metro

ANNUAL REPORT
2019

COMPANY PROFILE

METRO INC. is a food and pharmacy leader in Québec and Ontario. As a retailer, franchisor, distributor, and manufacturer, the company operates or services a network of 950 food stores under several banners including Metro, Metro Plus, Super C, Food Basics, Adonis and Première Moisson, as well as 650 drugstores primarily under the Jean Coutu, Brunet, Metro Pharmacy and Food Basics Pharmacy banners, providing employment directly or indirectly to almost 90,000 people.

2019 HIGHLIGHTS

- Sales of $16,767.5 million, up 16.6% and up 3.2% when excluding the Jean Coutu Group
- Net earnings of $714.4 million
- Adjusted net earnings[(1)] of $731.6 million, up 26.3%
- Fully diluted net earnings per share of $2.78
- Adjusted fully diluted net earnings per share[(1)] of $2.84, up 17.8%
- Synergies of $58 million related to the Jean Coutu Group acquisition, $65 million[(3)] on an annualized basis
- Return on equity of 12.3%, exceeding 12% for the 27th consecutive year
- Dividends per share increase of 11.0%, the 25th consecutive year of dividend growth

RETAIL NETWORK

		Québec		Ontario		New Brunswick	Total
Supermarkets	Metro Metro Plus	195	Metro	132			327
	Adonis	10	Adonis	3			13
Discount stores	Super C	97	Food Basics	135			232
Neighbourhood stores	Marché Richelieu	56					
	Marché Ami	297					353
Partner	Première Moisson	24	Première Moisson	1			25
Total food		**679**		**271**			**950**

Drugstores	Brunet Brunet Plus Brunet Clinique Clini Plus	163	Metro Pharmacy Food Basics Pharmacy	72			235
	PJC Jean Coutu PJC Health PJC Health & Beauty	378	PJC Jean Coutu PJC Health	9	PJC Jean Coutu PJC Health PJC Health & Beauty	28	415
Total drugstores		**541**		**81**		**28**	**650**

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" in the Management's Discussion and Analysis (MD&A).*

FINANCIAL HIGHLIGHTS

	2019	2018	2017 (53 weeks)	2016	2015
OPERATING RESULTS *(Millions of dollars)*					
Sales	**16,767.5**	14,383.4	13,175.3	12,787.9	12,223.8
Operating income*	**1,321.5**	1,011.1	966.4	931.3	857.8
Net earnings	**714.4**	1,718.5	608.4	586.2	519.3
Adjusted net earnings[1]	**731.6**	579.2	548.2	586.2	523.6
Cash flows from operating activities	**687.7**	750.4	696.2	707.4	678.3
FINANCIAL STRUCTURE *(Millions of dollars)*					
Total assets	**11,073.9**	10,922.2	6,050.7	5,606.1	5,387.1
Non-current debt**	**2,229.0**	2,630.4	1,441.6	1,231.0	1,145.1
Equity	**5,968.6**	5,656.0	2,923.9	2,693.2	2,657.2
PER SHARE *(Dollars)*					
Basic net earnings	**2.79**	7.20	2.59	2.41	2.03
Fully diluted net earnings	**2.78**	7.16	2.57	2.39	2.01
Adjusted fully diluted net earnings[1]	**2.84**	2.41	2.31	2.39	2.03
Dividends	**0.7800**	0.7025	0.6275	0.5367	0.4500
FINANCIAL RATIOS *(%)*					
Operating income*/ Sales	**7.9**	7.0	7.3	7.3	7.0
Return on equity	**12.3**	40.1	21.7	21.9	19.4
Non-current debt/total capital	**30.6**	31.7	33.0	31.4	30.1
SHARE PRICE *(Dollars)*					
High	**58.94**	45.44	47.41	48.19	38.10
Low	**39.04**	38.32	38.00	35.61	24.27
Closing price (At year-end)	**57.91**	40.18	42.91	44.09	35.73

** Operating income before depreciation and amortization and associate's earnings (OI)*

***Including the Series E Notes that will be refinanced in 2020*

[1] See table on "Net earnings adjustments" and section on "Non-IFRS measurements"
[2] See table on "Operating income before depreciation and amortization and associate's earnings adjustments" and section on "Non-IFRS measurements"
[3] See section on "Forward-looking information"

MESSAGE FROM THE CHAIR OF THE BOARD

Dear Shareholders,

METRO had another good year in 2019 as it exceeded established financial results and made significant progress with regards to customer satisfaction in all banners. These excellent results are particularly outstanding given that all teams were working on the integration of the activities of the Jean Coutu Group and of METRO following the acquisition of the Jean Coutu Group in 2018. These results serve to reaffirm our belief that the strategic plan implemented by management and supported by the Board is proving to be effective for the company's growth.

Our results also reflect the competence and commitment of our employees, led by an experienced and passionate management team. I would like to congratulate our President and Chief Executive Officer, Eric La Flèche, as well as all of the members of the METRO team for these results and the work accomplished during the year.

Board of Directors
Ms. Marie-José Nadeau and Mr. Marc DeSerres, who have been directors of the Corporation respectively for 18 and 17 years, have decided to retire as directors of the Corporation and will not be director nominees at the Annual General Meeting of shareholders. Ms. Nadeau has chaired the Corporate Governance and Nominating Committee since 2015 and ensured that METRO became an example of good governance. On behalf of my colleagues and our shareholders, I would like to thank them for their contribution and for the leadership they have shown during their tenure. Their professionalism and their experience were very valuable for the Corporation.

In order to ensure an organized and thoughtful transition, the Board appointed Mr. Pierre Boivin as a director last September. Mr. Boivin therefore stands for election for the first time. Mr. Boivin is President and Chief Executive Officer of Claridge Inc., a private placement firm. He also is a board member of the National Bank of Canada and of the Canadian Tire Corporation, Limited, and has been involved in the development of artificial intelligence in Québec and in Canada for several years. The second director seat will be left vacant and the Board will be reduced to 13 members. The Board believes that this number is adequate to fulfill its mandate in an efficient manner.

Throughout the year, the Board of Directors has continued to oversee and support management in its various projects and in the realization of the Corporation's various business plans in order to ensure long-term value for shareholders.

This year, the Board of Directors has adopted a written policy on shareholder engagement which outlines how the Board communicates with shareholders and how shareholders can communicate with the Board and management of METRO. This policy also outlines the matters on which the Board of Directors can engage with shareholders, specifically: corporate governance practices and disclosure; board performance; executive performance and compensation; and Board and Committee composition and qualifications.

METRO recognizes the value of diversity, in particular with regards to experience, expertise and the representation of men and women on the Board of Directors. This is why the Board has adopted in 2016 a minimum target of 30% for the representation of men and women on the Board. Once again, this year, the Board will continue to meet this target as there will be four women on the Board in 2020, representing 31% of board members.

I would like to thank all Board members for their collaboration and their commitment in making METRO a successful and innovative company which continues to build for the future. Finally, thank you to our shareholders for their continued trust.

Réal Raymond
Chair of the Board

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MESSAGE FROM THE PRESIDENT AND CEO

Dear Shareholders,

METRO had an outstanding year in 2019, both in terms of strategic progress and financial performance. We achieved significant milestones with respect to the combination of our pharmacy activities following the acquisition of the Jean Coutu Group, the modernization program for our Ontario distribution centres, and the deployment of online grocery shopping. Our financial results and our customers satisfaction metrics demonstrate that our team successfully meets the challenges that arise every day in the highly competitive food and pharmacy sectors.

2019 results

Sales for fiscal 2019 were $16,767.5 million, up 16.6%, or 3.2% excluding the Jean Coutu Group. Adjusted net earnings[(1)] for fiscal 2019 stood at $731.6 million, and adjusted fully diluted net earnings per share[(1)] were $2.84, up 26.3% and 17.8%, respectively. Food same-store sales were up 3.6% while pharmacy same-store sales increased 2.4%, with prescription drugs up 1.8% and in front-store sales up 3.4%.

We are very pleased with our 2019 results. Competition remains intense, consumer expectations are high and shift rapidly, and we strive to execute our business plans well while innovating and adapting to market conditions.

We will shortly complete the purchase of our partners' shares in Première Moisson. We would like to thank the Fiset family for their collaboration since the beginning of our partnership in June 2014.

Combination of pharmacy activities

The combination of the activities of METRO, the Jean Coutu Group and McMahon is progressing as planned. We are well on track to meet our $75 million synergy target after three years having reached an annual run rate of $65 million after one year.

Our two organizations were highly complementary from a strategic, commercial and cultural standpoint. Combined, they provide us with a remarkable springboard for the future by strengthening our competitive position. Our pharmacy division now has 650 locations in Québec, Ontario and New Brunswick. It is focusing its efforts on developing the full potential of our two main brands, Jean Coutu and Brunet, which hold strong connections with consumers. Furthermore, during the last two quarters of the year, we celebrate the 50th anniversary of the Jean Coutu banner with a strong promotional campaign.

We have made significant progress in establishing a unified operating platform. This involves putting in place structures, systems and processes that will allow us to be more agile and efficient to fuel our growth. Accordingly, we have begun to implement systems for pharmacy management as well as new point-of-sale and back office management systems in the Brunet network. These are high performance applications, in use at Jean Coutu, that will help drive success for our banners.

We have also laid the foundations of our cross-selling strategy, with the introduction of the *Personnelle* brand, Jean Coutu's emblematic private label, into the Brunet network and METRO's *Selection* and *Irresistibles* private labels into the Jean Coutu network. In June, we successfully transferred the supply of our Ontario pharmacies to the Jean Coutu distribution centre in Varennes.

Following the transaction with the Jean Coutu Group, at the request of the Competition Bureau, we sold rights in regard to ten pharmacies in fiscal 2019, including nine Brunet and one PJC Jean Coutu drugstores.

Modernization of our Ontario distribution network

Construction of our new fresh products distribution centre in Toronto got underway in September 2019, slightly behind schedule due to delays in obtaining permits. Costing $400 million over six-years, this project also includes construction of a new distribution centre for frozen products. Work on planning and developing new business processes has continued as planned. The delay in the approval process resulted in deferring to 2020 a portion of the capital expenditures planned for 2019.

Both centres will be automated or semi-automated and will feature leading-edge technology that will allow us to continue to grow in the Ontario market while better servicing our retail network. We will be even better positioned to meet our customers' needs with greater efficiency and flexibility, to offer a wider variety of products and to be more accurate in preparing orders.

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A leading-edge customer experience
Again this year, together with our affiliated retailers, we continued to invest in our retail network renovation and improvement programs. We opened ten new food stores, including two relocations, and completed 20 major renovation projects. We restructured our network in Ontario in order to better meet customers' needs by having the right format and banner in certain markets. The operation involved a dozen stores with significant investments for conversions to another banner, relocations and a few closures.

In addition, six pharmacies in Quebec were remodeled and in Ontario, we added a pharmacy in a new Metro store, for a total of 81 pharmacies in that province.

Work continued on improving and developing our online grocery shopping service. This service is now available to 60% of the population of Québec and in the Greater Toronto Area. Orders are prepared by dedicated staff in seven Metro stores in Quebec and two stores in Ontario with home-delivery service or collect in store. Sales are progressing well and we believe our model allows us to meet customer demand while investing at a measured pace.

To develop and increase in-house data management and analytics expertise, we created a dedicated customer intelligence team. This team will work closely with our partner Dunnhumby to better support our food and pharmacy banners.

In 2019, all our food banners recorded improved customer satisfaction scores, a performance that we are proud of and that shows that our customer-focused strategies are effective. The "WOW" index presented by the Léger polling firm in Québec last November also confirmed as much. METRO maintained the first rank among large food distributors. The Super C banner remained in first place among discounters. New this year, the survey also assessed e-commerce, and Metro was ranked first among food retailers.

The first Canadian BrandZ report ranked Metro the most valuable grocery brand in Canada and 19th most valuable Canadian brand overall. Super C, Food Basics and Jean Coutu were also among the Top 40 most valuable brands in Canada. METRO was also placed 10th in a recent study by the Reputation Institute on the reputation of companies doing business in Canada. These impressive results are a tribute to the collective commitment of our teams and their excellent work.

We continued to invest in the development of our employees, with programs such as the METRO leadership training program. After training store managers and franchisees across our food store network last year, we extended the training to department managers this year in addition to launching a similar program for retail pharmacy management.

Financial position
Over the course of fiscal 2019, our share price traded within a range of $39.04 to $58.94 and closed the year at $57.91, compared to $40.18 at the end of fiscal 2018, or an increase of 44% for the year, 135% over 5 years and 400% over 10 years.

Return for our shareholders remains a top priority for METRO. With this in mind, we increased our dividend by 11.0% in 2019, the 25th consecutive year of dividend increase. Also, in November 2018, we reinstated our share buyback program to provide us with an additional option for using excess funds. Under this program, we had repurchased 3.2 million shares at an average price of $50.31, for a total consideration of $159.7 million.

Our financial situation remains very solid with a strong balance sheet that enables our future growth and allows the company to make strategic acquisitions if they arise.

Community investments
We continue to actively contribute to the economic and social wellbeing of the communities we operate in. We take great pride in the "Thanks a Million!" award that METRO received from United Way Canada for a second consecutive year. The award is presented each year to Canadian businesses that donate $1 million or more to United Way, an amount that METRO and its team exceeded once again with a contribution of more than $1.9 million across Québec.

In June, 325 employees donated close to 1,250 hours to some 20 non-profit organizations as part of the second METRO volunteer activity. We are very proud of the generosity of our people, a true reflection of the important role we play in our communities.

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Outlook[3]

In Fiscal 2020, our teams will work to achieve our strategic priorities of combining pharmacy operations, modernizing our distribution network, accelerating the growth of online shopping and developing talent, while continuing to grow all our banners.

To do so, we will press ahead with Phase 2 of the work to combine our pharmacy activities and will continue to realize synergies. Work will also continue to build the two new automated distribution centres in Toronto.

I would like to express my sincere gratitude to François J. Coutu, who retired as President of the Jean Coutu Group (PJC) Inc. on May 31, 2019. François is a great builder and was a key contributor to the Group's success since 1983. We will continue to benefit from François' expertise and unique experience as he remains a member of our Board of Directors. I would like to extend a warm welcome to his successor as head of our pharmacy division, Alain Champagne, who has 30 years' experience within large international companies in pharmacy distribution and consumer packaged goods. Alain will work to complete the integration and further develop our pharmacy business.

In closing, I would like to thank all our employees, our retailers and my management colleagues for their great work and contribution to our success. I also want to thank our directors for their support of our strategic projects and for their sound advice. Finally, thank you, dear shareholders, for your ongoing trust.

Eric R. La Flèche
President and Chief Executive Officer

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CORPORATE RESPONSIBILITY

We have achieved to date many of the objectives set out in our 2016-2020 Corporate Responsibility (CR) Plan for each of the four pillars on which our approach is based: delighted customers, respect for the environment, strengthened communities and empowered employees. In 2019, we continued to integrate environmental, social and governance (ESG) factors into our business practices, pursued the roll out of our programs and initiated new projects.

We released our Packaging and Printed Materials Management Policy, which covers all our activities and aims to both reduce and optimize. Building on the many initiatives we have carried out over the years and specifically those related to our private brand product packaging, we are confident that our measures will enable us to take on these challenges responsibly and efficiently and contribute to the global movement to tackle single-use plastics.

Another key issue on which we focused our attention this year is food waste. Through our One More Bite food recovery program, the equivalent of more than seven million meals were distributed by community organizations over one million more than last year. Also, along with other industry members, we committed to reduce the food waste generated by our activities by 50% by 2025 as compared to 2016. By donating unsold food products and managing our organic material, we are providing people with food and reducing the environmental impacts of organic waste in landfills.

METRO has always been present in communities. In addition to the Corporation's in cash and in-kind donations, we were once again able to count on the generosity of our employees, customers and suppliers, who donated $4.6 million in 2019. The second edition of our volunteering activity has seen an increase of three times more than in 2018 with 325 participating employees. Held during regular workhours, the volunteers gave close to 1,250 hours to support some 20 community organizations.

Again last year, it was very clear that our customers' interest in health and wellness remained strong, and we therefore continued to expand and promote our healthy product offer. Our food and pharmacy banners led actions to support customers seeking to adopt a healthy lifestyle by providing information and advice.

Consumers are also very sensitive to the social and environmental impacts of the products they purchase matters we tackle through our responsible procurement programs. In 2019, in addition to continuing to document practices across our supply chain, we launched projects to promote our initiatives to customers. In Québec, we led the Freshness You Can trace campaign to provide complete and transparent information on the provenance of our seafood products in response to customer demand. We also vigorously pursued our efforts to support local purchasing and raise awareness among our customers in Québec and Ontario.

We also made further progress on the roll out of our environmental programs in our stores and distribution centres. We stepped up our efforts to increase our waste diversion rates and are encouraged by the performance of a number of stores, since nearly half of our network of corporate and franchised food stores has a diversion rate of over 70%. This past year also saw a number of transport efficiency initiatives that we intend to sustain to reduce the intensity of our GHG emissions. With regard to the energy efficiency of our stores, our new construction standards confirm how effective our measures are.

There was good progress in the implementation of our CR approach in 2019. As we enter the final year of our 2016-2020 plan, we remain focused on our priorities for each pillar.

More information on METRO's directions and achievements is available in our corporate responsibility report for fiscal year 2019 (available January 28, 2020) and background documents, which are available at https://corpo.metro.ca/en/corporate-social-responsibility.html.

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MANAGEMENT'S DISCUSSION AND ANALYSIS AND CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 28, 2019

TABLE OF CONTENTS

	Page
Overview	11
Goal, mission and strategy	11
Key performance indicators	12
Key achievements	12
Selected annual information	13
Outlook	14
Operating results	15
Quarterly highlights	18
Cash position	20
Financial position	21
Sources of financing	24
Contractual obligations	25
Related party transactions	25
Event after the reporting period	25
Fourth quarter	25
Derivative financial instruments	27
New accounting standards	27
Forward-looking information	29
Non-IFRS measurements	30
Controls and procedures	30
Significant judgements and estimates	30
Risk management	32
Management's responsibility for financial reporting	35
Independent auditors' report	36
Annual consolidated financial statements	39

The following Management's Discussion and Analysis sets out the financial position and consolidated results of METRO INC. for the fiscal year ended September 28, 2019, and should be read in conjunction with the annual consolidated financial statements and the accompanying notes as at September 28, 2019. This report is based upon information as at November 19, 2019 unless otherwise indicated. Additional information, including the Annual Information Form and Certification Letters for fiscal 2019, 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, franchisor or distributor, operates under different grocery banners in the conventional supermarket and discount segments. For consumers seeking a higher level of service and a greater variety of products, we operate 327 supermarkets under the Metro and Metro Plus banners. The 232 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 13 stores, is specialized in fresh products and Mediterranean and Middle-Eastern products. The majority of the 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 for independent neighborhood grocery stores. Their purchases are included in the Corporation's sales. The Corporation also operates Première Moisson, a company specialized in premium quality artisan bakery, pastry, and deli products. Première Moisson sells its products to the Corporation's stores, to restaurants and other chains as well as directly to consumers in its 25 stores.

The Corporation also acts as franchisor and distributor for 415 PJC Jean Coutu, PJC Health et PJC Health & Beauty drugstores as well as 163 Brunet Plus, Brunet, Brunet Clinique, and Clini Plus drugstores, held by pharmacist owners. The Corporation operates 72 drugstores in Ontario under Metro Pharmacy and Food Basics Pharmacy banners and their sales are included in the Corporation's sales. Sales also include the supply of non-franchised drugstores and various health centres. The Corporation is also active in generic drug manufacturing through its subsidiary Pro Doc Ltée.

GOAL, MISSION AND STRATEGY

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

Our mission is to exceed our customers' expectations every day to earn their long-term loyalty.

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

We put the customer at the heart of every decision. 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.

Operational excellence and efficiency are achieved through high operating standards, 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.

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KEY PERFORMANCE INDICATORS

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

- sales:
  - same-store sales growth;
  - average customer transaction size and number of transactions;
  - average weekly sales;
  - average weekly sales per square foot;
  - prescription count growth;
  - percentage of sales represented by customers who are loyalty program members;
  - market share;
  - customer satisfaction;
- gross margin 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;
  - store square footage growth.

KEY ACHIEVEMENTS

Sales for fiscal 2019 totalled $16,767.5 million versus $14,383.4 million for fiscal 2018, an increase of 16.6%. Excluding from fiscal 2019 and fiscal 2018 sales of $3,121.8 million and $1,157.7 million, respectively, generated by the Jean Coutu Group, sales were up 3.2%. Net earnings for fiscal 2019 were $714.4 million, a decrease of 58.4% from $1,718.5 million for fiscal 2018. Fully diluted net earnings per share were $2.78 compared with $7.16, down 61.2%. Adjusted net earnings[(1)] for fiscal 2019 totalled $731.6 million compared with $579.2 million for fiscal 2018, and adjusted fully diluted net earnings per share[(1)] amounted to $2.84 versus $2.41, up 26.3% and 17.8%, respectively.

We realized several projects over the fiscal year, including the following major ones:

- We continued to combine pharmacy activities and share best practices between METRO and the Jean Coutu Group. The first phase of the consolidation of our wholesale pharmaceutical business was completed the past summer. Orders from over 300 Ontario clients are now centralized at our state-of-the-art Varennes distribution centre. This constitutes the first step toward implementing an integrated operational chain for greater agility and efficiency. Synergies generated in fiscal 2019 amounted to $58 million and to date, we have generated annualized synergies of $65 million[(3)].
- Pursuant to the agreement reached with Canada's Commissioner of Competition following the Jean Coutu Group acquisition, we completed the divestiture of rights in 10 pharmacies.
- In October 2017, we announced a $400 million investment over six years in our Ontario distribution network. As part of this investment, construction of the new semi-automated fresh food distribution centre located close to our current Vickers Road facility in Toronto started in September 2019. Our new distribution centre equipped with state-of-the-art technology will help us improve service to our store network and offer greater product freshness and variety. METRO will be able to better meet the constantly evolving customer preferences and position itself as the retailer providing the best customer experience in each of its banners.
- We continued to invest in our stores. In Québec, we relocated a Super C and an Adonis and carried out major renovations at ten other stores. In Ontario, we opened two Metro and three Food Basics stores as well as an Adonis store, converted two Metro stores into Food Basics and carried out major renovations at 10 other stores.
- With the opening of a bakery on Laurier Street in Montréal, Première Moisson now has 22 bakeries in the Montréal area plus one in Québec City and two more in the Ottawa-Gatineau area.
- We launched our online grocery service in Ontario on May 7, 2019 and now 1.9 million households in the Greater Toronto Area can benefit from this service. Customers can pick up their orders in one of two stores or have them

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delivered. Products are selected by METRO employees specially trained to choose the freshest food in the store, so that customers feel they have chosen their items themselves.

- METRO also placed 10th in a recent study on the reputation of companies doing business in Canada, by the Reputation Institute. This was the first time we made the top 50. The first Canadian BrandZ report ranked Metro the most valuable grocery brand in Canada and 19th most valuable Canadian brand overall.
- The Jean Coutu Group celebrated 50 years of operations, namely 50 years of quality customer service, 50 years of innovations, 50 years of friendships. During this holiday period, the Jean Coutu Group wishes, more than ever, to clarify and reaffirm the philosophy that has been driving it since inception: At Jean Coutu, "you'll find it all... even a friend!".
- We continued to implement our corporate responsibility plan and reiterated our commitment to help find solutions to some of the most pressing issues in our industry. On January 17, 2019, along with other companies, we made a public commitment to reduce by 50% food waste in our operations by 2025. We have already implemented major projects to this end, namely our waste management program and the *Récupartage* food donation program. During the year, we unveiled our packaging and print management policy and intend to reduce by 50% single-use plastic bags in METRO's food and pharmacy banners by the end of fiscal 2023. These initiatives complement those already in place, namely the energy efficiency of our buildings, a program for the packaging of our private label food products and the opportunity for our customers in Québec's Metro stores to bring their reusable containers to purchase fresh products.

SELECTED ANNUAL INFORMATION

(Millions of dollars, unless otherwise indicated)	**2019** *(52 weeks)*	2018 *(52 weeks)*	Change %	2017 *(53 weeks)*	Change %
Sales	**16,767.5**	14,383.4	16.6	13,175.3	9.2
Net earnings attributable to equity holders of the parent	**711.6**	1,716.5	(58.5)	591.7	190.1
Net earnings attributable to non-controlling interests	**2.8**	2.0	40.0	16.7	(88.0)
Net earnings	**714.4**	1,718.5	(58.4)	608.4	182.5
Basic net earnings per share	**2.79**	7.20	(61.3)	2.59	178.0
Fully diluted net earnings per share	**2.78**	7.16	(61.2)	2.57	178.6
Adjusted net earnings(1)	**731.6**	579.2	26.3	548.2	5.7
Adjusted fully diluted net earnings per share(1)	**2.84**	2.41	17.8	2.31	4.3
Return on equity *(%)*	**12.3**	40.1	—	21.7	—
Dividends per share *(Dollars)*	**0.7800**	0.7025	11.0	0.6275	12.0
Total assets	**11,073.9**	10,922.2	1.4	6,050.7	80.5
Current and non-current portions of debt	**2,657.6**	2,643.7	0.5	1,454.5	81.8

Sales for fiscal 2019 totalled $16,767.5 million versus $14,383.4 million for fiscal 2018, an increase of 16.6%. Excluding from fiscal 2019 and fiscal 2018 sales of $3,121.8 million and $1,157.7 million, respectively, generated by the Jean Coutu Group, sales were up 3.2%. Sales for fiscal 2018 totalled $14,383.4 million versus $13,175.3 million for fiscal 2017, an increase of 9.2%. Excluding $1,157.7 million in sales from fiscal 2018 resulting from the Jean Coutu Group as well as the 53rd week of fiscal 2017, sales were up 2.4%.

Net earnings for fiscal 2019, 2018 and 2017 totalled $714.4 million, $1,718.5 million and $608.4 million, respectively, while fully diluted net earnings per share amounted to $2.78, $7.16 and $2.57. Taking into account the items relating to fiscal 2019 and fiscal 2018 shown in the "Net earnings adjustments" table in the "Operating results" section, as well as the share of an associate's (ACT) earnings for fiscal 2017, adjusted net earnings(1) for fiscal 2019 stood at $731.6 million compared with $579.2 million for fiscal 2018 and $548.2 million for fiscal 2017, while adjusted fully diluted net earnings per share(1) was $2.84 for 2019 compared with $2.41 for 2018 and $2.31 for 2017, up 17.8% and 4.3%. The 53rd week of fiscal 2017 had a favourable impact of $11.9 million on net earnings and $0.05 on fully diluted net earnings per share.

(1) *See table on "Net earnings adjustments" and section on "Non-IFRS measurements"*
(2) *See table on "Operating income before depreciation and amortization and associate's earnings adjustments" and section on "Non-IFRS measurements"*
(3) *See section on "Forward-looking information"*

After performing exceptionally well at 40.1% in 2018 due to the gain on disposal of our investment in ACT in order to pay part of the acquisition of the Jean Coutu Group, return on equity in 2019 was 12.3%, impacted by the 2018 share issuance also in connection with acquisition of the Jean Coutu Group. This acquisition and the financing required explain the increase in assets as well as in debt in 2018 compared with 2017.

OUTLOOK[3]

In Fiscal 2020, our teams will work to achieve our strategic priorities of combining pharmacy operations, modernizing our distribution network, accelerating the growth of online shopping and developing talent, while continuing to grow all our banners.

To do so, we will press ahead with Phase 2 of the work to combine our pharmacy activities and will continue to realize synergies. Work will also continue to build the two new automated distribution centres in Toronto.

[1] See table on "Net earnings adjustments" and section on "Non-IFRS measurements"
[2] See table on "Operating income before depreciation and amortization and associate's earnings adjustments" and section on "Non-IFRS measurements"
[3] See section on "Forward-looking information"

OPERATING RESULTS

The Jean Coutu Group (PJC) Inc. ("Jean Coutu Group") acquisition was completed on May 11, 2018, and its results were consolidated with the Corporation's results as of that date. As such, the fiscal 2018 results include the results of the Jean Coutu Group for slightly more than 20 weeks. In addition, the results for the first quarter of 2018 include significant gains following the disposal of our investment in Alimentation Couche-Tard (ACT).

SALES

Sales for fiscal 2019 totalled $16,767.5 million versus $14,383.4 million for fiscal 2018, an increase of 16.6%. Excluding from fiscal 2019 and fiscal 2018 sales of $3,121.8 million and $1,157.7 million, respectively, generated by the Jean Coutu Group, sales were up 3.2%. Food same-store sales were up 3.6%. Pharmacy same-store sales were up 2.4% with a 1.8% increase in prescription drugs (number of prescriptions were up 2.4%) and a 3.4% increase in front-store sales.

OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION AND ASSOCIATES' EARNINGS

This earnings measurement excludes financial costs, taxes, depreciation and amortization, the share of earnings and gain on disposal of investments in associates as well as the gain on revaluation and disposal of an investment at fair value.

Operating income before depreciation and amortization and associates' earnings for fiscal 2019 totalled $1,321.5 million or 7.9% of sales compared with $1,011.1 million or 7.0% of sales for fiscal 2018. During fiscal 2019, we recorded retail network restructuring expenses of $36.0 million and generated a net gain of $6.0 million on the divestiture of pharmacies while for fiscal 2018, we recorded pharmacy network closure and restructuring expenses of $31.4 million, a $28.7 million expense related to the Jean Coutu Group acquisition and a $11.4 million expense for distribution network modernization. Excluding those items, adjusted operating income before depreciation and amortization and associates' earnings[(2)] for fiscal 2019 totalled $1,351.5 million or 8.1% of sales, compared with $1,082.6 million or 7.5% of sales for fiscal 2018. This increase was largely driven by the Jean Coutu Group acquisition.

Synergies related to the Jean Coutu acquisition generated in fiscal 2019 amounted to $58 million and to date, we have generated annualized synergies of $65 million[(3)].

Operating income before depreciation and amortization and associates' earnings adjustments (OI)[(2)]

	2019			2018		
(Millions of dollars, unless otherwise indicated)	**OI**	**Sales**	*(%)*	OI	Sales	*(%)*
Operating income before depreciation and amortization and associates' earnings	**1,321.5**	**16,767.5**	**7.9**	1,011.1	14,383.4	7.0
Retail network restructuring expenses	**36.0**			—		
Gain on divestiture of pharmacies	**(6.0)**			—		
Pharmacy network closure and restructuring expenses	**—**			31.4		
Business acquisition-related expenses	**—**			28.7		
Distribution network modernization project expenses	**—**			11.4		
Adjusted operating income before depreciation and amortization and associates' earnings[(2)]	**1,351.5**	**16,767.5**	**8.1**	1,082.6	14,383.4	7.5

Gross margin on sales for fiscal 2019 were 19.9% versus 19.7% for fiscal 2018.

For fiscal 2019, operating expenses as a percentage of sales was 12.0% compared with 12.6% for fiscal 2018. Excluding from fiscal 2019 the retail network restructuring expenses of $36.0 million and the $6.0 million net gain generated from the divestiture of pharmacies, and excluding from fiscal 2018 the $31.4 million for pharmacy network closure and restructuring expenses, the $28.7 million expense related to the Jean Coutu Group acquisition and the $11.4 million expense for distribution network modernization, operating expenses as a percentage of sales was 11.8% in 2019 compared with 12.1% in 2018. This difference is attributable to the inclusion of the Jean Coutu Group, partially offset by higher transportation costs.

(1) See table on "Net earnings adjustments" and section on "Non-IFRS measurements"
(2) See table on "Operating income before depreciation and amortization and associate's earnings adjustments" and section on "Non-IFRS measurements"
(3) See section on "Forward-looking information"

DEPRECIATION AND AMORTIZATION AND NET FINANCIAL COSTS

Total depreciation and amortization expense for fiscal 2019 were $286.4 million versus $233.5 million for fiscal 2018. Amortization of intangible assets acquired in connection with the Jean Coutu Group acquisition amounted to $38.7 million for fiscal 2019 compared with $15.0 million for fiscal 2018.

Net financial costs for fiscal 2019 were $103.8 million compared with $80.2 million for fiscal 2018. This increase stemmed primarily from the notes issued for the Jean Coutu Group acquisition.

SHARE OF EARNINGS, GAIN ON DISPOSAL OF INVESTMENTS IN ASSOCIATES AND GAIN ON REVALUATION AND DISPOSAL OF AN INVESTMENT AT FAIR VALUE

During fiscal 2019, the Company disposed of its investment in Colo-D Inc., an associate presented in other assets, for a total cash consideration of $59.0 million. A gain before income taxes of $36.4 million on the disposal of this investment was recognized in earnings.

During the first quarter of fiscal 2018, to fund a portion of the Jean Coutu Group acquisition, we disposed of most of our investment in ACT, and recorded a gain of $1,107.4 million. As a result of this disposal, the Corporation no longer has significant influence over ACT. Consequently, the investment was revalued at fair value and the Corporation recorded a $241.1 million fair value revaluation gain in net earnings. In the fourth quarter of fiscal 2018, we disposed of the majority of this investment at fair value and entered into a forward agreement with a financial institution for the disposal of the remaining shares. The disposal was completed in the first quarter of fiscal 2019 and the final revaluation of the financial liability resulted in a gain of $1.5 million recognized in net earnings.

No share of an associate's earnings was recorded in fiscal 2019 in comparison with a $30.8 million share recorded in fiscal 2018.

INCOME TAXES

The income tax expense of $254.8 million for fiscal 2019 and $358.2 million for fiscal 2018 represented an effective tax rate of 26.3% and 17.2% respectively. The low effective rate in 2018 resulted from the gain on disposal of the majority of our investment in ACT and the gain on fair value revaluation and disposal of our residual investment.

NET EARNINGS AND ADJUSTED NET EARNINGS(1)

Net earnings for fiscal 2019 were $714.4 million, a decrease of 58.4% from $1,718.5 million for fiscal 2018. Fully diluted net earnings per share were $2.78 compared with $7.16, down 61.2%. Excluding the specific items shown in the table below, adjusted net earnings(1) for fiscal 2019 totalled $731.6 million compared with $579.2 million for fiscal 2018, and adjusted fully diluted net earnings per share(1) amounted to $2.84 versus $2.41, up 26.3% and 17.8%, respectively.

(1) See table on "Net earnings adjustments" and section on "Non-IFRS measurements"
(2) See table on "Operating income before depreciation and amortization and associate's earnings adjustments" and section on "Non-IFRS measurements"
(3) See section on "Forward-looking information"

Net earnings adjustments[1]

	2019		2018		Change (%)	
	(Millions of dollars)	**Fully diluted EPS (Dollars)**	(Millions of dollars)	Fully diluted EPS (Dollars)	Net earnings	Fully diluted EPS
Net earnings	**714.4**	**2.78**	1,718.5	7.16	(58.4)	(61.2)
Retail network restructuring expenses, after taxes	**26.4**		—			
Gain on divestiture of pharmacies, after taxes	**(4.7)**		—			
Pharmacy network closure and restructuring expenses, after taxes	**—**		23.0			
Business acquisition-related expenses, after taxes	**—**		22.7			
Distribution network modernization project expenses, after taxes	**—**		8.4			
Amortization of intangible assets acquired in connection with the Jean Coutu Group acquisition, after taxes	**28.5**		11.0			
Income on business acquisition-related short-term investments and security deposits, after taxes	**—**		(15.6)			
Interest on notes issued in connection with a business acquisition, after taxes	**—**		14.0			
Financial costs on the balance payable for the buyout of minority interests, after taxes	**—**		1.3			
Gain on the disposal of investments in associates, after taxes	**(31.9)**		(968.1)			
Gain on revaluation and disposal of an investment at fair value, after taxes	**(1.1)**		(209.3)			
Share of an associate's earnings, after taxes	**—**		(26.7)			
Adjusted net earnings[1]	**731.6**	**2.84**	579.2	2.41	26.3	17.8

[1] See table on "Net earnings adjustments" and section on "Non-IFRS measurements"
[2] See table on "Operating income before depreciation and amortization and associate's earnings adjustments" and section on "Non-IFRS measurements"
[3] See section on "Forward-looking information"

QUARTERLY HIGHLIGHTS

(Millions of dollars, unless otherwise indicated)	**2019**	2018	Change *(%)*
Sales			
Q1[4]	**3,977.7**	3,111.8	27.8
Q2[4]	**3,701.6**	2,899.0	27.7
Q3[5]	**5,229.3**	4,636.4	12.8
Q4[4]	**3,858.9**	3,736.2	3.3
Fiscal	**16,767.5**	14,383.4	16.6
Net earnings			
Q1[4]	**203.1**	1,299.1	(84.4)
Q2[4]	**121.5**	106.9	13.7
Q3[5]	**222.4**	167.5	32.8
Q4[4]	**167.4**	145.0	15.4
Fiscal	**714.4**	1,718.5	(58.4)
Adjusted net earnings[1]			
Q1[4]	**172.2**	126.7	35.9
Q2[4]	**155.1**	108.1	43.5
Q3[5]	**230.3**	183.4	25.6
Q4[4]	**174.0**	161.0	8.1
Fiscal	**731.6**	579.2	26.3
Fully diluted net earnings per share ***(Dollars)***			
Q1[4]	**0.79**	5.67	(86.1)
Q2[4]	**0.47**	0.47	—
Q3[5]	**0.86**	0.69	24.6
Q4[4]	**0.66**	0.56	17.9
Fiscal	**2.78**	7.16	(61.2)
Adjusted fully diluted net earnings per share[1] ***(Dollars)***			
Q1[4]	**0.67**	0.55	21.8
Q2[4]	**0.60**	0.47	27.7
Q3[5]	**0.90**	0.75	20.0
Q4[4]	**0.68**	0.63	7.9
Fiscal	**2.84**	2.41	17.8

[4] 12 weeks
[5] 16 weeks

Sales in the first quarter of fiscal 2019 reached $3,977.7 million, up 27.8% compared with $3,111.8 million in the first quarter of fiscal 2018. Excluding $757.1 million in sales for the first quarter of 2019 resulting from the Jean Coutu Group, sales were up 3.5%. In the first quarter, food same-store sales were up 3.2% and inflation in our food basket was approximately 1.8%. Pharmacy same-store sales were up 1.5%, 0.8% for prescription drugs (2.2% for number of prescriptions) and 2.0% for front store sales.

Sales in the second quarter of fiscal 2019 reached $3,701.6 million, up 27.7% compared to $2,899.0 million in the second quarter of fiscal 2018. Excluding $686.4 million in sales for the second quarter of 2019 resulting from the Jean Coutu Group, sales were up 4.0%. In the second quarter, food same-store sales were up 4.3% and inflation in our food basket was approximately 2.5%. Pharmacy same-store sales were up 1.1%, with a 0.1% decline in prescription drugs (number of prescriptions were up 2.2%) and a 3.6% increase in front-store sales.

[1] See table on "Net earnings adjustments" and section on "Non-IFRS measurements"
[2] See table on "Operating income before depreciation and amortization and associate's earnings adjustments" and section on "Non-IFRS measurements"
[3] See section on "Forward-looking information"

Sales in the third quarter of fiscal 2019 reached $5,229.3 million, up 12.8% compared to $4,636.4 million in the third quarter of fiscal 2018. Excluding from 2019 and 2018 sales of $965.4 million and $467.0 million, respectively, generated by the Jean Coutu Group, sales were up 2.3%. Food same-store sales were up 3.1% (2.0% in 2018) and inflation in our food basket was approximately 2.5% (0.5% in 2018). Pharmacy same-store sales were up 3.4% (1.8% in 2018), with a 2.9% increase in prescription drugs (number of prescriptions were up 2.7%) and a 4.3% increase in front-store sales.

Sales in the fourth quarter of fiscal 2019 reached $3,858.9 million, up 3.3% compared to $3,736.2 million in the fourth quarter of fiscal 2018. Food same-store sales were up 4.1% (2.1% in 2018) and inflation in our food basket was approximately 2.8% (0.8% in 2018). Pharmacy same-store sales were up 3.4% (1.8% in 2018), with a 3.4% increase in prescription drugs (number of prescriptions were up 2.4%) and a 3.4% increase in front-store sales.

Net earnings for the first quarter of fiscal 2019 were $203.1 million, a decrease of 84.4% from $1,299.1 million for the first quarter of fiscal 2018. Fully diluted net earnings per share decreased by 86.1% to $0.79 from $5.67 in 2018. Excluding from the first quarter of fiscal 2019 the $7.4 million gain on divestiture of pharmacies, $9.0 million in amortization of intangible assets acquired in connection with the Jean Coutu Group acquisition, the $35.4 million gain on disposal of the investment in associate Colo-D Inc., and the $1.5 million gain on revaluation and disposal of an investment at fair value, and excluding from the first quarter of fiscal 2018 business acquisition-related expenses of $2.0 million, distribution network modernization project expenses of $11.4 million, the $1,107.4 million gain on disposal of the majority of our investment in ACT, the $225.6 million fair value revaluation gain on our residual investment in ACT, the $30.8 million share of an associate's earnings (ACT), $5.3 million in interest income on business acquisition-related short-term investments and security deposits, $2.2 million in interest expense on the notes issued to complete the acquisition, $1.8 million in financial costs on the balance payable in connection with the buyout of minority interests in Adonis and Phoenicia, as well as income taxes relating to all these items, adjusted net earnings[(1)] for the first quarter of fiscal 2019 totalled $172.2 million compared with $126.7 million for the corresponding quarter of fiscal 2018 and adjusted fully diluted net earnings per share[(1)] amounted to $0.67 compared with $0.55, up 35.9% and 21.8%, respectively.

Net earnings for the second quarter of fiscal 2019 were $121.5 million, an increase of 13.7% from $106.9 million for the second quarter of fiscal 2018, while fully diluted net earnings per share were $0.47, the same as for the corresponding quarter of fiscal 2018. Excluding from the second quarter of 2019 the retail network restructuring expenses of $36.0 million, the $1.4 million loss on divestiture of pharmacies and $8.8 million in amortization of intangible assets acquired in connection with the Jean Coutu Group acquisition, and excluding from the second quarter of fiscal 2018 $1.6 million expenses related to the Jean Coutu Group acquisition, $9.7 million in interest income on business acquisition-related short-term investments and security deposits and $9.8 million in interest expense on the notes issued to complete the acquisition, as well as income taxes relating to all these items, adjusted net earnings[(1)] for the second quarter of fiscal 2019 totalled $155.1 million compared with $108.1 million for the corresponding quarter of fiscal 2018 and adjusted fully diluted net earnings per share[(1)] amounted to $0.60 compared with $0.47, up 43.5% and 27.7%, respectively.

Net earnings for the third quarter of fiscal 2019 were $222.4 million, an increase of 32.8% from $167.5 million for the third quarter of fiscal 2018, while fully diluted net earnings per share were $0.86, compared with $0.69 for the corresponding quarter of fiscal 2018. Excluding from the third quarter of 2019 the $1.0 million gain resulting from the selling price adjustment related to the investment in associate Colo-D Inc. and $11.9 million in amortization of intangible assets acquired in connection with the Jean Coutu Group acquisition, and excluding from the third quarter of fiscal 2018 $25.1 million expenses related to the Jean Coutu Group acquisition, $6.0 million in amortization of intangible assets acquired in connection with the Jean Coutu Group acquisition, $6.3 million in interest income on business acquisition-related short-term investments and security deposits and $7.1 million in interest expense on the notes issued to complete the acquisition, as well as income taxes relating to all these items, adjusted net earnings[(1)] for the third quarter of fiscal 2019 totalled $230.3 million compared with $183.4 million for the corresponding quarter of fiscal 2018 and adjusted fully diluted net earnings per share[(1)] amounted to $0.90 compared with $0.75, up 25.6% and 20.0%, respectively.

Net earnings for the fourth quarter of fiscal 2019 were $167.4 million, an increase of 15.4% from $145.0 million for the fourth quarter of fiscal 2018, while fully diluted net earnings per share were $0.66, compared with $0.56 for the corresponding quarter of fiscal 2018. Excluding from the fourth quarter of 2019 the amortization of intangible assets acquired in connection with the Jean Coutu Group acquisition of $9.0 million and from the fourth quarter of fiscal 2018 the pharmacy network closure and restructuring expenses of $31.4 million, the amortization of intangible assets acquired in connection with the Jean Coutu Group acquisition of $9.0 million, the gain on revaluation and disposal on an investment at fair value of $15.5 million, as well as income taxes relating to all these items, adjusted net earnings[(1)] for the fourth quarter of fiscal 2019 totalled $174.0 million compared with $161.0 million for the corresponding quarter of fiscal 2018

[(1)] See table on "Net earnings adjustments" and section on "Non-IFRS measurements"
[(2)] See table on "Operating income before depreciation and amortization and associate's earnings adjustments" and section on "Non-IFRS measurements"
[(3)] See section on "Forward-looking information"

and adjusted fully diluted net earnings per share[1] amounted to $0.68 compared with $0.63, up 8.1% and 7.9%, respectively.

	2019				2018			
(Millions of dollars)	**Q1**	**Q2**	**Q3**	**Q4**	Q1	Q2	Q3	Q4
Net earnings	**203.1**	**121.5**	**222.4**	**167.4**	1,299.1	106.9	167.5	145.0
Retail network restructuring expenses, after taxes	**—**	**26.4**	**—**	**—**	—	—	—	—
Loss (gain) on divestiture of pharmacies, after taxes	**(5.4)**	**0.7**	**—**	**—**	—	—	—	—
Pharmacy network closure and restructuring expenses, after taxes	**—**	**—**	**—**	**—**	—	—	—	23.0
Business acquisition-related expenses, after taxes	**—**	**—**	**—**	**—**	1.5	1.1	20.1	—
Distribution network modernization project expenses, after taxes	**—**	**—**	**—**	**—**	8.4	—	—	—
Amortization of intangible assets acquired in connection with the Jean Coutu Group acquisition, after taxes	**6.6**	**6.5**	**8.8**	**6.6**	—	—	4.4	6.6
Income on business acquisition-related short-term investments and security deposits, after taxes	**—**	**—**	**—**	**—**	(3.9)	(7.1)	(4.6)	—
Interest on notes issued in connection with a business acquisition, after taxes	**—**	**—**	**—**	**—**	1.6	7.2	5.2	—
Financial costs on the balance payable for the buyout of minority interests, after taxes	**—**	**—**	**—**	**—**	1.3	—	—	—
Gain on disposal of investments in associates, after taxes	**(31.0)**	**—**	**(0.9)**	**—**	(958.9)	—	(9.2)	—
Gain on revaluation and disposal of an investment at fair value, after taxes	**(1.1)**	**—**	**—**	**—**	(195.7)	—	—	(13.6)
Share of an associate's earnings, after taxes	**—**	**—**	**—**	**—**	(26.7)	—	—	—
Adjusted net earnings[1]	**172.2**	**155.1**	**230.3**	**174.0**	126.7	108.1	183.4	161.0

	2019				2018			
(Dollars)	**Q1**	**Q2**	**Q3**	**Q4**	Q1	Q2	Q3	Q4
Fully diluted net earnings per share	**0.79**	**0.47**	**0.86**	**0.66**	5.67	0.47	0.69	0.56
Adjustments impact	**(0.12)**	**0.13**	**0.04**	**0.02**	(5.12)	—	0.06	0.07
Adjusted fully diluted net earnings per share[1]	**0.67**	**0.60**	**0.90**	**0.68**	0.55	0.47	0.75	0.63

CASH POSITION

OPERATING ACTIVITIES

Operating activities generated cash inflows of $687.7 million in fiscal 2019 compared with $750.4 million in fiscal 2018. The difference resulted primarily from the payment, in the first quarter of 2019, of taxes payable as at September 29, 2018, which were higher due to the gain realized on the disposal of our investment in ACT in fiscal 2018.

[1] See table on "Net earnings adjustments" and section on "Non-IFRS measurements"
[2] See table on "Operating income before depreciation and amortization and associate's earnings adjustments" and section on "Non-IFRS measurements"
[3] See section on "Forward-looking information"

INVESTING ACTIVITIES

In fiscal 2019, investing activities required cash outflows of $308.5 million compared with $1,677.5 million for fiscal 2018. This variation stemmed mainly from the $3,033.0 million business acquisition, net of cash acquired, the $221.2 million settlement of the buyout of minority interests in Adonis and Phoenicia, and $1,791.6 million in net proceeds on disposal of the investment in ACT, all in 2018, compared with $59.0 million in proceeds on disposal of the investment in associate Colo-D Inc. in 2019.

During fiscal 2019, we and our retailers opened 8 stores and carried out major expansions and renovations of 20 stores, 2 stores were relocated and 9 stores were closed for a net decrease of 11,800 square feet or 0.1% of our food retail network.

FINANCING ACTIVITIES

In fiscal 2019, financing activities required cash outflows of $332.7 million compared with cash inflows of $1,005.1 million in 2018. This difference stemmed primarily from a $1,173.6 million net increase in debt in 2018 owing to the issuance of Series F, G and H notes and to the term credit facility used to partly finance the Jean Coutu Group acquisition and $145.9 million in share repurchase in 2019.

FINANCIAL POSITION

We do not anticipate[3] any liquidity risk and consider our financial position at the end of fiscal 2019 as very solid. We had an unused authorized revolving credit facility of $600.0 million. Our non-current debt represented 30.6% of the combined total of non-current debt and equity (non-current debt/total capital).

At the end of fiscal 2019, 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, 2024	—
Series E Notes	Rates fluctuate with changes in bankers' acceptance rates	February 27, 2020	400.0
Series C Notes	3.20% fixed rate	December 1, 2021	300.0
Series F Notes	2.68% fixed rate	December 5, 2022	300.0
Series G Notes	3.39% fixed rate	December 6, 2027	450.0
Series B Notes	5.97% fixed rate	October 15, 2035	400.0
Series D Notes	5.03% fixed rate	December 1, 2044	300.0
Series H Notes	4.27% fixed rate	December 4, 2047	450.0

Our main financial ratios were as follows:

	As at September 28, 2019	As at September 29, 2018
Financial structure		
Non-current debt *(Millions of dollars)*	**2,629.0**	2,630.4
Equity *(Millions of dollars)*	**5,968.6**	5,656.0
Non-current debt/total capital *(%)*	**30.6**	31.7

Since the Corporation intends to refinance the Series E Notes presented under non-current debt, the amount of $400.0 million was added to non-current debt when calculating the ratio of non-current debt to total capital.

(1) See table on "Net earnings adjustments" and section on "Non-IFRS measurements"
(2) See table on "Operating income before depreciation and amortization and associate's earnings adjustments" and section on "Non-IFRS measurements"
(3) See section on "Forward-looking information"

	2019	2018
Results		
Operating income before depreciation and amortization and associates' earnings/Financial costs *(Times)*	**12.7**	12.6

CAPITAL STOCK

	Common Shares issued	
(Thousands)	**2019**	2018
Balance – beginning of year	**256,253**	227,719
Share issue	**—**	28,031
Share redemption	**(2,925)**	—
Stock options exercised	**1,112**	503
Balance – end of year	**254,440**	256,253
Balance as at November 29, 2019 and November 30, 2018	**254,222**	256,272

	Treasury shares	
(Thousands)	**2019**	2018
Balance – beginning of year	**603**	579
Acquisition	**115**	250
Release	**(141)**	(226)
Balance – end of year	**577**	603
Balance as at November 29, 2019 and November 30, 2018	**577**	603

STOCK OPTIONS PLAN

	As at November 29, 2019	**As at September 28, 2019**	As at September 29, 2018
Stock options *(Thousands)*	**2,249**	**2,281**	3,067
Exercise prices *(Dollars)*	**20.30 to 48.68**	**20.30 to 48.68**	17.72 to 44.73
Weighted average exercise price *(Dollars)*	**37.38**	**37.30**	30.30

PERFORMANCE SHARE UNIT PLAN

	As at November 29, 2019	**As at September 28, 2019**	As at September 29, 2018
Performance share units *(Thousands)*	**605**	**605**	579

NORMAL COURSE ISSUER BID PROGRAM

Under the normal course issuer bid program covering the period between November 23, 2018 and November 22, 2019, the Corporation repurchased 3,175,000 Common Shares at an average price of 50.31 $, for a total consideration of $159.7 million.

The Corporation decided to renew the issuer bid program as an additional option for using excess funds. Thus, the Corporation will be able to repurchase, in the normal course of business, between November 25, 2019 and November 24, 2020, up to 7,000,000 of its Common Shares representing approximately 2.75 % of its issued and outstanding shares on November 12, 2019. Repurchases will be made through the facilities of the Toronto Stock Exchange at market price, in accordance with its policies and regulations, or through the facilities of alternative trading systems as well as by other means as may be permitted by a securities regulatory authority, including by private agreements.

(1) See table on "Net earnings adjustments" and section on "Non-IFRS measurements"
(2) See table on "Operating income before depreciation and amortization and associate's earnings adjustments" and section on "Non-IFRS measurements"
(3) See section on "Forward-looking information"

BUYOUT OF NON-CONTROLLING INTEREST

The Corporation will acquire the minority interest in Groupe Première Moisson Inc. in the first quarter of fiscal 2020. Consequently, the liability for this non-controlling interest has been reclassified in current liabilities.

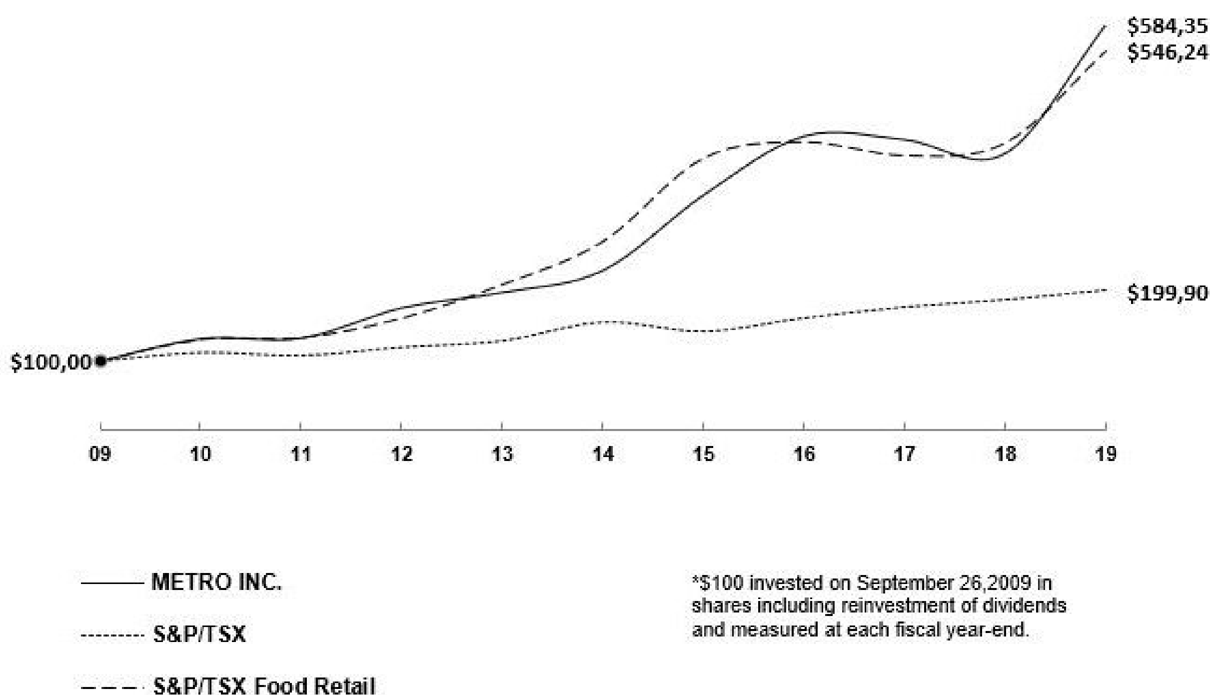
DIVIDEND

For the 25th consecutive year, the Corporation paid quarterly dividends to its shareholders. The annual dividend increased by 11.0%, to $0.7800 per share compared to $0.7025 in 2018, for total dividends of $198.9 million in 2019 compared to $164.8 million in 2018.

SHARE TRADING

The value of METRO shares remained in the $39.04 to $58.94 range throughout fiscal 2019 ($38.32 to $45.44 in 2018). A total of 139.6 million shares traded on the TSX during this fiscal year (120.4 million in 2018). The closing price on Friday, September 27, 2019 was $57.91, compared to $40.18 at the end of fiscal 2018. Since fiscal year-end, the value of METRO shares has remained in the $54.52 to $59.03 range. The closing price on November 29, 2019 was $58.18. METRO shares have maintained sustained growth over the last 10 years.

COMPARATIVE SHARE PERFORMANCE (10 YEARS)*



(1) See table on "Net earnings adjustments" and section on "Non-IFRS measurements"
(2) See table on "Operating income before depreciation and amortization and associate's earnings adjustments" and section on "Non-IFRS measurements"
(3) See section on "Forward-looking information"

CONTINGENCIES

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 at this stage, the Corporation does not believe that these matters will have a material effect on the Corporation's financial position or on consolidated earnings. However, since any litigation involves uncertainty, it is not possible to predict the outcome of these litigations or the amount of potential losses. No accruals or provisions for contingent losses have been recognized in the Corporation’s annual consolidated financial statements.

In May 2019, two proposed class actions relating to opioids were filed in Ontario and in Québec against a large group of defendants including a subsidiary of the Corporation, Pro Doc Ltée. The allegations in these proposed class actions are similar to the allegations contained in the proposed class action filed by the province of British Columbia in August 2018 against numerous manufacturers and distributors of opioids, including subsidiaries of the Corporation, Pro Doc Ltée and The Jean Coutu Group (PJC) Inc. These proposed class actions contain allegations of breach of the Competition Act, of fraudulent misrepresentation and deceit, and of negligence. The province of British Columbia seeks damages (unquantified) on behalf of all federal, provincial and territorial governments and agencies for expenses allegedly incurred in paying for opioid prescriptions and other healthcare costs that would be related to opioid addiction and abuse while the Ontario and Québec proposed claims seek recovery of damages on behalf of opioid users directly. The Corporation believes these proceedings are without merit and that, in certain cases, there is no jurisdiction.

In October 2017, the Canadian Competition Bureau began an investigation into the supply and sale of commercial bread which involves certain Canadian suppliers and retailers, including the Corporation. The Corporation continues to fully cooperate with the Competition Bureau. Class actions lawsuits have also been filed against the Corporation, suppliers and other retailers. Based on the information available to date, the Corporation does not believe that it or any of its employees have violated the Competition Act.

During the 2016 fiscal year, an application for authorization to institute a class action was served on the Jean Coutu Group by Sopropharm, an association incorporated under the Professional Syndicates Act of which certain franchised drugstore owners of the Jean Coutu Group are members. The application seeks to have the class action authorized in the form of a declaratory action seeking amongst others (i) to set aside certain contractual provisions of the Jean Coutu Group’s standard franchise agreements, including the clause providing for the payment of royalties on sales of medication by franchised establishments; (ii) to restore certain benefits; and (iii) to reduce certain contractual obligations. On November 1, 2018, the Court granted the application for authorization to institute a class action, the authorization process being merely a procedural step and the judgment in no way decides the case on the merits. The Corporation intends to contest this action on the merits.

SOURCES OF FINANCING

Our operating activities generated in 2019 cash flows in the amount of $687.7 million. These cash flows were used to finance our investing activities, including $396.3 million in fixed and intangible assets acquisition, to redeem shares for an amount of $145.9 million, to pay dividends of $198.9 million, and to carry out other investing and financing activities.

At 2019 fiscal year-end, our financial position mainly consisted of cash and cash equivalents in the amount of $273.4 million, an unused authorized Revolving Credit Facility of $600.0 million maturing in 2024, Series E Notes in the amount of $400.0 million maturing in 2020, Series C Notes in the amount of $300.0 million maturing in 2021, Series F Notes in the amount of $300.0 million maturing in 2022, Series G Notes in the amount of $450.0 million maturing in 2027, Series B Notes in the amount of $400.0 million maturing in 2035, Series D Notes in the amount of $300.0 million maturing in 2044 and Series H Notes in the amount of $450.0 million maturing in 2047. The Company intends to refinance the Series E Notes presented under non-current debt.

We believe[3] that cash flows from next year's operating activities will be sufficient to finance the Corporation's current investing activities.

[1] See table on "Net earnings adjustments" and section on "Non-IFRS measurements"
[2] See table on "Operating income before depreciation and amortization and associate's earnings adjustments" and section on "Non-IFRS measurements"
[3] See section on "Forward-looking information"

CONTRACTUAL OBLIGATIONS

Payment commitments by fiscal year (capital and interest)

(Millions of dollars)	Loans	Notes	Finance lease commitments	Service contract commitments	Operating lease commitments	Lease and sublease commitments[6]	Total
2020	25.9	495.5	4.9	141.9	194.6	99.5	962.3
2021	3.3	91.1	3.5	109.2	187.9	92.8	487.8
2022	2.3	383.1	2.3	84.4	169.6	84.0	725.7
2023	1.8	374.8	2.0	68.9	147.4	75.3	670.2
2024	1.5	73.4	2.0	67.8	124.2	66.1	335.0
2025 and thereafter	26.5	2,661.4	14.4	10.3	573.2	261.5	3,547.3
	61.3	4,079.3	29.1	482.5	1,396.9	679.2	6,728.3

[6] The Corporation has lease commitments with varying terms through 2040, to lease premises which it sublets to clients, generally under the same conditions.

RELATED PARTY TRANSACTIONS

During fiscal 2019, we supplied drugstores held by a member of the Board of Directors and paid fees to Dunnhumby Canada Limited, 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. The joint venture with Dunnhumby Canada Limited ended on February 28, 2019.

EVENT AFTER THE REPORTING PERIOD

On December 9, 2019, the Corporation closed the sale of MissFresh as part of a transaction involving all of MissFresh's assets. The result of this transaction will be recorded in the first quarter of 2020.

FOURTH QUARTER

(Millions of dollars, except for net earnings per share)	**2019**	2018	Change
Sales	**3,858.9**	3,736.2	3.3
Operating income before depreciation and amortization and associate's earnings	**321.6**	266.5	20.7
Adjusted operating income before depreciation and amortization and associate's earnings[1]	**321.6**	297.9	8.0
Net earnings	**167.4**	145.0	15.4
Adjusted net earnings[1]	**174.0**	161.0	8.1
Fully diluted net earnings per share	**0.66**	0.56	17.9
Adjusted fully diluted net earnings per share[1]	**0.68**	0.63	7.9
Cash flows from:			
Operating activities	**228.9**	250.9	—
Investing activities	**(146.1)**	207.1	—
Financing activities	**(72.7)**	(350.8)	—

[1] *See table on "Net earnings adjustments" and section on "Non-IFRS measurements"*
[2] *See table on "Operating income before depreciation and amortization and associate's earnings adjustments" and section on "Non-IFRS measurements"*
[3] *See section on "Forward-looking information"*

SALES

Sales in the fourth quarter of fiscal 2019 reached $3,858.9 million, up 3.3% compared to $3,736.2 million in the fourth quarter of fiscal 2018. Food same-store sales were up 4.1% (2.1% in 2018) and inflation in our food basket was approximately 2.8% (0.8% in 2018). Pharmacy same-store sales were up 3.4% (1.8% in 2018), with a 3.4% increase in prescription drugs (number of prescriptions were up 2.4%) and a 3.4% increase in front-store sales.

OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION AND ASSOCIATE'S EARNINGS

Operating income before depreciation and amortization and associates' earnings for the fourth quarter of fiscal 2019 totalled $321.6 million, or 8.3% of sales, versus $266.5 million, or 7.1% of sales, for the fourth quarter last year. During the fourth quarter of fiscal 2018, we recorded pharmacy network closure and restructuring expenses of $31.4 million. Excluding this item, adjusted operating income before depreciation and amortization and associates' earnings[(2)] for the fourth quarter of fiscal 2018 totalled $297.9 million, or 8.0% of sales.

Synergies related to the Jean Coutu acquisition generated for the fourth quarter of fiscal 2019 amounted to $18 million compared with $6.6 million for the corresponding quarter of fiscal 2018.

Operating income before depreciation and amortization and associates' earnings adjustments (OI)[(2)]

	12 weeks / Fiscal Year					
	2019			2018		
(Millions of dollars, unless otherwise indicated)	**OI**	**Sales**	***(%)***	OI	Sales	*(%)*
Operating income before depreciation and amortization and associates' earnings	**321.6**	**3,858.9**	**8.3**	266.5	3,736.2	7.1
Pharmacy network closure and restructuring expenses	**—**			31.4		
Adjusted operating income before depreciation and amortization and associates' earnings[(2)]	**321.6**	**3,858.9**	**8.3**	297.9	3,736.2	8.0

Gross margins on sales for the fourth quarter of 2019 were 20.2% versus 19.7% for the corresponding quarter of 2018.

Operating expenses as a percentage of sales for the fourth quarter of 2019 were 11.9% versus 12.6% for the corresponding quarter of fiscal 2018 (11.7% excluding the pharmacy network closure and restructuring expenses of $31.4 million). This variation was a result of the inclusion of the Jean Coutu Group partially offset by higher transportation costs.

DEPRECIATION AND AMORTIZATION AND NET FINANCIAL COSTS

Total depreciation and amortization expense for the fourth quarter of fiscal 2019 were $68.5 million versus $65.0 million for the corresponding quarter of fiscal 2018. Amortization of intangible assets acquired in connection with the Jean Coutu Group acquisition amounted to $9.0 million for the fourth quarter of fiscal 2019 as well as for the fourth quarter of fiscal 2018.

Net financial costs for the fourth quarter of fiscal 2019 were $23.4 million compared with $23.9 million for the corresponding quarter of fiscal 2018.

INCOME TAXES

The income tax expense of $62.3 million for the fourth quarter of fiscal 2019 represented an effective tax rate of 27.1% compared with an income tax expense of $48.1 million in the fourth quarter of fiscal 2018 which represented an effective tax rate of 24.9%. The lower rate for the fourth quarter of fiscal 2018 is related to the disposal of the investment in ACT.

NET EARNINGS AND ADJUSTED NET EARNINGS[(1)]

Net earnings for the fourth quarter of fiscal 2019 were $167.4 million, an increase of 15.4% from $145.0 million for the fourth quarter of fiscal 2018, while fully diluted net earnings per share were $0.66, compared with $0.56 for the corresponding quarter of fiscal 2018. Excluding the specific items shown in the table below, adjusted net earnings[(1)] for the fourth quarter of fiscal 2019 totalled $174.0 million compared with $161.0 million for the corresponding quarter of

[(1)] See table on "Net earnings adjustments" and section on "Non-IFRS measurements"
[(2)] See table on "Operating income before depreciation and amortization and associate's earnings adjustments" and section on "Non-IFRS measurements"
[(3)] See section on "Forward-looking information"

fiscal 2018, and adjusted fully diluted net earnings per share[1] amounted to $0.68 versus $0.63, up 8.1% and 7.9%, respectively.

Net earnings adjustments[1]

	12 weeks / Fiscal Year					
	2019		2018		Change (%)	
	(Millions of dollars)	**Fully diluted EPS (Dollars)**	(Millions of dollars)	Fully diluted EPS (Dollars)	Net earnings	Fully diluted EPS
Net earnings	**167.4**	**0.66**	145.0	0.56	15.4	17.9
Pharmacy network closure and restructuring expenses, after taxes	**—**		23.0			
Amortization of intangible assets acquired in connection with the Jean Coutu Group acquisition, after taxes	**6.6**		6.6			
Gain on revaluation and disposal of an investment at fair value, after taxes	**—**		(13.6)			
Adjusted net earnings[1]	**174.0**	**0.68**	161.0	0.63	8.1	7.9

CASH POSITION

Operating activities

Operating activities generated cash inflows of $228.9 million in the fourth quarter compared with $250.9 million for the corresponding quarter of fiscal 2018. This difference is mainly due to a significant contribution to a pension plan.

Investing activities

Investing activities required cash outflows of $146.1 million for the fourth quarter of fiscal 2019 compared with cash inflows of $207.1 million for the corresponding quarter of fiscal 2018. The difference stemmed mainly from the disposal, in 2018, of a portion of the investment at fair value in ACT and the equity forward agreement entered into for the remaining shares of this investment which generated cash flows of $257.6 million and $68.4 million, respectively.

Financing activities

In the fourth quarter of 2019, financing activities required cash outflows of $72.7 million compared with $350.8 million in the corresponding quarter of 2018. This difference resulted primarily from a $302.9 million net decrease in debt in 2018 and $28.2 million in share repurchases in 2019.

DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation adopted a financial 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 2019, the Corporation used derivative financial instruments as described in notes 2 and 28 to the consolidated financial statements.

NEW ACCOUNTING STANDARDS

ACCOUNTING STANDARD ISSUED BUT NOT YET EFFECTIVE

Leases

In January 2016, the IASB issued IFRS 16, *Leases*, which replaces IAS 17, *Leases* and related interpretations. Under IFRS 16, which provides a single accounting 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. The accounting requirements for lessors remain similar to those under IAS 17. IFRS 16 applies to fiscal years beginning on or after January 1, 2019, which for the Corporation is fiscal year beginning on September 29, 2019.

[1] See table on "Net earnings adjustments" and section on "Non-IFRS measurements"
[2] See table on "Operating income before depreciation and amortization and associate's earnings adjustments" and section on "Non-IFRS measurements"
[3] See section on "Forward-looking information"

Under IFRS 16 transitional provisions, the Corporation will adopt the standard using a modified retrospective approach, and the cumulative impact of the initial application of the standard will be recognized as an adjustment to equity on transition.

As a lessee, the Corporation will recognize right-of-use assets and lease liabilities in respect of operating leases for property, vehicles and equipment. Depreciation expense for right-of-use assets and interest expense on lease liabilities will replace rental expense previously recognized under IAS 17 on a straight-line basis over the lease term. The lease liabilities will be measured at the present value of the remaining lease payments and the right-of-use assets will be measured using the modified retrospective approach. The discount rate used will be the Corporation's incremental borrowing rate on the transition date of September 29, 2019.

As an intermediate lessor under several leases, the Corporation has assessed the classification of its sublease agreements based on the right-of-use asset related to the main lease and not on the underlying asset. As a result of this change, the Corporation expects an increase in current and non-current receivables recorded for leases that should be classified as finance leases.

The Corporation will use the following practical expedients as permitted by IFRS 16 at the initial application date:

- Apply IFRS 16 only to contracts that were previously identified as leases under IAS 17.
- Apply a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Rely on an existing assessment to determine whether a lease is onerous, instead of performing a review of the impairment of the right-of-use assets.
- Exclude leases which end within 12 months of the date of the initial application.
- Elect not to apply IFRS 16 to leases for which the underlying asset is of low value.
- Exclude initial direct costs from the measurement of right-of-use assets.
- Use hindsight, such as in determining the lease term where the contract contains options to extend or terminate the lease.

We expect(3) increases in liabilities ranging from $2.1 billion to $2.3 billion and in assets, including right-of-use assets as well as receivables (current and non-current) related to sublease agreements, ranging from $1.9 billion to $2.1 billion with the net impact recorded in opening retained earnings. Actual results from the initial application of IFRS 16 may differ from estimated amounts, the Corporation continues to perfect the estimates and input data that will be used in the calculations.

ACCOUNTING STANDARDS ADOPTED IN 2019

Financial instruments

Effective the first quarter of 2019, the Corporation adopted IFRS 9, *Financial Instruments*, which replaces IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

The Corporation adopted the new classification and valuation, impairment and general hedging requirements on September 30, 2018 by applying the classification and valuation, including impairment, requirements retrospectively, with the cumulative effect of initially applying the standard recognized in opening retained earnings as at September 30, 2018 and without restatement of comparative information.

Classification of financial instruments

The adoption of IFRS 9 changes the Corporation's accounting policies with respect to the classification of financial instruments.

Following adoption, the Corporation's classification is as follows:

- Cash and cash equivalents were classified as "Financial assets at fair value through profit and loss" before the adoption of IFRS 9 and are now classified as subsequently measured at amortized cost.
- Accounts receivable and loans to certain customers were classified as "Loans and receivables" before the adoption of IFRS 9 and are now classified as subsequently measured at amortized cost.
- The investment at fair value was classified as an "Available-for-sale financial asset" before the adoption of IFRS 9 and is now classified as subsequently measured at fair value through other comprehensive income. Accumulated other comprehensive income of $4.9 was therefore reclassified to retained earnings as at September 30, 2018.

(1) See table on "Net earnings adjustments" and section on "Non-IFRS measurements"
(2) See table on "Operating income before depreciation and amortization and associate's earnings adjustments" and section on "Non-IFRS measurements"
(3) See section on "Forward-looking information"

- Bank loans, accounts payable excluding deferred revenues, the revolving credit facility, notes and loans payable were classified as "Other financial liabilities" before the adoption of IFRS 9 and are now classified as subsequently measured at amortized cost.
- Non-controlling interests were classified as "Financial liabilities held for trading" before the adoption of IFRS 9 and are now classified as subsequently measured at fair value through profit and loss. Gains or losses resulting from the revaluation at the end of each period recorded may be recognized in net earnings or retained earnings. The Corporation has elected to record them in retained earnings.
- Derivative financial instruments not designated as hedges were classified as "Financial assets and liabilities at fair value through profit and loss" before the adoption of IFRS 9 and are now classified as subsequently measured at fair value through profit and loss.

The changes in classification and measurement criteria resulting from the adoption of IFRS 9 had no impact on the measurement of financial instruments.

Impairment of financial assets

The adoption of IFRS 9 changes the method used to calculate the impairment of accounts receivable and loans to certain customers.

At each reporting date, the Corporation estimates expected credit losses based on its credit loss history. Those expected loses are adjusted to reflect factors that are specific to the accounts receivable and loans to certain customers, general economic conditions as well as an assessment of both current and forecasted economic conditions at the reporting date, including time value of money when appropriate. The evaluation is calculated using the simplified method for cash and current assets and the general method for loans. The net change in expected credit losses on accounts receivable and loans to certain customers is recognized in net earnings.

The adoption of IFRS 9 had no impact on the impairment of accounts receivable and loans to certain customers.

Revenue from contracts with customers

Effective the first quarter of 2019, the Corporation adopted IFRS 15, *Revenue from Contracts with Customers*. IFRS 15 replaces IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and related interpretations. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

The Corporation adopted IFRS 15 retrospectively in accordance with the transitional provisions thereof. The application of IFRS 15 had no impact on the amounts recognized in the Corporation's consolidated financial statements, and no amounts have been reclassified or restated.

Under IFRS 15, revenue is recognized when control of the goods or services is transferred to the customer. Retail sales made by corporate stores and by stores qualifying as structured entities are recognized at the time of sale to the customer, and sales to affiliated or franchised stores and to other customers are recognized when the goods are delivered to them. Rebates granted by the Corporation are recorded as a reduction in sales.

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 "annualize", "continue", "anticipate", "believe", "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 2020 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

(1) See table on "Net earnings adjustments" and section on "Non-IFRS measurements"
(2) See table on "Operating income before depreciation and amortization and associate's earnings adjustments" and section on "Non-IFRS measurements"
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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 OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION AND ASSOCIATES' EARNINGS, ADJUSTED NET EARNINGS AND ADJUSTED FULLY DILUTED NET EARNINGS PER SHARE

Adjusted operating income before depreciation and amortization and associates' earnings, adjusted net earnings and adjusted fully diluted net earnings per share are earnings measurements that exclude some items that must be recognized under IFRS. They are non-IFRS measurements. We believe that presenting earnings without these items, which are not necessarily reflective of the Corporation's performance, leaves readers of financial statements better informed as to the current period and corresponding prior year's period's operating earnings, thus enabling them to better perform trend analysis, evaluate the Corporation's financial performance and judge its future outlook. The exclusion of these items does not imply that they are non-recurring.

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 28, 2019.

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.

(1) See table on "Net earnings adjustments" and section on "Non-IFRS measurements"
(2) See table on "Operating income before depreciation and amortization and associate's earnings adjustments" and section on "Non-IFRS measurements"
(3) See section on "Forward-looking information"

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 and control the plant's main activities. For these reasons, the Corporation consolidates it in the Corporation's financial statements.

Determination of the aggregation of operating segments

The Corporation uses judgment in determining the aggregation of business segments. The reportable operating segment comprises the food operations segment and the pharmaceutical operations segment. The Corporation has aggregated these two business segments due to the similar nature of their goods and services and similar economic characteristics: operations are carried on primarily in Québec and Ontario and are therefore subject to the same regulatory environment and competitive and economic market pressures, use the same product distribution methods and serve the same customers.

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 rates. The key assumptions are disclosed in notes 13 and 14 to the annual consolidated financial statements.

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-current liability related to the non-controlling interest 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 MissFresh (MissFresh and Première Moisson in 2018) 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.

[1] See table on "Net earnings adjustments" and section on "Non-IFRS measurements"
[2] See table on "Operating income before depreciation and amortization and associate's earnings adjustments" and section on "Non-IFRS measurements"
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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 food safety, product contamination, handling and defective products. 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 for our business activities and we could have to deal with certain security risks, notably cyberattacks, which could harm the availability and integrity of the systems or compromise data privacy.

In the normal course of our activities, we gather information that is confidential in nature concerning our customers, suppliers, employees, partners and loyalty program participants. Personal and confidential data is also gathered from customers who do business with the drugstores affiliated to one of our banners. Furthermore, the online shopping sites represent an additional risk with respect to the security of our systems. As a result, we are even more exposed to the risk of cyberattacks aimed at stealing information or interrupting our computer systems.

A systems breakdown could have a major impact on our business operations, while a cyberattack or an intrusion into our systems could result in unauthorized persons altering our systems or gaining access to sensitive and confidential information and then using or damaging it. Such situations could also affect third parties who provide essential services for our operations or who store confidential information. These events could have a negative impact on our customers and partners that could result in financial losses, reducing our competitive advantage or tarnishing our reputation.
In order to mitigate these risks, management deployed various technological security measures, which include a high-availability environment for all of its critical systems, and has set up processes, procedures and controls related to the various systems concerned. For instance, in addition to setting up strong controls with respect to systems access, the Company has hired a specialized firm to carry out occasional intrusion tests. We have also implemented an information security awareness and training program for our employees. Third parties integrated into our operations have been selected by the computer systems team, taking their specific expertise into consideration.

No significant technology-related incident occurred over the course of the fiscal year. Considering the rapid evolution of risks with respect to cybersecurity as well as the complexity of threats, we cannot guarantee that the measures taken,

(1) See table on "Net earnings adjustments" and section on "Non-IFRS measurements"
(2) See table on "Operating income before depreciation and amortization and associate's earnings adjustments" and section on "Non-IFRS measurements"
(3) See section on "Forward-looking information"

by the Company and the third parties that it deals with, will be adequate enough to prevent or detect a cyberattack on time. In that regard, we keep ourselves informed of the new information security trends and practices in order to take proactive action.

LABOUR RELATIONS

The majority of our store and distribution centre employees are unionized. Collective bargaining may give rise to work stoppages or slowdowns that could impact negatively the Corporation. We negotiate agreements with different maturity dates and 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[(3)] 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 a worked-related accident prevention policy. Furthermore at all of our sites, we have workplace health and safety committees responsible for accident prevention.

HIRING, EMPLOYEE RETENTION , AND ORGANIZATION STRUCTURE

Our recruitment program, salary structure, performance evaluation programs, succession, and training plans all entail risks which could negatively impact our capacity to execute our strategic plan as well as our ability to attract and retain necessary qualified resources to sustain the Corporation's growth and success. We have proven practices to attract the professionals necessary for our operations. We use performance evaluation practices supervised by our human resources department. Our salary structure is regularly reviewed in order to ensure that we remain competitive on the market. We have a succession plan in place to ensure we have well-identified resources for the key positions in the Corporation.

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. For more information, visit *metro.ca/Corporate Responsibility*.

REGULATIONS

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

With the acquisition of Jean Coutu Group, the Corporation is relying on prescription drug sales for a more significant portion of its sales and operating income. The pharmacy activities are exposed to risks related to the regulated nature of some of our activities and the activities of our pharmacist/owner franchisees.

Any changes to laws and regulations or policies regarding the Corporation's activities could have a material adverse effect on its performance and on the sales growth. Processes are in place to ensure our compliance as well as to monitor any and all changes to the laws and regulations in effect and any new laws and regulations.

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.

(1) See table on "Net earnings adjustments" and section on "Non-IFRS measurements"
(2) See table on "Operating income before depreciation and amortization and associate's earnings adjustments" and section on "Non-IFRS measurements"
(3) See section on "Forward-looking information"

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 2017, we acquired MissFresh, a company specializing in the delivery of meal kits, allowing us to continue our efforts aimed at meeting all of the emerging needs and behaviours in the food industry.

In the pharmacy market, we have large, medium, and small drugstores under the Jean Coutu, Brunet, Metro Pharmacy, and Food Basics Pharmacy banners. We acquired in 2018 the Jean Coutu Group which operates a network of 415 franchised drugstores in Québec, New Brunswick and Ontario under the PJC Jean Coutu, PJC Santé and PJC Santé Beauté banners.

With the *metro&moi* and *Air Miles*® loyalty programs in our Metro and Metro Plus supermarkets and our Jean Coutu drugstores network, 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.

FRANCHISEES AND AFFILIATES

Some of our franchisees and affiliates might be in breach of certain provisions in the franchise or affiliation contracts, such as purchasing policies and marketing plans. Non-compliance with such contracts 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, exposing ourselves to exchange rate risks. According to our financial 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[3] that cash flows generated by our operating activities are sufficient to provide for all outflows required by our financing activities.

JEAN COUTU GROUP ACQUISITION

The successful combination of the Jean Coutu Group's activities requires significant efforts on the part of management of the Corporation. Ineffective change management and poor integration decisions could cause disruptions to the pharmacy activities of the Corporation. Failure to successfully execute enterprise integration, to realize the anticipated strategic benefits or the synergies associated with this acquisition could adversely affect the reputation, operations or financial performance of the Corporation. A project management office, under the leadership of the Corporation's management, ensures that all directions and decisions are aligned with the realization of anticipated strategic benefits.

Montréal, Canada, December 12, 2019

[1] *See table on "Net earnings adjustments" and section on "Non-IFRS measurements"*
[2] *See table on "Operating income before depreciation and amortization and associate's earnings adjustments" and section on "Non-IFRS measurements"*
[3] *See section on "Forward-looking information"*

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

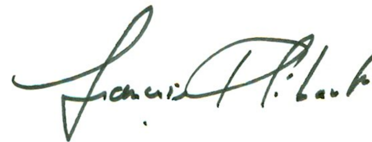
The preparation and presentation of the consolidated financial statements of METRO INC. and the other financial information contained in this Annual Report are the responsibility of management. This responsibility is based on a judicious choice of appropriate accounting principles and policies, the application 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

November 19, 2019

INDEPENDENT AUDITORS' REPORT

To the shareholders of **METRO INC.**

Opinion

We have audited the consolidated financial statements of METRO Inc. and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at September 28, 2019 and September 29, 2018, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at September 28, 2019 and September 29, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If based on the work we will perform on this other information, we conclude there is a material misstatement of other information, we are required to report that fact to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Martine Quintal.

Ernst & Young LLP[1]

Montréal, Canada
November 19, 2019

[1] CPA auditor, CA, public accountancy permit no. A112005

A member firm of Ernst & Young Global Limited

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Annual Consolidated Financial Statements

METRO INC.

September 28, 2019

metro

Table of contents

	Page
Consolidated statements of income	41
Consolidated statements of comprehensive income	42
Consolidated statements of financial position	43
Consolidated statements of changes in equity	44
Consolidated statements of cash flows	46
Notes to consolidated financial statements	47
1- Description of business	47
2- Significant accounting policies	47
3- New accounting standards	52
4- Significant judgements and estimates	54
5- Business acquisition	55
6- Additional information on the nature of earnings components	57
7- Income taxes	58
8- Net earnings per share	59
9- Inventories	60
10- Investment at fair value	60
11- Fixed assets	61
12- Investment properties	62
13- Intangible assets	63
14- Goodwill	64
15- Other assets	65
16- Bank loans	65
17- Offsetting	65
18- Provisions	66
19- Debt	67
20- Other liabilities	68
21- Capital stock	69
22- Dividends	71
23- Employee benefits	72
24- Commitments	76
25- Contingencies	77
26- Related party transactions	78
27- Management of capital	79
28- Financial instruments	80
29- Approval of financial statements	82

Consolidated statements of income

Years ended September 28, 2019 and September 29, 2018

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

	2019	2018
Sales *(notes 6 and 26)*	**16,767.5**	14,383.4
Cost of sales and operating expenses *(notes 6 and 26)*	**(15,416.0)**	(13,329.5)
Retail network restructuring expenses *(notes 6 and 18)*	**(36.0)**	—
Gain on divestiture of pharmacies *(notes 5 et 6)*	**6.0**	—
Pharmacy network closure and restructuring expenses *(notes 6 and 18)*	**—**	(31.4)
Distribution network modernization project expenses *(notes 6 and 18)*	**—**	(11.4)
Operating income before depreciation and amortization and associate's earnings	**1,321.5**	1,011.1
Depreciation and amortization *(note 6)*	**(286.4)**	(233.5)
Financial costs, net *(note 6)*	**(103.8)**	(80.2)
Gain on disposal of the majority of the investment in an associate *(notes 6, 10 and 15)*	**36.4**	1,107.4
Gain on revaluation and disposal of an investment at fair value *(notes 6 and 10)*	**1.5**	241.1
Share of an associate's earnings *(notes 6 and 10)*	**—**	30.8
Earnings before income taxes	**969.2**	2,076.7
Income taxes *(note 7)*	**(254.8)**	(358.2)
Net earnings	**714.4**	1,718.5
Attributable to:		
Equity holders of the parent	**711.6**	1,716.5
Non-controlling interests	**2.8**	2.0
	714.4	1,718.5
Net earnings per share (Dollars) *(notes 8 and 21)*		
Basic	**2.79**	7.20
Fully diluted	**2.78**	7.16

See accompanying notes

Consolidated statements of comprehensive income
Years ended September 28, 2019 and September 29, 2018
(Millions of dollars)

	2019	2018
Net earnings	**714.4**	1,718.5
Other comprehensive income		
Items that will not be reclassified to net earnings		
Changes in defined benefit plans		
Actuarial gains (losses)	**(97.9)**	37.2
Asset ceiling effect	**4.3**	(2.1)
Minimum funding requirement	**(0.6)**	(0.2)
Loss on disposal of the investment at fair value *(note 10)*	**(1.3)**	—
Corresponding income taxes	**25.2**	(9.2)
	(70.3)	25.7
Items that will be reclassified later to net earnings		
Fair value revaluation of investment *(note 10)*	**—**	22.8
Reclassification of the change in investment at fair value to net earnings following the disposal of a portion of the investment *(note 10)*	**—**	(17.1)
Reclassification of shares of an associate's other comprehensive income to net earnings *(note 10)*	**—**	(3.9)
Corresponding income taxes	**—**	(0.4)
	—	1.4
	(70.3)	27.1
Comprehensive income	**644.1**	1,745.6
Attributable to:		
Equity holders of the parent	**641.3**	1,743.6
Non-controlling interests	**2.8**	2.0
	644.1	1,745.6

See accompanying notes

Consolidated statements of financial position

As at September 28, 2019 and September 29, 2018

(Millions of dollars)

	2019	2018
ASSETS		
Current assets		
Cash and cash equivalents	**273.4**	226.9
Accounts receivable *(notes 15 and 26)*	**611.2**	538.1
Inventories *(note 9)*	**1,126.0**	1,099.1
Prepaid expenses	**33.2**	32.1
Current taxes	**44.5**	20.6
	2,088.3	1,916.8
Non-current assets		
Fixed assets *(note 11)*	**2,657.8**	2,523.4
Investment properties *(note 12)*	**41.5**	46.1
Intangible assets *(note 13)*	**2,889.0**	2,914.4
Goodwill *(note 14)*	**3,306.5**	3,302.2
Deferred taxes *(note 7)*	**2.8**	4.5
Defined benefit assets *(note 23)*	**25.6**	55.1
Investment at fair value *(note 10)*	**—**	66.9
Other assets *(note 15)*	**62.4**	92.8
	11,073.9	10,922.2
LIABILITIES AND EQUITY		
Current liabilities		
Bank loans *(note 16)*	**—**	0.1
Accounts payable *(notes 17 and 26)*	**1,331.4**	1,268.3
Deferred revenues	**22.3**	90.2
Current taxes	**33.3**	254.8
Provisions *(note 18)*	**10.9**	8.0
Current portion of debt *(note 19)*	**428.6**	13.3
Non-controlling interests *(note 28)*	**51.1**	—
	1,877.6	1,634.7
Non-current liabilities		
Debt *(note 19)*	**2,229.0**	2,630.4
Defined benefit liabilities *(note 23)*	**113.0**	81.3
Provisions *(note 18)*	**30.2**	22.3
Deferred taxes *(note 7)*	**842.7**	846.5
Other liabilities *(note 20)*	**12.8**	11.7
Non-controlling interests *(note 28)*	**—**	39.3
	5,105.3	5,266.2
Equity		
Attributable to equity holders of the parent	**5,955.2**	5,642.8
Attributable to non-controlling interests	**13.4**	13.2
	5,968.6	5,656.0
	11,073.9	10,922.2

Commitments and contingencies *(notes 24 and 25)*

See accompanying notes

On behalf of the Board

ERIC R. LA FLÈCHE	RUSSELL GOODMAN
Director	Director

metro

Consolidated statements of changes in equity

Years ended September 28, 2019 and September 29, 2018

(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 29, 2018	**1,724.1**	**(24.9)**	**20.3**	**3,918.4**	**4.9**	**5,642.8**	**13.2**	**5,656.0**
Net earnings	**—**	**—**	**—**	**711.6**	**—**	**711.6**	**2.8**	**714.4**
Other comprehensive income	**—**	**—**	**—**	**(70.3)**	**—**	**(70.3)**	**—**	**(70.3)**
Comprehensive income	**—**	**—**	**—**	**641.3**	**—**	**641.3**	**2.8**	**644.1**
Stock options exercised	**28.0**	**—**	**(4.0)**	**—**	**—**	**24.0**	**—**	**24.0**
Shares redeemed	**(19.8)**	**—**	**—**	**—**	**—**	**(19.8)**	**—**	**(19.8)**
Share redemption premium	**—**	**—**	**—**	**(126.1)**	**—**	**(126.1)**	**—**	**(126.1)**
Acquisition of treasury shares	**—**	**(5.6)**	**—**	**—**	**—**	**(5.6)**	**—**	**(5.6)**
Share-based compensation cost	**—**	**—**	**8.6**	**—**	**—**	**8.6**	**—**	**8.6**
Performance share units settlement	**—**	**5.9**	**(5.7)**	**(0.2)**	**—**	**—**	**—**	**—**
Dividends	**—**	**—**	**—**	**(198.9)**	**—**	**(198.9)**	**(2.1)**	**(201.0)**
Adoption of IFRS 9 "Financial instruments" on the investment at fair value (*note 3)*	**—**	**—**	**—**	**4.9**	**(4.9)**	**—**	**—**	**—**
Change in fair value of non-controlling interests liability *(note 28)*	**—**	**—**	**—**	**(11.1)**	**—**	**(11.1)**	**(0.7)**	**(11.8)**
Sale of shares in joint ventures	**—**	**—**	**—**	**—**	**—**	**—**	**0.2**	**0.2**
	8.2	**0.3**	**(1.1)**	**(331.4)**	**(4.9)**	**(328.9)**	**(2.6)**	**(331.5)**
Balance as at September 28, 2019	**1,732.3**	**(24.6)**	**19.2**	**4,228.3**	**—**	**5,955.2**	**13.4**	**5,968.6**

See accompanying notes

Consolidated statements of changes in equity

Years ended September 28, 2019 and September 29, 2018

(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 30, 2017	565.8	(21.9)	19.8	2,343.9	3.5	2,911.1	12.8	2,923.9
Net earnings	—	—	—	1,716.5	—	1,716.5	2.0	1,718.5
Other comprehensive income	—	—	—	25.7	1.4	27.1	—	27.1
Comprehensive income	—	—	—	1,742.2	1.4	1,743.6	2.0	1,745.6
Shares issued *(note 5)*	1,147.9	—	—	(0.2)	—	1,147.7	—	1,147.7
Stock options exercised	10.4	—	(1.6)	—	—	8.8	—	8.8
Acquisition of treasury shares	—	(10.2)	—	—	—	(10.2)	—	(10.2)
Share-based compensation cost	—	—	9.1	—	—	9.1	—	9.1
Performance share units settlement	—	7.2	(7.0)	(0.2)	—	—	—	—
Dividends	—	—	—	(164.8)	—	(164.8)	(4.8)	(169.6)
Change in fair value of non-controlling interests liability *(note 28)*	—	—	—	(2.5)	—	(2.5)	2.9	0.4
Sale of shares in joint ventures	—	—	—	—	—	—	0.3	0.3
	1,158.3	(3.0)	0.5	(167.7)	—	988.1	(1.6)	986.5
Balance as at September 29, 2018	1,724.1	(24.9)	20.3	3,918.4	4.9	5,642.8	13.2	5,656.0

See accompanying notes

Consolidated statements of cash flows

Years ended September 28, 2019 and September 29, 2018

(Millions of dollars)

	2019	2018
Operating activities		
Earnings before income taxes	**969.2**	2,076.7
Non-cash items		
Gain on disposal of a portion of the investment in an associate *(notes 10 and 15)*	**(36.4)**	(1,107.4)
Gain on revaluation and disposal of an investment at fair value *(note 10)*	**(1.5)**	(241.1)
Share of an associate's earnings *(note 10)*	**—**	(30.8)
Gain on divestiture of pharmacies *(note 5)*	**(6.0)**	—
Depreciation and amortization	**286.4**	233.5
Gain on disposal and write-offs of fixed and intangible assets and investment properties	**(0.8)**	(15.7)
Impairment losses on fixed assets	**2.1**	7.8
Impairment loss reversals on fixed and intangible assets	**(0.1)**	(1.9)
Share-based compensation cost	**8.6**	9.1
Difference between amounts paid for employee benefits and current year cost	**(35.1)**	4.2
Retail network restructuring expenses *(note 18)*	**36.0**	—
Pharmacy network closure and restructuring expenses *(note 18)*	**—**	31.4
Distribution network modernization project expenses *(note 18)*	**—**	11.4
Financial costs, net	**103.8**	80.2
	1,326.2	1,057.4
Net change in non-cash working capital items	**(54.5)**	(54.3)
Interest paid	**(106.9)**	(90.5)
Income taxes paid	**(477.1)**	(162.2)
	687.7	750.4
Investing activities		
Business acquisition *(note 5)*	**—**	(3,033.0)
Proceeds on disposal of a portion of the investment in an associate and the investment at fair value *(note 10)*	**59.0**	1,791.6
Equity forward transaction on the investment at fair value *(note 10)*	**—**	68.4
Proceeds on divestiture of pharmacies *(note 5)*	**14.0**	—
Sale of shares in joint ventures	**0.2**	0.1
Buyout of minority interests *(note 28)*	**—**	(221.2)
Net change in other assets	**9.2**	(0.6)
Additions to fixed assets and investment properties	**(356.9)**	(286.1)
Disposals of fixed assets and investment properties	**5.4**	34.6
Additions to intangible assets	**(39.4)**	(31.3)
	(308.5)	(1,677.5)
Financing activities		
Net change in bank loans	**(0.1)**	(1.0)
Shares issued *(note 21)*	**24.0**	8.8
Shares redeemed *(note 21)*	**(145.9)**	—
Acquisition of treasury shares *(note 21)*	**(5.6)**	(10.2)
Increase in debt	**46.6**	2,168.8
Repayment of debt	**(53.9)**	(995.2)
Net change in other liabilities	**1.1**	(1.3)
Dividends *(note 22)*	**(198.9)**	(164.8)
	(332.7)	1,005.1
Net change in cash and cash equivalents	**46.5**	78.0
Cash and cash equivalents – beginning of year	**226.9**	148.9
Cash and cash equivalents – end of year	**273.4**	226.9

See accompanying notes

1. DESCRIPTION OF BUSINESS

METRO INC. (the Corporation) is a company incorporated under the laws of Québec. One of Canada's leading food and pharmacy retailers and distributors, the Corporation 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 two business segments, food operations and pharmaceutical operations, are combined into one reportable operating segment due to the similar nature of their operations (see note 4).

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 (notes 4 and 26). All intercompany transactions and balances were eliminated on consolidation.

Sales recognition

Sales come essentially from the sale of goods and services. 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 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 is 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 is 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 amortized cost, with revaluation at the end of each period.

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.

Investments in joint ventures

The Corporation has interests in joint ventures, whereby the venturers have a contractual agreement that establishes joint control over the economic activities of the entity. These investments are accounted for using the equity method and are presented in other assets.

Fixed assets

Fixed assets are initially 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 to 27 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. Impairment testing of common assets is conducted at the level of the smallest CGU. Impairment testing of goodwill resulting from a business acquisition is conducted at the level of the smallest CGU. Impairment testing of investment properties, 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. 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 and the Corporation 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.

Deferred revenues

The portion of revenue that is unearned is recorded in deferred revenue when payments are received. This includes prepayments received by the Corporation for future periods for which revenue is recognized when the goods are delivered or services are rendered. Deferred revenue also includes loyalty points issued as part of the Corporation’s loyalty programs and gift cards outstanding as of year end for which revenue is recognized upon redemption. As at September 29, 2018, deferred revenue included the amount received related to the equity forward agreement for the Alimentation Couche-Tard shares.

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 excluding deferred revenues, revolving credit facility, notes and loans payable are classified as “Liabilities measured at amortized cost”. After their initial fair value measurement, they are measured at amortized cost using the effective interest method.

Non-controlling interests

Non-controlling interests are generally recognized in equity. However, with respect to its interests in Première Moisson and MissFresh, 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 "Liabilities measured at fair value through profit and loss" 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 could use foreign exchange forward contracts, cross currency interest rate swaps and equity forward transaction. Given their short-term maturity, the Corporation elected not to apply hedge accounting. These derivative financial instruments are classified as "Financial assets or liabilities measured at fair value through profit and loss" 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 year ended September 28, 2019 included 52 weeks of operations and the fiscal year ended September 29, 2018 included 52 weeks of operations.

3. NEW ACCOUNTING STANDARDS

ACCOUNTING STANDARD ISSUED BUT NOT YET EFFECTIVE

Leases

In January 2016, the IASB issued IFRS 16, *Leases*, which replaces IAS 17, *Leases* and related interpretations. Under IFRS 16, which provides a single accounting 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. The accounting requirements for lessors remain similar to those under IAS 17. IFRS 16 applies to fiscal years beginning on or after January 1, 2019, which for the Corporation is fiscal year beginning on September 29, 2019.

Under IFRS 16 transitional provisions, the Corporation will adopt the standard using a modified retrospective approach, and the cumulative impact of the initial application of the standard will be recognized as an adjustment to equity on transition.

As a lessee, the Corporation will recognize right-of-use assets and lease liabilities in respect of operating leases for property, vehicles and equipment. Depreciation expense for right-of-use assets and interest expense on lease liabilities will replace rental expense previously recognized under IAS 17 on a straight-line basis over the lease term. The lease liabilities will be measured at the present value of the remaining lease payments and the right-of-use assets will be measured using the modified retrospective approach. The discount rate used will be the Corporation’s incremental borrowing rate on the transition date of September 29, 2019.

As an intermediate lessor under several leases, the Corporation has assessed the classification of its sublease agreements based on the right-of-use asset related to the main lease and not on the underlying asset. As a result of this change, the Corporation expects an increase in current and non-current receivables recorded for leases that should be classified as finance leases.

The Corporation will use the following practical expedients as permitted by IFRS 16 at the initial application date:

- Apply IFRS 16 only to contracts that were previously identified as leases under IAS 17.
- Apply a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Rely on an existing assessment to determine whether a lease is onerous, instead of performing a review of the impairment of the right-of-use assets.
- Exclude leases which end within 12 months of the date of the initial application.
- Elect not to apply IFRS 16 to leases for which the underlying asset is of low value.
- Exclude initial direct costs from the measurement of right-of-use assets.
- Use hindsight, such as in determining the lease term where the contract contains options to extend or terminate the lease.

We expect[(3)] increases in liabilities ranging from $2.1 billion to $2.3 billion and in assets, including right-of-use assets as well as receivables (current and non-current) related to sublease agreements, ranging from $1.9 billion to $2.1 billion with the net impact recorded in opening retained earnings. Actual results from the initial application of IFRS 16 may differ from estimated amounts, the Corporation continues to perfect the estimates and input data that will be used in the calculations.

ACCOUNTING STANDARDS ADOPTED IN 2019

Financial instruments

Effective the first quarter of 2019, the Corporation adopted IFRS 9, *Financial Instruments*, which replaces IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

The Corporation adopted the new classification and valuation, impairment and general hedging requirements on September 30, 2018 by applying the classification and valuation, including impairment, requirements retrospectively, with the cumulative effect of initially applying the standard recognized in opening retained earnings as at September 30, 2018 and without restatement of comparative information.

Classification of financial instruments

The adoption of IFRS 9 changes the Corporation's accounting policies with respect to the classification of financial instruments.

Following adoption, the Corporation's classification is as follows:

- Cash and cash equivalents were classified as "Financial assets at fair value through profit and loss" before the adoption of IFRS 9 and are now classified as subsequently measured at amortized cost.
- Accounts receivable and loans to certain customers were classified as "Loans and receivables" before the adoption of IFRS 9 and are now classified as subsequently measured at amortized cost.
- The investment at fair value was classified as an "Available-for-sale financial asset" before the adoption of IFRS 9 and is now classified as subsequently measured at fair value through other comprehensive income. Accumulated other comprehensive income of $4.9 was therefore reclassified to retained earnings as at September 30, 2018.
- Bank loans, accounts payable excluding deferred revenues, the revolving credit facility, notes and loans payable were classified as "Other financial liabilities" before the adoption of IFRS 9 and are now classified as subsequently measured at amortized cost.
- Non-controlling interests were classified as "Financial liabilities held for trading" before the adoption of IFRS 9 and are now classified as subsequently measured at fair value through profit and loss. Gains or losses resulting from the revaluation at the end of each period recorded may be recognized in net earnings or retained earnings. The Corporation has elected to record them in retained earnings.
- Derivative financial instruments not designated as hedges were classified as "Financial assets and liabilities at fair value through profit and loss" before the adoption of IFRS 9 and are now classified as subsequently measured at fair value through profit and loss.

The changes in classification and measurement criteria resulting from the adoption of IFRS 9 had no impact on the measurement of financial instruments.

Impairment of financial assets

The adoption of IFRS 9 changes the method used to calculate the impairment of accounts receivable and loans to certain customers.

At each reporting date, the Corporation estimates expected credit losses based on its credit loss history. Those expected loses are adjusted to reflect factors that are specific to the accounts receivable and loans to certain customers, general economic conditions as well as an assessment of both current and forecasted economic conditions at the reporting date, including time value of money when appropriate. The evaluation is calculated using the simplified method for cash and current assets and the general method for loans. The net change in expected credit losses on accounts receivable and loans to certain customers is recognized in net earnings.

The adoption of IFRS 9 had no impact on the impairment of accounts receivable and loans to certain customers.

Revenue from contracts with customers

Effective the first quarter of 2019, the Corporation adopted IFRS 15, *Revenue from Contracts with Customers*. IFRS 15 replaces IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and related interpretations. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

The Corporation adopted IFRS 15 retrospectively in accordance with the transitional provisions thereof. The application of IFRS 15 had no impact on the amounts recognized in the Corporation's consolidated financial statements, and no amounts have been reclassified or restated.

Under IFRS 15, revenue is recognized when control of the goods or services is transferred to the customer. Retail sales made by corporate stores and by stores qualifying as structured entities are recognized at the time of sale to the customer, and sales to affiliated or franchised stores and to other customers are recognized when the goods are delivered to them. Rebates granted by the Corporation are recorded as a reduction in sales.

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 and control the plant's main activities. For these reasons, the Corporation consolidates it in the Corporation's financial statements.

Determination of the aggregation of operating segments

The Corporation uses judgment in determining the aggregation of business segments. The reportable operating segment comprises the food operations segment and the pharmaceutical operations segment. The Corporation has aggregated these two business segments due to the similar nature of their goods and services and similar economic characteristics: operations are carried on primarily in Québec and Ontario and are therefore subject to the same regulatory environment and competitive and economic market pressures, use the same product distribution methods and serve the same customers.

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 rates. 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-current liability related to the non-controlling interest 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 MissFresh (MissFresh and Première Moisson in 2018) 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 ACQUISITION

In 2018, the Corporation completed the acquisition of The Jean Coutu Group (PJC) Inc. ("Jean Coutu Group") a for a total consideration of $4,525.1. Under the terms of the acquisition, the aggregate consideration transferred to the Jean Coutu Group shareholders consisted of $3,377.2 in cash and the issuance of approximately 28 million common shares of the Corporation representing $1,147.9.

The following table shows the final fair values of identifiable assets acquired and liabilities assumed at the acquisition date:

Net assets acquired at their value	
Cash and cash equivalents	344.2
Accounts receivable	219.3
Inventories	228.3
Prepaid expenses	13.5
Other assets	55.4
Fixed assets	687.4
Investment properties	31.4
Intangible assets	2,544.8
Goodwill	1,323.5
Accounts payable	(277.9)
Deferred taxes	(642.0)
Other liabilities	(2.8)
	4,525.1

Cash consideration	3,377.2
Share consideration	1,147.9
	4,525.1

Details regarding the intangible assets are as follows:

		Estimated useful life
Banner	1,340.0	Indefinite
Private labels	82.0	Indefinite
Customer relationships	1,040.0	27 years
Loyalty program	60.0	Indefinite
Software	22.8	3 to 7 years
Intangible assets	2,544.8	

Pursuant to the agreement reached with the Commissioner of Competition of Canada on April 23, 2018, the Corporation was required to divest its rights in 10 locations where drugstores are operated. During fiscal 2019, the Corporation completed the divestiture of rights in the 10 locations where pharmacies are in operation. Consequently, the Corporation recorded in fiscal 2019 a $6.0 gain before income taxes following the disposition of leases and buildings and the termination of franchise agreements related to these pharmacies, for a total consideration in cash of $14.0.

For fiscal 2018, expenses related to the Jean Coutu Group acquisition of $28.7 were recorded in operating expenses.

Since the acquisition date, the Jean Coutu Group results are included in the consolidated financial statement. For fiscal 2018, sales and net earnings of the Jean Coutu Group were $1,157.7 $ and $80.8 respectively, excluding the amortization of intangible assets resulting from the purchase price allocation.

6. ADDITIONAL INFORMATION ON THE NATURE OF EARNINGS COMPONENTS

	2019	%	2018	%
Sales	**16,767.5**		14,383.4	
Cost of sales	**(13,438.8)**		(11,556.5)	
Gross margins	**3,328.7**	**19.9**	2,826.9	19.7
Operating expenses				
Wages and fringe benefits	**(880.6)**		(779.3)	
Employee benefits expense *(note 23)*	**(85.8)**		(83.6)	
Rents and occupancy charges	**(529.2)**		(475.8)	
Retail network restructuring expenses	**(36.0)**		—	
Gain on divestiture of pharmacies	**6.0**		—	
Pharmacy network closure and restructuring expenses	**—**		(31.4)	
Distribution network modernization project expenses	**—**		(11.4)	
Others	**(481.6)**		(434.3)	
	(2,007.2)	**12.0**	(1,815.8)	12.6
Operating income before depreciation and amortization and associate's earnings	**1,321.5**	**7.9**	1,011.1	7.0
Depreciation and amortization				
Fixed assets *(note 11)*	**(210.3)**		(185.0)	
Investment properties *(note 12)*	**(0.7)**		(0.2)	
Intangible assets *(note 13)*	**(75.4)**		(48.3)	
	(286.4)		(233.5)	
Financial costs, net				
Current interest	**(2.9)**		(4.3)	
Non-current interest	**(103.5)**		(99.0)	
Interests on defined benefit obligations net of plan assets *(note 23)*	**(2.1)**		(3.2)	
Amortization of deferred financing costs	**(2.9)**		(2.2)	
Interest income	**7.8**		28.8	
Passage of time	**(0.2)**		(0.3)	
	(103.8)		(80.2)	
Gain on disposal of a portion of the investment in an associate *(note 10)*	**36.4**		1,107.4	
Gain on revaluation and disposal of an investment at fair value *(note 10)*	**1.5**		241.1	
Share of an associate's earnings *(note 10)*	**—**		30.8	
Earnings before income taxes	**969.2**		2,076.7	

7. INCOME TAXES

The effective income tax rates were as follows:

(Percentage)	**2019**	2018
Combined statutory income tax rate	**26.6**	26.7
Changes		
Gain on disposal of a portion of the investment in an associate *(note 10)*	**(0.5)**	(7.5)
Gain on revaluation and disposal of an investment at fair value *(note 10)*	**—**	(1.6)
Share of an associate's earnings	**—**	(0.2)
Others	**0.2**	(0.2)
	26.3	17.2

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

Consolidated income statements

	2019	2018
Current		
Current tax expense	**231.7**	421.6
Deferred		
Adjustment related to temporary differences	**23.1**	(63.4)
	254.8	358.2

Consolidated comprehensive income statements

	2019	2018
Deferred tax related to items reported directly in other comprehensive income during the year		
Changes in defined benefit plans		
Actuarial gains (losses)	**(25.9)**	9.9
Asset ceiling effect	**1.1**	(0.6)
Minimum funding requirement	**(0.1)**	(0.1)
Loss on disposal of the investment at fair value	**(0.3)**	—
Fair value revaluation of investment	**—**	3.0
Reclassification of the change in investment at fair value to net earnings following the disposal of a portion of the investment	**—**	(2.1)
Reclassification of shares of an associate's other comprehensive income to net earnings	**—**	(0.5)
	(25.2)	9.6

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 28, 2019	As at September 29, 2018	**2019**	2018
Accrued expenses, provisions and other reserves that are tax-deductible only at the time of disbursement	**23.0**	17.7	**5.3**	18.5
Deferred tax losses	**0.8**	4.1	**(3.3)**	3.1
Inventories	**(11.4)**	(11.2)	**(0.2)**	—
Employee benefits	**21.0**	6.0	**(9.9)**	3.0
Investment in an associate	**1.0**	(8.7)	**9.4**	54.1
Difference between net carrying value and tax value				
Fixed assets	**(194.4)**	(166.5)	**(27.9)**	(15.2)
Investment properties	**0.1**	0.1	**—**	0.7
Intangible assets	**(629.9)**	(636.4)	**6.5**	2.9
Goodwill	**(50.1)**	(47.1)	**(3.0)**	(3.7)
	(839.9)	(842.0)	**(23.1)**	63.4

Deferred tax assets	**2.8**	4.5
Deferred tax liabilities	**(842.7)**	(846.5)
	(839.9)	(842.0)

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)	**2019**	2018
Weighted average number of shares outstanding – Basic	**254.9**	238.3
Dilutive effect under:		
Stock option plan	**0.8**	0.9
Performance share unit plan	**0.6**	0.6
Weighted average number of shares outstanding – Fully diluted	**256.3**	239.8

9. INVENTORIES

	2019	2018
Wholesale inventories	**655.1**	642.9
Retail inventories	**470.9**	456.2
	1,126.0	1,099.1

10. INVESTMENT AT FAIR VALUE

During the first quarter of 2019, the Corporation finalized the disposal of the entire investment at fair value in Alimentation Couche Tard Inc. (ACT) for final proceeds of $65.7, an amount of $68.4 was received in the fourth quarter of fiscal 2018 and recorded as a deferred revenue upon entering into a forward agreement. The revaluation of this agreement as at September 29, 2018 gave rise to the recording of a loss and a financial liability in the amount of $1.6. The completion of this agreement following the disposal of the investment resulted in a revaluation gain of $1.5 before income taxes in 2019 presented in earnings as a gain on revaluation and disposal of an investment at fair value. A loss on disposal of $1.3 before income taxes was recognized in accumulated other comprehensive income.

During the first quarter of fiscal 2018, to fund a portion of the Jean Coutu Group acquisition, the Corporation disposed of most of its investment in ACT, and recorded a gain of $1,107.4. As a result of this disposal, the Corporation no longer has significant influence over ACT. Consequently, the investment was revalued at fair value and the Corporation recorded a $225.6 fair value revaluation gain in net earnings.

In the fourth quarter of fiscal 2018, the Corporation disposed of approximately 4 million shares of the investment accounted for at fair value for a cash consideration of $257.6 and a gain on disposal before income taxes of $17.1.

11. FIXED ASSETS

	Land	Buildings	Equipment	Leasehold improvements	Buildings under finance leases	Total
Cost						
Balance as at September 30, 2017	261.8	722.5	1,336.0	787.4	50.7	3,158.4
Acquisitions	7.8	57.7	157.3	59.4	4.6	286.8
Acquisitions through business combinations *(note 5)*	210.7	422.1	50.2	3.9	0.5	687.4
Disposals and write-offs	(6.6)	(13.6)	(35.9)	(14.0)	—	(70.1)
Balance as at September 29, 2018	**473.7**	**1,188.7**	**1,507.6**	**836.7**	**55.8**	**4,062.5**
Acquisitions	**7.7**	**88.9**	**167.6**	**92.6**	**—**	**356.8**
Transfers to Investment properties	**(0.5)**	**—**	**—**	**—**	**—**	**(0.5)**
Disposals and write-offs	**(0.5)**	**(1.0)**	**(117.8)**	**(67.5)**	**—**	**(186.8)**
Balance as at September 28, 2019	**480.4**	**1,276.6**	**1,557.4**	**861.8**	**55.8**	**4,232.0**
Accumulated depreciation and impairment						
Balance as at September 30, 2017	—	(204.5)	(757.8)	(403.3)	(31.3)	(1,396.9)
Depreciation	—	(28.2)	(100.7)	(52.2)	(3.9)	(185.0)
Disposals and write-offs	—	4.3	32.1	12.7		49.1
Impairment losses	—	—	(3.5)	(4.3)	—	(7.8)
Impairment loss reversals	—	0.6	0.4	0.5	—	1.5
Balance as at September 29, 2018	**—**	**(227.8)**	**(829.5)**	**(446.6)**	**(35.2)**	**(1,539.1)**
Depreciation	**—**	**(53.0)**	**(111.8)**	**(41.5)**	**(4.0)**	**(210.3)**
Disposals and write-offs	**—**	**0.4**	**111.4**	**65.5**	**—**	**177.3**
Impairment losses	**—**	**(1.4)**	**(0.5)**	**(0.2)**	**—**	**(2.1)**
Balance as at September 28, 2019	**—**	**(281.8)**	**(830.4)**	**(422.8)**	**(39.2)**	**(1,574.2)**
Net carrying value						
Balance as at September 29, 2018	473.7	960.9	678.1	390.1	20.6	2,523.4
Balance as at September 28, 2019	**480.4**	**994.8**	**727.0**	**439.0**	**16.6**	**2,657.8**

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.

Net additions of fixed assets excluded from the consolidated statements of cash flow was nil ($5.0 in 2018).

12. INVESTMENT PROPERTIES

	Cost	Accumulated depreciation	Net carrying value
Balance as at September 30, 2017	24.3	(9.3)	15.0
Acquisitions	4.3	—	4.3
Acquisitions through business combinations *(note 5)*	31.4	—	31.4
Disposals and write-offs	(13.1)	8.7	(4.4)
Depreciation	—	(0.2)	(0.2)
Balance as at September 29, 2018	**46.9**	**(0.8)**	**46.1**
Acquisitions	**0.1**	**—**	**0.1**
Transfers from fixed assets	**0.5**	**—**	**0.5**
Disposals and write-offs	**(4.6)**	**0.1**	**(4.5)**
Depreciation	**—**	**(0.7)**	**(0.7)**
Balance as at September 28, 2019	**42.9**	**(1.4)**	**41.5**

The fair value of investment properties was $45.4 as at September 28, 2019 ($50.8 as at September 29, 2018). 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 30, 2017	58.1	195.9	247.4	27.4	528.8
Acquisitions	—	15.0	19.3	—	34.3
Acquisitions through business combinations *(note 5)*	—	22.8	—	1,040.0	1,062.8
Disposals and write-offs	0.4	(2.6)	(19.5)	—	(21.7)
Balance as at September 29, 2018	**58.5**	**231.1**	**247.2**	**1,067.4**	**1,604.2**
Acquisitions	**—**	**16.7**	**34.7**	**—**	**51.4**
Disposals and write-offs	**(1.1)**	**(1.5)**	**(19.3)**	**—**	**(21.9)**
Balance as at September 28, 2019	**57.4**	**246.3**	**262.6**	**1,067.4**	**1,633.7**
Accumulated amortization and impairment					
Balance as at September 30, 2017	(41.3)	(161.9)	(116.8)	(16.0)	(336.0)
Amortization	(2.1)	(10.1)	(19.1)	(17.0)	(48.3)
Disposals and write-offs	—	1.7	14.1	—	15.8
Impairment loss reversals *(note 11)*	0.4	—	—	—	0.4
Balance as at September 29, 2018	**(43.0)**	**(170.3)**	**(121.8)**	**(33.0)**	**(368.1)**
Amortization	**(1.9)**	**(13.8)**	**(18.8)**	**(40.9)**	**(75.4)**
Disposals and write-offs	**0.9**	**0.6**	**18.9**	**—**	**20.4**
Impairment loss reversals *(note 11)*	**0.1**	**—**	**—**	**—**	**0.1**
Balance as at September 28, 2019	**(43.9)**	**(183.5)**	**(121.7)**	**(73.9)**	**(423.0)**
Net carrying value					
Balance as at September 29, 2018	15.5	60.8	125.4	1,034.4	1,236.1
Balance as at September 28, 2019	**13.5**	**62.8**	**140.9**	**993.5**	**1,210.7**

Net additions of intangible assets excluded from the consolidated statement of cash flows amounted to $18.3 in 2019 ($8.4 in 2018).

Intangible assets with indefinite useful lives were as follows:

	Banners	Private labels	Loyalty programs	Total
Balance as at September 30, 2017	133.3	39.5	23.5	196.3
Acquisitions through business combinations *(note 5)*	1,340.0	82.0	60.0	1,482.0
Balances as at September 29, 2018 and September 28, 2019	**1,473.3**	**121.5**	**83.5**	**1,678.3**

Impairment testing of loyalty programs and exclusive 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 multiples used were 17.2 and 13.0 (13.6 in 2018) considering a growth rate of 2.0% (2.0% in 2018) corresponding to the consumer price index. For these private labels, the earnings multiples used were 14.3 and 17.4 (12.8 and 15.4 in 2018) considering a growth rate of 2.0% (2.0% in 2018) 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 other private labels were conducted at the level of the asset itself. The recoverable amount was determined based on its fair value 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 and these private labels, the royalty rate used was 1.0% to 3.0% (1.0% to 3.0% in 2018) and the multiples used were between 15.4 and 17.4 (13.3 and 15.4 in 2018) considering growth rate of 2.0% (2.0% in 2018) 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

	2019	2018
Balance – beginning of year	**3,302.2**	1,973.8
Acquisitions through business combinations *(note 5)*	**6.3**	1,328.9
Disposals	**(2.0)**	(0.5)
Balance – end of year	**3,306.5**	3,302.2

For impairment testing, goodwill with a carrying amount of $1,983.2 ($1,976.9 as at September 29, 2018) was attributed to the operating segment related to food operations. 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 10.5% (11.6% in 2018) 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.

For impairment testing, goodwill with a carrying amount of $1,323.3 ($1,325.3 as at September 28, 2019) was attributed to the operating segment related to pharmaceutical operations. The recoverable amount was determined based on its fair value less costs of exit, which was calculated using pre-tax cash flow forecasts from the management-approved budgets for the next fiscal year. The forecasts reflected past experience. The earnings multiple used was 11.5 (14.0 in 2018) considering a growth rate of 2.0% (2.0% in 2018) corresponding to the consumer price index. The Corporation categorized the fair value measurement in Level 3, as it is derived from unobservable market inputs. A decrease of 1.0 in the earnings multiple used, excluding the change in other assumptions, would not result in a carrying amount higher than the recoverable amount.

15. OTHER ASSETS

	2019	2018
Loans to certain customers, bearing interest at floating rates, repayable in monthly instalments, maturing through 2031	**62.8**	64.5
Investments in joint ventures and associates acquired through business combinations	**6.9**	35.7
Other assets	**3.3**	4.3
	73.0	104.5
Current portion included in accounts receivable	**10.6**	11.7
	62.4	92.8

During the first quarter of fiscal 2019, the Company disposed of its investment in Colo-D Inc., an associate presented in other assets, for a total cash consideration of $58.0 and a gain of $35.4 before income taxes ($31.0 after income taxes). A selling price adjustment was made during the third quarter, bringing the total cash consideration to $59.0 and the gain before income taxes to $36.4 ($31.9 after taxes).

16. BANK LOANS

As at September 28, 2019 and September 29, 2018, the Corporation's bank loans were the credit margins of structured entities. The consolidated structured entities have credit margins totaling $8.4 ($8.3 as at September 29, 2018), bearing interest at prime plus 0.5%, unsecured and maturing on various dates through 2020. As at September 28, 2019, none ($0.1 as at September 29, 2018) had been drawn down under credit margins at an interest rate of 4.5% (4.2% as at September 29, 2018).

17. OFFSETTING

	2019	2018
Accounts payable (gross)	**1,389.7**	1,320.9
Vendor rebate receivables	**(58.3)**	(52.6)
Accounts payable (net)	**1,331.4**	1,268.3

18. PROVISIONS

	Onerous leases	Retail network restructuring expenses	Pharmacy network closure and restructuring expenses	Distribution network modernization project expenses	Total
Balance as at September 30, 2017	4.7	—	—	—	4.7
Acquisitions through business combinations *(note 5)*	2.9	—	—	—	2.9
Additional provisions	0.4	—	13.9	11.4	25.7
Amounts used	(3.3)	—	—	—	(3.3)
Passage of time	—	—	—	0.3	0.3
Balance as at September 29, 2018	4.7	—	13.9	11.7	30.3
Current provisions	2.4	—	5.6	—	8.0
Non-current provisions	2.3	—	8.3	11.7	22.3
Balance as at September 29, 2018	4.7	—	13.9	11.7	30.3
Balance as at September 29, 2018	**4.7**	**—**	**13.9**	**11.7**	**30.3**
Additional provisions	**—**	**24.9**	**—**	**—**	**24.9**
Amounts used	**(2.0)**	**(9.9)**	**(2.3)**	**(0.1)**	**(14.3)**
Passage of time	**—**	**(0.2)**	**—**	**0.4**	**0.2**
Balance as at September 28, 2019	**2.7**	**14.8**	**11.6**	**12.0**	**41.1**
Current provisions	**1.8**	**5.1**	**4.0**	**—**	**10.9**
Non-current provisions	**0.9**	**9.7**	**7.6**	**12.0**	**30.2**
Balance as at September 28, 2019	**2.7**	**14.8**	**11.6**	**12.0**	**41.1**

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 8 years.

During the second quarter of fiscal 2019, the Corporation recorded retail network restructuring expenses of $36.0 before taxes, comprising a $24.9 provision for severance and occupancy costs and a $11.1 provision, netted against assets, for asset and inventory write-offs resulting from the conversion, relocation or closure of a dozen stores.

During the fourth quarter of 2018, the Corporation recorded store closure and restructuring expenses of $31.4 before taxes, comprising a $13.9 provision for severance and occupancy costs and a $17.5 provision, netted against assets, for asset and inventory write-offs resulting from the future transfer of pharmaceutical operations from the McMahon warehouse to the Jean Coutu Group warehouse, the reduction of administrative positions, the closure of 3 Brunet drugstores and the divestiture of 10 drugstores.

The Corporation announced in October 2017, a projected $400.0 investment over six years in its Ontario distribution network. The Corporation will modernize its Toronto operations between 2018 and 2023, building a new fresh distribution centre and a new frozen distribution centre. During the first quarter of 2018, the Corporation recorded a $11.4 before taxes provision related to termination and retirement benefits in connection with the modernization of the Ontario distribution network.

19. DEBT

	2019	2018
Series E Notes, bearing interest at a floating rate equal to the 3-month bankers' acceptance rate plus 0.57%, 2.65% in 2019 (2.16% in 2018), maturing on February 27, 2020 and redeemable at the issuer's option at fair value at any time prior to maturity	**400.0**	400.0
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 F Notes, bearing interest at a fixed nominal rate of 2.68%, maturing on December 5, 2022 and redeemable at the issuer's option at fair value at any time prior to maturity	**300.0**	300.0
Series G Notes bearing interest at a fixed nominal rate of 3.39%, maturing on December 6, 2027 and redeemable at the issuer's option at fair value at any time prior to maturity	**450.0**	450.0
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
Series H Notes, bearing interest at a fixed nominal rate of 4.27%, maturing on December 4, 2047 and redeemable at the issuer's option at fair value at any time prior to maturity	**450.0**	450.0
Loans, maturing on various dates through 2027, bearing interest at an average rate of 2.50% (2.64% in 2018)	**51.0**	35.2
Obligations under finance leases, bearing interest at an effective rate of 7.67% (7.71% in 2018)	**20.9**	25.7
Deferred financing costs	**(14.3)**	(17.2)
	2,657.6	2,643.7
Current portion	**428.6**	13.3
	2,229.0	2,630.4

The Corporation reclassified the Series E Notes of $400.0 to current portion of the debt as it matures in fiscal 2020. The Corporation intends to refinance the Series E Notes.

The Corporation has access to an unsecured revolving credit facility with a maximum of $600.0 bearing interest at rates that fluctuate with changes in bankers' acceptance rates. As at September 28, 2019 and September 29, 2018, the authorized revolving credit facility was unused. 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. On October 10, 2019, the maturity of the revolving credit facility was extended to November 3, 2024.

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 $21.2 in 2019 ($15.6 in 2018).

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

	Loans	Notes	Obligations under finance leases	Total
2020	25.1	400.0	4.9	430.0
2021	2.6	—	3.5	6.1
2022	1.7	300.0	2.3	304.0
2023	1.1	300.0	2.0	303.1
2024	0.9	—	2.0	2.9
2024 and thereafter	19.6	1,600.0	14.4	1,634.0
	51.0	2,600.0	29.1	2,680.1

The minimum payments in respect of the obligations under finance leases included interest amounting to $8.2 on these obligations in 2019 ($9.1 in 2018).

20. OTHER LIABILITIES

	2019	2018
Lease liabilities	**10.4**	9.6
Other liabilities	**2.4**	2.1
	12.8	11.7

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.

Common Shares issued

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

	Number *(Thousands)*	
Balance as at September 30, 2017	227,719	565.8
Shares issued for cash	28,031	1,147.9
Stock options exercised	503	10.4
Balance as at September 29, 2018	**256,253**	**1,724.1**
Shares redeemed for cash, excluding premium of $126.1	**(2,925)**	**(19.8)**
Stock options exercised	**1,112**	**28.0**
Balance as at September 28, 2019	**254,440**	**1,732.3**

Treasury shares

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

	Number *(Thousands)*	
Balance as at September 30, 2017	579	(21.9)
Acquisition	250	(10.2)
Release	(226)	7.2
Balance as at September 29, 2018	**603**	**(24.9)**
Acquisition	**115**	**(5.6)**
Release	**(141)**	**5.9**
Balance as at September 28, 2019	**577**	**(24.6)**

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 28, 2019, a balance of 4,189,336 shares could be issued following the exercise of stock options (5,300,796 as at September 29, 2018). 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 the 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, in general 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 30, 2017	3,180	26.94
Granted	390	41.16
Exercised	(503)	17.49
Balance as at September 29, 2018	**3,067**	**30.30**
Granted	**416**	**47.56**
Exercised	**(1,112)**	**21.55**
Cancelled	**(90)**	**40.71**
Balance as at September 28, 2019	**2,281**	**37.30**

The information regarding the stock options outstanding and exercisable as at September 28, 2019 was summarized 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)*
20.30 to 24.69	447	17.4	22.00	323	21.98
35.42 to 48.68	1,834	52.8	41.03	417	37.74
	2,281	45.8	37.30	740	30.86

The weighted average fair value of $6.57 per option ($5.73 in 2018) for stock options granted during fiscal 2019 was determined at the time of grant using the Black-Scholes model and the following weighted average assumptions: risk-free interest rate of 1.8% (2.2% in 2018), expected life of 5.5 years (5.4 years in 2018), expected volatility of 16.1% (15.7% in 2018) and expected dividend yield of 1.7% (1.8% in 2018). 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 $2.0 for fiscal 2019 ($2.0 in 2018).

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. The PSUs entitle the participant to Common Shares of the Corporation, or at the latter's discretion, the cash equivalent, if the Corporation meets certain financial performance indicators. PSUs vest at the end of a period of three years.

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

	Number *(Thousands)*
Balance as at September 30, 2017	547
Granted	230
Settled	(193)
Cancelled	(5)
Balance as at September 29, 2018	**579**
Granted	**226**
Settled	**(141)**
Cancelled	**(59)**
Balance as at September 28, 2019	**605**

The weighted average fair value of $47.57 per PSU ($41.16 in 2018) for PSUs granted during fiscal 2019 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 $6.6 for fiscal 2019 ($7.1 in 2018).

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 $6.2 for fiscal 2019 ($0.7 in 2018).

As at September 28, 2019, the DSU liability amounted to $17.3 ($13.4 as at September 29, 2018).

22. DIVIDENDS

In fiscal 2019, the Corporation paid $198.9 in dividends to holders of Common Shares ($164.8 in 2018), or $0.7800 per share ($0.7025 in 2018). On September 30, 2019, the Corporation's Board of Directors declared a quarterly dividend of $0.2000 per Common Share payable on November 12, 2019.

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 provides for 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:

	2019		2018	
	Pension plans	**Other plans**	Pension plans	Other plans
Balance – beginning of year	**1,262.7**	**35.0**	1,170.9	34.1
Acquisitions through business combinations *(note 5)*	**—**	**—**	47.5	—
Participant contributions	**7.8**	**—**	7.1	—
Benefits paid	**(49.2)**	**(3.7)**	(47.6)	(3.3)
Items in net earnings				
Current service cost	**43.8**	**2.5**	40.2	2.0
Interest cost	**50.3**	**1.4**	47.3	1.3
Past service cost	**—**	**0.2**	1.7	0.2
Actuarial losses (gains)	**—**	**(1.3)**	—	0.9
	94.1	**2.8**	89.2	4.4
Items in comprehensive income				
Actuarial gains from demographic assumptions	**(0.1)**	**(1.3)**	(1.2)	(0.5)
Actuarial losses (gains) from financial assumptions	**199.4**	**2.1**	(2.1)	(0.1)
Adjustments due to experience	**(2.7)**	**—**	(1.1)	0.4
	196.6	**0.8**	(4.4)	(0.2)
Balance – end of year	**1,512.0**	**34.9**	1,262.7	35.0

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

	2019		2018	
(Percentage)	**Pension plans**	**Other plans**	Pension plans	Other plans
Active plan participants	**59**	**71**	61	71
Deferred plan participants	**5**	**—**	4	—
Retirees	**36**	**29**	35	29

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

	2019		2018	
	Pension plans	**Other plans**	Pension plans	Other plans
Fair value – beginning of year	**1,290.6**	**—**	1,167.8	—
Acquisitions through business combinations *(note 5)*	**—**	**—**	47.2	—
Employer contributions	**78.1**	**3.7**	39.2	3.3
Participant contributions	**7.8**	**—**	7.1	—
Benefits paid	**(49.2)**	**(3.7)**	(47.6)	(3.3)
Items in net earnings				
Interest income	**50.3**	**—**	46.0	—
Administration costs	**(1.4)**	**—**	(1.7)	—
	48.9	**—**	44.3	—
Items in comprehensive income				
Return on plan assets, excluding the amounts included in interest income	**99.4**	**—**	32.6	—
Fair value – end of year	**1,475.6**	**—**	1,290.6	—

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

	2019		2018	
	Asset ceiling	**Minimum funding requirement**	Asset ceiling	Minimum funding requirement
Balance - beginning of year	**(18.9)**	**(0.2)**	(16.2)	—
Interests	**(0.7)**	**—**	(0.6)	—
Change in defined benefit assets	**4.3**	**—**	(2.1)	—
Change in defined benefit liabilities	**—**	**(0.6)**	—	(0.2)
Balance - end of year	**(15.3)**	**(0.8)**	(18.9)	(0.2)

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:

	2019		2018	
	Pension plans	**Other plans**	Pension plans	Other plans
Balance of defined benefit obligation – end of year	**(1,512.0)**	**(34.9)**	(1,262.7)	(35.0)
Fair value of plan assets – end of year	**1,475.6**	**—**	1,290.6	—
Funding position	**(36.4)**	**(34.9)**	27.9	(35.0)
Asset ceiling effect	**(15.3)**	**—**	(18.9)	—
Minimum funding requirement	**(0.8)**	**—**	(0.2)	—
	(52.5)	**(34.9)**	8.8	(35.0)
Defined benefit assets	**25.6**	**—**	55.1	—
Defined benefit liabilities	**(78.1)**	**(34.9)**	(46.3)	(35.0)
	(52.5)	**(34.9)**	8.8	(35.0)

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

	2019		2018	
	Pension plans	**Other plans**	Pension plans	Other plans
Defined contribution plans, including multi-employer plans	**39.2**	**—**	36.3	0.6
Defined benefit plans				
Current service cost	**43.8**	**2.5**	40.2	2.0
Past service cost	**—**	**0.2**	1.7	0.2
Actuarial losses (gains)	**—**	**(1.3)**	—	0.9
Administration costs	**1.4**	**—**	1.7	—
	45.2	**1.4**	43.6	3.1
Employee benefits expense	**84.4**	**1.4**	79.9	3.7
Interest on obligations, asset ceiling effect and minimum funding requirement net of plans assets, presented in financial costs	**0.7**	**1.4**	1.9	1.3
Net total expense	**85.1**	**2.8**	81.8	5.0

The remeasurements recognized as other comprehensive income were as follows:

	2019		2018	
	Pension plans	**Other plans**	Pension plans	Other plans
Actuarial losses (gains) on obligations incurred	**196.6**	**0.8**	(4.4)	(0.2)
Return on plan assets	**(99.4)**	**—**	(32.6)	—
Change in the effect of the asset ceiling	**(4.3)**	**—**	2.1	—
Change in the minimum funding requirement	**0.6**	**—**	0.2	—
	93.5	**0.8**	(34.7)	(0.2)

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 $81.8 in 2019 ($42.5 in 2018). The Corporation plans to contribute $54.4 to the defined benefit plans during the next fiscal year and $28.5 to multi-employer plans.

Weighted average duration of defined benefit obligations was 16 years as at September 28, 2019 (15 years as at September 29, 2018).

The most recent actuarial valuations for funding purposes in respect of the Corporation's pension plans were performed on various dates between December 2017 and September 2019. The next valuations will be performed in December 2019.

Plan assets, evaluated at level 1 as it is based on quoted market prices in an active market for the shares and at level 2 for bonds and others as it is derived from observable market inputs, held in trust and their weighted average allocation as at the measurement dates were as follows:

Asset categories *(Percentage)*	**2019**	2018
Shares in Canadian corporations	**18**	21
Shares in foreign corporations	**22**	24
Government and corporation bonds	**51**	48
Others	**9**	7

Pension plan assets included shares issued by the Corporation with a fair value of $6.1 as at September 28, 2019 ($4.3 as at September 29, 2018).

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

	2019		2018	
(Percentage)	**Pension plans**	**Other plans**	Pension plans	Other plans
Discount rate on defined benefit obligation	**3.01**	**3.01**	3.90	3.90
Discount rate on service costs	**3.96**	**3.96**	4.00	4.00
Rate of compensation increase	**3.00**	**3.00**	3.00	3.00
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	
	1% increase	1% decrease	1% increase	1% decrease
Effect on defined benefit obligation	(222.9)	268.9	(3.0)	3.6

The assumed annual health care cost trend rate per participant was set at 5.5% (5.6% in 2018). Under the assumption used, this rate should gradually decline to 4.0% in 2040 and remain at that level thereafter. A 1% change in this rate would have the following effects:

	1% increase	1% decrease
Effect on defined benefit obligation	(1.7)	1.5

24. COMMITMENTS

Operating leases

The Corporation has operating lease commitments, with varying terms through 2041 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:

	2019	2018
Under 1 year	**194.6**	188.4
Between 1 and 5 years	**629.1**	589.3
Over 5 years	**573.2**	522.0
	1,396.9	1,299.7

In addition, the Corporation has committed to leases for premises, with varying terms through 2040 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:

	2019	2018
Under 1 year	**99.5**	100.5
Between 1 and 5 years	**318.2**	326.5
Over 5 years	**261.5**	308.7
	679.2	735.7

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 and IT equipment. 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	
	2019	2018	**2019**	2018
Under 1 year	**4.9**	6.2	**3.6**	4.6
Between 1 and 5 years	**9.8**	12.5	**6.3**	8.8
Over 5 years	**14.4**	16.1	**11.0**	12.3
Minimum lease payments	**29.1**	34.8	**20.9**	25.7
Future financial costs	**(8.2)**	(9.1)	**—**	—
Present value of minimum lease payments	**20.9**	25.7	**20.9**	25.7

Service contracts

The Corporation has service contract commitments essentially for transportation and IT, with varying terms through 2030 and no renewal option. Future minimum payments under these service contracts will be as follows:

	2019	2018
Under 1 year	**141.9**	121.4
Between 1 and 5 years	**330.3**	161.4
Over 5 years	**10.3**	27.4
	482.5	310.2

25. CONTINGENCIES

Guarantees

The Corporation has guaranteed loans granted to certain customers by financial institutions, with varying terms through 2030. The balance of these loans amounted to $24.1 as at September 28, 2019 ($22.1 as at September 29, 2018). No liability has been recorded in respect of these guarantees for the years ended September 28, 2019 and September 29, 2018.

Buyback agreements

Under inventory repurchase agreements, the Corporation has undertaken with respect to financial institutions to repurchase at cost the inventories of certain customers, when they are in default, up to the amount drawn on lines of credit granted to these same customers by the financial institutions. As at September 28, 2019, inventory financing amounted to $192.4 ($201.9 as at September 29, 2018). However, under these agreements, the Corporation has not undertaken to make up for any deficit created if the value of inventories falls below the amount of the advances.

Under buyback agreements, the Corporation is committed to financial institutions to purchase equipment held by customers and financed by finance leases not exceeding 5 years and loans not exceeding 15 years. For finance leases, the buyback value is linked to the net balance of the lease at the date of the buyback. For equipment financed by bank loans, the minimum buyback value is either set by contract with the financial institutions, or linked to the loan balance at the buyback date. As at September 28, 2019, financing related to the equipment amounted to $44.6 ($50.7 as at September 29, 2018).

No liability has been recorded in respect of these guarantees for the years ended September 28, 2019 and September 29, 2018 and historically, the Corporation has not made any indemnification payments under such agreements.

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 at this stage, the Corporation does not believe that these matters will have a material effect on the Corporation's financial position or on consolidated earnings. However, since any litigation involves uncertainty, it is not possible to predict the outcome of these litigations or the amount of potential losses. No accruals or provisions for contingent losses have been recognized in the Corporation’s annual consolidated financial statements.

In May 2019, two proposed class actions relating to opioids were filed in Ontario and in Québec against a large group of defendants including a subsidiary of the Corporation, Pro Doc Ltée. The allegations in these proposed class actions are similar to the allegations contained in the proposed class action filed by the province of British Columbia in August 2018 against numerous manufacturers and distributors of opioids, including subsidiaries of the Corporation, Pro Doc Ltée and The Jean Coutu Group (PJC) Inc. These proposed class actions contain allegations of breach of the Competition Act, of fraudulent misrepresentation and deceit, and of negligence. The province of British Columbia seeks damages (unquantified) on behalf of all federal, provincial and territorial governments and agencies for expenses allegedly incurred in paying for opioid prescriptions and other healthcare costs that would be related to opioid addiction and abuse while the Ontario and Québec proposed claims seek recovery of damages on behalf of opioid users directly. The Corporation believes these proceedings are without merit and that, in certain cases, there is no jurisdiction.

In October 2017, the Canadian Competition Bureau began an investigation into the supply and sale of commercial bread which involves certain Canadian suppliers and retailers, including the Corporation. The Corporation continues to fully cooperate with the Competition Bureau. Class actions lawsuits have also been filed against the Corporation, suppliers and other retailers. Based on the information available to date, the Corporation does not believe that it or any of its employees have violated the Competition Act.

During the 2016 fiscal year, an application for authorization to institute a class action was served on the Jean Coutu Group by Sopropharm, an association incorporated under the Professional Syndicates Act of which certain franchised drugstore owners of the Jean Coutu Group are members. The application seeks to have the class action authorized in the form of a declaratory action seeking amongst others (i) to set aside certain contractual provisions of the Jean Coutu Group’s standard franchise agreements, including the clause providing for the payment of royalties on sales of medication by franchised establishments; (ii) to restore certain benefits; and (iii) to reduce certain contractual obligations. On November 1, 2018, the Court granted the application for authorization to institute a class action, the authorization process

being merely a procedural step and the judgment in no way decides the case on the merits. The Corporation intends to contest this action on the merits.

26. RELATED PARTY TRANSACTIONS

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

Names	Country of incorporation	Percentage of interest in the capital	Percentage of voting rights
Subsidiaries			
Metro Richelieu Inc.	Canada	100.0	100.0
Metro Ontario Inc.	Canada	100.0	100.0
Groupe Jean Coutu Inc.	Canada	100.0	100.0
McMahon Distributeur pharmaceutique Inc.	Canada	100.0	100.0
Pro Doc Ltée	Canada	100.0	100.0
RX Information Centre Ltd.	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	100.0	100.0
Groupe Phoenicia Inc.	Canada	100.0	100.0
Groupe Première Moisson Inc.	Canada	75.0	75.0
MissFresh Inc.	Canada	70.0	70.0
Joint venture			
Dunnhumby Canada Limited	Canada	50.0	50.0
Medicus Group Inc.	Canada	46.5	46.5

The joint venture with Dunnhumby Canada Limited ended on February 28, 2019.

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

	2019		2018	
	Sales	**Services received**	Sales	Services received
Joint venture	**—**	**5.2**	—	9.6
Companies controlled by a member of the Board of Directors	**66.6**	**—**	25.1	—
	66.6	**5.2**	25.1	9.6

	2019		2018	
	Accounts receivable	**Accounts payable**	Accounts receivable	Accounts payable
Joint venture	**—**	**—**	—	(2.6)
Companies controlled by a member of the Board of Directors	**4.9**	**—**	5.1	—
	4.9	**—**	5.1	(2.6)

Compensation for the principal officers and directors was as follows:

	2019	2018
Compensation and current benefits	**8.3**	5.7
Post-employment benefits	**0.8**	2.7
Share-based payment	**6.2**	6.0
	15.3	14.4

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 2019 annual results regarding its capital management objectives were as follows:

- a non-current debt/total capital ratio of 30.6% (31.7% as at September 29, 2018);
- a BBB credit rating confirmed by S&P and DBRS (same rating in 2018);
- a dividend representing 34.3% of net earnings, excluding non recurring items, for the previous fiscal year (27.1% in 2018).

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

28. FINANCIAL INSTRUMENTS

FAIR VALUE

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

	2019		2018	
	Book value	**Fair value**	Book value	Fair value
Investment at fair value				
Asset subsequently measured at fair value through comprehensive income *(note 10)*	**—**	**—**	66.9	66.9
Other assets				
Assets measured at amortized cost				
Loans to certain customers *(note 15)*	**62.8**	**62.8**	64.5	64.5
Non-controlling interests				
Liabilities measured at fair value through profit and loss	**—**	**—**	39.3	39.3
Debt *(note 19)*				
Liabilities measured at amortized cost				
Series E Notes	**400.0**	**400.3**	400.0	401.2
Series C Notes	**300.0**	**305.2**	300.0	300.6
Series F Notes	**300.0**	**302.4**	300.0	292.9
Series G Notes	**450.0**	**466.8**	450.0	432.8
Series B Notes	**400.0**	**512.0**	400.0	474.7
Series D Notes	**300.0**	**362.6**	300.0	323.5
Series H Notes	**450.0**	**491.8**	450.0	432.5
Loans	**51.0**	**51.0**	35.2	35.2
	2,651.0	**2,892.1**	2,635.2	2,693.4

The fair value of loans to certain customers 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 investment's fair value was measured using the closing quoted bid price of the shares of ACT which are listed on the TSX. The Corporation categorized the fair value measurement in Level 1, as it is derived from quoted prices in active markets.

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 non-current liability is equivalent to the estimated price to be paid, which is based mainly on the discounted value of the projected future earnings of MissFresh (MissFresh and Première Moisson in 2018), 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 changes of the non-controlling interest-related liability were as follows:

	2019	2018
Balance – beginning of year	**39.3**	260.9
Buyout of minority interests	**—**	(221.2)
Change in fair value	**11.8**	(0.4)
Balance – end of year	**51.1**	39.3
Current portion	**51.1**	—
Non-current portion	**—**	39.3
Balance – end of year	**51.1**	39.3

During the second quarter of fiscal 2019, the Corporation reclassified as current the liability related to the non-controlling interest in Première Moisson given that under the shareholders' agreement, the Corporation will acquire the minority interest effective in the first quarter of fiscal 2020. The fair value of the non-controlling interest-related current liability corresponds to an estimation of price to be paid based on Première Moisson fiscal 2019 results in accordance with the agreement between the parties.

In accordance with the shareholder agreement, the Corporation acquired the minority interests in Adonis and Phoenicia during the first quarter of fiscal 2018 for a cash consideration of $221.2.

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 28, 2019 and September 29, 2018, 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 28, 2019 and September 29, 2018, 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 28, 2019, the maximum potential liability under guarantees provided amounted to $24.1 ($22.1 as at September 29, 2018) 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 financial risk management policy, the Corporation entered into these agreements with major Canadian financial institutions to reduce its credit risk.

As at September 28, 2019, the maximum exposure to credit risk for the foreign exchange forward contracts was equal to their carrying amount. As at September 29, 2018, 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 liabilities 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 E, C, F, G, B, D and H Notes mature only in 2024, 2020, 2021, 2022, 2027, 2035, 2044 and 2047, respectively. The Corporation also has an unused authorized balance of $600.0 on its revolving credit facility.

	Undiscounted cash flows (capital and interest)					
	Accounts payable	Loans	Notes	Finance lease commitments	Non-controlling interests	Total
Maturing under 1 year	1,331.4	25.9	495.5	4.9	51.1	1,908.8
Maturing in 1 to 10 years	—	8.9	922.4	9.8	—	941.1
Maturing in 11 to 20 years	—	4.3	789.2	12.4	—	805.9
Maturing over 20 years	—	22.2	1,872.2	2.0	—	1,896.4
	1,331.4	61.3	4,079.3	29.1	51.1	5,552.2

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 financial risk management policy, the Corporation could use 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 28, 2019 and September 29, 2018, the fair value of foreign exchange forward contracts was insignificant.

29. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements of fiscal year ended September 28, 2019 (including comparative figures) were approved for issue by the Board of Directors on November 19, 2019.

DIRECTORS AND OFFICERS

Board of Directors

Maryse Bertrand(1)(3)
Westmount, Québec

Pierre Boivin (2)(3)
Montréal, Québec

François J. Coutu
Montréal, Québec

Michel Coutu
Montréal, Québec

Stephanie Coyles(1)
Toronto, Ontario

Marc DeSerres(2)
Montréal, Québec

Claude Dussault(2)(3)
Québec, Québec

Russell Goodman(1)(3)
Mont-Tremblant, Québec

Marc Guay(1)(2)
Oakville, Ontario

Christian W.E. Haub(2)
Greenwich, Connecticut

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

Christine Magee(3)
Oakville, Ontario

Marie-José Nadeau(3)
Montréal, Québec

Réal Raymond
Montréal, Québec
Chair of the Board

Line Rivard(1)(2)
Montréal, Québec

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

Management of METRO INC.

Eric R. La Flèche
President and Chief Executive Officer

François Thibault
Executive Vice President, Chief Financial Officer and Treasurer

Marc Giroux
Executive Vice President and Quebec Division Head and eCommerce

Carmine Fortino
Executive Vice President, Ontario Division Head and National Supply Chain

Serge Boulanger
Senior Vice President, National Procurement and Corporate Brands

Martin Allaire
Vice President, Real Estate and Engineering

Marie-Claude Bacon
Vice President, Public Affairs and Communications

Genevieve Bich
Vice President, Human Resources

Mireille Desjarlais
Vice President, Corporate Controller

Éric Legault
Vice President, Technology Infrastructure

Frédéric Legault
Vice President, Information Systems

Gino Plevano
Vice President, Digital Strategy and Online Shopping, METRO

Simon Rivet
Vice President, General Counsel and Corporate Secretary

Alain Tadros
Vice President, Marketing, METRO

Yves Vézina
National Vice President, Logistics and Distribution

SHAREHOLDER INFORMATION

The corporate information, annual and quarterly reports, the annual information form, and press releases are available on the Internet at the following address: **www.metro.ca**

*Les renseignements sur la Société, les rapports annuels et trimestriels, la notice annuelle et les communiqués de presse sont disponibles sur Internet à l'adresse suivante : **www.metro.ca***

Head Office
11011 Maurice-Duplessis Blvd.
Montréal, Québec H1C 1V6
Tel: (514) 643-1000

Transfer agent and registrar
AST Trust Company (Canada)

Stock listing
Toronto Stock Exchange
Ticker Symbol: MRU

Auditors
Ernst & Young LLP

Annual meeting
The Annual General Meeting of Shareholders will be held on January 28, 2020 at 10:00 a.m. at:

Centre Mont-Royal
2200 Mansfield Street
Montréal, Québec H3A 3R8

DIVIDENDS*
2020 FISCAL YEAR

Declaration Date	Record Date	Payment Date
January 27, 2020	February 13, 2020	March 10, 2020
April 21, 2020	May 21, 2020	June 12, 2020
August 11, 2020	September 2, 2020	September 23, 2020
September 28, 2020	October 23, 2020	November 10, 2020

** Subject to approval by the Board of Directors*

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