT JUDGEMENTS AND ESTIMATES

Our Management's Discussion and Analysis is based upon our annual consolidated financial statements, prepared in accordance with IFRS, and it is presented in Canadian dollars, our unit of measure. The preparation of the consolidated financial statements and other financial information contained in this Management's Discussion and Analysis requires management to make judgements, estimates and assumptions that affect the recognition and valuation of assets, liabilities, sales, other income and expenses. These estimates and assumptions are based on historical experience and other factors deemed relevant and reasonable and are reviewed at every closing date. The use of different estimates could produce different amounts in the consolidated financial statements. Actual results may differ from these estimates.

JUDGEMENTS

In applying the Corporation's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Consolidation of structured entities

The Corporation has no voting rights in certain food stores. However, the franchise contract gives it the ability to control these stores' main activities. Its decisions are not limited to protecting its trademarks. The Corporation retains the majority of stores' profits and losses. For these reasons, the Corporation consolidates these food stores in its financial statements.

The Corporation has no voting rights in the trust created for performance share unit plan participants. However, under the trust agreement, it instructs the trustee as to the sale and purchase of Corporation shares and payments to beneficiaries, gives the trustee money to buy Corporation shares, assumes vesting variability, and ensures that the trust holds a sufficient number of shares to meet its obligations to the beneficiaries. For these reasons, the Corporation consolidates this trust in its financial statements.

The Corporation also has an agreement with a third party that operates a plant exclusively for the needs and according to the specifications of the Corporation, which assumes all costs. For these reasons, the Corporation consolidates it in the Corporation's financial statements.

Investment in an associate

The Corporation holds less than 20% of the voting rights in an associate, but one of its representatives sits on the associate’s Board of Directors and is involved in financial and operating policy decisions. Management has concluded that the Corporation exercises significant influence over the associate; so the Corporation in its consolidated financial statements, accounts for its investment in the associate using the equity method.

ESTIMATES

The assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the value of assets and liabilities within the next period, are discussed below:

Impairment of assets

In testing for impairment of intangible assets with indefinite useful lives and goodwill, value in use and fair value less costs of disposal are estimated using the discounted future cash flows model, the capitalized excess earnings before financial costs and taxes (EBIT) and royalty-free licence methods. These methods are based on various assumptions, such as the future cash flows estimate, excess EBIT, royalty rates, discount rate, earnings multiples and growth rate. The key assumptions are disclosed in notes 13 and 14 to the annual consolidated financial statements.

[1] See table on "Net earnings adjustments" and section on "Non-IFRS measurements"
[2] See section on "Forward-looking information"

Pension plans and other plans

Defined pension plans, ancillary retirements and other long-term benefits obligations and costs associated to these obligations are determined from actuarial calculations according to the projected credit unit method. These calculations are based on management's best assumptions relating to salary escalation, retirement age of participants, inflation rate and expected health care costs. The key assumptions are disclosed in note 23 to the annual consolidated financial statements.

Non-controlling interests

The non-controlling interest-related liability is calculated in relation to the price to be paid by the Corporation for the non-controlling interest, which price is based mainly on the future earnings of Adonis, Phoenicia and Première Moisson as of the date the options will become exercisable. Given the uncertainty associated with the estimation of these future earnings, the Corporation used, at the end of the fiscal year, its most probable estimate and various other assumptions, including the discount rate, growth rate and capital investments. Additional information is presented in note 28 to the annual consolidated financial statements.

RISK MANAGEMENT

Management identifies the main risks to which the Corporation is exposed as well as the appropriate measures for proactively managing these risks, and presents both the risks and risk reduction measures to the Audit Committee and the Board of Directors on an ongoing basis. Internal Audit has the mandate to audit all business risks triennially. Hence, each segment is audited every three years to ensure that controls have been implemented to deal with the business risks related to its business area.

In the normal course of business, we are exposed to various risks, which are described below, that could have a material impact on our earnings, financial position and cash flows. In order to counteract the principal risk factors, we have implemented strategies specifically adapted to them.

FOOD SAFETY

We are exposed to potential liability and costs regarding defective products, food safety, product contamination and handling. Such liability may arise from product manufacturing, packaging and labelling, design, preparation, warehousing, distribution and presentation. Food products represent the greater part of our sales and we could be at risk in the event of a major outbreak of food-borne illness or an increase in public health concerns regarding certain food products.

To counter these risks, we apply very strict food safety procedures and controls throughout the whole distribution chain. Employees receive continuous training in this area from Metro's *L'École des professionnels*. Our main meat distribution facilities are *Hazard Analysis and Critical Control Point (*HACCP) accredited, the industry's highest international standard. Our systems also enable us to trace every meat product distributed from any of our main distribution centres to its consumer point of sale.

CRISIS MANAGEMENT

Events outside our control that could seriously affect our operations may arise. We have set up business recovery plans for all our operations. These plans provide for several disaster recovery sites, generators in case of power outages and back-up computers as powerful as the Corporation's existing computers. A steering committee oversees and regularly reviews all our recovery plans. We have also developed a contingency plan in the event of a pandemic to minimize its impact.

COMPUTER SYSTEMS

We rely on various computer systems that are necessary to carry out our activities. The unavailability of our computer systems would have a major impact on the good execution of our operations. Moreover, unauthorized access to confidential information would have a negative impact on our customers and our activities.

During the course of the previous fiscal year, we asked a firm specializing in this area to perform an audit on the cyber security of our computer systems. No major element was identified following that audit. Despite that conclusion and in order to reduce those risks, a specialized firm is conducting intrusion tests on a regular basis. We have also strengthened the security of our systems to properly respond to new risks stemming from the e-commerce site that was put online on October 25, 2016. For the last several years, we have also implemented robust controls with respect to access.

(1) See table on "Net earnings adjustments" and section on "Non-IFRS measurements"
(2) See section on "Forward-looking information"

LABOUR RELATIONS

The majority of our store and distribution centre employees is unionized. Collective bargaining may give rise to work stoppages or slowdowns that could hurt us. We negotiate agreements with different maturity dates, conditions that ensure our competitiveness and terms that promote a positive work environment in all our business segments. We have experienced some minor labour conflicts over the last few years but expect[2] to maintain good labour relations in the future.

OCCUPATIONAL HEALTH AND SAFETY

Workplace accidents may occur at any of our sites. To minimize this risk, we developed an accident prevention policy. Furthermore at all of our sites, we have workplace health and safety committees responsible for accident prevention.

CORPORATE RESPONSIBILITY

If our actions do not respect our environmental, social and economic responsibilities, we are exposed to criticism, claims, boycotts and even lawsuits, should we fail to comply with our legal obligations.

In order to go beyond its role of distributor and become an active player in sustainable development, the Corporation introduced in 2010 its Corporate Responsibility Roadmap. Closely linked to our business strategy, our approach is built on four pillars: Delighted Customers, Respect for the Environment, Strengthened Communities and Empowered Employees, all of which involve priorities. Since then, the Corporation has issued annual reports with status updates on the various projects, and in 2016, it unveiled its new 2016-2020 Corporate Responsibility Plan. The new plan seeks to ensure the consistency of our actions and the alignment of our business practices with our corporate responsibility commitments and objectives. For more information, visit *metro.ca/responsibility*.

REGULATIONS

Changes are regularly brought to accounting policies, laws, regulations, rules or policies impacting our operations. We monitor these changes closely.

MARKET AND COMPETITION

Intensifying competition, the possible arrival of new competitors and changing consumer needs are constant concerns for us.

To cope with competition and maintain our leadership position in the Québec and Ontario markets, we are on the alert for new ways of doing things and new sites. We have an ongoing investment program for all our stores to ensure that our retail network remains one of the most modern in Canada.

We have also developed a successful market segmentation strategy. Our grocery banners: the conventional Metro supermarkets, Super C and Food Basics discount banners, and Adonis ethnic food stores, target three different market segments. In fiscal 2014, we acquired Première Moisson, a company specialized in bakery, pastry, charcutery and other food offerings prepared on an artisanal basis and respectful of great traditions. In the pharmacy market, we have large, medium, and small pharmacies under the Brunet, Clini Plus, Metro Pharmacy, and Drug Basics banners.

With the *metro&moi* and *Air Miles*® loyalty programs in our Metro and Metro Plus supermarkets and our partner Dunnhumby Canada Limited, we are able to know the buying habits of loyal customers, offer them personalized promotions so as to increase their purchases at our stores.

PRICE OF FUEL, ENERGY AND UTILITIES

We are a big consumer of utilities, electricity, natural gas and fuel. Increases in the price of these items may affect us.

SUPPLIERS

Negative events could affect a supplier and lead to service breakdowns and store delivery delays. As a remedy for this situation, we deal with several suppliers. In the event of a supplier's service breakdown, we can turn to another supplier reasonably quickly.

(1) See table on "Net earnings adjustments" and section on "Non-IFRS measurements"
(2) See section on "Forward-looking information"

FRANCHISEES AND AFFILIATES

Some of our franchisees and affiliates might breach prescribed clauses of franchise or affiliation contracts, such as purchasing policies and marketing plans. Non-compliance with such clauses may have an impact on us. A team of retail operations advisers ensures our operating standards' consistent application in all of these stores.

FINANCIAL INSTRUMENTS

We make some foreign-denominated purchases of goods and services and we have, depending on market conditions, US borrowings on our revolving credit facility, exposing ourselves to exchange rate risks. According to our risk management policy, we may use derivative financial instruments, such as foreign exchange forward contracts and cross currency interest rate swaps. The policy's guidelines prohibit us from using derivative financial instruments for speculative purposes, but they do not guarantee that we will not sustain losses as a result of our derivative financial instruments.

We hold receivables generated mainly from sales to customers. To guard against credit losses, we have adopted a credit policy that defines mandatory credit requirements to be maintained and guarantees to be provided. Affiliate customer assets guarantee the majority of our receivables.

We are also exposed to liquidity risk mainly through our non-current debt and creditors. We evaluate our cash position regularly and estimate[2] that cash flows generated by our operating activities are sufficient to provide for all outflows required by our financing activities.

Montréal, Canada, December 9, 2016

[1] See table on "Net earnings adjustments" and section on "Non-IFRS measurements"
[2] See section on "Forward-looking information"

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

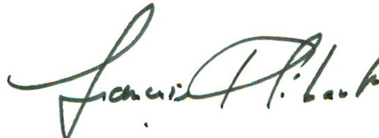
The preparation and presentation of the consolidated financial statements of METRO INC. and the other financial information contained in this Annual Report are the responsibility of management. This responsibility is based on a judicious choice of appropriate accounting principles and policies, the application of which requires making estimates and informed judgements. It also includes ensuring that the financial information in the Annual Report is consistent with the consolidated financial statements. The consolidated financial statements were prepared in accordance with International Financial Reporting Standards and were approved by the Board of Directors.

METRO INC. maintains accounting systems and internal controls over the financial reporting process which, in the opinion of management, provide reasonable assurance regarding the accuracy, relevance and reliability of financial information and the well-ordered, efficient management of the Corporation's affairs.

The Board of Directors fulfills its duty to oversee management in the performance of its financial reporting responsibilities and to review the consolidated financial statements and Annual Report, principally through its Audit Committee. This Committee is comprised solely of directors who are independent of the Corporation and is also responsible for making recommendations for the nomination of external auditors. Also, it holds periodic meetings with members of management as well as internal and external auditors to discuss internal controls, auditing matters and financial reporting issues. The external and internal auditors have access to the Committee without management. The Audit Committee has reviewed the consolidated financial statements and Annual Report of METRO INC. and recommended their approval to the Board of Directors.

The enclosed consolidated financial statements were audited by Ernst & Young LLP and their report indicates the extent of their audit and their opinion on the consolidated financial statements.

Eric R. La Flèche
President and Chief Executive Officer



François Thibault
Executive Vice President,
Chief Financial Officer and Treasurer

December 9, 2016

INDEPENDENT AUDITORS' REPORT

To the shareholders of **METRO INC.**

We have audited the accompanying consolidated financial statements of **METRO INC.**, which comprise the consolidated statements of financial position as at September 24, 2016 and September 26, 2015, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **METRO INC.** as at September 24, 2016 and September 26, 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP[1]

Montréal, Canada
November 15, 2016

[1] CPA auditor, CA, public accountancy permit no. A120803

A member firm of Ernst & Young Global Limited

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Annual Consolidated Financial Statements

METRO INC.

September 24, 2016

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Consolidated statements of income

Years ended September 24, 2016 and September 26, 2015

(Millions of dollars, except for net earnings per share)

	2016	2015
Sales *(notes 6 and 26)*	**12,787.9**	12,223.8
Cost of sales and operating expenses *(notes 6 and 26)*	**(11,856.6)**	(11,366.0)
Operating income before depreciation and amortization and associate's earnings	**931.3**	857.8
Depreciation and amortization *(note 6)*	**(182.8)**	(177.0)
Financial costs, net *(note 6)*	**(61.4)**	(58.7)
Early redemption fees *(note 6)*	**—**	(5.9)
Share of an associate's earnings *(notes 6 and 10)*	**91.1**	64.3
Earnings before income taxes	**778.2**	680.5
Income taxes *(note 7)*	**(192.0)**	(161.2)
Net earnings	**586.2**	519.3
Attributable to:		
Equity holders of the parent	**571.5**	506.1
Non-controlling interests	**14.7**	13.2
	586.2	519.3
Net earnings per share *(Dollars) (notes 8 and 21)*		
Basic	**2.41**	2.03
Fully diluted	**2.39**	2.01

See accompanying notes

Consolidated statements of comprehensive income

Years ended September 24, 2016 and September 26, 2015

(Millions of dollars)

	2016	2015
Net earnings	**586.2**	519.3
Other comprehensive income		
Items that will not be reclassified to net earnings		
Changes in defined benefit plans		
Actuarial gains (losses)	**(90.7)**	7.4
Asset ceiling effect	**(0.9)**	5.1
Minimum funding requirement	**0.6**	(1.2)
Share of an associate's other comprehensive income	**(0.7)**	0.2
Corresponding income taxes	**24.3**	(3.0)
	(67.4)	8.5
Items that will be reclassified later to net earnings		
Share of an associate's other comprehensive income	**(0.6)**	5.8
Corresponding income taxes	**0.1**	(0.8)
	(0.5)	5.0
	(67.9)	13.5
Comprehensive income	**518.3**	532.8
Attributable to:		
Equity holders of the parent	**503.6**	519.6
Non-controlling interests	**14.7**	13.2
	518.3	532.8

See accompanying notes

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Consolidated statements of financial position

As at September 24, 2016 and September 26, 2015

(Millions of dollars)

	2016	2015
ASSETS		
Current assets		
Cash and cash equivalents	**27.5**	21.5
Accounts receivable *(notes 15 and 26)*	**306.4**	290.6
Inventories *(note 9)*	**827.5**	824.2
Prepaid expenses	**19.7**	18.9
Current taxes	**11.9**	13.1
	1,193.0	1,168.3
Assets held for sale	**—**	4.6
	1,193.0	1,172.9
Non-current assets		
Investment in an associate *(note 10)*	**396.5**	315.3
Fixed assets *(note 11)*	**1,594.8**	1,473.2
Investment properties *(note 12)*	**25.7**	25.7
Intangible assets *(note 13)*	**391.7**	379.2
Goodwill *(note 14)*	**1,955.4**	1,931.5
Deferred taxes *(note 7)*	**9.4**	30.7
Defined benefit assets *(note 23)*	**7.5**	25.9
Other assets *(note 15)*	**32.1**	32.7
	5,606.1	5,387.1
LIABILITIES AND EQUITY		
Current liabilities		
Bank loans *(note 16)*	**1.4**	0.9
Accounts payable *(notes 17 and 26)*	**1,012.8**	999.4
Current taxes	**35.2**	43.3
Provisions *(note 18)*	**2.6**	3.7
Current portion of debt *(note 19)*	**15.5**	16.5
	1,067.5	1,063.8
Non-current liabilities		
Debt *(note 19)*	**1,231.0**	1,145.1
Defined benefit liabilities *(note 23)*	**160.7**	97.9
Provisions *(note 18)*	**2.8**	4.3
Deferred taxes *(note 7)*	**193.9**	187.4
Other liabilities *(note 20)*	**12.2**	10.1
Non-controlling interests *(note 28)*	**244.8**	221.3
	2,912.9	2,729.9
Equity		
Attributable to equity holders of the parent	**2,680.6**	2,643.4
Attributable to non-controlling interests	**12.6**	13.8
	2,693.2	2,657.2
	5,606.1	5,387.1

Commitments and contingencies *(notes 24 and 25)*

See accompanying notes

On behalf of the Board:

ERIC R. LA FLÈCHE
Director

MICHEL LABONTÉ
Director

Consolidated statements of changes in equity

Years ended September 24, 2016 and September 26, 2015

(Millions of dollars)

	Attributable to the equity holders of the parent							
	Capital stock *(note 21)*	Treasury shares *(note 21)*	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total	Non-controlling interests	Total equity
Balance as at September 26, 2015	**579.0**	**(18.5)**	**18.0**	**2,059.7**	**5.2**	**2,643.4**	**13.8**	**2,657.2**
Net earnings	**—**	**—**	**—**	**571.5**	**—**	**571.5**	**14.7**	**586.2**
Other comprehensive income	**—**	**—**	**—**	**(67.4)**	**(0.5)**	**(67.9)**	**—**	**(67.9)**
Comprehensive income	**—**	**—**	**—**	**504.1**	**(0.5)**	**503.6**	**14.7**	**518.3**
Stock options exercised	**12.4**	**—**	**(2.1)**	**—**	**—**	**10.3**	**—**	**10.3**
Shares redeemed	**(20.4)**	**—**	**—**	**—**	**—**	**(20.4)**	**—**	**(20.4)**
Share redemption premium	**—**	**—**	**—**	**(310.9)**	**—**	**(310.9)**	**—**	**(310.9)**
Acquisition of treasury shares	**—**	**(7.1)**	**—**	**—**	**—**	**(7.1)**	**—**	**(7.1)**
Share-based compensation cost	**—**	**—**	**8.5**	**—**	**—**	**8.5**	**—**	**8.5**
Performance share units settlement	**—**	**5.1**	**(5.2)**	**(0.1)**	**—**	**(0.2)**	**—**	**(0.2)**
Dividends *(note 22)*	**—**	**—**	**—**	**(127.1)**	**—**	**(127.1)**	**(12.6)**	**(139.7)**
Share of an associate's equity	**—**	**—**	**0.1**	**0.6**	**—**	**0.7**	**—**	**0.7**
Change in fair value of non-controlling interests liability *(note 28)*	**—**	**—**	**—**	**(21.0)**	**—**	**(21.0)**	**(2.5)**	**(23.5)**
Sale of shares in joint ventures	**—**	**—**	**—**	**—**	**—**	**—**	**0.3**	**0.3**
Repurchase of shares in joint ventures	**—**	**—**	**—**	**0.8**	**—**	**0.8**	**(1.1)**	**(0.3)**
	(8.0)	**(2.0)**	**1.3**	**(457.7)**	**—**	**(466.4)**	**(15.9)**	**(482.3)**
Balance as at September 24, 2016	**571.0**	**(20.5)**	**19.3**	**2,106.1**	**4.7**	**2,680.6**	**12.6**	**2,693.2**

See accompanying notes

Consolidated statements of changes in equity

Years ended September 24, 2016 and September 26, 2015

(Millions of dollars)

	Attributable to the equity holders of the parent							
	Capital stock *(note 21)*	Treasury shares *(note 21)*	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total	Non-controlling interests	Total equity
Balance as at September 27, 2014	599.2	(15.2)	15.8	2,068.6	0.2	2,668.6	15.5	2,684.1
Net earnings	—	—	—	506.1	—	506.1	13.2	519.3
Other comprehensive income	—	—	—	8.5	5.0	13.5	—	13.5
Comprehensive income	—	—	—	514.6	5.0	519.6	13.2	532.8
Stock options exercised	9.9	—	(1.8)	—	—	8.1	—	8.1
Shares redeemed	(30.1)	—	—	—	—	(30.1)	—	(30.1)
Share redemption premium	—	—	—	(387.9)	—	(387.9)	—	(387.9)
Acquisition of treasury shares	—	(7.0)	—	—	—	(7.0)	—	(7.0)
Share-based compensation cost	—	—	7.8	—	—	7.8	—	7.8
Performance share units settlement	—	3.7	(3.8)	(0.2)	—	(0.3)	—	(0.3)
Dividends *(note 22)*	—	—	—	(111.9)	—	(111.9)	(8.6)	(120.5)
Change in fair value of non-controlling interests liability *(note 28)*	—	—	—	(24.7)	—	(24.7)	(4.4)	(29.1)
Repurchase of shares in joint ventures	—	—	—	1.2	—	1.2	(1.9)	(0.7)
	(20.2)	(3.3)	2.2	(523.5)	—	(544.8)	(14.9)	(559.7)
Balance as at September 26, 2015	579.0	(18.5)	18.0	2,059.7	5.2	2,643.4	13.8	2,657.2

See accompanying notes

Consolidated statements of cash flows

Years ended September 24, 2016 and September 26, 2015
(Millions of dollars)

	2016	2015
Operating activities		
Earnings before income taxes	**778.2**	680.5
Non-cash items		
Share of an associate's earnings	**(91.1)**	(64.3)
Depreciation and amortization	**182.8**	177.0
Loss on disposal and write-offs of fixed and intangible assets, investment properties and assets held for sale	**1.9**	0.6
Impairment losses on fixed and intangible assets and assets held for sale	**0.8**	10.5
Impairment loss reversals on fixed and intangible assets	**(5.0)**	(4.4)
Share-based compensation cost	**8.5**	7.8
Difference between amounts paid for employee benefits and current period cost	**(13.5)**	(4.2)
Early redemption fees	**—**	5.9
Financial costs, net	**61.4**	58.7
	924.0	868.1
Net change in non-cash working capital items	**(9.1)**	10.6
Interest paid	**(60.6)**	(58.1)
Income taxes paid	**(146.9)**	(142.3)
	707.4	678.3
Investing activities		
Business acquisitions *(note 5)*	**(35.0)**	—
Repurchase and sale of shares in joint ventures	**—**	(0.7)
Net change in other assets	**0.6**	(3.2)
Dividends from an associate	**9.4**	6.4
Additions to fixed assets	**(278.0)**	(220.0)
Disposals of fixed assets and investment properties	**10.3**	3.2
Additions to intangible assets	**(35.6)**	(38.8)
	(328.3)	(253.1)
Financing activities		
Net change in bank loans	**0.5**	(0.6)
Shares issued *(note 21)*	**10.3**	8.1
Shares redeemed *(note 21)*	**(331.3)**	(418.0)
Acquisition of treasury shares *(note 21)*	**(7.1)**	(7.0)
Performance share units cash settlement	**(0.2)**	(0.3)
Increase in debt	**222.3**	701.8
Repayment of debt	**(142.6)**	(611.3)
Net change in other liabilities	**2.1**	(0.5)
Dividends *(note 22)*	**(127.1)**	(111.9)
	(373.1)	(439.7)
Net change in cash and cash equivalents	**6.0**	(14.5)
Cash and cash equivalents – beginning of year	**21.5**	36.0
Cash and cash equivalents – end of year	**27.5**	21.5

See accompanying notes

1. DESCRIPTION OF BUSINESS

METRO INC. (the Corporation) is a company incorporated under the laws of Québec. The Corporation is one of Canada’s leading food retailers and distributors and operates a network of supermarkets, discount stores and drugstores. Its head office is located at 11011 Maurice-Duplessis Blvd., Montréal, Québec, Canada, H1C 1V6. Its various components constitute a single operating segment.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements, in Canadian dollars, have been prepared by management in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The consolidated financial statements have been prepared within the reasonable limits of materiality, on a historical cost basis, except for certain financial instruments and defined benefit plan assets measured at fair value and defined benefit obligations measured at present value. The significant accounting policies are summarized below:

Consolidation

The consolidated financial statements include the accounts of the Corporation and its subsidiaries, as well as those of structured entities (note 4). All intercompany transactions and balances were eliminated on consolidation.

Sales recognition

Sales come essentially from the sale of goods. Retail sales made by corporate stores and stores that are structured entities are recognized at the time of sale to the customer, and sales to affiliated stores and other customers when the goods are delivered. Rebates granted by the Corporation are recorded as a reduction in sales.

Recognition of considerations from vendors

Cash considerations from vendors are considered as an adjustment to the vendor's product pricing and are therefore characterized as a reduction of cost of sales and related inventories when recognized in the consolidated financial statements.

Loyalty programs

The Corporation has two loyalty programs.

The first program, for which the Corporation acts as an agent, belongs to a third party and its cost is recorded as a reduction in sales at the time of sale to the customer.

The second program belongs to the Corporation. At the time of a sale to the customer, part of it is recorded as deferred revenue equal to the fair value of the program's issued points. This fair value is determined based on the exchange value of the points awarded and the expected redemption rate which are regularly remeasured. The deferred revenue is included in accounts payable and recognized as sales when the points are redeemed.

Foreign currency translation

The consolidated financial statements are presented in Canadian dollars, the Corporation's functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. At each closing, monetary items denominated in foreign currency are translated using the exchange rate at the closing date. Non-monetary items that are measured at historical cost in foreign currency are translated using the exchange rate at the date of the transaction. Gains or losses resulting from currency translations are recognized in net earnings.

Income taxes

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to determine these amounts are those that are enacted or substantively enacted by tax authorities by the closing date.

The Corporation follows the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are accounted for based on estimated taxes recoverable or payable that would result from the recovery or settlement of the carrying amount of assets and liabilities. Deferred tax assets and liabilities are measured using substantively enacted tax rates expected to be in effect when the temporary differences are expected to reverse. Changes in these amounts are included in current net earnings in the period in which they occur. The carrying amount of deferred tax assets is reviewed at every closing date and reduced to the extent that it is no longer probable that sufficient earnings will be available to allow all or part of the deferred tax assets to be utilized.

Income tax relating to items recognized directly in equity is recognized in equity.

Share-based payment

A share-based compensation expense is recognized for the stock option and performance share unit (PSU) plans offered to certain employees as well as a deferred share unit (DSU) plan offered to directors.

Stock option awards vest gradually over the vesting term and each tranche is considered as a separate award. The value of the remuneration expense is calculated based on the fair value of the stock options at the option grant date and using the Black-Scholes valuation model. The compensation expense is recognized over the vesting term of each tranche.

The compensation expense for the PSU plan is determined based on the market value of the Corporation's Common Shares at grant date. Compensation expense is recognized on a straight-line basis over the vesting period. The impact of any changes in the number of PSUs is recorded in the period where the estimate is revised. The grant qualifies as an equity instrument.

The compensation expense and corresponding liability for the DSU plan are recognized on the grant date and determined based on the grant-date market value of the Corporation’s Common Shares. The DSU liability is included in accounts payable and periodically adjusted to reflect any changes in the stock market valuation of the Corporation’s Common Shares.

Net earnings per share

Basic net earnings per share are calculated by dividing the net earnings attributable to equity holders of the parent by the weighted average number of Common Shares outstanding during the year. For the fully diluted net earnings per share, the net earnings attributable to equity holders of the parent and the weighted average number of Common Shares outstanding are adjusted to reflect all potential dilutive shares.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank balances, highly liquid investments (with an initial term of three months or less) and outstanding deposits. They are classified as “Financial assets at fair value through net earnings” and measured at fair value, with revaluation at the end of each period. Resulting gains or losses are recorded in net earnings.

Accounts receivable

Accounts receivable and loans to certain customers are classified as “Loans and receivables”. After their initial fair value measurement, they are measured at amortized cost using the effective interest method. For the Corporation, the measured amount generally corresponds to cost.

Inventories

Inventories are valued at the lower of cost and net realizable value. Warehouse inventories cost is determined by the average cost method net of certain considerations received from vendors. Retail inventories cost is valued at the retail price less the gross margin and certain considerations received from vendors. All costs incurred in bringing the inventories to their present location and condition are included in the cost of warehouse and retail inventories.

Assets held for sale

Non-current assets are classified as assets held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the sale must be highly probable, assets must be available for immediate sale in their present condition, and management must be committed to a plan to sell assets that should be expected to close within one year from the date of classification. Assets held for sale are recognized at the lower of their carrying amount and fair value less costs to sell. They are not depreciated.

Investment in an associate

The Corporation's investment in its associate is accounted for using the equity method. An associate is an entity in which the Corporation has significant influence.

Investment in a joint venture

The Corporation has an interest in a joint venture, whereby the venturers have a contractual agreement that establishes joint control over the economic activities of the entity. This investment is accounted for using the equity method and is presented in other assets. The Corporation's share in the joint venture's earnings is recorded in the cost of sales and operating expenses.

Fixed assets

Fixed assets are recorded at cost. Principal components of a fixed asset with different useful lives are depreciated separately. Buildings and equipment are depreciated on a straight-line basis over their useful lives. Leasehold improvements are depreciated on a straight-line basis over the shorter of their estimated useful lives or the remaining lease term. The depreciation method and estimate of useful lives are reviewed annually.

Buildings	20 to 50 years
Equipment	3 to 20 years
Leasehold improvements	5 to 20 years

Leases

Leases are classified as finance leases if substantially all risks and rewards incidental to ownership are transferred to the lessee. At the moment of initial recognition, the lessee records the leased item as an asset at the lower of the fair value of the asset and the present value of the minimum lease payments. A corresponding liability to the lessor is recorded in the consolidated statement of financial position as a finance lease obligation. In subsequent periods, the asset is depreciated on a straight-line basis over the term of the lease and interest on the obligation is expensed through net earnings.

Leases are classified as operating leases if substantially all risks and rewards incidental to ownership are not transferred to the lessee. The lease payments are recognized as an expense on a straight-line basis over the lease term.

Investment properties

Investment properties are held for capital appreciation and to earn rentals. They are not occupied by the owner for its ordinary activities. They are recognized at cost. Principal components, except for land which is not depreciated, are depreciated on a straight-line basis over their respective useful lives which vary from 20 to 50 years. The depreciation method and estimates of useful lives are reviewed annually.

Intangible assets

Intangible assets with finite useful lives are recorded at cost and amortized on a straight-line basis over their useful lives. The amortization method and estimates of useful lives are reviewed annually.

Leasehold rights	20 to 40 years
Software	3 to 7 years
Retail network retention premiums	5 to 30 years
Customer relationships	10 years

The banners that the Corporation intends to keep and operate, the private labels for which it continues to develop new products and the loyalty programs it intends to maintain qualify as intangible assets with indefinite useful lives. They are recorded at cost and not amortized.

Goodwill

Goodwill, which represents the excess of purchase price over the fair value of the acquired enterprise's identifiable net assets at the date of acquisition, is recognized at cost and is not amortized.

Impairment of non financial assets

At each reporting date, the Corporation must determine if there is any indication of depreciation of its fixed assets, intangible assets with finite useful lives, investment properties and investment in an associate. If any indication exists, the Corporation has to test the assets for impairment. Impairment testing of intangible assets with indefinite useful lives and goodwill is to be done at least annually, regardless of any indication of depreciation.

Impairment testing is conducted at the level of the asset itself, a cash generating unit (CGU) or group of CGUs. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Each store is a separate CGU. Impairment testing of warehouses is conducted at the level of the different groups of CGUs. As for goodwill and corporate assets that cannot be allocated wholly to a single CGU, impairment testing is conducted at the level of the unique operating segment. Impairment testing of investment properties, investment in an associate, banners, private labels and loyalty programs is conducted at the level of the asset itself.

To test for impairment, the carrying amount of an asset, CGU or group of CGUs is compared with its recoverable amount. The recoverable amount is the higher of the value in use and the fair value less costs of disposal. The value in use corresponds generally to the pre-tax cash flow projections from the management-approved budgets for the next fiscal year. These projections reflect past experience and are discounted at a pre-tax rate corresponding to the expected market rate for this type of investment. The recoverable amount of investment properties, investment in an associate, banners, private labels and loyalty programs is these assets' fair value less costs of disposal. If the carrying amount exceeds the recoverable amount, an impairment loss in the amount of the excess is recognized in net earnings. CGU or group of CGUs' impairment losses are allocated pro rata to the assets of the CGU or group of CGUs, without however reducing the carrying amount of the assets below the highest of their fair value less costs of disposal, their value in use, and zero.

Except for goodwill, any reversal of an impairment loss is recognized immediately in net earnings. A reversal of an impairment loss for a CGU or group of CGUs is allocated pro rata to the assets of the CGU or group of CGUs. The recoverable amount of an asset increased by a reversal of an impairment loss may not exceed the carrying amount that would have been determined, net of depreciation and amortization, if no impairment loss had been recognized for the asset in prior years.

Deferred financing costs

Financing costs related to debt are deferred and amortized using the effective interest method over the term of the corresponding loans. When one of these loans is repaid, the corresponding financing costs are charged to net earnings.

Employee benefits

Employee benefits include short-term employee benefits which correspond to wages and fringe benefits and are recognized immediately in net earnings as are termination benefits which are also recorded as a liability when the Corporation cannot withdraw the offer of termination.

Employee benefits also include post-employment benefits which comprise pension benefits (both defined benefit and defined contribution plans) and ancillary benefits such as post-employment life and medical insurance. Employee benefits also comprise other long-term benefits, namely long-term disability benefits not covered by insurance plans and ancillary benefits provided to employees on long-term disability. Assets and obligations related to employee defined benefit plans, ancillary retirement benefits and other long-term benefits plan are accounted for using the following accounting policies:

- Defined benefit obligations and the cost of pension, ancillary retirement benefits and other long-term benefits earned by participants are determined from actuarial calculations according to the projected credit unit method. The calculations are based on management's best assumptions relating to salary escalation, retirement age of participants, inflation and expected health care costs.
- Defined benefit obligations are discounted using high-quality corporate bond yield rates with cash flows that match the timing and amount of expected benefit payments.
- Defined benefit plan assets or liabilities recognized in the consolidated statement of financial position correspond to the difference between the present value of defined benefit obligations and the fair value of plan assets. Plan assets are measured at fair value. In the case of a surplus funded plan, these assets are limited at the lesser of the actuarial value determined for accounting purposes or the value of the future economic benefit by way of surplus refunds or contribution holidays. Furthermore, an additional liability could be recorded when minimum funding requirements for past services exceed economic benefits available.
- The interest expense on defined benefit obligations, on the asset ceiling and on the minimum funding requirement is net of interest income on plan assets, which is calculated by applying the same rate used to evaluate the obligations, and is recognized as financing costs.
- Actuarial gains or losses on pension plans and ancillary post-employment benefits arise from changes to current year end actuarial assumptions used to determine the defined benefit obligations. They also arise from variances between the experience adjustments of the plans for the current year and the assumptions defined at the end of the previous fiscal year to determine the employee benefit expense for the current fiscal year and the defined benefit obligations at the previous fiscal year end.
- Remeasurements of defined benefit net liabilities include actuarial gains or losses, the yield on plan assets, and asset ceiling and minimum funding requirement changes, excluding the amount already recorded in net interest. Remeasurements are recognized under other comprehensive income during the period in which they occur and reclassified from accumulated other comprehensive income to retained earnings at the end of each period.
- Actuarial gains or losses to other long-term employee benefits are recognized in full immediately in net earnings.
- Past service amendment costs are recognized immediately in net earnings.
- Defined contribution plan costs, including those of multi-employer plans, are recorded when the contributions are due. As sufficient information to reliably determine multi-employer defined benefit plan obligations and assets is not available and as there is no actuarial valuation according to IFRS, these plans are accounted for as defined contribution plans. In 2015, Québec's legislation governing multi-employer negotiated contribution pension plans was amended, clarifying that employer participation is limited to the negotiated contributions. The vast majority of the Corporation's contributions to multi-employer plans are paid into the Canadian Commercial Workers Industry Pension Plan (CCWIPP). The Corporation and its franchisees represent approximately 25% of the Plan's total number of participants. In 2015, a long-term agreement to ensure the plan's sustainability was signed, whereby the Corporation agreed to increase its rate of contribution to the CCWIPP over the coming fiscal years.

Provisions

Provisions are recognized when the Corporation has a present obligation (legal or constructive) resulting from a past event, will likely have to settle the obligation and the amount of which can be reliably estimated. The amount recognized as provision is the best estimate of the expense required to settle the present obligation at the closing date. When a provision is measured based on estimated cash flows required to settle the present obligation, its carrying amount is the discounted value of these cash flows.

Present obligations resulting from onerous contracts are accounted for and measured as provisions. A contract is said to be onerous when the costs involved in fulfilling the terms and conditions of the contract are higher than the contract's expected economic benefits.

Other financial liabilities

Bank loans, accounts payable, revolving credit facility, notes and loans payable are classified as “Other financial liabilities”. After their initial fair value measurement, they are measured at amortized cost using the effective interest method. For the Corporation, the measured amount generally corresponds to cost.

Non-controlling interests

Non-controlling interests are generally recognized in equity. However, with respect to its interests in Adonis, Phoenicia and Première Moisson, the Corporation has the option to buy out the minority interests and the minority shareholders in these companies have the option to be bought out by the Corporation under certain conditions as of the options' exercisable dates. Given these options, the non-controlling interests become a financial liability that is classified as "Financial liabilities held for trading" and measured at fair value. Gains or losses resulting from the revaluation at the end of each period recorded in net earnings or in retained earnings. The Corporation elected to record them in retained earnings.

Derivative financial instruments

In accordance with its risk management strategy, the Corporation uses derivative financial instruments for hedging purposes. On inception of a hedging relationship, the Corporation indicates whether or not it will apply hedge accounting to the relationship. Should there be any, the Corporation formally documents several factors, such as the election to apply hedge accounting, the hedged item, the hedging item, the risks being hedged and the term over which the relationship is expected to be effective, as well as risk management objectives and strategy.

The effectiveness of the hedging relationship is measured at its inception to determine whether it will be highly effective over the term of the relationship and assessed periodically to ensure that hedge accounting is still appropriate. The results of these assessments are formally documented.

The Corporation uses foreign exchange forward contracts and cross currency interest rate swaps. Given their short-term maturity, the Corporation elected not to apply hedge accounting. These derivative financial instruments are classified as "Financial assets or liabilities at fair value through net earnings" and measured at fair value with revaluation at the end of each period. Resulting gains or losses are recorded in net earnings.

Fair value measurements hierarchy

Fair value measurements of assets and liabilities recognized at fair value in the consolidated statements of financial position or whose fair value is presented in the notes to the consolidated financial statements are categorized in accordance with the following hierarchy:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fiscal year

The Corporation's fiscal year ends on the last Saturday of September. The fiscal years ended September 24, 2016 and September 26, 2015 included 52 weeks of operations.

3. NEW ACCOUNTING POLICIES

ADOPTED IN 2016

Presentation of financial statements

In fiscal 2016, the Corporation elected early adoption of the amendments to IAS 1 "Presentation of Financial Statements". The amendments clarified materiality, order of notes to financial statements, disclosure of accounting policies as well as aggregation and disaggregation of items presented in the financial statements. In the consolidated statements of financial position, the Corporation has aggregated the various equity items.

ISSUED BUT NOT YET EFFECTIVE

Financial instruments

IFRS 9 "Financial Instruments" replaces IAS 39 "Financial Instruments: Recognition and Measurement" and includes the following significant changes:
- a single approach to determine whether a financial asset is measured at amortized cost or fair value;
- a new hedge accounting model to enable financial statement users to better understand an entity's risk exposure and its risk management activities;
- a new impairment model for financial assets based on expected credit losses.

IFRS 9 shall be applied to fiscal years beginning on or after January 1, 2018. Earlier application is permitted. The Corporation will assess, in due course, the impact of this new standard on its consolidated financial statements.

Revenue from contracts with customers

IFRS 15 "Revenue from Contracts with Customers" replaces IAS 18 "Revenue", IAS 11 "Construction Contracts", and related interpretations. Under IFRS 15, revenue is recognized when control of the goods or services is transferred to the customer rather than when the significant risks and rewards are transferred. The new standard also requires additional disclosures through notes to financial statements. IFRS 15 shall be applied to fiscal years beginning on or after January 1, 2018. Earlier application is permitted. The Corporation will assess, in due course, the impact of this new standard on its consolidated financial statements.

Leases

IFRS 16 "Leases" replaces IAS 17 "Leases" and related interpretations. Under IFRS 16, which provides a single model for leases abolishing the current distinction between finance leases and operating leases, most leases will be recognized in the statement of financial position. Certain exemptions will apply for short-term leases and leases of low-value assets. IFRS 16 shall be applied to fiscal years beginning on or after January 1, 2019. Earlier application is permitted under certain conditions. The Corporation will assess, in due course, the impact of this new standard on its consolidated financial statements.

4. SIGNIFICANT JUDGEMENTS AND ESTIMATES

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the recognition and valuation of assets, liabilities, sales, other income and expenses. These estimates and assumptions are based on historical experience and other factors deemed relevant and reasonable and are reviewed at every closing date. The use of different estimates could produce different amounts in the consolidated financial statements. Actual results may differ from these estimates.

JUDGEMENTS

In applying the Corporation's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Consolidation of structured entities

The Corporation has no voting rights in certain food stores. However, the franchise contract gives it the ability to control these stores' main activities. Its decisions are not limited to protecting its trademarks. The Corporation retains the majority of stores' profits and losses. For these reasons, the Corporation consolidates these food stores in its financial statements.

The Corporation has no voting rights in the trust created for PSU plan participants. However, under the trust agreement, it instructs the trustee as to the sale and purchase of Corporation shares and payments to beneficiaries, gives the trustee money to buy Corporation shares, assumes vesting variability, and ensures that the trust holds a sufficient number of shares to meet its obligations to the beneficiaries. For these reasons, the Corporation consolidates this trust in its financial statements.

The Corporation also has an agreement with a third party that operates a plant exclusively for the needs and according to the specifications of the Corporation, which assumes all costs. For these reasons, the Corporation consolidates it in the Corporation's financial statements.

Investment in an associate

The Corporation holds less than 20% of the voting rights in an associate, but one of its representatives sits on the associate's Board of Directors and is involved in financial and operating policy decisions. Management has concluded that the Corporation exercises significant influence over the associate; so the Corporation in its consolidated financial statements, accounts for its investment in the associate using the equity method.

ESTIMATES

The assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the value of assets and liabilities within the next period, are discussed below:

Impairment of assets

In testing for impairment of intangible assets with indefinite useful lives and goodwill, value in use and fair value less costs of disposal are estimated using the discounted future cash flows model, the capitalized excess earnings before financial costs and taxes (EBIT) and royalty-free licence methods. These methods are based on various assumptions, such as the future cash flows estimate, excess EBIT, royalty rates, discount rate, earnings multiples and growth rate. The key assumptions are disclosed in notes 13 and 14.

Pension plans and other plans

Defined pension plans, ancillary retirements and other long-term benefits obligations and costs associated to these obligations are determined from actuarial calculations according to the projected credit unit method. These calculations are based on management's best assumptions relating to salary escalation, retirement age of participants, inflation rate and expected health care costs. The key assumptions are disclosed in note 23.

Non-controlling interests

The non-controlling interest-related liability is calculated in relation to the price to be paid by the Corporation for the non-controlling interest, which price is based mainly on the future earnings of Adonis, Phoenicia and Première Moisson as of the date the options will become exercisable. Given the uncertainty associated with the estimation of these future earnings, the Corporation used, at the end of the fiscal year, its most probable estimate and various other assumptions, including the discount rate, growth rate and capital investments. Additional information is presented in note 28.

5. BUSINESS ACQUISITIONS

In 2016, the Corporation acquired the assets of three affiliated stores in Québec which it already supplied, and of a food store from a competitor in Ontario. The total purchase price was $35.3, with a remaining balance of $0.3 to be paid as at September 24, 2016. The acquisition of these stores was accounted for using the purchase method. The stores' results have been consolidated as of their respective acquisition dates. The final total purchase price allocation was as follows:

Net assets acquired at their fair value	
Inventories	3.0
Fixed assets	9.1
Goodwill	23.1
Deferred tax assets	0.1
	35.3
Cash consideration	35.0
Balance due	0.3
	35.3

The goodwill from the acquisitions correspond to the additional contribution expected from the stores in Québec and to an increase in customers buying from the new food store in Ontario. In the goodwill’s tax treatment, 75% of the goodwill is treated as eligible assets with related tax deductions and 25% as non-deductible.

6. ADDITIONAL INFORMATION ON THE NATURE OF EARNINGS COMPONENTS

	2016	2015
Sales	**12,787.9**	12,223.8
Cost of sales and operating expenses		
Cost of sales	**(10,271.1)**	(9,813.5)
Wages and fringe benefits	**(697.8)**	(686.8)
Employee benefits expense *(note 23)*	**(77.8)**	(69.7)
Rents and occupancy charges	**(420.7)**	(409.6)
Others	**(389.2)**	(386.4)
	(11,856.6)	(11,366.0)
Operating income before depreciation and amortization and associate's earnings	**931.3**	857.8
Depreciation and amortization		
Fixed assets *(note 11)*	**(156.3)**	(150.1)
Investment properties *(note 12)*	**—**	(0.1)
Intangible assets *(note 13)*	**(26.5)**	(26.8)
	(182.8)	(177.0)
Financing costs, net		
Current interest	**(5.8)**	(4.1)
Non-current interest	**(54.4)**	(51.1)
Interests on defined benefit obligations net of plan assets *(note 23)*	**(3.7)**	(4.3)
Amortization of deferred financing costs	**(0.9)**	(1.0)
Interest income	**3.7**	2.2
Passage of time	**(0.3)**	(0.4)
	(61.4)	(58.7)
Early redemption fees	**—**	(5.9)
Share of an associate's earnings	**91.1**	64.3
Earnings before income taxes	**778.2**	680.5

Early redemption fees of $5.9 were recorded following the repayment of the Series A Notes in 2015.

7. INCOME TAXES

The effective income tax rates were as follows:

(Percentage)	**2016**	2015
Combined statutory income tax rate	**26.8**	26.9
Changes		
Share of an associate's earnings	**(1.7)**	(1.4)
Others	**(0.4)**	(1.8)
	24.7	23.7

The main components of the income tax expense were as follows:

Consolidated income statements

	2016	2015
Current		
Current tax expense	**139.6**	114.5
Deferred		
Adjustment related to temporary differences	**52.4**	46.7
	192.0	161.2

Consolidated comprehensive income statements

	2016	2015
Deferred tax related to items reported directly in other comprehensive income during the year		
Changes in defined benefit plans		
Actuarial gains (losses)	**(24.1)**	1.9
Asset ceiling effect	**(0.2)**	1.4
Minimum funding requirement	**0.1**	(0.3)
Share of an associate's other comprehensive income	**(0.2)**	0.8
	(24.4)	3.8

Deferred income taxes reflect the net tax impact of temporary differences between the value of assets and liabilities for accounting and tax purposes. The main components of the deferred tax expense and deferred tax assets and liabilities were as follows:

	Consolidated statements of financial position		Consolidated statements of income	
	As at September 24, 2016	As at September 26, 2015	**2016**	2015
Accrued expenses, provisions and other reserves that are tax-deductible only at the time of disbursement	**6.4**	8.5	**(2.1)**	3.7
Deferred tax losses	**5.3**	1.1	**4.2**	(2.5)
Inventories	**(10.5)**	(9.7)	**(0.8)**	(0.2)
Employee benefits	**39.1**	17.3	**(2.4)**	(0.8)
Investment in an associate	**(52.7)**	(41.9)	**(10.9)**	(7.9)
Difference between net carrying value and tax value				
Fixed assets	**(75.0)**	(39.6)	**(35.7)**	(34.3)
Investment properties	**0.6**	0.6	**—**	(0.1)
Intangible assets	**(57.6)**	(55.9)	**(1.7)**	0.2
Goodwill	**(40.1)**	(37.1)	**(3.0)**	(4.8)
	(184.5)	(156.7)	**(52.4)**	(46.7)
Deferred tax assets	**9.4**	30.7		
Deferred tax liabilities	**(193.9)**	(187.4)		
	(184.5)	(156.7)		

8. NET EARNINGS PER SHARE

Basic net earnings per share and fully diluted net earnings per share were calculated using the following number of shares:

(Millions)	**2016**	2015
Weighted average number of shares outstanding – Basic	**237.1**	248.9
Dilutive effect under:		
Stock option plan	**1.5**	1.6
Performance share unit plan	**0.7**	0.7
Weighted average number of shares outstanding – Fully diluted	**239.3**	251.2

9. INVENTORIES

	2016	2015
Wholesale inventories	**380.4**	369.2
Retail inventories	**447.1**	455.0
	827.5	824.2

10. INVESTMENT IN AN ASSOCIATE

The Corporation has a 5.7% (5.7% in 2015) interest in a publicly traded associate in the convenience store industry, which is Alimentation Couche-Tard. The investment associate's fair value, corresponding to its quoted market value, was $2,114.7 as at September 24, 2016 ($2,006.1 as at September 26, 2015). The Corporation categorized the fair value measurement in Level 1, as it is derived from quoted prices in active markets.

The associate's consolidated financial statements reporting date is the last Sunday of April of every year. The Corporation applied the equity method, using the associate's most recent condensed consolidated financial statements in US$ as at July 17, 2016 (July 19, 2015).

The summarized financial information, according to the associate's consolidated statements of financial position converted at the exchange rate at the reporting date, was as follows:

	As at July 17, 2016	As at July 19, 2015
Current assets	**3,812.4**	3,966.4
Non-current assets	**12,373.2**	10,524.2
Current liabilities	**(3,439.8)**	(3,273.2)
Non-current liabilities	**(5,922.1)**	(5,754.9)
Net assets of the associate	**6,823.7**	5,462.5

The summarized financial information, according to the associate's consolidated statements of income converted at the average exchange rate, was as follows:

	2016	2015
Sales	**44,512.1**	40,582.1
Net earnings	**1,604.6**	1,139.6
Other comprehensive income	**(48.7)**	(931.1)
Comprehensive income	**1,555.9**	208.5

These amounts are the total of the associate's previous fiscal year second, third and fourth quarters and current fiscal year first quarter.

The reconciliation of the summarized financial information and the carrying amount of the Corporation's investment in the associate was as follows:

	2016	2015
Net assets of the associate	**6,823.7**	5,462.5
Corporation's share of the associate	**5.7%**	5.7%
	389.0	311.4
Other adjustments	**7.5**	3.9
Investment in an associate	**396.5**	315.3

11. FIXED ASSETS

	Land	Buildings	Equipment	Leasehold improvements	Buildings under finance leases	Total
Cost						
Balance as at September 27, 2014	223.0	605.4	1,268.3	625.0	50.7	2,772.4
Acquisitions	5.2	41.3	106.0	67.5	—	220.0
Adjustments following the business acquisitions final purchase price allocation	1.9	(1.1)	7.8	(1.8)	(0.1)	6.7
Disposals and write-offs	(0.4)	(0.7)	(114.5)	(33.7)	—	(149.3)
Balance as at September 26, 2015	**229.7**	**644.9**	**1,267.6**	**657.0**	**50.6**	**2,849.8**
Acquisitions	**22.5**	**43.6**	**130.6**	**81.3**	**—**	**278.0**
Acquisitions through business combinations *(note 5)*	**1.2**	**4.3**	**2.9**	**0.7**	**—**	**9.1**
Disposals and write-offs	**(2.6)**	**(7.4)**	**(126.1)**	**(35.7)**	**—**	**(171.8)**
Balance as at September 24, 2016	**250.8**	**685.4**	**1,275.0**	**703.3**	**50.6**	**2,965.1**
Accumulated depreciation and impairment						
Balance as at September 27, 2014	(0.1)	(151.2)	(827.4)	(363.3)	(24.6)	(1,366.6)
Depreciation	—	(20.5)	(81.7)	(45.5)	(2.4)	(150.1)
Disposals and write-offs	—	0.3	112.6	33.1	—	146.0
Impairment losses	—	—	(4.5)	(4.6)	—	(9.1)
Impairment loss reversals	—	0.1	1.6	1.3	0.2	3.2
Balance as at September 26, 2015	**(0.1)**	**(171.3)**	**(799.4)**	**(379.0)**	**(26.8)**	**(1,376.6)**
Depreciation	**—**	**(18.7)**	**(85.8)**	**(48.8)**	**(3.0)**	**(156.3)**
Disposals and write-offs	**—**	**1.2**	**123.7**	**33.7**	**—**	**158.6**
Impairment losses	**—**	**—**	**(0.5)**	**(0.3)**	**—**	**(0.8)**
Impairment loss reversals	**0.1**	**0.4**	**1.6**	**2.7**	**—**	**4.8**
Balance as at September 24, 2016	**—**	**(188.4)**	**(760.4)**	**(391.7)**	**(29.8)**	**(1,370.3)**
Net carrying value						
Balance as at September 26, 2015	229.6	473.6	468.2	278.0	23.8	1,473.2
Balance as at September 24, 2016	**250.8**	**497.0**	**514.6**	**311.6**	**20.8**	**1,594.8**

Impairment losses were on food store assets where cash flows decreased due to local competition. As food stores' profitability improved, impairment loss reversals were posted on previously impaired food store assets.

12. INVESTMENT PROPERTIES

	Cost	Accumulated depreciation	Net carrying value
Balance as at September 27, 2014	38.2	(11.2)	27.0
Adjustments following the business acquisitions final purchase price allocation	(0.2)	—	(0.2)
Disposals and write-offs	(1.1)	0.1	(1.0)
Depreciation	—	(0.1)	(0.1)
Balance as at September 26, 2015 and September 24, 2016	**36.9**	**(11.2)**	**25.7**

The fair value of investment properties was $36.0 as at September 24, 2016 and September 26, 2015. The Corporation categorized the fair value measurement in Level 2, as it is derived from observable market inputs, i.e. recent transactions on these assets or similar assets.

13. INTANGIBLE ASSETS

Intangible assets with finite useful lives were as follows:

	Leasehold rights	Software	Retail network retention premiums	Customer relationships	Total
Cost					
Balance as at September 27, 2014	62.9	165.1	226.8	18.7	473.5
Acquisitions	—	6.6	26.5	—	33.1
Adjustments following the business acquisitions final purchase price allocation	—	—	—	9.0	9.0
Disposals and write-offs	(4.3)	(2.9)	(17.7)	(0.3)	(25.2)
Balance as at September 26, 2015	**58.6**	**168.8**	**235.6**	**27.4**	**490.4**
Acquisitions	**—**	**18.8**	**20.7**	**—**	**39.5**
Disposals and write-offs	**(0.2)**	**(0.2)**	**(11.3)**	**—**	**(11.7)**
Balance as at September 24, 2016	**58.4**	**187.4**	**245.0**	**27.4**	**518.2**
Accumulated amortization and impairment					
Balance as at September 27, 2014	(42.0)	(151.0)	(98.5)	(9.1)	(300.6)
Amortization	(1.9)	(4.2)	(18.0)	(2.7)	(26.8)
Disposals and write-offs	3.8	2.1	13.3	0.3	19.5
Impairment losses *(note 11)*	(0.8)	—	—	—	(0.8)
Impairment loss reversals *(note 11)*	1.2	—	—	—	1.2
Balance as at September 26, 2015	**(39.7)**	**(153.1)**	**(103.2)**	**(11.5)**	**(307.5)**
Amortization	**(1.7)**	**(4.1)**	**(18.3)**	**(2.4)**	**(26.5)**
Disposals and write-offs	**0.1**	**0.2**	**10.7**	**—**	**11.0**
Impairment loss reversals *(note 11)*	**0.2**	**—**	**—**	**—**	**0.2**
Balance as at September 24, 2016	**(41.1)**	**(157.0)**	**(110.8)**	**(13.9)**	**(322.8)**
Net carrying value					
Balance as at September 26, 2015	18.9	15.7	132.4	15.9	182.9
Balance as at September 24, 2016	**17.3**	**30.4**	**134.2**	**13.5**	**195.4**

Net additions of intangible assets excluded from the consolidated statement of cash flows amounted to $4.3 in 2016 ($12.9 in 2015).

Intangible assets with indefinite useful lives were as follows:

	Banners	Private labels	Loyalty programs	Total
Balance as at September 27, 2014	110.3	39.5	23.5	173.3
Adjustments following the business acquisitions final purchase price allocation	23.0	—	—	23.0
Balance as at September 26, 2015 and September 24, 2016	**133.3**	**39.5**	**23.5**	**196.3**

Impairment testing of loyalty programs and certain private labels was conducted at the level of the asset itself. The recoverable amount was determined based on its fair value less costs of disposal, which was calculated using the capitalized excess EBIT method. The estimated EBIT directly allocated to the programs and private labels, after deduction of the return on contributory assets, was based on historical data reflecting past experience. For loyalty programs, the earnings multiple used was 7.4 (6.9 in 2015) considering a growth rate of 2.0% (2.0% in 2015) corresponding to the consumer price index. For these private labels, the earnings multiple used was 8.2 (7.5 in 2015) considering a growth rate of 2.0% (2.0% in 2015) corresponding to the consumer price index. The Corporation categorized the fair value measurement in Level 3, as it is derived from unobservable market inputs.

Impairment testing of banners and certain private labels were conducted at the level of the asset itself. The recoverable amount was determined based on its fair value less costs of disposal, which was calculated using the royalty-free licence method. The estimated royalty rate was based on information from external sources and historical data reflecting past experience. For the banners, the earnings multiples used were 8.2 and 13.3 (7.5 and 11.8 in 2015) considering growth rate of 2.0% (2.0% in 2015) corresponding to the consumer price index. For these private labels, the earnings multiple used was 13.3 (12.5 in 2015) considering a growth rate of 2.0% (2.0% in 2015) corresponding to the consumer price index. The Corporation categorized the fair value measurement in Level 3, as it is derived from unobservable market inputs.

No reasonably possible change of any of these assumptions would result in a carrying amount higher than the recoverable amount.

14. GOODWILL

	2016	2015
Balance – beginning of year	**1,931.5**	1,946.6
Acquisitions through business combinations (adjustments following the final purchase price allocation) *(note 5)*	**23.9**	(15.1)
Balance – end of year	**1,955.4**	1,931.5

For impairment testing, the carrying amount of goodwill was allocated to the unique operating segment of the Corporation. The recoverable amount was determined based on its value in use, which was calculated using pre-tax cash flow forecasts from the management-approved budgets for the next fiscal year. The forecasts reflected past experience. A pre-tax discount rate of 12.1% (13.5% in 2015) was used and any growth rate was taken into consideration. No reasonably possible change of any of these assumptions would result in a carrying amount higher than the recoverable amount.

15. OTHER ASSETS

	2016	2015
Loans to certain customers, bearing interest at floating rates, repayable in monthly instalments, maturing through 2031	**31.4**	31.6
Other assets	**4.7**	4.4
	36.1	36.0
Current portion included in accounts receivable	**4.0**	3.3
	32.1	32.7

16. BANK LOANS

As at September 24, 2016 and September 26, 2015, the Corporation's bank loans were the credit margins of structured entities. The consolidated structured entities have credit margins totaling $8.3 ($7.9 as at September 26, 2015), bearing interest at prime plus 0.5%, unsecured and maturing on various dates through 2017. As at September 24, 2016, $1.4 ($0.9 as at September 26, 2015) had been drawn down under credit margins at an interest rate of 3.2% (3.2% as at September 26, 2015).

17. OFFSETTING

	2016	2015
Accounts payable (gross)	**1,076.3**	1,051.7
Vendor rebate receivables	**(63.5)**	(52.3)
Accounts payable (net)	**1,012.8**	999.4

18. PROVISIONS

	Onerous leases	Restructuring charges	Other	Total
Balance as at September 27, 2014	15.0	4.7	1.0	20.7
Additional provisions	3.5	—	9.5	13.0
Amounts used	(10.5)	(4.7)	(10.5)	(25.7)
Balance as at September 26, 2015	8.0	—	—	8.0
Current provisions	3.7	—	—	3.7
Non-current provisions	4.3	—	—	4.3
Balance as at September 26, 2015	8.0	—	—	8.0
Balance as at September 26, 2015	**8.0**	**—**	**—**	**8.0**
Additional provisions	**0.4**	**—**	**—**	**0.4**
Amounts used	**(3.0)**	**—**	**—**	**(3.0)**
Balance as at September 24, 2016	**5.4**	**—**	**—**	**5.4**
Current provisions	**2.6**	**—**	**—**	**2.6**
Non-current provisions	**2.8**	**—**	**—**	**2.8**
Balance as at September 24, 2016	**5.4**	**—**	**—**	**5.4**

Onerous leases correspond to leases for premises that are no longer used for the Corporation's operations. The amount of the provision for these leases equals the discounted present value of the future lease payments less the estimated future sublease income. The estimate may vary with the sublease assumptions. The remaining terms of these leases are from one to 13 years.

The restructuring provision was related to the reorganization of the Ontario store network in fiscal 2014, in which, certain Metro supermarkets were converted into Food Basics discount stores, collective agreements were bought out, early exit packages were offered to some employees and stores were closed.

Other provisions included mainly amounts concerning provincial worker’s compensation plans.

19. DEBT

	2016	2015
Revolving Credit Facility, bearing interest at a weighted average rate of 2.18% (2.63% in 2015), repayable on November 3, 2021 or earlier	**184.6**	97.5
Series C Notes, bearing interest at a fixed nominal rate of 3.20%, maturing on December 1, 2021 and redeemable at the issuer's option at fair value at any time prior to maturity	**300.0**	300.0
Series B Notes, bearing interest at a fixed nominal rate of 5.97%, maturing on October 15, 2035 and redeemable at the issuer's option at fair value at any time prior to maturity	**400.0**	400.0
Series D Notes, bearing interest at a fixed nominal rate of 5.03%, maturing on December 1, 2044 and redeemable at the issuer's option at fair value at any time prior to maturity	**300.0**	300.0
Loans, maturing on various dates through 2027, bearing interest at an average rate of 2.72% (2.95% in 2015)	**39.0**	38.0
Obligations under finance leases, bearing interest at an effective rate of 8.3% (8.4% in 2015)	**28.9**	33.0
Deferred financing costs	**(6.0)**	(6.9)
	1,246.5	1,161.6
Current portion	**15.5**	16.5
	1,231.0	1,145.1

The revolving credit facility with a maximum of $600.0 bears interest at rates that fluctuate with changes in bankers' acceptance rates and is unsecured. As at September 24, 2016, the unused authorized revolving credit facility was $415.4 ($502.5 as at September 26, 2015). Given that the Corporation frequently increases and decreases this credit facility through bankers' acceptances with a minimum of 30 days and to simplify its presentation, the Corporation found that it is preferable for the understanding of its financing activities to present the consolidated statement of cash flows solely with net annual changes. As at September 24, 2016, the revolving credit facility included loans of $95.0 US (nil as at September 26, 2015). On September 1, 2016, the maturity of the revolving credit facility was extended to November 3, 2021.

The amortization of deferred financing fees and the debt related to the acquisition of intangible assets, excluded from the consolidated statements of cash flows, totalled $5.2 in 2016 ($14.0 in 2015).

Repayments of debt in the upcoming fiscal years will be as follows:

	Facility and loans	Notes	Obligations under finance leases	Total
2017	11.8	—	5.9	17.7
2018	3.0	—	5.4	8.4
2019	2.1	—	4.5	6.6
2020	3.2	—	3.5	6.7
2021	0.8	—	2.1	2.9
2022 and thereafter	202.7	1,000.0	20.0	1,222.7
	223.6	1,000.0	41.4	1,265.0

The minimum payments in respect of the obligations under finance leases included interest amounting to $12.5 on these obligations in 2016 ($14.9 in 2015).

20. OTHER LIABILITIES

	2016	2015
Lease liabilities	**8.1**	8.5
Other liabilities	**4.1**	1.6
	12.2	10.1

21. CAPITAL STOCK

The authorized capital stock of the Corporation was summarized as follows:

- unlimited number of Common Shares, bearing one voting right per share, participating, without par value;
- unlimited number of Preferred Shares, non-voting, without par value, issuable in series.

In 2015, the Corporation carried out a 3-for-1 stock split of its Common Shares. All information pertaining to shares have been retroactively restated to reflect the effect of the stock split.

Common Shares issued

The Common Shares issued and the changes during the year were summarized as follows:

	Number *(Thousands)*	
Balance as at September 27, 2014	254,231	599.2
Shares redeemed for cash, excluding premium of $387.9	(12,676)	(30.1)
Stock options exercised	730	9.9
Balance as at September 26, 2015	**242,285**	**579.0**
Shares redeemed for cash, excluding premium of $310.9	**(8,477)**	**(20.4)**
Stock options exercised	**703**	**12.4**
Balance as at September 24, 2016	**234,511**	**571.0**

Treasury shares

The treasury shares changes during the year were summarized as follows:

	Number *(Thousands)*	
Balance as at September 27, 2014	761	(15.2)
Acquisition	200	(7.0)
Release	(218)	3.7
Balance as at September 26, 2015	**743**	**(18.5)**
Acquisition	**165**	**(7.1)**
Release	**(243)**	**5.1**
Balance as at September 24, 2016	**665**	**(20.5)**

Treasury shares are held in trust for the PSU plan. They will be released into circulation when the PSUs settle. The trust, considered a structured entity, is consolidated in the Corporation's financial statements.

Stock option plan

The Corporation has a stock option plan for certain Corporation employees providing for the grant of options to purchase up to 30,000,000 Common Shares. As at September 24, 2016, a balance of 6,444,996 shares could be issued following the exercise of stock options (7,148,016 as at September 26, 2015). The subscription price of each Common Share under an option granted pursuant to the plan is equal to the market price of the shares on the day prior to option grant date and must be paid in full at the time the option is exercised. While the Board of Directors determines other terms and conditions for the exercise of options, no options may have a term of more than five years from the date the option may initially be exercised, in whole or in part, and the total term may in no circumstances exceed ten years from the option grant date. Options may generally be exercised two years after their grant date and vest at the rate of 20% per year.

The outstanding options and the changes during the year were summarized as follows:

	Number *(Thousands)*	Weighted average exercise price *(Dollars)*
Balance as at September 27, 2014	4,125	16.97
Granted	484	35.42
Exercised	(730)	11.15
Cancelled	(41)	23.42
Balance as at September 26, 2015	**3,838**	**20.34**
Granted	**392**	**40.40**
Exercised	**(703)**	**14.59**
Cancelled	**(44)**	**27.35**
Balance as at September 24, 2016	**3,483**	**23.67**

The information regarding the stock options outstanding and exercisable as at September 24, 2016 was summarized as below :

	Outstanding options			Exercisable options	
Range of exercise prices *(Dollars)*	Number *(Thousands)*	Weighted average remaining period *(Months)*	Weighted average exercise price *(Dollars)*	Number *(Thousands)*	Weighted average exercise price *(Dollars)*
14.55 to 17.72	1,287	20.9	16.28	897	15.95
19.47 to 24.69	1,343	47.6	21.84	378	21.63
35.42 to 44.73	853	70.9	37.68	—	—
	3,483	43.4	23.67	1,275	17.64

The weighted average fair value of $4.65 per option ($4.32 in 2015) for stock options granted during fiscal 2016 was determined at the time of grant using the Black-Scholes model and the following weighted average assumptions: risk-free interest rate of 0.7% (0.9% in 2015), expected life of 5.3 years (5.3 years in 2015), expected volatility of 15.0% (15.3% in 2015) and expected dividend yield of 1.3% (1.3% in 2015). The expected volatility is based on the historic share price volatility over a period similar to the life of the options.

Compensation expense for these options amounted to $2.2 for fiscal 2016 ($2.2 in 2015).

Performance share unit plan

The Corporation has a PSU plan. Under this program, senior executives and other key employees (participants) periodically receive a given number of PSUs which may increase if the Corporation meets certain financial performance indicators. The PSUs entitle the participant to Common Shares of the Corporation, or at the latter's discretion, the cash equivalent. PSUs vest at the end of a period of three years.

PSUs outstanding and changes during the year were summarized as follows:

	Number *(Units)*
Balance as at September 27, 2014	803
Granted	175
Settled	(229)
Cancelled	(8)
Balance as at September 26, 2015	**741**
Granted	**184**
Settled	**(247)**
Cancelled	**(14)**
Balance as at September 24, 2016	**664**

The weighted average fair value of $40.38 per PSU ($33.48 in 2015) for PSUs granted during fiscal 2016 was the stock market valuation of a Common Share of the Corporation at grant date.

The compensation expense comprising all of these PSUs amounted to $6.3 for fiscal 2016 ($5.6 in 2015).

Deferred Share Unit Plan

The Corporation has a DSU plan designed to encourage stock ownership by directors who are not Corporation officers. Under this program, directors who meet the stock ownership guidelines may choose to receive all or part of their compensation in DSUs. DSUs vest when granted. On leaving, a director receives a lump-sum cash payout from the Corporation.

The DSU expense totalled $4.5 for fiscal 2016 ($5.5 in 2015).

As at September 24, 2016, the DSU liability amounted to $14.4 ($14.5 as at September 26, 2015).

22. DIVIDENDS

In fiscal 2016, the Corporation paid $127.1 in dividends to holders of Common Shares ($111.9 in 2015), or $0.5366667 per share ($0.45 in 2015). On September 26, 2016, the Corporation's Board of Directors declared a quarterly dividend of $0.14 per Common Share payable November 14, 2016.

23. EMPLOYEE BENEFITS

The Corporation maintains several defined benefit and defined contribution plans for eligible employees, which provide most participants with pension, ancillary retirement benefits, and other long-term employee benefits which in certain cases are based on the number of years of service or final average salary. The defined benefit plans are funded by the Corporation's contributions, with some plans also funded by participants' contributions. The Corporation also provides eligible employees and retirees with health care, life insurance and other long-term benefits. Ancillary retirement benefits plans and other long-term employee benefits are not funded and are presented in other plans. Pension committees made up of employer and employee representatives are responsible for all administrative decisions concerning certain plans.

Defined benefit pension plans and ancillary retirement benefit plans expose the Corporation to actuarial risks such as interest-rate risk, longevity risk, investment risk and inflation risk. Consequently, the Corporation’s investment policy prescribes a diversified portfolio whose bond component matches the expected timing and payments of benefits.

The changes in present value of the defined benefit obligation were as follows:

	2016		2015	
	Pension plans	**Other plans**	Pension plans	Other plans
Balance – beginning of year	**1,027.3**	**38.5**	981.2	39.6
Participant contributions	**6.7**	**—**	5.9	—
Benefits paid	**(43.0)**	**(3.4)**	(38.4)	(3.5)
Items in net earnings				
Current service cost	**37.9**	**2.0**	37.1	2.1
Interest cost	**44.2**	**1.7**	42.2	1.7
Past service cost	**(0.1)**	**—**	—	0.3
Actuarial gains	**—**	**(0.4)**	—	(0.8)
	82.0	**3.3**	79.3	3.3
Items in comprehensive income				
Actuarial losses (gains) from demographic assumptions	**—**	**(1.2)**	1.5	(1.0)
Actuarial losses (gains) from financial assumptions	**157.6**	**2.3**	(2.3)	0.1
Adjustments due to experience	**(1.5)**	**(0.2)**	0.1	—
	156.1	**0.9**	(0.7)	(0.9)
Balance – end of year	**1,229.1**	**39.3**	1,027.3	38.5

The present value of the defined benefit obligation may be reflected as follows:

	2016		2015	
(Percentage)	**Pension plans**	**Other plans**	Pension plans	Other plans
Active plan participants	**63**	**73**	61	74
Deferred plan participants	**4**	**—**	4	—
Retirees	**33**	**27**	35	26

The changes in the fair value of plan assets were as follows:

	2016		2015	
	Pension plans	**Other plans**	Pension plans	Other plans
Fair value – beginning of year	**1,001.7**	**—**	949.0	—
Employer contributions	**51.0**	**3.4**	41.1	3.5
Participant contributions	**6.7**	**—**	5.9	—
Benefits paid	**(43.0)**	**(3.4)**	(38.4)	(3.5)
Items in net earnings				
Interest income	**42.5**	**—**	40.0	—
Administration costs	**(1.5)**	**—**	(1.7)	—
	41.0	**—**	38.3	—
Items in comprehensive income				
Return on plan assets, excluding the amounts included in interest income	**66.3**	**—**	5.8	—
Fair value – end of year	**1,123.7**	**—**	1,001.7	—

The changes in the asset ceiling and the minimum funding requirement for pension plans were as follows:

	2016		2015	
	Asset ceiling	**Minimum funding requirement**	Asset ceiling	Minimum funding requirement
Balance - beginning of year	**(6.7)**	**(1.2)**	(11.4)	—
Interests	**(0.2)**	**(0.1)**	(0.4)	—
Change in defined benefit assets	**(0.9)**	**—**	5.1	—
Change in defined benefit liabilities	**—**	**0.6**	—	(1.2)
Balance - end of year	**(7.8)**	**(0.7)**	(6.7)	(1.2)

The value of the economic benefit that determined the asset ceiling represents the present value of future contribution holidays, and the minimum funding requirement represents the present value of required contributions under the law, which do not result, once made, in an economic benefit for the Corporation.

The changes in the defined benefit plans' funding status were as follows:

	2016		2015	
	Pension plans	**Other plans**	Pension plans	Other plans
Balance of defined benefit obligation – end of year	**(1,229.1)**	**(39.3)**	(1,027.3)	(38.5)
Fair value of plan assets – end of year	**1,123.7**	**—**	1,001.7	—
Funding position	**(105.4)**	**(39.3)**	(25.6)	(38.5)
Asset ceiling effect	**(7.8)**	**—**	(6.7)	—
Minimum funding requirement	**(0.7)**	**—**	(1.2)	—
	(113.9)	**(39.3)**	(33.5)	(38.5)
Defined benefit assets	**7.5**	**—**	25.9	—
Defined benefit liabilities	**(121.4)**	**(39.3)**	(59.4)	(38.5)
	(113.9)	**(39.3)**	(33.5)	(38.5)

The defined contribution and defined benefit plans expense recorded in net earnings was as follows:

	2016		2015	
	Pension plans	**Other plans**	Pension plans	Other plans
Defined contribution plans, including multi-employer plans	**36.3**	**0.6**	28.7	0.6
Defined benefit plans				
Current service cost	**37.9**	**2.0**	37.1	2.1
Past service cost	**(0.1)**	**—**	—	0.3
Actuarial gains	**—**	**(0.4)**	—	(0.8)
Administration costs	**1.5**	**—**	1.7	—
	39.3	**1.6**	38.8	1.6
Employee benefits expense	**75.6**	**2.2**	67.5	2.2
Interest on obligations, asset ceiling effect and minimum funding requirement net of plans assets, presented in financing costs	**2.0**	**1.7**	2.6	1.7
Net total expense	**77.6**	**3.9**	70.1	3.9

The remeasurements recognized as other comprehensive income were as follows:

	2016		2015	
	Pension plans	**Other plans**	Pension plans	Other plans
Actuarial losses (gains) on obligations incurred	**156.1**	**0.9**	(0.7)	(0.9)
Return on plan assets	**(66.3)**	**—**	(5.8)	—
Change in the effect of the asset ceiling	**0.9**	**—**	(5.1)	—
Change in the minimum funding requirement	**(0.6)**	**—**	1.2	—
	90.1	**0.9**	(10.4)	(0.9)

Total cash payments for employee benefits, consisting of cash contributed by the Corporation to its funded pension plans and cash payments directly to beneficiaries for its unfunded other benefit plans, amounted to $54.4 in 2016 ($44.6 in 2015). The Corporation plans to contribute $47.7 to the defined benefit plans during the next fiscal year and $29.5 to multi-employer plans.

Weighted average duration of defined benefit obligations was 15.5 years as at September 24, 2016 (15.7 years as at September 26, 2015).

The most recent actuarial valuations for funding purposes in respect of the Corporation's pension plans were performed on various dates between December 2014 and September 2016. The next valuations will be performed between December 2016 and December 2017.

Plan assets, primarily based on quoted market prices in an active market, held in trust and their weighted average allocation as at the measurement dates were as follows:

Asset categories *(Percentage)*	**2016**	2015
Shares in Canadian corporations	**24**	26
Shares in foreign corporations	**29**	26
Government and corporation bonds	**40**	40
Others	**7**	8

Pension plan assets included shares issued by the Corporation with a fair value of $5.0 as at September 24, 2016 ($5.9 as at September 26, 2015).

The principal actuarial assumptions used in determining the defined benefit obligation and service costs were the following:

	2016		2015	
(Percentage)	**Pension plans**	**Other plans**	Pension plans	Other plans
Discount rate on defined benefit obligation	**3.35**	**3.35**	4.20	4.20
Discount rate on service costs	**4.35**	**4.35**	4.20	4.20
Rate of compensation increase	**3.0**	**3.0**	3.0	3.0
Mortality table	**CPM2014Priv**	**CPM2014Priv**	CPM2014Priv	CPM2014Priv

To determine the most suitable discount rate, management considers the interest rates for high-quality bonds issued by entities operating in Canada with cash flows that match the timing and amount of expected benefit payments. The mortality rate is based on available mortality tables. Projected inflation rates are taken into account in establishing future wage and pension increases.

A 1% change in the discount rate, taking into consideration any modifications to other assumptions, would have the following effects:

	Pension plans		Other plans	
(en millions de dollars)	1% increase	1% decrease	1% increase	1% decrease
Effect on defined benefit obligation	(183.1)	221.3	(3.4)	4.1

The assumed annual health care cost trend rate per participant was set at 5.8% (5.9% in 2015). Under the assumption used, this rate should gradually decline to 4.5% in 2034 and remain at that level thereafter. A 1% change in this rate would have the following effects:

(Millions of dollars)	1% increase	1% decrease
Effect on defined benefit obligation	2.1	(1.8)

24. COMMITMENTS

Operating leases

The Corporation has operating lease commitments, with varying terms through 2037 and one to 14 five-year renewal options, to lease premises and equipment used for business purposes. The Corporation does not have an option to purchase the leased assets when the leases expire, but it has the right of first refusal in certain cases. Future minimum lease payments under these operating leases will be as follows:

	2016	2015
Under 1 year	**182.5**	178.5
Between 1 and 5 years	**543.8**	547.8
Over 5 years	**495.9**	489.5
	1,222.2	1,215.8

In addition, the Corporation has committed to leases for premises, with varying terms through 2035 and one to 17 five-year lease renewal options, which it sublets to clients generally under the same terms and conditions. Future minimum lease payments under these operating leases will be as follows:

	2016	2015
Under 1 year	**44.4**	42.9
Between 1 and 5 years	**149.7**	148.1
Over 5 years	**196.8**	199.4
	390.9	390.4

Finance leases

The Corporation has finance lease commitments, with varying terms through 2036 and three to seven five-year renewal options, to lease premises used for business purposes. The Corporation does not have an option to purchase the leased assets when the leases expire. Future minimum lease payments under these finance leases and the present value of net minimum lease payments will be as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2016	2015	**2016**	2015
Under 1 year	**5.9**	6.5	**3.7**	4.0
Between 1 and 5 years	**15.5**	19.3	**10.5**	13.0
Over 5 years	**20.0**	22.1	**14.7**	16.0
Minimum lease payments	**41.4**	47.9	**28.9**	33.0
Future finance costs	**(12.5)**	(14.9)	**—**	—
Present value of minimum lease payments	**28.9**	33.0	**28.9**	33.0

Service contracts

The Corporation has service contract commitments essentially for transportation and IT, with varying terms through 2020 and no renewal option. Future minimum payments under these service contracts will be as follows:

	2016	2015
Under 1 year	**73.3**	68.4
Between 1 and 5 years	**152.3**	210.1
	225.6	278.5

25. CONTINGENCIES

Guarantees

For certain customers with established business relationships, the Corporation is contingently liable as guarantor in connection with lease agreements with varying terms through 2026 for which the average annual minimum lease payments for the next five years will be $0.2 ($0.3 in 2015). The maximum contingent liability under these guarantees as at September 24, 2016 was $1.6 ($2.1 as at September 26, 2015). In addition, the Corporation has guaranteed loans granted to certain customers by financial institutions, with varying terms through 2028. The balance of these loans amounted to $27.5 as at September 24, 2016 ($27.2 as at September 26, 2015). No liability has been recorded in respect of these guarantees for the years ended September 24, 2016 and September 26, 2015.

Claims

In the normal course of business, various proceedings and claims are instituted against the Corporation. The Corporation contests the validity of these claims and proceedings and management believes that any forthcoming settlement in respect of these claims will not have a material effect on the Corporation's financial position or on consolidated earnings.

26. RELATED PARTY TRANSACTIONS

The Corporation has significant interest in the following subsidiaries, joint venture and associate:

Names	Country of incorporation	Percentage of interest in the capital	Percentage of voting rights
Subsidiaries			
Metro Richelieu Inc.	Canada	100.0	100.0
McMahon Distributeur pharmaceutique Inc.	Canada	100.0	100.0
Metro Ontario Inc.	Canada	100.0	100.0
Metro Québec Immobilier Inc.	Canada	100.0	100.0
Metro Ontario Real Estate Limited	Canada	100.0	100.0
Metro Ontario Pharmacies Limited	Canada	100.0	100.0
Groupe Adonis Inc.	Canada	55.0	55.0
Groupe Phoenicia Inc.	Canada	55.0	55.0
Groupe Première Moisson Inc.	Canada	75.0	75.0
Joint venture			
Dunnhumby Canada Limitée	Canada	50.0	50.0
Associate			
Alimentation Couche-Tard Inc.	Canada	5.7	17.0

In the normal course of business, the following transactions have been entered into with related parties:

	2016		2015	
	Sales	**Services received**	Sales	Services received
Joint venture	**—**	**9.8**	—	10.4
Companies controlled by a member of the Board of Directors	**30.3**	**—**	30.0	—
	30.3	**9.8**	30.0	10.4

	2016		2015	
	Account receivables	**Account payables**	Account receivables	Account payables
Joint venture	**—**	**(1.8)**	1.0	(0.7)
Companies controlled by a member of the Board of Directors	**0.9**	**—**	0.9	—
	0.9	**(1.8)**	1.9	(0.7)

Compensation for the principal officers and directors was as follows:

	2016	2015
Compensation and current benefits	**6.1**	6.6
Post-employment benefits	**0.7**	0.8
Share-based payment	**4.3**	4.0
	11.1	11.4

27. MANAGEMENT OF CAPITAL

The Corporation aims to maintain a capital level that enables it to meet several objectives, namely:

- Striving for a percentage of non-current debt to total combined non-current debt and equity (non-current debt/total capital ratio) of less than 50%.
- Maintaining an adequate credit rating to obtain an investment grade rating for its term notes.
- Paying total annual dividends representing a range of 20% to 30% of the prior fiscal year's net earnings, excluding non recurring items, with a target of 25%.

In its capital structure, the Corporation considers its stock option and PSU plans for key employees and officers. In addition, the Corporation's stock redemption plan is one of the tools it uses to achieve its objectives.

The Corporation is not subject to any capital requirements imposed by a regulator.

The Corporation's fiscal 2016 annual results regarding its capital management objectives were as follows:

- a non-current debt/total capital ratio of 31.4% (30.1% as at September 26, 2015);
- a BBB credit rating confirmed by S&P and DBRS (same rating in 2015);
- a dividend representing 24.3% of net earnings, excluding non recurring items, for the previous fiscal year (24.3% in 2015).

The capital management objectives remain the same as for the previous fiscal year.

28. FINANCIAL INSTRUMENTS

FAIR VALUE

The financial instruments' book and fair values were as follows:

	2016		2015	
	Book value	**Fair value**	Book value	Fair value
Other assets				
Loans and receivables				
Loans to certain customers *(note 15)*	**31.4**	**31.4**	31.6	31.6
Non-controlling interests				
Financial liability held for trading	**244.8**	**244.8**	221.3	221.3
Debt *(note 19)*				
Other financial liabilities				
Revolving Credit Facility	**184.6**	**184.6**	97.5	97.5
Series C Notes	**300.0**	**317.9**	300.0	307.6
Series B Notes	**400.0**	**494.2**	400.0	453.1
Series D Notes	**300.0**	**343.4**	300.0	303.2
Loans	**39.0**	**39.0**	38.0	38.0
	1,223.6	**1,379.1**	1,135.5	1,199.4

The fair value of loans to certain customers, revolving credit facility and loans payable is equivalent to their carrying value since their interest rates are comparable to market rates. The Corporation categorized the fair value measurement in Level 2, as it is derived from observable market inputs.

The fair value of notes represents the obligations that the Corporation would have to meet in the event of the negotiation of similar notes under current market conditions. The Corporation categorized the fair value measurement in Level 2, as it is derived from observable market inputs.

The fair value of the non-controlling interest-related liability is equivalent to the estimated price to be paid which is based mainly on the discounted value of the projected future earnings of Adonis, Phoenicia and Première Moisson as of the date the options will become exercisable. The Corporation categorized the fair value measurement in Level 3, as it is derived from data that is not observable. The projected future earnings of these entities are measured again at each period using a strategic development plan with a weighted annual growth rate of 7.1% as at September 24, 2016 (8.6% as at September 26, 2015). A 1% increase in these earnings would result in a $2.1 increase in the fair value of the non-controlling interest-related liability.

The changes of the non-controlling interest-related liability were as follows:

	2016	2015
Balance – beginning of year	**221.3**	192.2
Change in fair value	**23.5**	29.1
Balance – end of year	**244.8**	221.3

INTEREST RATE RISK

In the normal course of business, the Corporation is exposed primarily to interest rate fluctuations risk as a result of loans and receivables that it grants, as well as revolving credit facility and loans payable that it contracts at variable interest rates.

The Corporation keeps a close watch on interest rate fluctuations and, if warranted, uses derivative financial instruments such as interest rate swap contracts. As at September 24, 2016 and September 26, 2015, there were no outstanding interest rate swap contracts.

CREDIT RISK

Loans and receivables / Guarantees

The Corporation sells products to consumers and merchants in Canada. When it sells products, it gives merchants credit. In addition, to help certain merchants finance business acquisitions, the Corporation grants them long-term loans or guarantees loans obtained by them from financial institutions. Hence, the Corporation is subject to credit risk.

To mitigate such risk, the Corporation performs ongoing credit evaluations of its customers and has adopted a credit policy that defines the credit conditions to be met and the required guarantees. As at September 24, 2016 and September 26, 2015, no customer accounted for over 10% of total loans and receivables.

To cover its credit risk, the Corporation holds guarantees over its clients' assets in the form of deposits, movable hypothecs on the Corporation stock and/or second hypothecs on their inventories, movable property, intangible assets and receivables.

In recent years, the Corporation has not suffered any material losses related to credit risk.

As at September 24, 2016, the maximum potential liability under guarantees provided amounted to $27.5 ($27.2 as at September 26, 2015) and no liability had been recognized as at that date.

Financial assets at fair value through net earnings

With regard to its financial assets at fair value through net earnings, consisting of foreign exchange forward contracts and cross currency interest rate swaps, the Corporation is subject to credit risk when these contracts result in receivables from financial institutions.

In accordance with its risk management policy, the Corporation entered into these agreements with major Canadian financial institutions to reduce its credit risk.

As at September 24, 2016, the maximum exposure to credit risk for the foreign exchange forward contracts and cross currency interest rate swaps was equal to their carrying amount. As at September 26, 2015, the Corporation was not exposed to credit risk in respect of its foreign exchange forward contracts, as they resulted in amounts payable.

LIQUIDITY RISK

The Corporation is exposed to liquidity risk primarily as a result of its debt, non-controlling interest-related liability and trade accounts payable.

The Corporation regularly assesses its cash position and feels that its cash flows from operating activities are sufficient to fully cover its cash requirements as regards its financing activities. Its revolving credit facility and its Series C, B and D Notes mature only in 2021, 2035 and 2044, respectively. The Corporation also has an unused authorized balance of $415.4 on its revolving credit facility.

	Undiscounted cash flows (capital and interest)					
	Accounts payable	Facility and loans	Notes	Finance lease commitments	Non-controlling interests	Total
Maturing under 1 year	1,012.8	16.7	48.6	5.9	—	1,084.0
Maturing in 1 to 10 years	—	215.6	690.7	24.5	244.8	1,175.6
Maturing in 11 to 20 years	—	2.5	765.8	11.0	—	779.3
Maturing over 20 years	—	15.8	423.2	—	—	439.0
	1,012.8	250.6	1,928.3	41.4	244.8	3,477.9

FOREIGN EXCHANGE RISK

Given that some of its purchases are denominated in foreign currencies and that it has, depending on market conditions, US borrowings on its revolving credit facility, the Corporation is exposed to foreign exchange risk.

In accordance with its risk management policy, the Corporation uses derivative financial instruments, consisting of foreign exchange forward contracts and cross currency interest rate swaps, to hedge against the effect of foreign exchange rate fluctuations on its future foreign-denominated purchases of goods and services and on its US borrowings. As at September 24, 2016 and September 26, 2015, the fair value of foreign exchange forward contracts and cross currency interest rate swaps were insignificant.

29. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements of fiscal year ended September 24, 2016 (including comparative figures) were approved for issue by the Board of Directors on November 15, 2016.

Directors and officers

Board of Directors

Maryse Bertrand[3]
Montréal, Québec

Stephanie Coyles[1]
Toronto, Ontario

Marc DeSerres[2][3]
Montréal, Québec

Claude Dussault[2]
Québec City, Québec

Serge Ferland
Québec City, Québec

Russell Goodman[1][3]
Lac-Tremblant-Nord, Québec

Marc Guay[3]
Oakville, Ontario

Christian W.E. Haub[2]
Greenwich, Connecticut

Michel Labonté[1][2]
Montréal, Québec

Eric R. La Flèche
Town of Mount-Royal, Québec
President and
Chief Executive Officer

Christine Magee[1]
Oakville, Ontario

Marie-José Nadeau[2][3]
Montréal, Québec

Réal Raymond
Montréal, Québec
Chair of the Board

Line Rivard[1]
Montréal, Québec

Management of METRO INC.

Eric R. La Flèche
President and
Chief Executive Officer

François Thibault
Executive Vice President,
Chief Financial Officer
and Treasurer

Christian Bourbonnière
Executive Vice President and
Québec Division Head

Carmine Fortino
Executive Vice President and
Ontario Division Head

Serge Boulanger
Senior Vice President,
National Procurement and
Corporate Brands

Martin Allaire
Vice President,
Real Estate & Engineering

Geneviève Bich
Vice President,
Human Resources

Mireille Desjarlais
Vice President,
Corporate Controller

Dan Gabbard
Vice President,
Supply Chain

Frédéric Legault
Vice President,
Information Systems

Luc Martinovitch
Vice President and
General Manager
McMahon Distributeur
pharmaceutique inc.

Gino Plevano
Vice President,
Digital Strategy and Loyalty

Simon Rivet
Vice President,
General Counsel and
Corporate Secretary

Roberto Sbrugnera
Vice President,
Treasury, Risk and
Investor Relations

Yves Vézina
National Vice President,
Logistics and Distribution

(1) Member of the Audit Committee
(2) Member of the Human Resources Committee
(3) Member of the Corporate Governance and Nominating Committee

Shareholder information

Transfer agent and registrar
CST Trust Company

Stock listing
Toronto Stock Exchange
Ticker Symbol: MRU

Auditors
Ernst & Young LLP

Head Office
11011 Maurice-Duplessis Blvd.
Montréal, Québec H1C 1V6

The Annual Information Form may be obtained from the Investor Relations Department:
Tel: (514) 643-1000

Vous pouvez vous procurer la version française de ce rapport auprès du service des relations avec les investisseurs:
Tel: (514) 643-1000

METRO INC.'s corporate information and press releases are available on the Internet at the following address: **www.metro.ca**

Annual meeting
The Annual General Meeting of Shareholders will be held on January 24, 2017 at 10:00 a.m. at:
Centre Mont-Royal
2200 Mansfield Street
Montréal, Québec H3A 3R8

Dividends*

2017 fiscal year

Declaration Date	Record Date	Payment Date
– January 23, 2017	– February 15, 2017	– March 13, 2017
– April 25, 2017	– May 24, 2017	– June 15, 2017
– August 15, 2017	– September 5, 2017	– September 26, 2017
– October 2, 2017	– October 27, 2017	– November 14, 2017

* Subject to approval by the Board of Directors

Cabana Séguin inc.

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METRO is committed to respecting the principles of corporate responsibility notably in terms of the environment. The Company is therefore proud to present this annual report, printed using recycled paper that includes post-consumer fibres and is certified FSC.

The FSC® (Forest Stewardship Council®) is an international certification and labeling system that guarantees that the forest products you purchase, from the forest to the shelf, come from responsibly managed sources.