metro

ANNUAL REPORT
2018

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 947 food stores under several banners including Metro, Metro Plus, Super C, Food Basics, Adonis and Première Moisson, as well as 669 drugstores primarily under the Jean Coutu, Brunet, Metro Pharmacy and Drug Basics banners, providing employment directly or indirectly to almost 90,000 people.

2018 HIGHLIGHTS

- 52-week fiscal year versus 53 weeks in 2017
- Sales of $14,383.4 million, up 9.2% and up 2.4% when excluding the Jean Coutu Group and the 53rd week of 2017
- Net earnings of $1,718.5 million
- Adjusted net earnings[(1)] of $605.9 million, up 13.0% based on 52 weeks in 2017
- Fully diluted net earnings per share of $7.16
- Adjusted fully diluted net earnings per share[(1)] of $2.52, up 11.5% based on 52 weeks in 2017
- Return on equity of 40.1%, exceeding 14% for the 25th consecutive year
- Dividends per share increase of 12.0%, the 24th consecutive year of dividend growth

RETAIL NETWORK

		Québec		Ontario		New Brunswick	Total
Supermarkets	Metro Metro Plus	199	Metro	134			333
	Adonis	10	Adonis	2			12
Discount stores	Super C	97	Food Basics	131			228
Neighbourhood stores	Marché Richelieu	57					
	Marché Ami	250					
	Marché Extra	40					347
Partner	Première Moisson	26	Première Moisson	1			27
Total food		**679**		**268**			**947**
Drugstores	Brunet Brunet Plus Brunet Clinique Clini Plus	180	Metro Pharmacy Drug Basics	72			252
	PJC Jean Coutu PJC Health PJC Health & Beauty	380	PJC Jean Coutu PJC Health	9	PJC Jean Coutu PJC Health PJC Health & Beauty	28	417
Total drugstores		**560**		**81**		**28**	**669**

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

	2018	2017 *(53 weeks)*	2016	2015	2014
OPERATING RESULTS *(Millions of dollars)*					
Sales	**14,383.4**	13,175.3	12,787.9	12,223.8	11,590.4
Operating income*	**1,011.1**	966.4	931.3	857.8	781.5
Net earnings	**1,718.5**	608.4	586.2	519.3	456.2
Adjusted net earnings(1)	**605.9**	548.2	586.2	523.6	460.9
Cash flows from operating activities	**750.4**	696.2	707.4	678.3	433.1
FINANCIAL STRUCTURE *(Millions of dollars)*					
Total assets	**10,922.2**	6,050.7	5,606.1	5,387.1	5,279.5
Non-current debt	**2,630.4**	1,441.6	1,231.0	1,145.1	1,044.7
Equity	**5,656.0**	2,923.9	2,693.2	2,657.2	2,684.1
PER SHARE *(Dollars)*					
Basic net earnings	**7.20**	2.59	2.41	2.03	1.70
Fully diluted net earnings	**7.16**	2.57	2.39	2.01	1.69
Adjusted fully diluted net earnings(1)	**2.52**	2.31	2.39	2.03	1.71
Book value	**22.12**	12.87	11.52	11.00	10.59
Dividends	**0.7025**	0.6275	0.5367	0.4500	0.3833
FINANCIAL RATIOS *(%)*					
Operating income*/ Sales	**7.0**	7.3	7.3	7.0	6.7
Return on equity	**40.1**	21.7	21.9	19.4	16.6
Non-current debt/total capital	**31.7**	33.0	31.4	30.1	28.0
SHARE PRICE *(Dollars)*					
High	**45.44**	47.41	48.19	38.10	24.93
Low	**38.32**	38.00	35.61	24.27	20.00
Closing price (At year-end)	**40.18**	42.91	44.09	35.73	24.62

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

(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,

This past year METRO completed the acquisition of the Jean Coutu Group, the largest transaction in its history, achieving one of the key elements of its strategic plan, which was to become the leader in pharmacy in Québec.

One quarter of the acquisition price was paid in shares, representing at the time of the transaction an aggregate interest of approximately 11% of the company's equity, about 8% of which is now held by the Coutu family. I would like to welcome all of our new shareholders and, on behalf of the Board, thank them for the choice that they made.

The Board welcomed two new members in 2018 following the acquisition of the Jean Coutu Group, Messrs. François J. Coutu and Michel Coutu. I am convinced that their extensive knowledge of the pharmacy sector will be beneficial to the Board.

METRO had another good year in 2018 as it achieved results that met expectations, despite intense competition and a difficult economic context. These results serve to reaffirm our belief that the business plan implemented by management and supported by the Board is proving to be effective for the company’s growth.

Our strong results reflect the commitment and competence of our employees, led by a strong and experienced 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 those results and, particularly, for all the work done to complete the acquisition of the Jean Coutu Group.

Board of Directors

Once again this year, the Board of Directors reviewed and approved the company's strategic plan and supported management in the various initiatives and projects underway, including an investment of $400 million[3] over six years announced in October of 2017 to modernize our distribution network in Toronto. Following the acquisition of the Jean Coutu Group, the Board also supported management in its efforts to consolidate the activities of the Jean Coutu Group with those of METRO.

In 2016, the Board raised its gender representation minimum target from 25% to 30%. We are proud to have exceeded that target for the fifth straight year, with five women directors, representing 36% of the Board.

In 2019, the Board will continue to support management in achieving the company's strategic priorities, particularly in creating the value of the acquisition of the Jean Coutu Group.

The Board is functioning well and I would like to thank all of my colleagues for their commitment and their contribution throughout the year. Thank you for your trust and I hope that we will be able to count on your support in 2019.

Réal Raymond
Chair of the Board

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MESSAGE FROM THE PRESIDENT AND CEO

Dear Shareholders,

Fiscal 2018 started off with a bang: in October of 2017, we announced the completion of two strategic projects, namely the acquisition of the Jean Coutu Group, the largest in METRO's history, and the modernization of our distribution network in Toronto. And it ended on a strong note with solid growth of same-store sales and net earnings in the fourth quarter.

2018 results
Our 2018 fiscal year included 52 weeks compared to 53 weeks for 2017. Sales rose to \$14.4 billion, up 9.2% and 2.4% when excluding the Jean Coutu Group and the 53rd week of 2017. Food same-store sales were up 1.6%. Since the acquisition, pharmacy same-store sales were up 1.8%, 0.6% for prescription drugs (2.5% for number of prescriptions) and 3.9% for front store sales.

Net earnings for fiscal 2018 were \$1,718.5 million compared to \$608.4 million in 2017 and fully diluted net earnings per share were \$7.16 compared to \$2.57. Taking into account the adjustments for fiscal 2018 and 2017, adjusted net earnings(1) for 2018 were \$605.9 million compared to \$536.3 million in 2017 based on 52 weeks, and adjusted fully diluted net earnings per share(1) were \$2.52 compared to \$2.26, up 13.0% and 11.5% respectively.

We are pleased with our 2018 results, which were achieved in a difficult environment, marked by intense competition, very low food inflation and increased pressure on our operating costs, namely the minimum wage increase in Ontario.

Jean Coutu Group
It was with great pride that we welcomed our 20,000 new colleagues from the Jean Coutu Group into the METRO family last May. Combining our two organizations, complementary from both a strategic and commercial standpoint, strengthens our competitive position and provides us with a new growth opportunity.

Our new pharmacy division now comprises a network of 597 drugstores, operating in Québec, Ontario and New Brunswick. The combined entity is working to develop the full potential of both of its main banners, Jean Coutu and Brunet, in order to strengthen our market presence.

The combination of activities that will support our pharmacy banners will be carried out over several months. In time, we intend to support the specific strategy of Jean Coutu and Brunet with a unified operational chain, meaning systems and processes that will allow us to be agile and efficient. We anticipate that within three years, we will be able to deliver synergies of \$75 million(3), mainly with respect to procurement, warehousing, distribution and operating costs. Since the closing of the transaction, \$6.6 million in synergies have been achieved, representing \$17.0 million(3) on an annualized basis.

With the acquisition, our retail network includes over 1,600 establishments with sales that will exceed \$16 billion(3). Together, we create a new leader in food and pharmacy that will be better positioned to serve the everyday essential needs of consumers.

Modernization of our Toronto distribution network
In October 2017, we announced a \$400 million(3) investment over the next six years in our Ontario distribution network. We will modernize our Toronto distribution network by building a new distribution centre for frozen products close to our current centre (West Mall) and a new distribution centre for fresh products close to our current centre (Vickers). Both new facilities will be fully or partially automated.

With a modernized supply chain and cutting-edge technology, we will be able to meet our customers' needs with even greater efficiency. The new distribution centres will offer a wider range of products, increased precision in order preparation as well as more flexibility, allowing us to improve service to our network of stores and to our customers. They will also enable us to respond to the constantly evolving preferences of our customers in the future and to position METRO as the retailer providing the best customer experience in each of its banners.

The transformation began with the choice of our technology partner, Witron, a world leader that has carried out dozens of automated warehouse implementation projects in the food sector. The transformation began in 2018 and will be completed in 2023(3).

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Exceeding our customers' expectations
Once again this year, we continued to invest in our retail network. We carried out 31 projects to modernize our network, including opening 5 new stores. Our sustained investments over the last few years and the many initiatives that were implemented in all of our banners contributed to increased sales and maintaining our market share.

The Metro banner performed particularly well with efficient marketing programs, such as the renewed "*Tout prêt tout frais*" ready-to-eat program in Québec and the Instore Bakery program in Ontario. Our discount banners, Super C and Food Basics continued to focus on the needs of the consumers for whom low prices are the priority.

Metro became the first food banner in Québec to offer same-day delivery for its online grocery shopping service. The delivery service is accessible to 60% of Québec's population and customers can also choose to pick-up their order at the participating stores. We are pleased with the increase of our online sales from both new customers and additional purchases from existing customers.

In the wake of the combination of METRO, Jean Coutu and Brunet, several of METRO's private label products, *Irresistibles* and *Selection*, are now being sold in the Jean Coutu network. Health and beauty products sold under the *Personnelle* brand, Jean Coutu's private label, will be introduced progressively over the coming months into the Brunet, Metro and Super C network.

Our customer satisfaction measures continue to improve in all of our banners. Once again this year, our food banners scored very high on the "WOW" index presented by the Léger polling firm in Québec last November. The Metro banner maintained top spot among large food distributors and Super C ranked 4th. Brunet jumped to 1st place among pharmacy banners for the first time and is in the top ten of all retailers in Québec, while Jean Coutu remained in 4th position.

Financial situation
Over the course of fiscal 2018, our share price traded within a range of $38.32 to $45.44 and closed the year at $40.18, compared to $42.91 at the end of fiscal 2017. Our share price has increased since then, closing at $45.80 on November 30, 2018, representing for shareholders a total return (including reinvestment of dividends) of 15.4 % over one year, 139.6% over five years and 365.0% over ten years, ranking METRO 1st among the three major Canadian food retailers for each of those periods.

We increased our dividend for a 24th consecutive year, to $0.7025 per share, up 12.0% compared to the previous year's dividend.

Our financial situation remains solid with a balance sheet that enables our future growth. Since the acquisition of the Jean Coutu Group last May, we reimbursed $850 million of debt, which allowed us to reinstate our share repurchase program in November and thus provide us with an additional option for using excess funds.

Community investments
We actively take part in the economic and social well being of the communities in which we operate. Through our actions, we want to make a positive contribution and increase the scope and the benefits of our programs on these communities. Each year, METRO and Jean Coutu make important monetary and in-kind contributions, while also supporting local suppliers in Québec and Ontario.

We take pride in the "Thanks a Million!" award that METRO received from Centraide United Way Canada. The award is presented each year to Canadian businesses that donate one million dollars or more to the United Way, an amount that METRO has exceeded more than once.

The first METRO Week of Caring was held last May. For the first time, our office employees volunteered for a half-day in a community organization affiliated with the United Way. The METRO team answered the call in large numbers and will continue to do so in 2019.

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Outlook[3]
We are confident that we will continue to grow if we successfully execute on our strategic priorities for the coming years, namely integrating the Jean Coutu Group, growing our sales while leveraging our costs, continuously improving the customer experience in each of our banners, modernizing our distribution network and managing our talent.

We will of course put a great deal of effort into continuing the work involved with combining our pharmacy activities. The emphasis will be placed on achieving synergies and deploying the technology-based solutions required to support the unified operational chain.

Subject to obtaining the required permits, we plan to begin the construction of our first automated distribution centre in Toronto in early 2019. Finally, we anticipate launching our online grocery service in Ontario during the 2019 fiscal year.

I would like to thank all of our employees, our retailers and my management colleagues for their great work and contribution to our success. I would also like 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 now passed the midpoint of our 2016-2020 corporate responsibility plan and made considerable progress on the implementation of the programs developed for our four pillars: delighted customers, respect for the environment, strengthened communities and empowered employees.

In 2018, we continued to work diligently to execute our responsible procurement approach. In addition to developing the tools required to monitor the steps we have taken toward meeting our commitments, we updated and released our sustainable fisheries and aquaculture policy. We also signed an international ethical charter on responsible labour practices for produce, an industry initiative complementary to our Supplier Code of Conduct.

To continue to meet the needs of our customers, METRO has also further developed its health program, making it an even more holistic approach to the promotion of a healthy lifestyle in terms of its product offer, as well as the means to promote it and support consumers. We increased the number of private brand products for healthy eating, in particular under the *Irresistibles Organics* and *Irresistibles Naturalia* labels.

This past year, the scope of our local purchasing program grew significantly in Québec and Ontario. Indeed, the quantity of regional products available in our stores rose by 50%, from 1,161 to 1,742, and the number of participating stores and suppliers also increased.

Our food recovery program-Récupartage in Québec and One More Bite in Ontario-enjoyed very strong growth in 2018. Over 3,000 tonnes of food were recovered: a 90% increase as compared to the previous year thanks to various factors including the higher number of participating stores. Through the initiative, which aims to deliver to our partners the unsold products fit for consumption that are recovered in our stores, we were able to provide the equivalent of more than 6 million meals.

We demonstrated our commitment to our communities through a number of additional actions. We organized the very first METRO Week of Caring, during which employees spent work hours taking part in food-related activities to support 14 organizations in Québec and Ontario. Our staff members also proved their generosity by donating a total of $1.5 million to community associations. Our customers and suppliers lent a hand by participating in METRO events and in-store fundraising campaigns, amassing $1.3 million for their local communities.

On the environmental front, we pursued the implementation of our strategies to improve our performance. For example, following our 2016 initiative to integrate more efficient lighting and refrigeration systems in our new stores, our 2018 consumption data indicate that our current building standards are far more effective than those in use in 2010. With regard to our waste management, the efforts to raise awareness, follow up on programs and research new collection methodologies led to a substantial increase in our volumes of recovered food waste.

This past year was also marked by the acquisition of Groupe Jean Coutu. We have begun to implement our corporate responsibility programs in the pharmacy sector. In 2019, we will continue this exercise and will pursue our efforts to conduct the work required to attain the objectives set out for each of our pillars.

For more information on METRO's strategies and achievements, please consult our corporate responsibility report for the 2018 fiscal year (available as of January 29, 2019) and our supporting documentation 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 29, 2018

metro

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The following Management's Discussion and Analysis sets out the financial position and consolidated results of METRO INC. for the fiscal year ended September 29, 2018, and should be read in conjunction with the annual consolidated financial statements and the accompanying notes as at September 29, 2018. This report is based upon information as at November 20, 2018 unless otherwise indicated. Additional information, including the Annual Information Form and Certification Letters for fiscal 2018, 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 333 supermarkets under the Metro and Metro Plus banners. The 228 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 12 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 throughout Québec. 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 27 stores. Finally, MissFresh is our online meal-kit partner offering a subscription model with home delivery service or in-store pick-up.

The Corporation also acts as franchisor and distributor for 417 PJC Jean Coutu, PJC Health et PJC Health & Beauty drugstores as well as 180 Brunet Plus, Brunet, Brunet Clinique, and Clini Plus drugstores, held by pharmacist owners. The Corporation also operates 72 drugstores in Ontario under Metro Pharmacy and Drug Basics 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 IN FISCAL 2018

Sales for fiscal 2018 were up 9.2% compared to 2017. Excluding of 2018 the increase from the Jean Coutu Group as well as the 53rd week of fiscal 2017, sales were up 2.4%. Net earnings for fiscal 2018 were $1,718.5 million compared to $608.4 million in fiscal 2017 and fully diluted net earnings per share were $7.16 compared to $2.57. Adjusted net earnings[(1)] for fiscal 2018 totalled $605.9 million compared to $548.2 million for fiscal 2017, and adjusted fully diluted net earnings per share[(1)] amounted to $2.52 versus $2.31, up 10.5% and 9.1%, respectively.

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

- On May 11, 2018, we closed the acquisition of the Jean Coutu Group, the #1 drugstore network in Québec. This $4.5 billion acquisition is the largest in METRO's history. The combination of the two companies will allow us to develop the full potential of the Jean Coutu and Brunet banners, strengthen our presence in the pharmacy market and better meet the needs of consumers. Under the agreement entered into with the Commissioner of Competition of Canada, METRO is required to divest its rights in 10 drugstores. In Novembre 2018, the divestiture of 5 of these drugstores was completed. The divestiture of the 5 other drugstores should take place in the first half of 2019.

- To fund a portion of the Jean Coutu Group acquisition, during the first quarter, we disposed of most of our investment in Alimentation Couche-Tard inc. (ACT) for proceeds net of the related fees and commissions of $1,534.0 million and a gain of $1,107.4 million. The disposal triggered the loss of significant influence of the Corporation over ACT. Our investment was then re-evaluated at fair value and considered to be an available-for-sale financial asset, generating a $225.6 million gain on revaluation. In the fourth quarter, we disposed of the majority of the investment at fair value and recorded a $15.5 million gain on the revaluation and disposal. A forward agreement was signed to dispose of the remaining shares, and the disposal closed on November 5, 2018, completing the sale of all of our ACT shares. Total sales proceeds from this investment amounted to $326.0 million.

- The other portion of the Jean Coutu Group acquisition was funded by the issuance of Series F, G and H notes, representing a total principal amount of $1,200.0 million, the use of a $500 million term credit facility and a $250 million bridge loan. As at September 29, 2018 , the Corporation had fully repaid the credit term facility and the bridge loan.

- In October 2017, we announced a $400.0 million[(3)] investment over six years in our Ontario distribution network. With this investment, we will modernize our Toronto distribution network by building a new distribution centre for frozen food close to our current West Mall facility and a new distribution centre for fresh food close to our current Vickers facility. Work got underway in 2018, with completion scheduled for 2023. With a modernized supply chain and advanced technology, we will be able to meet our customers' needs more efficiently. The new distribution centres

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will offer a wider variety of products, greater accuracy in order picking and more flexibility, allowing us to improve service to our store network and customers. This major investment will position METRO to pursue further growth and expansion in the Ontario market.

- We continued our investment plan in our stores. In Québec, we opened a new Adonis store, converted a Metro into a Super C store and carried out major renovations at 14 other locations. The Adonis store opened in Gatineau was the first location outside the greater Montréal and Toronto areas. In Ontario, we opened three new Food Basics stores and carried out major renovations at 12 other Metro or Food Basics stores.

- Première Moisson opened its 27th artisan bakery in Gatineau, a third foray outside the greater Montréal area.

- The popularity of our online grocery service, available to 60% of the population of Québec, continued to grow, always with the promise of guaranteed freshness. In June 2018, in an effort to better serve our customers, we became the first banner in Québec to offer same-day delivery for all its online services. Online grocery shopping, as well as the partnership with MissFresh, is part of the Corporation's overall digital strategy, which aims to position METRO as the retailer that offers the food experience that best meets consumers' needs and behaviours. This service will be launched in Ontario during 2019.

- In early fall, the private labels *Irresistibles* and *Selection* made their debut at Jean Coutu. *Personnelle* brand health and beauty products, under Jean Coutu's private label, will gradually be introduced into the Brunet, Metro and Super C network, and eventually into Ontario stores as well. *Personnelle* brand beauty products and over-the-counter medications will also be added to Brunet's product lineup. In this way, the value of all our brands will be maximized in the best interests of customers across METRO's various networks.

- On November 30, 2017, METRO, together with Tink, CGI and Publicis, won a Boomerang award for its metro.ca *My Online Grocery* service in the Site or Application - Transactional, Large Business (e-Commerce) category. This competition, organized by *Infopresse*, recognizes excellence in interactive communications and new technologies. Metro's digital platform stands out for its ease of use and customization in an environment where flexibility and speed feature prominently in consumers' daily lives.

- The Local Purchasing Program is now solidly established in Québec and Ontario. There is currently a total of more than 300 regional suppliers in both provinces combined, offering more than 1,700 local products. Local food purchasing helps build a strong agri-food system and also helps our economy grow by creating good jobs. In April 2018, METRO's Ontario division was honoured with the Foodland Ontario VISION Award in recognition of its significant contribution to the promotion of local products throughout the year.

- Our private brands won four awards at the PLMA Salute to Excellence Awards 2018, a competition that recognizes the best private label innovations in the Americas. As well, at the 25th Anniversary Gala of the Canadian Grand Prix New Product Awards, METRO won five awards for its *Irresistibles* products. This is an annual competition for the best new products available in grocery stores from coast to coast. The products were judged on presentation and packaging, characteristics, taste or convenience, innovation, originality and overall consumer value.

- Well aware of the various ongoing issues in our society, METRO is present on a regular basis to make donations and to help with fundraising efforts mainly for United Way, the Red Cross, MIRA, Sainte-Justine's Tree of Lights, and through the Metro Full Plate Program and Toonies for Tummies in Ontario. METRO won the "Thanks A Million" award from United Way Canada. This award is presented annually to Canadian companies that donate $1 million or more to United Way, an amount that METRO has already exceeded more than once. With this award, United Way thanks us for helping them improve the quality of life of thousands of people and for supporting its daily work in communities. In addition, in order to strengthen its community involvement, METRO continued its work with *Récupartage* in Québec and One More Bite in Ontario with more than 3,000 tonnes of food donated, up 90% from the previous year. In both provinces, these organizations collect unsold products and redistribute them to community organizations.

- A recent study on the reputation of companies doing business in Canada by the Reputation Institute and Argyle Public Relationships ranked Jean Coutu #2 among Canadian companies. This showing reflects the outstanding work and dedication to delivering top-notch customer service of our teams in place.

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(3) *See section on "Forward-looking information"*

EVENT AFTER THE REPORTING PERIOD

After a period of approximately one year during which the normal course issuer bid program was not renewed, in particular because the Corporation chose, during this period, to allocate the surplus cash available to reimburse part of the debt incurred for the Jean Coutu Group acquisition, the Board of Directors authorized, on November 20, 2018, the reinstatement of the share repurchase program. The Corporation will be able to repurchase, in the normal course of business, between November 23, 2018 and November 22, 2019 up to 7,000,000 of its Common Shares representing approximately 2.7% of its issued and outstanding shares on November 13, 2018. Repurchases will be made through the facilities of the Toronto Stock Exchange at market price, in accordance with its policies and regulations, as well as by other means as may be permitted by the TSX and any other securities regulatory authorities, including by private agreements. The Corporation considers that the normal course issuer bid program provides it with an additional option for using its excess funds.

SELECTED ANNUAL INFORMATION

(Millions of dollars, unless otherwise indicated)	**2018** *(52 weeks)*	2017 *(53 weeks)*	Change %	2016 *(52 weeks)*	Change %
Sales	**14,383.4**	13,175.3	9.2	12,787.9	3.0
Net earnings attributable to equity holders of the parent	**1,716.5**	591.7	190.1	571.5	3.5
Net earnings attributable to non-controlling interests	**2.0**	16.7	(88.0)	14.7	13.6
Net earnings	**1,718.5**	608.4	182.5	586.2	3.8
Basic net earnings per share	**7.20**	2.59	178.0	2.41	7.5
Fully diluted net earnings per share	**7.16**	2.57	178.6	2.39	7.5
Adjusted net earnings(1)	**605.9**	548.2	10.5	586.2	(6.5)
Adjusted fully diluted net earnings per share(1)	**2.52**	2.31	9.1	2.39	(3.3)
Return on equity *(%)*	**40.1**	21.7	—	21.9	—
Dividends per share *(Dollars)*	**0.7025**	0.6275	12.0	0.5367	16.9
Total assets	**10,922.2**	6,050.7	80.5	5,606.1	7.9
Current and non-current portions of debt	**2,643.7**	1,454.5	81.8	1,246.5	16.7

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%. Sales for fiscal 2017 totalled \$13,175.3 million versus \$12,787.9 million for 2016, an increase of 3.0%. Excluding the extra 53rd week in 2017, sales were up 1.0%.

Net earnings for 2018 totalled \$1,718.5 million, up 182.5% from the previous year, whereas fully diluted net earnings per share amounted to \$7.16, up 178.6%. Taking into account the items shown in the "Net earnings adjustments" table in the "Operating results" section, adjusted net earnings(1) for fiscal 2018 stood at \$605.9 million compared with \$548.2 million for 2017, while adjusted fully diluted net earnings per share(1) were \$2.52 compared with \$2.31, up 10.5% and 9.1%, respectively. Net earnings for 2017 amounted to \$608.4 million, up 3.8% from the previous year, whereas fully diluted net earnings per share were \$2.57, up 7.5%. 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. Adjusted net earnings(1) and adjusted fully diluted net earnings per share(1) for 2017 were \$548.2 million and \$2.31 respectively down by 6.5% and 3.3% versus 2016 due to the adjustment, for comparison with 2018, of our share of earnings in an associate (ACT) for three quarters in 2017 representing \$60.2 million.

The 2018 return on equity performed exceptionally well at 40.1% due to the gain on disposal of our investment in ACT in order to pay part of the acquisition of the Jean Coutu Group. This acquisition and the financing required explain the increase in assets as well as in the debt.

(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"

OUTLOOK[3]

We are confident that we will continue to grow if we successfully execute on our strategic priorities for the coming years, namely integrating the Jean Coutu Group, growing our sales while leveraging our costs, continuously improving the customer experience in each of our banners, modernizing our distribution network and managing our talent.

We will of course put a great deal of effort into continuing the work involved with combining our pharmacy activities. The emphasis will be placed on achieving synergies and deploying the technology-based solutions required to support the unified operational chain.

Subject to obtaining the required permits, we plan to begin the construction of our first automated distribution centre in Toronto in early 2019. Finally, we anticipate launching our online grocery service in Ontario during the 2019 fiscal year.

(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. Consequently, the results of the Jean Coutu Group were consolidated with the Corporation's results for slightly more than 20 weeks. During this period, synergies of $6.6 million were generated and we have now realized an annualized amount of $17.0 million[3].

SALES

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%. Food same-store sales were up 1.6%. Since the acquisition, pharmacy same-store sales were up 1.8%, 0.6% for prescription drugs (2.5% for number of prescriptions) and 3.9% for front store sales.

OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION AND ASSOCIATE'S EARNINGS

This earnings measurement excludes financial costs, taxes, depreciation and amortization, the share of earnings and gain on disposal of our investment in an associate (Alimentation Couche-Tard "ACT") as well as the gain on revaluation and disposal of an investment at fair value.

For fiscal 2018, operating income before depreciation and amortization and associate's earnings totalled $1,011.1 million, or 7.0% of sales versus $966.4 million, or 7.3% of sales for fiscal 2017. In 2018, we recorded pharmacy network closure and restructuring expenses of $31.4 million, expenses of $28.7 million related to the Jean Coutu Group acquisition and a $11.4 million provision relating to our Ontario distribution network modernization project. Excluding these items, adjusted operating income before depreciation and amortization and associate's earnings[2] totalled $1,082.6 million, or 7.5% of sales. Adjusted operating income before depreciation and amortization and associate's earnings[2], excluding the Jean Coutu Group, totalled $959.9 million, or 7.3% of sales, up 1.1% compared with $949.1 million or 7.3% of sales in 2017, excluding the 53rd week.

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

	Fiscal years					
	2018			2017		
	52 weeks			*53 weeks*		
(Millions of dollars, unless otherwise indicated)	**OI**	**Sales**	***(%)***	OI	Sales	*(%)*
Operating income before depreciation and amortization and associate's earnings	**1,011.1**	**14,383.4**	**7.0**	966.4	13,175.3	7.3
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 associate's earnings[2]	**1,082.6**	**14,383.4**	**7.5**	966.4	13,175.3	7.3
Jean Coutu Group operating income before depreciation and amortization	**122.7**	**1,157.7**		—	—	
Adjusted operating income before depreciation and amortization and associate's earnings[2], excluding the Jean Coutu Group	**959.9**	**13,225.7**	**7.3**	966.4	13,175.3	7.3
Adjusted operating income before depreciation and amortization and associate's earnings[2], excluding the Jean Coutu Group, based on 52 weeks in 2017	**959.9**	**13,225.7**	**7.3**	949.1	12,916.9	7.3

(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"

Gross margins on sales for fiscal 2018 and 2017 were 19.7%.

Operating expenses as a percentage of sales for fiscal 2018 were 12.6% versus 12.4% for fiscal 2017. Excluding pharmacy network closure and restructuring expenses of $31.4 million, business acquisition-related expenses of $28.7 million and distribution network modernization project expenses of $11.4 million recorded in 2018, operating expenses as a percentage of sales was 12.1%.

DEPRECIATION AND AMORTIZATION AND NET FINANCIAL COSTS

Total depreciation and amortization expenses for fiscal 2018 were $233.5 million versus $194.2 million for 2017. Amortization of intangible assets acquired in connection with the Jean Coutu Group acquisition amounted to $15.0 million for fiscal 2018.

Net financial costs for fiscal 2018 totalled $80.2 million compared to $63.9 million for fiscal 2017. Certain items are specific to 2018. First, for the period prior to the Jean Coutu Group acquisition, we recognized $21.3 million in interest income on the short-term investments and security deposits resulting from the proceeds of the sale of the majority of our investment in ACT and the issuance of Series F, G and H notes to fund a portion of the Jean Coutu Group acquisition and recorded $19.1 million in interest on those notes. Furthermore, we paid $1.8 million in financial costs on the balance payable in connection with the settlement of the buyout of minority interests in Adonis and Phoenicia.

As of May 11, 2018, net financial costs were no longer subject to adjustment to net earnings. The increase in financial costs was mainly due to the Jean Coutu Group acquisition.

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

During the first quarter of 2018, to fund a portion of the Jean Coutu Group acquisition, we disposed of most of our investment in ACT, for net proceeds of $1,534.0 million and a gain of $1,107.4 million. As a result of this disposal, the Corporation no longer has significant influence over ACT. Our residual investment is therefore considered to be an available-for-sale financial asset, reported as an investment at fair value. As a result, the investment was re-evaluated at fair value on October 13, 2017, and the Corporation recorded a $225.6 million fair value revaluation gain in net earnings. Subsequent fair value revaluations of this investment were recognized in accumulated other comprehensive income.

During the fourth quarter of fiscal 2018, we disposed of the majority of the investment at fair value and recorded a net gain of $15.5 million on revaluation and disposal. In addition, the Corporation signed an equity forward agreement with a financial institution for the disposal of the remaining shares of this investment. The disposal was finalized on November 5, 2018. Total proceeds in the quarter from the sales of this investment was $326.0 million.

For fiscal 2018, our share of an associate's earnings (ACT) was $30.8 million versus $93.5 million last year.

INCOME TAXES

The income tax expense of $358.2 million for fiscal 2018 and $193.4 million for fiscal 2017 represented an effective tax rate of 17.2% and 24.1% respectively. The significant decline in the effective tax rate resulted from the gain on disposal of the majority of our investment in ACT and the fair value revaluation and disposal of our residual investment.

NET EARNINGS

Net earnings for fiscal 2018 were $1,718.5 million, an increase of 182.5% from $608.4 million in fiscal 2017. Fully diluted net earnings per share rose 178.6% to $7.16 from $2.57 last year. Excluding the specific items shown in the table below as well as the 53rd week of fiscal 2017, adjusted net earnings(1) for fiscal 2018 totalled $605.9 million compared with $536.3 million for fiscal 2017, and adjusted fully diluted net earnings per share(1) amounted to $2.52 versus $2.26, up 13.0% and 11.5%, 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]

	Fiscal years				Change (%)	
	2018		2017			
	52 weeks		*53 weeks*			
	(Millions of dollars)	**Fully diluted EPS (Dollars)**	(Millions of dollars)	Fully diluted EPS (Dollars)	Net earnings	Fully diluted EPS
Net earnings	**1,718.5**	**7.16**	608.4	2.57	182.5	178.6
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	**11.0**		—			
Income on business acquisition-related short-term investments and security deposits, after taxes	**(15.6)**		—			
Interest on notes issued in connection with the business acquisition, after taxes	**14.0**		—			
Financial costs on the balance payable for the buyout of minority interests, after taxes	**1.3**		—			
Share of an associate's earnings, after taxes	**—**		(60.2)			
Gain on the disposal of the majority of the investment in an associate, after taxes	**(968.1)**		—			
Gain on revaluation and disposal of an investment at fair value, after taxes	**(209.3)**		—			
Adjusted net earnings[1]	**605.9**	**2.52**	548.2	2.31	10.5	9.1

Adjusted net earnings[1] based on 52 weeks in 2017	**605.9**	**2.52**	536.3	2.26	13.0	11.5

[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)	**2018**	2017	Change *(%)*
Sales			
Q1[4]	**3,111.8**	2,971.3	4.7
Q2[4]	**2,899.0**	2,902.4	(0.1)
Q3[5]	**4,636.4**	4,073.2	13.8
Q4[6]	**3,736.2**	3,228.4	15.7
Fiscal	**14,383.4**	13,175.3	9.2
Net earnings			
Q1[4]	**1,299.1**	138.1	840.7
Q2[4]	**106.9**	132.4	(19.3)
Q3[5]	**167.5**	183.0	(8.5)
Q4[6]	**145.0**	154.9	(6.4)
Fiscal	**1,718.5**	608.4	182.5
Adjusted net earnings[1]			
Q1[4]	**153.4**	138.1	11.1
Q2[4]	**108.1**	113.9	(5.1)
Q3[5]	**183.4**	165.1	11.1
Q4[6]	**161.0**	131.1	22.8
Fiscal	**605.9**	548.2	10.5
Fully diluted net earnings per share *(Dollars)*			
Q1[4]	**5.67**	0.58	877.6
Q2[4]	**0.47**	0.56	(16.1)
Q3[5]	**0.69**	0.78	(11.5)
Q4[6]	**0.56**	0.66	(15.2)
Fiscal	**7.16**	2.57	178.6
Adjusted fully diluted net earnings per share[1] *(Dollars)*			
Q1[4]	**0.67**	0.58	15.5
Q2[4]	**0.47**	0.48	(2.1)
Q3[5]	**0.75**	0.70	7.1
Q4[6]	**0.63**	0.56	12.5
Fiscal	**2.52**	2.31	9.1

[4] 12 weeks
[5] 16 weeks
[6] 2018 - 12 weeks, 2017 - 13 weeks

Sales in the first quarter of 2018 reached $3,111.8 million, up 4.7% compared to $2,971.3 million in the first quarter of 2017. Same-store sales increased by 3.4% compared to an increase of 0.7% in the same quarter last year. Our food basket experienced a slight inflation of about 0.5%, echoing the trend started in the fourth quarter of 2017. The increase in sales was also driven in part by the shift of the week before Christmas which fell in the first quarter of 2018 while in 2017, it was included in the second quarter. We estimate that same-store sales would have been up 1.2% had it not been for the Christmas week shift.

Sales in the second quarter of 2018 reached $2,899.0 million, down 0.1% compared to $2,902.4 million in the second quarter of 2017. The small decrease in sales is due to the timing shift of the week before Christmas which fell in the first quarter in 2018, whereas it fell in the second quarter in 2017. Same-store sales for the second quarter were down 1.2%

[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"

but would have been up 1.0% excluding the shift (increase of 0.3% in the same quarter last year). Our food basket experienced an inflation of about 0.8%, echoing the trend started in the fourth quarter of 2017.

Sales in the third quarter of 2018 reached $4,636.4 million, up 13.8% compared to $4,073.2 million in the third quarter of 2017. Excluding $467.0 million in sales for the third quarter of 2018 resulting from the Jean Coutu Group, sales were up 2.4%. In the third quarter, food same-store sales were up 2.0% (down 0.2% in the same quarter last year) and our food basket experienced inflation of approximately 0.5%. Pharmacy same-store sales were up 1.8%, 0.4% for prescription drugs (2.4% for number of prescriptions) and 3.8% for front store sales.

Sales in the fourth quarter of 2018 reached $3,736.2 million, up 15.7% compared to $3,228.4 million in the fourth quarter of 2017. Excluding $690.7 million in sales for 2018 resulting from the Jean Coutu Group and the 13th week of 2017, sales were up 2.5%. In the fourth quarter, food same-store sales were up 2.1% (up 0.4% in the same quarter last year) and our food basket experienced inflation of approximately 0.8%. Pharmacy same-store sales were up 1.8%, 0.7% for prescription drugs (2.5% for number of prescriptions) and 3.9% for front store sales.

Net earnings for the first quarter of 2018 were $1,299.1 million, an increase of 840.7% from $138.1 million for the first quarter of 2017. Fully diluted net earnings per share rose 877.6% to $5.67 from $0.58 last year. Excluding from 2018 first quarter results $11.4 million in distribution network modernization project expenses, $2.0 million in acquisition-related expenses for the Jean Coutu Group, 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, $5.3 million in interest income on the short-term investments and security deposits related to the business acquisition, $2.2 million in interest expense on the notes issued to complete the acquisition, financial costs of $1.8 million related to the buyout of minority interests in Adonis and Phoenicia and income taxes on those items, adjusted net earnings(1) for the first quarter of 2018 totalled $153.4 million compared with net earnings of $138.1 million for the corresponding quarter of 2017, and adjusted fully diluted net earnings per share(1) amounted to $0.67 versus $0.58, up 11.1% and 15.5%, respectively.

Net earnings for the second quarter of 2018 were $106.9 million, a decrease of 19.3% from $132.4 million for the second quarter of 2017. Fully diluted net earnings per share decreased by 16.1% to $0.47 from $0.56 last year. Excluding the 2018 second quarter Jean Coutu Group acquisition-related expenses of $1.6 million, interest income of $9.7 million on short-term investments and security deposits related to the business acquisition, and interest expense of $9.8 million on notes issued to complete the acquisition, and the 2017 second quarter $21.4 million share of an associate's earnings and income tax on those items, adjusted net earnings(1) for the second quarter of 2018 totalled $108.1 million compared with adjusted net earnings(1) of $113.9 million for the corresponding quarter of 2017, and adjusted fully diluted net earnings per share(1) amounted to $0.47 versus $0.48, down 5.1% and 2.1%, respectively.

Net earnings for the third quarter of 2018 were $167.5 million, a decrease of 8.5% from $183.0 million for the third quarter of 2017. Fully diluted net earnings per share decreased by 11.5% to $0.69 from $0.78 last year. Excluding from third quarter 2018 results $25.1 million in expenses related to the Jean Coutu Group acquisition, $6.3 million in interest income on temporary investments and security deposits related to the business acquisition, $7.1 million in interest expense on the notes issued for this acquisition for the period prior to the acquisition, $6.0 million in amortization of intangible assets acquired in connection with the Jean Coutu Group acquisition and, from the third quarter 2017 results, the $20.7 million share of an associate's earnings, as well as income taxes relating to all these items, in addition to, in 2018, the $9.2 million tax gain on the disposal of our investment in ACT upon revaluation of the tax attributes, adjusted net earnings(1) for the third quarter of 2018 amounted to $183.4 million compared with adjusted net earnings(1) of $165.1 million for the corresponding quarter of 2017 and adjusted diluted net earnings per share(1) was $0.75 compared with $0.70, up 11.1% and 7.1%, respectively.

Net earnings for the fourth quarter of 2018 were $145.0 million, a decrease of 6.4% from $154.9 million for the fourth quarter of 2017. Fully diluted net earnings per share decreased by 15.2% to $0.56 from $0.66 last year. Excluding from the fourth quarter of 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 and the gain on revaluation and disposal of an investment at fair value of $15.5 million, and excluding from the fourth quarter of 2017 the share of an associate's earnings (ACT) of $27.5 million, as well as income taxes relating to all these items, adjusted net earnings(1) for the fourth quarter of 2018 totalled $161.0 million compared with $131.1 million for the corresponding quarter of 2017 and adjusted net diluted earnings per share(1) amounted to $0.63 compared with $0.56, up 22.8% and 12.5%, respectively. If net earnings related to the 13th week of the fourth quarter of 2017 are also excluded, adjusted net earnings(1) for the fourth quarter of 2018 compares with $119.2 million for the corresponding quarter of 2017 and adjusted net diluted earnings per share(1) compares with $0.51, up 35.1% and 23.5%, 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"

(Millions of dollars)	2018				2017			
	Q1	**Q2**	**Q3**	**Q4**	Q1	Q2	Q3	Q4
Net earnings	**1,299.1**	**106.9**	**167.5**	**145.0**	138.1	132.4	183.0	154.9
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	**—**	**—**	**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**	**—**	**—**	**—**	—	—	—	—
Share of an associate's earnings, after taxes	**—**	**—**	**—**	**—**	—	(18.5)	(17.9)	(23.8)
Gain on the disposal of the majority of the investment in an associate, after taxes	**(958.9)**	**—**	**(9.2)**	**—**	—	—	—	—
Gain on revaluation and disposal of an investment at fair value, after taxes	**(195.7)**	**—**	**—**	**(13.6)**	—	—	—	—
Adjusted net earnings(1)	**153.4**	**108.1**	**183.4**	**161.0**	138.1	113.9	165.1	131.1

(Dollars)	2018				2017			
	Q1	**Q2**	**Q3**	**Q4**	Q1	Q2	Q3	Q4
Fully diluted net earnings per share	**5.67**	**0.47**	**0.69**	**0.56**	0.58	0.56	0.78	0.66
Adjustments impact	**(5.00)**	**—**	**0.06**	**0.07**	—	(0.08)	(0.08)	(0.10)
Adjusted fully diluted net earnings per share(1)	**0.67**	**0.47**	**0.75**	**0.63**	0.58	0.48	0.70	0.56

CASH POSITION

OPERATING ACTIVITIES

Operating activities generated cash flows of $750.4 million over fiscal 2018 compared to $696.2 million in 2017.

INVESTING ACTIVITIES

During fiscal 2018, investing activities required outflows of $1,677.5 million compared to $333.0 million in 2017. This difference resulted in large part from the $3,033.0 million business acquisition, net of cash acquired, and the settlement of the purchase of the $221.2 million minority interests in Adonis and Phoenicia, offset by $1,791.6 million in net proceeds from the disposal of the majority of our interest in ACT and the forward agreement entered into for the remaining shares of ACT in the amount of $68.4 million. The remainder of the difference was mostly attributable to additions to fixed and intangible assets being $51.5 million lower in 2018 than in 2017.

During fiscal 2018, we and our retailers opened 5 new stores, carried out major expansions and renovations of 26 stores and closed 4 stores for a net increase of 60,200 square feet or 0.3% of our retail network.

(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"

FINANCING ACTIVITIES

For fiscal 2018, financing activities generated cash of $1,005.1 million whereas they used cash of $241.8 million in 2017. The difference resulted primarily from a $1,173.6 million net increase in debt in 2018 from the issuance of Series F, G and H notes to fund a portion of the Jean Coutu Group acquisition, compared to $200.7 million in 2017 from the issuance of Series E notes. Additionally, in 2017, share repurchases required cash outflows of $302.6 million, while no share repurchases were made in 2018.

FINANCIAL POSITION

We do not anticipate[3] any liquidity risk and consider our financial position at the end of fiscal 2018 as very solid. We had an unused authorized revolving credit facility of $600.0 million. Our non-current debt represented 31.7% of the combined total of non-current debt and equity (non-current debt/total capital).

At the end of fiscal 2018, 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, 2023	—
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 29, 2018	As at September 30, 2017
Financial structure		
Non-current debt *(Millions of dollars)*	**2,630.4**	1,441.6
Equity *(Millions of dollars)*	**5,656.0**	2,923.9
Non-current debt/total capital *(%)*	**31.7**	33.0
	2018 ***(52 weeks)***	2017 *(53 weeks)*
Results		
Operating income before depreciation and amortization and associate's earnings/Financial costs *(Times)*	**12.6**	15.1

[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"

CAPITAL STOCK

	Common Shares issued	
(Thousands)	**2018**	2017
Balance – beginning of year	**227,719**	234,511
Share issue	**28,031**	—
Share redemption	**—**	(7,433)
Stock options exercised	**503**	641
Balance – end of year	**256,253**	227,719
Balance as at November 30, 2018 and November 24, 2017	**256,272**	227,719

	Treasury shares	
(Thousands)	**2018**	2017
Balance – beginning of year	**579**	665
Acquisition	**250**	170
Release	**(226)**	(256)
Balance – end of year	**603**	579
Balance as at November 30, 2018 and November 24, 2017	**603**	519

STOCK OPTIONS PLAN

	As at November 30, 2018	**As at September 29, 2018**	As at September 30, 2017
Stock options *(Thousands)*	**3,043**	**3,067**	3,180
Exercise prices *(Dollars)*	**17.72 to 44.73**	**17.72 to 44.73**	15.09 to 44.73
Weighted average exercise price *(Dollars)*	**30.34**	**30.30**	26.94

PERFORMANCE SHARE UNIT PLAN

	As at November 30, 2018	**As at September 29, 2018**	As at September 30, 2017
Performance share units *(Thousands)*	**575**	**579**	547

BUSINESS ACQUISITION

On May 11, 2018, the Corporation completed the acquisition of all the outstanding Class A subordinate voting shares of The Jean Coutu Group (PJC) Inc. ("Jean Coutu Group") and all of the outstanding Class B shares of the Jean Coutu Group for a total consideration of $4,525.1 million. The Jean Coutu Group operates a network of 417 franchised drugstores in Québec, New Brunswick and Ontario under the PJC Jean Coutu, PJC Santé and PJC Santé Beauté banners which employ over 20,000 people. Under the terms of the acquisition, the aggregate consideration transferred to the Jean Coutu Group shareholders consisted of $3,377.2 million in cash and the issuance of approximately 28 million common shares of the Corporation representing $1,147.9 million.

To finance the cash element of the purchase price, the Corporation completed the sale of the majority of its interest in Alimentation Couche-Tard inc. for proceeds, net of the related fees and commissions, of $1,534.0 million, issued through a private placement $1,200.0 million aggregate principal amount of Series F, G and H unsecured senior notes, and drew down its $500.0 million term loan facility and used its $250.0 million bridge loan.

(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 INTERESTS

In accordance with the shareholder agreement, the Corporation acquired the minority interests in Adonis and Phoenicia during the first quarter of the year for a cash consideration of $221.2 million. Additionally, financial costs of $1.8 million, calculated on the balance payable as at September 30, 2017 until payment in December 2017, were recognized in net earnings.

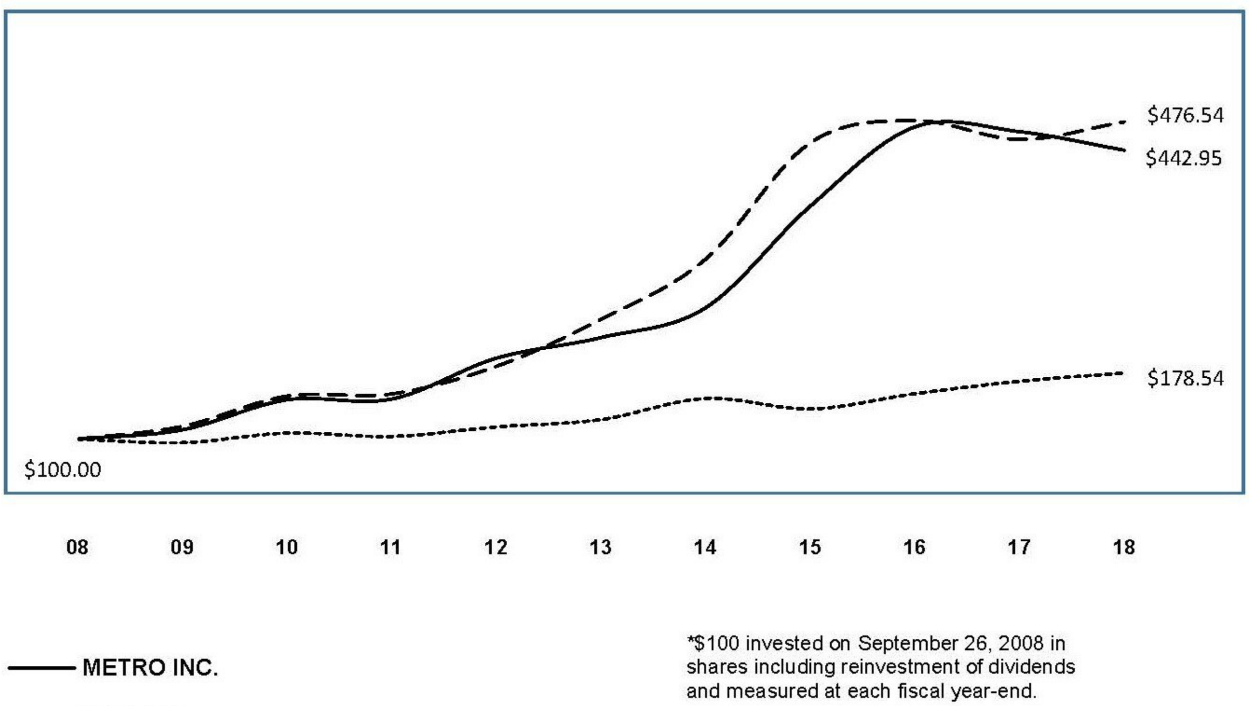
DIVIDEND

For the 24th consecutive year, the Corporation paid quarterly dividends to its shareholders. The annual dividend increased by 12.0%, to $0.7025 per share compared to $0.6275 in 2017, for total dividends of $164.8 million in 2018 compared to $143.5 million in 2017.

SHARE TRADING

The value of METRO shares remained in the $38.32 to $45.44 range throughout fiscal 2018 ($38.00 to $47.41 in 2017). A total of 120.4 million shares traded on the TSX during this fiscal year (153.3 million in 2017). The closing price on Friday, September 28, 2018 was $40.18, compared to $42.91 at the end of fiscal 2017. Since fiscal year-end, the value of METRO shares has remained in the $39.04 to $46.19 range. The closing price on November 30, 2018 was $45.80. METRO shares have maintained sustained growth over the last 10 years.

COMPARATIVE SHARE PERFORMANCE (10 YEARS)*



CONTINGENCY

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

(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 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. However, since any litigation involves uncertainty, it is not possible to predict the outcome of this litigation or the amount of potential losses. No provision for contingent losses has been recognized in the Corporation's annual consolidated financial statements.

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. At this stage, the Corporation does not believe that these matters will have a material adverse effect on the Corporation's business, results of operations or financial condition.

SOURCES OF FINANCING

In 2018, cash inflows consisted primarily of $750.4 million in cash flows from operating activities, $1,791.6 million in net proceeds on disposal of the majority of our investment in ACT and $68.4 million from the equity forward agreement on the remaining ACT shares, as well as a $1,173.6 million net increase in debt. These cash flows were used to fund the $3,033.0 million business acquisition, $317.4 million in additions to property, plant and equipment and intangible assets, the $221.2 million settlement related to the buyout of the minority interests in Adonis and Phoenicia, and $164.8 million in dividend payouts.

On December 4, 2017 the Corporation issued through a private placement $300.0 million aggregate principal amount of Series F unsecured senior notes, bearing interest at a fixed nominal rate of 2.68% and maturing in 2022; $450.0 million aggregate principal amount of Series G unsecured senior notes, bearing interest at a fixed nominal rate of 3.39% and maturing in 2027; and $450.0 million aggregate principal amount of Series H unsecured senior notes, bearing interest at a fixed nominal rate of 4.27% and maturing in 2047.

To close the Jean Coutu Group acquisition, the Corporation also used a $500.0 million term credit facility, consisting of a 1-year $100.0 million Tranche A, 2-year $200.0 million Tranche B and a 3-year $200.0 million Tranche C, and a 1-month $250.0 million bridge loan. As at September 29, 2018, the Corporation had fully repaid the bridge loan and the term credit facility totalling $750 million.

At 2018 fiscal year-end, our financial position mainly consisted of cash and cash equivalents in the amount of $226.9 million, an unused authorized Revolving Credit Facility of $600.0 million maturing in 2023, 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.

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)	Facility and loans	Notes	Finance lease commitments	Service contract commitments	Operating lease commitments	Lease and sublease commitments[7]	Total
2019	9.5	99.7	6.2	121.4	188.4	100.5	525.7
2020	4.3	494.7	4.9	86.4	173.8	96.0	860.1
2021	2.0	91.1	3.4	29.1	158.5	86.1	370.2
2022	2.0	383.1	2.3	26.7	139.9	76.6	630.6
2023	1.5	374.8	1.9	19.2	117.1	67.8	582.3
2024 and thereafter	25.6	2,733.8	16.1	27.4	522.0	308.7	3,633.6
	44.9	4,177.2	34.8	310.2	1,299.7	735.7	6,602.5

[7] The Corporation has lease commitments with varying terms through 2037, to lease premises which it sublets to clients, generally under the same conditions.

RELATED PARTY TRANSACTIONS

During fiscal 2018, 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.

FOURTH QUARTER

(Millions of dollars, except for net earnings per share)	**2018** *12 weeks*	2017 *13 weeks*	Change *%*
Sales	**3,736.2**	3,228.4	15.7
Operating income before depreciation and amortization and associate's earnings	**266.5**	236.1	12.9
Net earnings	**145.0**	154.9	(6.4)
Adjusted net earnings[1]	**161.0**	131.1	22.8
Fully diluted net earnings per share	**0.56**	0.66	(15.2)
Adjusted fully diluted net earnings per share[1]	**0.63**	0.56	12.5
Cash flows from:			
Operating activities	**250.9**	236.8	—
Investing activities	**207.1**	(112.0)	—
Financing activities	**(350.8)**	(37.8)	—

SALES

Sales in the fourth quarter of 2018 reached $3,736.2 million, up 15.7% compared to $3,228.4 million in the fourth quarter of 2017. Excluding $690.7 million in sales for 2018 resulting from the Jean Coutu Group and the 13th week of 2017, sales were up 2.5%. In the fourth quarter, food same-store sales were up 2.1% (up 0.4% in the same quarter last year) and our food basket experienced inflation of approximately 0.8%. Pharmacy same-store sales were up 1.8%, 0.7% for prescription drugs (2.5% for number of prescriptions) and 3.9% for front store sales.

OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION AND ASSOCIATE'S EARNINGS

Operating income before depreciation and amortization and associate's earnings for the fourth quarter of 2018 totalled $266.5 million, or 7.1% of sales versus $236.1 million, or 7.3% of sales for the same quarter last year. In the fourth quarter of 2018, $31.4 million in pharmacy network closure and restructuring expenses were recognized. Excluding this item, adjusted operating income before depreciation and amortization and associate's earnings[2] totalled $297.9 million,

[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"

or 8.0% of sales. Adjusted operating income before depreciation and amortization and associate's earnings[(2)], excluding the Jean Coutu Group, totalled $223.7 million, or 7.3% of sales, up 2.2% from $218.8 million or 7.4 % of sales in 2017, excluding the 13th week.

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

	Fiscal years					
	2018			2017		
	12 weeks			*13 weeks*		
(Millions of dollars, unless otherwise indicated)	**OI**	**Sales**	***(%)***	OI	Sales	*(%)*
Operating income before depreciation and amortization and associate's earnings	**266.5**	**3,736.2**	**7.1**	236.1	3,228.4	7.3
Pharmacy network closure and restructuring expenses	**31.4**			—		
Adjusted operating income before depreciation and amortization and associate's earnings[(2)]	**297.9**	**3,736.2**	**8.0**	236.1	3,228.4	7.3
Jean Coutu Group operating income before depreciation and amortization	**74.2**	**690.7**		—	—	
Adjusted operating income before depreciation and amortization and associate's earnings[(2)], excluding the Jean Coutu Group	**223.7**	**3,045.5**	**7.3**	236.1	3,228.4	7.3
Adjusted operating income before depreciation and amortization and associate's earnings[(2)], excluding the Jean Coutu Group, based on 12 weeks in 2017	**223.7**	**3,045.5**	**7.3**	218.8	2,970.0	7.4

Gross margins on sales for the fourth quarter of 2018 were 19.7% versus 19.6% for the corresponding period of 2017.

Operating expenses as a percentage of sales for the fourth quarter of 2018 were 12.6% versus 12.3% for the corresponding quarter of 2017. Excluding pharmacy network closure and restructuring expenses of $31.4 million recorded in the fourth quarter of 2018, operating expenses as a percentage of sales stood at 11.7%.

DEPRECIATION AND AMORTIZATION AND NET FINANCIAL COSTS

Total depreciation and amortization expenses for the fourth quarter of 2018 was $65.0 million versus $46.0 million for the corresponding quarter of 2017. Amortization of intangible assets acquired in connection with the Jean Coutu Group acquisition amounted to $9.0 million for the fourth quarter of 2018.

Net financial costs for the fourth quarter of 2018 totalled $23.9 million compared to $15.5 million for the same quarter last year. This increase stemmed primarily from the notes issued for the Jean Coutu Group acquisition.

SHARE OF EARNINGS AND GAIN ON REVALUATION AND DISPOSAL OF AN INVESTMENT AT FAIR VALUE

During the fourth quarter of fiscal 2018, we disposed of the majority of the investment at fair value and recorded a net gain of $15.5 million on revaluation and disposal. In addition, the Corporation signed an equity forward agreement with a financial institution for the disposal of the remaining shares of this investment. The disposal was finalized on November 5, 2018. Total proceeds in the quarter from the sales of this investment was $326.0 million.

No share of an associate's earnings (ACT) was recorded in the fourth quarter of fiscal 2018 in comparison with a $27.5 million share recorded in the corresponding quarter of fiscal 2017.

(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"

INCOME TAXES

The income tax expense of $48.1 million for the fourth quarter of 2018 represented an effective tax rate of 24.9% compared to an income tax expense of $47.2 million in the fourth quarter of 2017 which represented an effective tax rate of 23.4%.

NET EARNINGS

Net earnings for the fourth quarter of 2018 were $145.0 million, a decrease of 6.4% from $154.9 million for the fourth quarter of 2017. Fully diluted net earnings per share decreased by 15.2% to $0.56 from $0.66 last year. Excluding the specific items shown in the table below as well as the 13th week of the fourth quarter of 2017, adjusted net earnings[1] for the fourth quarter of 2018 totalled $161.0 million compared with $119.2 million for the corresponding quarter of 2017, and adjusted fully diluted net earnings per share[1] amounted to $0.63 versus $0.51, up 35.1% and 23.5%, respectively.

Net earnings adjustments[1]

	Fiscal years					
	2018		2017		Change (%)	
	12 weeks		*13 weeks*			
	(Millions of dollars)	**Fully diluted EPS (Dollars)**	(Millions of dollars)	Fully diluted EPS (Dollars)	Net earnings	Fully diluted EPS
Net earnings	**145.0**	**0.56**	154.9	0.66	(6.4)	(15.2)
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**		—			
Share of an associate's earnings, after taxes	**—**		(23.8)			
Gain on revaluation and disposal of an investment at fair value, after taxes	**(13.6)**		—			
Adjusted net earnings[1]	**161.0**	**0.63**	131.1	0.56	22.8	12.5
Adjusted net earnings[1] based on 12 weeks in 2017	**161.0**	**0.63**	119.2	0.51	35.1	23.5

CASH POSITION

Operating activities

Operating activities generated cash flows of $250.9 million in the fourth quarter of 2018 compared to $236.8 million for the corresponding period of 2017.

Investing activities

In the fourth quarter of 2018, investment activities generated funds of $207.1 million compared to a use of funds of $112.0 million in the corresponding quarter of 2017. The difference is due to the disposal 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.

Financing activities

In the fourth quarter of 2018, financing activities required cash outflows of $350.8 million compared to $37.8 million in the corresponding quarter of 2017. These additional funds were used primarily for repayment of the debt.

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 2018, the Corporation used derivative financial instruments as described in notes 2 and 28 to the 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"
(3) See section on "Forward-looking information"

NEW ACCOUNTING STANDARDS

FUTURE ACCOUNTING STANDARDS

Financial instruments

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

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

IFRS 9 applies to fiscal years beginning on or after January 1, 2018, therefore, for the Corporation fiscal year beginning on Septembre 30, 2018. This new standard will have no significant impact on the Corporation's consolidated financial statements.

Revenue from contracts with customers

IFRS 15 “Revenue from Contracts with Customers” replaces IAS 18 “Revenue”, IAS 11 “Construction Contracts”, and related interpretations. Under IFRS 15, revenue is recognized when control of the goods or services is transferred to the customer rather than when the significant risks and rewards are transferred. The new standard also requires additional disclosures through notes to financial statements. IFRS 15 applies to fiscal years beginning on or after January 1, 2018, therefore, for the Corporation fiscal year beginning on September 30, 2018. The Corporation has completed an assessment of the adoption of this new standard on its consolidated financial statements and the impact will not be significant.

Leases

IFRS 16 “Leases” replaces IAS 17 “Leases” and related interpretations. Under IFRS 16, which provides a single model for leases abolishing the current distinction between finance leases and operating leases, most leases will be recognized in the statement of financial position. Certain exemptions will apply for short-term leases and leases of low-value assets. IFRS 16 shall be applied to fiscal years beginning on or after January 1, 2019, therefore, for the Corporation fiscal year beginning on September 29, 2019. Earlier application is permitted under certain conditions, but the Corporation does not intend to do so.

Given that the Corporation is committed under multiple operating leases under IAS 17 (note 24), the Corporation considers that the adoption of IFRS 16 will have a significant impact on its consolidated financial statements. The Corporation will have to recognize a right-of-use asset and a liability for the present value of future lease payments. Depreciation expense on the right-to-use asset and interest expense on the lease liability will replace the operating lease expense.

The Corporation continues evaluating the impact of this new standard on its consolidated financial statements. The Corporation has not yet determined which transition method it will apply.

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 "annualized", "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 2019 action plan.

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

(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"

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 ASSOCIATE'S EARNINGS, ADJUSTED NET EARNINGS AND ADJUSTED FULLY DILUTED NET EARNINGS PER SHARE

Adjusted operating income before depreciation and amortization and associate's 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, that 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 29, 2018.

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.

For fiscal 2018, we exclude the Jean Coutu Group from our evaluation of DC&P and ICFR, as permitted by National Instrument 52-109 of the Canadian Securities Administrators for a period of 365 days following an acquisition. Given the size and timing of the Jean Coutu Group acquisition, the limitation of the scope is primarily due to the time required to assess the Jean Coutu Group’s DC&P and ICFR in accordance with the Corporation’s other activities. We expect to finalize our assessment by the second quarter of 2019.

Since the acquisition date, the Jean Coutu Group’s results have been included in our consolidated financial statements. For fiscal 2018, the Jean Coutu Group’s sales and net earnings represented approximately 8% and 5% of consolidated sales and consolidated net earnings, respectively. As percentages of total consolidated current assets and liabilities, the Jean Coutu Group’s current assets and liabilities as at September 29, 2018 represented approximately 27% and 16% respectively, and its non-current assets and liabilities represented approximately 52% and 20% of total consolidated non-current assets and liabilities.

(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"

SIGNIFICANT JUDGEMENTS AND ESTIMATES

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

JUDGEMENTS

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

Consolidation of structured entities

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

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

The Corporation also has an agreement with a third party that operates a plant exclusively for the needs and according to the specifications of the Corporation, which assumes all costs 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 rate. 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.

(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"

Non-controlling interests

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

RISK MANAGEMENT

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

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

FOOD SAFETY

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

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

CRISIS MANAGEMENT

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

COMPUTER SYSTEMS

We rely on various computer systems that are necessary 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.

(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"

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, by the Company and the third parties that it deals with, will be adequate enough to prevent or detect a cyberattack in 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.

(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"

MARKET AND COMPETITION

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

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

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

In 2018, we acquired the Jean Coutu Group which operates a network of 417 franchised drugstores in Québec, New Brunswick and Ontario under the PJC Jean Coutu, PJC Santé and PJC Santé Beauté banners.With the Jean Coutu Group acquisition, the Corporation has become a leading Canadian food and pharmacy distributor.

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

PRICE OF FUEL, ENERGY AND UTILITIES

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

SUPPLIERS

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

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 on our revolving credit facility, 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.

(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"

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. Management attention will be required in order to successfully achieve the growth opportunities and cost efficiencies expected as a result of this acquisition. 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 13, 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"

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 20, 2018

INDEPENDENT AUDITORS' REPORT

To the shareholders of **METRO INC.**

We have audited the accompanying consolidated financial statements of **METRO INC.**, which comprise the consolidated statements of financial position as at September 29, 2018 and September 30, 2017, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **METRO INC.** as at September 29, 2018 and September 30, 2017 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP[1]

Montréal, Canada
November 20, 2018

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

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Annual Consolidated Financial Statements

METRO INC.

September 29, 2018

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Consolidated statements of income

Years ended September 29, 2018 and September 30, 2017

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

	2018 *(52 weeks)*	2017 *(53 weeks)*
Sales *(notes 6 and 26)*	**14,383.4**	13,175.3
Cost of sales and operating expenses *(notes 6 and 26)*	**(13,329.5)**	(12,208.9)
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	**1,011.1**	966.4
Depreciation and amortization *(note 6)*	**(233.5)**	(194.2)
Financial costs, net *(note 6)*	**(80.2)**	(63.9)
Share of an associate's earnings *(notes 6 and 10)*	**30.8**	93.5
Gain on disposal of the majority of the investment in an associate *(notes 6 and 10)*	**1,107.4**	—
Gain on revaluation and disposal of an investment at fair value *(notes 6 and 10)*	**241.1**	—
Earnings before income taxes	**2,076.7**	801.8
Income taxes *(note 7)*	**(358.2)**	(193.4)
Net earnings	**1,718.5**	608.4
Attributable to:		
Equity holders of the parent	**1,716.5**	591.7
Non-controlling interests	**2.0**	16.7
	1,718.5	608.4
Net earnings per share *(Dollars) (notes 8 and 21)*		
Basic	**7.20**	2.59
Fully diluted	**7.16**	2.57

See accompanying notes

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Consolidated statements of comprehensive income

Years ended September 29, 2018 and September 30, 2017

(Millions of dollars)

	2018 *(52 weeks)*	2017 *(53 weeks)*
Net earnings	**1,718.5**	608.4
Other comprehensive income		
Items that will not be reclassified to net earnings		
Changes in defined benefit plans		
Actuarial gains	**37.2**	108.3
Asset ceiling effect	**(2.1)**	(8.1)
Minimum funding requirement	**(0.2)**	0.7
Share of an associate's other comprehensive income	**—**	(0.9)
Corresponding income taxes	**(9.2)**	(26.6)
	25.7	73.4
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)**	(1.4)
Corresponding income taxes	**(0.4)**	0.2
	1.4	(1.2)
	27.1	72.2
Comprehensive income	**1,745.6**	680.6
Attributable to:		
Equity holders of the parent	**1,743.6**	663.9
Non-controlling interests	**2.0**	16.7
	1,745.6	680.6

See accompanying notes

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Consolidated statements of financial position

As at September 29, 2018 and September 30, 2017

(Millions of dollars)

	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents	**226.9**	148.9
Accounts receivable *(notes 15 and 26)*	**538.1**	313.7
Inventories *(note 9)*	**1,099.1**	856.6
Prepaid expenses	**32.1**	19.0
Current taxes	**20.6**	18.1
	1,916.8	1,356.3
Non-current assets		
Investment in an associate *(note 10)*	**—**	475.9
Fixed assets *(note 11)*	**2,523.4**	1,761.5
Investment properties *(note 12)*	**46.1**	15.0
Intangible assets *(note 13)*	**2,914.4**	389.1
Goodwill *(note 14)*	**3,302.2**	1,973.8
Deferred taxes *(note 7)*	**4.5**	1.9
Defined benefit assets *(note 23)*	**55.1**	39.3
Investment at fair value *(note 10)*	**66.9**	—
Other assets *(note 15)*	**92.8**	37.9
	10,922.2	6,050.7
LIABILITIES AND EQUITY		
Current liabilities		
Bank loans *(note 16)*	**0.1**	1.1
Accounts payable *(notes 17 and 26)*	**1,358.5**	1,036.1
Current taxes	**254.8**	8.8
Provisions *(note 18)*	**8.0**	2.7
Current portion of debt *(note 19)*	**13.3**	12.9
Non-controlling interests *(note 28)*	**—**	224.3
	1,634.7	1,285.9
Non-current liabilities		
Debt *(note 19)*	**2,630.4**	1,441.6
Defined benefit liabilities *(note 23)*	**81.3**	92.7
Provisions *(note 18)*	**22.3**	2.0
Deferred taxes *(note 7)*	**846.5**	255.7
Other liabilities *(note 20)*	**11.7**	12.3
Non-controlling interests *(note 28)*	**39.3**	36.6
	5,266.2	3,126.8
Equity		
Attributable to equity holders of the parent	**5,642.8**	2,911.1
Attributable to non-controlling interests	**13.2**	12.8
	5,656.0	2,923.9
	10,922.2	6,050.7

Commitments and contingencies *(notes 24 and 25)*

Event after the reporting period *(note 29)*

See accompanying notes

On behalf of the Board

ERIC R. LA FLÈCHE
Director

RUSSELL GOODMAN
Director

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Consolidated statements of changes in equity
Years ended September 29, 2018 and September 30, 2017
(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

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Consolidated statements of changes in equity

Years ended September 29, 2018 and September 30, 2017

(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 24, 2016	571.0	(20.5)	19.3	2,106.1	4.7	2,680.6	12.6	2,693.2
Net earnings	—	—	—	591.7	—	591.7	16.7	608.4
Other comprehensive income	—	—	—	73.4	(1.2)	72.2	—	72.2
Comprehensive income	—	—	—	665.1	(1.2)	663.9	16.7	680.6
Stock options exercised	12.9	—	(2.2)	—	—	10.7	—	10.7
Shares redeemed	(18.1)	—	—	—	—	(18.1)	—	(18.1)
Share redemption premium	—	—	—	(284.5)	—	(284.5)	—	(284.5)
Acquisition of treasury shares	—	(6.9)	—	—	—	(6.9)	—	(6.9)
Share-based compensation cost	—	—	8.1	—	—	8.1	—	8.1
Performance share units settlement	—	5.5	(5.4)	(0.1)	—	—	—	—
Dividends	—	—	—	(143.5)	—	(143.5)	(2.8)	(146.3)
Share of an associate's equity	—	—	—	(0.2)	—	(0.2)	—	(0.2)
Change in fair value of non-controlling interests liability *(note 28)*	—	—	—	1.0	—	1.0	(13.9)	(12.9)
Sale of shares in joint ventures	—	—	—	—	—	—	0.2	0.2
	(5.2)	(1.4)	0.5	(427.3)	—	(433.4)	(16.5)	(449.9)
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

See accompanying notes

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Consolidated statements of cash flows

Years ended September 29, 2018 and September 30, 2017
(Millions of dollars)

	2018 *(52 weeks)*	2017 *(53 weeks)*
Operating activities		
Earnings before income taxes	**2,076.7**	801.8
Non-cash items		
Share of an associate's earnings *(note 10)*	**(30.8)**	(93.5)
Gain on disposal of a portion of the investment in an associate *(note 10)*	**(1,107.4)**	—
Gain on revaluation and disposal of an investment at fair value *(note 10)*	**(241.1)**	—
Depreciation and amortization	**233.5**	194.2
Gain on disposal and write-offs of fixed and intangible assets and investment properties	**(15.7)**	(5.6)
Impairment losses on fixed assets	**7.8**	0.8
Impairment loss reversals on fixed and intangible assets	**(1.9)**	(5.3)
Share-based compensation cost	**9.1**	8.1
Difference between amounts paid for employee benefits and current year cost	**4.2**	(3.5)
Pharmacy network closure and restructuring expenses *(note 18)*	**31.4**	—
Distribution network modernization project expenses *(note 18)*	**11.4**	—
Financial costs, net	**80.2**	63.9
	1,057.4	960.9
Net change in non-cash working capital items	**(54.3)**	(21.8)
Interest paid	**(90.5)**	(59.3)
Income taxes paid	**(162.2)**	(183.6)
	750.4	696.2
Investing activities		
Business acquisition *(note 5)*	**(3,033.0)**	—
Sale of shares in joint ventures	**0.1**	0.1
Proceeds on disposal of a portion of the investment in an associate and the investment at fair value *(note 10)*	**1,791.6**	—
Equity forward transaction on the investment at fair value *(note 10)*	**68.4**	—
Buyout of minority interests *(note 28)*	**(221.2)**	—
Net change in other assets	**(0.6)**	3.9
Dividends from an associate	**—**	11.6
Additions to fixed assets and investment properties	**(286.1)**	(328.3)
Disposals of fixed assets and investment properties	**34.6**	20.3
Additions to intangible assets	**(31.3)**	(40.6)
	(1,677.5)	(333.0)
Financing activities		
Net change in bank loans	**(1.0)**	(0.3)
Shares issued *(note 21)*	**8.8**	10.7
Shares redeemed *(note 21)*	**—**	(302.6)
Acquisition of treasury shares *(note 21)*	**(10.2)**	(6.9)
Increase in debt	**2,168.8**	737.7
Repayment of debt	**(995.2)**	(537.0)
Net change in other liabilities	**(1.3)**	0.1
Dividends *(note 22)*	**(164.8)**	(143.5)
	1,005.1	(241.8)
Net change in cash and cash equivalents	**78.0**	121.4
Cash and cash equivalents – beginning of year	**148.9**	27.5
Cash and cash equivalents – end of year	**226.9**	148.9

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

Sales recognition

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

Recognition of considerations from vendors

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

Loyalty programs

The Corporation has two loyalty programs.

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

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

Foreign currency translation

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

Income taxes

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

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

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

Share-based payment

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

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

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

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

Net earnings per share

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

Cash and cash equivalents

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

Accounts receivable

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

Inventories

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

Investments in joint ventures and associates

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. The Corporation's share in the joint ventures' earnings is recorded in cost of sales and operating expenses.

(Millions of dollars, unless otherwise indicated)

The Corporation also has interests in associates where it exercises significant influence over the financial and operating policies of these entities, but does not control them. These investments are accounted for using the equity method.

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.

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 “Other financial liabilities”. 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 "Financial liabilities held for trading" and measured at fair value. Gains or losses resulting from the revaluation at the end of each period recorded in net earnings or in retained earnings. The Corporation elected to record them in retained earnings.

Derivative financial instruments

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

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

The Corporation 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 at fair value through net earnings" and measured at fair value with revaluation at the end of each period. Resulting gains or losses are recorded in net earnings.

Fair value measurements hierarchy

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

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

Fiscal year

The Corporation's fiscal year ends on the last Saturday of September. The fiscal year ended September 29, 2018 included 52 weeks of operations and the fiscal year ended September 30, 2017 included 53 weeks of operations.

3. NEW ACCOUNTING STANDARDS

FUTURE ACCOUNTING STANDARDS

Financial instruments

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

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

IFRS 9 applies to fiscal years beginning on or after January 1, 2018, therefore, for the Corporation fiscal year beginning on Septembre 30, 2018. This new standard will have no significant impact on the Corporation's consolidated financial statements.

Revenue from contracts with customers

IFRS 15 “Revenue from Contracts with Customers” replaces IAS 18 “Revenue”, IAS 11 “Construction Contracts”, and related interpretations. Under IFRS 15, revenue is recognized when control of the goods or services is transferred to the customer rather than when the significant risks and rewards are transferred. The new standard also requires additional disclosures through notes to financial statements. IFRS 15 applies to fiscal years beginning on or after January 1, 2018, therefore, for the Corporation fiscal year beginning on September 30, 2018. The Corporation has completed an assessment of the adoption of this new standard on its consolidated financial statements and potential impact will not be significant.

Leases

IFRS 16 “Leases” replaces IAS 17 “Leases” and related interpretations. Under IFRS 16, which provides a single model for leases abolishing the current distinction between finance leases and operating leases, most leases will be recognized in the statement of financial position. Certain exemptions will apply for short-term leases and leases of low-value assets. IFRS 16 shall be applied to fiscal years beginning on or after January 1, 2019, therefore, for the Corporation fiscal year beginning on September 29, 2019. Earlier application is permitted under certain conditions, but the Corporation does not intend to do so.

Given that the Corporation is committed under multiple operating leases under IAS 17 (note 24), the Corporation considers that the adoption of IFRS 16 will have a significant impact on its consolidated financial statements. The Corporation will have to recognize a right-of-use asset and a liability for the present value of future lease payments. Depreciation expense on the right-to-use asset and interest expense on the lease liability will replace the operating lease expense.

The Corporation continues evaluating the impact of this new standard on its consolidated financial statements. The Corporation has not yet determined which transition method it will apply.

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 rate. The key assumptions are disclosed in notes 13 and 14.

Pension plans and other plans

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

(Millions of dollars, unless otherwise indicated)

Non-controlling interests

The non-controlling interest-related non-current liability is calculated in relation to the price to be paid by the Corporation for the non-controlling interest, which price is based mainly on the future earnings of Première Moisson and MissFresh 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

On May 11, 2018, the Corporation completed the acquisition of all the outstanding Class A subordinate voting shares of The Jean Coutu Group (PJC) Inc. ("Jean Coutu Group") and all of the outstanding Class B shares of the Jean Coutu Group for a total consideration of $4,525.1. The Jean Coutu Group operates a network of 417 franchised drugstores in Québec, New Brunswick and Ontario under the PJC Jean Coutu, PJC Santé and PJC Santé Beauté banners. 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.

To finance the cash element of the purchase price, the Corporation completed the sale of the majority of its interest in Alimentation Couche-Tard Inc. for total proceeds, net of the related fees and commissions, of $1,534.0 (see note 10), issued through a private placement $1,200.0 aggregate principal amount of Series F, G and H unsecured senior notes (see note 19), and drew down its $500,0 term credit facility and used its $250.0 bridge loan (see note 19).

The final purchase price allocation was based on management's best estimate of the fair value of the identifiable net assets, taking into consideration information available on the date the consolidated financial statements were approved for issuance. 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

The goodwill resulting from the acquisition is mainly attributable to the synergies expected through the combination of the Jean Coutu Group into the Corporation's businesses considering the complementary strategic and commercial nature of the two companies, through a better competitive positioning resulting from an extensive retail network and through the future growth of our customer base following the strengthening of our position as a destination of choice for professional services and food, health, beauty and wellness products. The goodwill is not deductible for tax purposes.

(Millions of dollars, unless otherwise indicated)

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 is required to divest its rights in 10 locations where drugstores are operated. By the end of the fourth quarter of 2018, the Corporation had not yet divested its rights in these locations where drugstores are operated. Divestiture transactions are ongoing and are expected to occur in the first half of 2019.

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.

On a pro forma basis, assuming the acquisition had occurred at the beginning of the year, the Corporation's sales would have amounted to approximately $16,191 and the Corporation's net earnings would have amounted to approximately $1,829 for fiscal year 2018. These amounts were determined assuming that the final purchase price allocation was effective October 1, 2017.

(Millions of dollars, unless otherwise indicated)

6. ADDITIONAL INFORMATION ON THE NATURE OF EARNINGS COMPONENTS

	2018 *(52 weeks)*	*%*	2017 *(53 weeks)*	*%*
Sales	**14,383.4**		13,175.3	
Cost of sales	**(11,556.5)**		(10,579.6)	
Gross margins	**2,826.9**	**19.7**	2,595.7	19.7
Operating expenses				
Wages and fringe benefits	**(779.3)**		(711.0)	
Employee benefits expense *(note 23)*	**(83.6)**		(80.8)	
Rents and occupancy charges	**(475.8)**		(441.4)	
Pharmacy network closure and restructuring expenses	**(31.4)**		—	
Distribution network modernization project expenses	**(11.4)**		—	
Others	**(434.3)**		(396.1)	
	(1,815.8)	**12.6**	(1,629.3)	12.4
Operating income before depreciation and amortization and associate's earnings	**1,011.1**	**7.0**	966.4	7.3
Depreciation and amortization				
Fixed assets *(note 11)*	**(185.0)**		(163.8)	
Investment properties *(note 12)*	**(0.2)**		—	
Intangible assets *(note 13)*	**(48.3)**		(30.4)	
	(233.5)		(194.2)	
Financial costs, net				
Current interest *(note 28)*	**(4.3)**		(3.0)	
Non-current interest *(note 19)*	**(99.0)**		(57.4)	
Interests on defined benefit obligations net of plan assets *(note 23)*	**(3.2)**		(4.6)	
Amortization of deferred financing costs	**(2.2)**		(0.9)	
Interest income *(notes 10 and 19)*	**28.8**		2.4	
Passage of time	**(0.3)**		(0.4)	
	(80.2)		(63.9)	
Share of an associate's earnings *(note 10)*	**30.8**		93.5	
Gain on disposal of a portion of the investment in an associate *(note 10)*	**1,107.4**		—	
Gain on revaluation and disposal of an investment at fair value *(note 10)*	**241.1**		—	
Earnings before income taxes	**2,076.7**		801.8	

(Millions of dollars, unless otherwise indicated)

7. INCOME TAXES

The effective income tax rates were as follows:

(Percentage)	**2018** *(52 weeks)*	2017 *(53 weeks)*
Combined statutory income tax rate	**26.7**	26.8
Changes		
Share of an associate's earnings	**(0.2)**	(1.8)
Gain on disposal of a portion of the investment in an associate *(note 10)*	**(7.5)**	—
Gain on revaluation and disposal of an investment at fair value *(note 10)*	**(1.6)**	—
Others	**(0.2)**	(0.9)
	17.2	24.1

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

Consolidated income statements

	2018 *(52 weeks)*	2017 *(53 weeks)*
Current		
Current tax expense	**421.6**	151.0
Deferred		
Adjustment related to temporary differences	**(63.4)**	42.4
	358.2	193.4

Consolidated comprehensive income statements

	2018 *(52 weeks)*	2017 *(53 weeks)*
Deferred tax related to items reported directly in other comprehensive income during the year		
Changes in defined benefit plans		
Actuarial gains	**9.9**	28.8
Asset ceiling effect	**(0.6)**	(2.2)
Minimum funding requirement	**(0.1)**	0.1
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)**	(0.3)
	9.6	26.4

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 29, 2018	As at September 30, 2017	**2018** *(52 weeks)*	2017 *(53 weeks)*
Accrued expenses, provisions and other reserves that are tax-deductible only at the time of disbursement	**17.7**	(0.8)	**18.5**	(7.2)
Deferred tax losses	**4.1**	1.0	**3.1**	(4.3)
Inventories	**(11.2)**	(11.2)	**—**	(0.7)
Employee benefits	**6.0**	12.2	**3.0**	(0.2)
Investment in an associate	**(8.7)**	(62.4)	**54.1**	(10.0)
Difference between net carrying value and tax value				
Fixed assets	**(166.5)**	(91.6)	**(15.2)**	(16.6)
Investment properties	**0.1**	0.2	**0.7**	(0.4)
Intangible assets	**(636.4)**	(57.8)	**2.9**	0.3
Goodwill	**(47.1)**	(43.4)	**(3.7)**	(3.3)
	(842.0)	(253.8)	**63.4**	(42.4)

Deferred tax assets	**4.5**	1.9
Deferred tax liabilities	**(846.5)**	(255.7)
	(842.0)	(253.8)

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)	**2018** *(52 weeks)*	2017 *(53 weeks)*
Weighted average number of shares outstanding – Basic	**238.3**	228.7
Dilutive effect under:		
Stock option plan	**0.9**	1.3
Performance share unit plan	**0.6**	0.6
Weighted average number of shares outstanding – Fully diluted	**239.8**	230.6

(Millions of dollars, unless otherwise indicated)

9. INVENTORIES

	2018	2017
Wholesale inventories	**642.9**	397.1
Retail inventories	**456.2**	459.5
	1,099.1	856.6

10. INVESTMENT IN AN ASSOCIATE

As at Septembre 30, 2017, the Corporation had a 5.7% interest in Alimentation Couche-Tard ("ACT"), a publicly traded associate in the convenience store industry.

The Corporation completed the sale of the majority of its holding in ACT on October 13, 2017 and October 17, 2017 for a total cash consideration of $1,550.0 and proceeds net of the related fees and commissions amounting to $1,534.0 and use the proceed of such sale to finance in part the acquisition of the Jean Coutu Group (see note 5). As a result, the proceeds of disposal were used to acquire short-term investments until the acquisition, which generated interest income of $14.5 included in financial costs. Subsequent to this disposal, the Corporation held an interest of less than 1% in ACT.

Consequently, a gain before income taxes of $1,107.4 ($968.1 after income taxes) on disposal of the majority of the investment in an associate was recorded during the first quarter. The disposal triggered the loss of significant influence of the Corporation over ACT. The residual investment is therefore considered an available-for-sale financial asset which is classified as an investment at fair value. The investment was re-evaluated at fair value on October 13, 2017, and the Corporation recorded a gain on revaluation of $225.6 in net earnings. All subsequent fair value revaluation of this investment was recorded in accumulated other comprehensive income. Also, accumulated other comprehensive income of ACT included in the Corporation equity totaling $4.2 was reclassified to net earnings in line item gain on revaluation of an investment at fair value.

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. The gain, included within the gain on revaluation and disposal of an investment at fair value in net earnings, resulted from a reclassification of changes in the investment previously recorded in other comprehensive income.

In addition, on September 20, 2018, the Corporation signed an equity forward agreement with a financial institution for the remaining shares of this investment. The Corporation received an amount of $68.4 following this agreement which was recorded as a liability within accounts payable given the current maturity. The disposal was finalized on November 5, 2018. The revaluation of this agreement at year-end gave rise to the recording of a loss and a financial liability in the amount of $1.6. This impairment loss was presented as a reduction of the gain on revaluation and disposal of an investment at fair value. The remaining shares were revaluated as at September 29, 2018 using the selling price formula in the agreement and a $5.7 gain was recorded in accumulated other comprehensive income during fiscal 2018.

(Millions of dollars, unless otherwise indicated)

11. FIXED ASSETS

	Land	Buildings	Equipment	Leasehold improvements	Buildings under finance leases	Total
Cost						
Balance as at September 24, 2016	250.8	685.4	1,275.0	703.3	50.6	2,965.1
Acquisitions	7.0	45.4	155.0	120.5	1.6	329.5
Transfers from investment properties	5.8	1.5	—	—	—	7.3
Disposals and write-offs	(1.8)	(9.8)	(94.0)	(36.4)	(1.5)	(143.5)
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**
Accumulated depreciation and impairment						
Balance as at September 24, 2016	—	(188.4)	(760.4)	(391.7)	(29.8)	(1,370.3)
Depreciation	—	(19.8)	(90.9)	(50.1)	(3.0)	(163.8)
Transfers from investment properties	—	(0.5)	—	—	—	(0.5)
Disposals and write-offs	—	4.2	92.7	36.3	1.5	134.7
Impairment losses	—	—	(0.6)	(0.2)	—	(0.8)
Impairment loss reversals	—	—	1.4	2.4	—	3.8
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)**
Net carrying value						
Balance as at September 30, 2017	261.8	518.0	578.2	384.1	19.4	1,761.5
Balance as at September 29, 2018	**473.7**	**960.9**	**678.1**	**390.1**	**20.6**	**2,523.4**

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 $5.0 ($1.6 in 2017).

(Millions of dollars, unless otherwise indicated)

12. INVESTMENT PROPERTIES

	Cost	Accumulated depreciation	Net carrying value
Balance as at September 24, 2016	36.9	(11.2)	25.7
Acquisitions	0.4	—	0.4
Transfers to fixed assets	(7.3)	0.5	(6.8)
Disposals and write-offs	(5.7)	1.4	(4.3)
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**

The fair value of investment properties was $50.8 as at September 29, 2018 ($19.8 as at September 30, 2017). 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.

(Millions of dollars, unless otherwise indicated)

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 24, 2016	58.4	187.4	245.0	27.4	518.2
Acquisitions	—	10.6	16.4	—	27.0
Disposals and write-offs	(0.3)	(2.1)	(14.0)	—	(16.4)
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**
Accumulated amortization and impairment					
Balance as at September 24, 2016	(41.1)	(157.0)	(110.8)	(13.9)	(322.8)
Amortization	(1.9)	(7.0)	(19.4)	(2.1)	(30.4)
Disposals and write-offs	0.2	2.1	13.4	—	15.7
Impairment loss reversals *(note 11)*	1.5	—	—	—	1.5
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)**
Net carrying value					
Balance as at September 30, 2017	16.8	34.0	130.6	11.4	192.8
Balance as at September 29, 2018	**15.5**	**60.8**	**125.4**	**1,034.4**	**1,236.1**

Net additions of intangible assets excluded from the consolidated statement of cash flows amounted to $8.4 in 2018 ($4.8 in 2017).

Intangible assets with indefinite useful lives were as follows:

	Banners	Private labels	Loyalty programs	Total
Balance as at September 24, 2016 and September 30, 2017	**133.3**	**39.5**	**23.5**	**196.3**
Adjustments following the business acquisitions final purchase price allocation *(note 5)*	**1,340.0**	**82.0**	**60.0**	**1,482.0**
Balance as at September 29, 2018	**1,473.3**	**121.5**	**83.5**	**1,678.3**

(Millions of dollars, unless otherwise indicated)

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 multiple used was 13.6 (12.2 in 2017) considering a growth rate of 2.0% (2.0% in 2017) corresponding to the consumer price index. For these private labels, the earnings multiples used were 12.8 and 15.4 (14.3 in 2017) considering a growth rate of 2.0% (2.0% in 2017) 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 2017) and the multiples used were between 13.3 and 15.4 (13.3 and 14.3 in 2017) considering growth rate of 2.0% (2.0% in 2017) 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

	2018	2017
Balance – beginning of year	**1,973.8**	1,955.4
Acquisitions through business combinations *(note 5)*	**1,328.9**	18.4
Disposals	**(0.5)**	—
Balance – end of year	**3,302.2**	1,973.8

For impairment testing, goodwill with a carrying amount of $1,976.9 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 11.6% (12.0% in 2017) 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 $1,325.3 was attributed to the operating segment related to pharmaceutical operations. The recoverable amount was determined based on its fair value less costs of disposal, which was calculated using the capitalized EBITDA method. The estimated EBITDA directly allocated to the CGU related to pharmaceutical operations was based on historical data reflecting past experience. The earnings multiple used was 14.0 considering a growth rate of 2.0% 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.

(Millions of dollars, unless otherwise indicated)

15. OTHER ASSETS

	2018	2017
Loans to certain customers, bearing interest at floating rates, repayable in monthly instalments, maturing through 2031	**64.5**	40.3
Investments in joint ventures and associates acquired through business combinations *(note 5)*	**35.7**	—
Other assets	**4.3**	3.8
	104.5	44.1
Current portion included in accounts receivable	**11.7**	6.2
	92.8	37.9

16. BANK LOANS

As at September 29, 2018 and September 30, 2017, the Corporation's bank loans were the credit margins of structured entities. The consolidated structured entities have credit margins totaling $8.3 ($8.4 as at September 30, 2017), bearing interest at prime plus 0.5%, unsecured and maturing on various dates through 2019. As at September 29, 2018, $0.1 ($1.1 as at September 30, 2017) had been drawn down under credit margins at an interest rate of 4.2% (3.7% as at September 30, 2017).

17. OFFSETTING

	2018	2017
Accounts payable (gross)	**1,411.1**	1,082.8
Vendor rebate receivables	**(52.6)**	(46.7)
Accounts payable (net)	**1,358.5**	1,036.1

(Millions of dollars, unless otherwise indicated)

18. PROVISIONS

	Onerous leases	Pharmacy network closure and restructuring expenses	Distribution network modernization project expenses	Total
Balance as at September 24, 2016	5.4	—	—	5.4
Additional provisions	2.1	—	—	2.1
Amounts used	(2.8)	—	—	(2.8)
Balance as at September 30, 2017	4.7	—	—	4.7
Current provisions	2.7	—	—	2.7
Non-current provisions	2.0	—	—	2.0
Balance as at September 30, 2017	4.7	—	—	4.7
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**

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 9 years.

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 the year, 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.

During the fourth quarter of the year, 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.

(Millions of dollars, unless otherwise indicated)

19. DEBT

	2018	2017
Series E Notes, bearing interest at a floating rate equal to the 3-month bankers' acceptance rate plus 0.57%, 2.16% in 2018 (1.54% in 2017), 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**	—
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**	—
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**	—
Loans, maturing on various dates through 2027, bearing interest at an average rate of 2.64% (2.41% in 2017)	**35.2**	35.6
Obligations under finance leases, bearing interest at an effective rate of 7.71% (8.0% in 2017)	**25.7**	25.7
Deferred financing costs	**(17.2)**	(6.8)
	2,643.7	1,454.5
Current portion	**13.3**	12.9
	2,630.4	1,441.6

On December 4, 2017 the Corporation issued through a private placement Series F, G and H unsecured senior notes, which are described in the table above. The proceeds of these issues were placed in escrow as security deposits until the Jean Coutu Group acquisition (see note 5). These security deposits generated $6.8 in interest income since their issuance to the acquisition date, which were included in financial costs. An interest expense totaling $34.9 on these new notes were also recorded since their issuance in the non-current interest of the financial costs.

The Corporation also used its $500.0 term credit facility, available for the Jean Coutu Group acquisition (see note 5), consisting of a 1-year $100.0 Tranche A, a 2-year $200.0 Tranche B and a 3-year $200.0 Tranche C and a 1-month $250.0 bridge loan. On May 11 2018, the Corporation reimbursed the $100,0 Tranche A and the $250.0 bridge loan, and on June 11 2018 the Corporation reimbursed an amount of $100.0 of the Tranche B. During the fourth quarter, the Corporation reimbursed the $100.0 balance on the Tranche B and the total amount of the $200.0 Tranche C. This term credit facility was terminated on September 10, 2018.

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 29, 2018 and September 30, 2017, 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 September 19, 2018, the maturity of the revolving credit facility was extended to November 3, 2023.

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 $15.6 in 2018 ($7.3 in 2017).

(Millions of dollars, unless otherwise indicated)

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

	Facility and loans	Notes	Obligations under finance leases	Total
2019	8.7	—	6.2	14.9
2020	3.6	400.0	4.9	408.5
2021	1.4	—	3.4	4.8
2022	1.3	300.0	2.3	303.6
2023	0.9	300.0	1.9	302.8
2024 and thereafter	19.3	1,600.0	16.1	1,635.4
	35.2	2,600.0	34.8	2,670.0

The minimum payments in respect of the obligations under finance leases included interest amounting to $9.1 on these obligations in 2018 ($10.3 in 2017).

20. OTHER LIABILITIES

	2018	2017
Lease liabilities	**9.6**	10.5
Other liabilities	**2.1**	1.8
	11.7	12.3

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 24, 2016	234,511	571.0
Shares redeemed for cash, excluding premium of $284.5	(7,433)	(18.1)
Stock options exercised	641	12.9
Balance as at September 30, 2017	**227,719**	**565.8**
Shares issued *(note 5)*	**28,031**	**1,147.9**
Stock options exercised	**503**	**10.4**
Balance as at September 29, 2018	**256,253**	**1,724.1**

Treasury shares

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

	Number *(Thousands)*	
Balance as at September 24, 2016	665	(20.5)
Acquisition	170	(6.9)
Release	(256)	5.5
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)**

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 29, 2018, a balance of 5,300,796 shares could be issued following the exercise of stock options (5,803,816 as at September 30, 2017). The subscription price of each Common Share under an option granted pursuant to the plan is equal to the market price of the shares on the day prior to option grant date and must be paid in full at the time the option is exercised. While the Board of Directors determines other terms and conditions for the exercise of options, no options may have a term of more than five years from the date the option may initially be exercised, in whole or in part, and the total term may in no circumstances exceed ten years from the option grant date. Options may generally be exercised two years after their grant date and vest at the rate of 20% per year.

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

	Number *(Thousands)*	Weighted average exercise price *(Dollars)*
Balance as at September 24, 2016	3,483	23.67
Granted	394	40.23
Exercised	(641)	16.76
Cancelled	(56)	33.31
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**

The information regarding the stock options outstanding and exercisable as at September 29, 2018 was summarized as below:

	Outstanding options			Exercisable options	
Range of exercise prices *(Dollars)*	Number *(Thousands)*	Weighted average remaining period *(Months)*	Weighted average exercise price *(Dollars)*	Number *(Thousands)*	Weighted average exercise price *(Dollars)*
17.72 to 24.69	1,486	19.8	20.86	1,117	20.47
35.42 to 44.73	1,581	57.9	39.18	251	36.96
	3,067	39.4	30.30	1,368	23.49

The weighted average fair value of $5.73 per option ($5.19 in 2017) for stock options granted during fiscal 2018 was determined at the time of grant using the Black-Scholes model and the following weighted average assumptions: risk-free interest rate of 2.2% (1.3% in 2017), expected life of 5.4 years (5.4 years in 2017), expected volatility of 15.7% (16.1% in 2017) and expected dividend yield of 1.8% (1.6% in 2017). 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 2018 ($2.1 in 2017).

Performance share unit plan

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

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

	Number *(Thousands)*
Balance as at September 24, 2016	664
Granted	186
Settled	(257)
Cancelled	(46)
Balance as at September 30, 2017	**547**
Granted	**230**
Settled	**(193)**
Cancelled	**(5)**
Balance as at September 29, 2018	**579**

The weighted average fair value of $41.16 per PSU ($40.23 in 2017) for PSUs granted during fiscal 2018 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 $7.1 for fiscal 2018 ($6.0 in 2017).

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 $0.7 for fiscal 2018 ($0.6 in 2017). As at September 29, 2018, the DSU liability amounted to $13.4 ($14.2 as at September 30, 2017).

22. DIVIDENDS

In fiscal 2018, the Corporation paid $164.8 in dividends to holders of Common Shares ($143.5 in 2017), or $0.7025 per share ($0.6275 in 2017). On October 1, 2018, the Corporation's Board of Directors declared a quarterly dividend of $0.1800 per Common Share payable on November 13, 2018.

(Millions of dollars, unless otherwise indicated)

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:

	2018		2017	
	Pension plans	**Other plans**	Pension plans	Other plans
Balance – beginning of year	**1,170.9**	**34.1**	1,229.1	39.3
Acquisitions through business combinations *(note 5)*	**47.5**	**—**	—	—
Participant contributions	**7.1**	**—**	6.9	—
Benefits paid	**(47.6)**	**(3.3)**	(44.4)	(3.4)
Items in net earnings				
Current service cost	**40.2**	**2.0**	40.8	2.1
Interest cost	**47.3**	**1.3**	40.7	1.4
Past service cost	**1.7**	**0.2**	—	—
Actuarial losses (gains)	**—**	**0.9**	—	(1.1)
	89.2	**4.4**	81.5	2.4
Items in comprehensive income				
Actuarial gains from demographic assumptions	**(1.2)**	**(0.5)**	—	(1.1)
Actuarial gains from financial assumptions	**(2.1)**	**(0.1)**	(99.8)	(1.5)
Adjustments due to experience	**(1.1)**	**0.4**	(2.4)	(1.6)
	(4.4)	**(0.2)**	(102.2)	(4.2)
Balance – end of year	**1,262.7**	**35.0**	1,170.9	34.1

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

	2018		2017	
(Percentage)	**Pension plans**	**Other plans**	Pension plans	Other plans
Active plan participants	**61**	**71**	60	70
Deferred plan participants	**4**	**—**	4	—
Retirees	**35**	**29**	36	30

(Millions of dollars, unless otherwise indicated)

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

	2018		2017	
	Pension plans	**Other plans**	Pension plans	Other plans
Fair value – beginning of year	**1,167.8**	**—**	1,123.7	—
Acquisitions through business combinations *(note 5)*	**47.2**	**—**	—	—
Employer contributions	**39.2**	**3.3**	44.0	3.4
Participant contributions	**7.1**	**—**	6.9	—
Benefits paid	**(47.6)**	**(3.3)**	(44.4)	(3.4)
Items in net earnings				
Interest income	**46.0**	**—**	37.8	—
Administration costs	**(1.7)**	**—**	(2.1)	—
	44.3	**—**	35.7	—
Items in comprehensive income				
Return on plan assets, excluding the amounts included in interest income	**32.6**	**—**	1.9	—
Fair value – end of year	**1,290.6**	**—**	1,167.8	—

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

	2018		2017	
	Asset ceiling	**Minimum funding requirement**	Asset ceiling	Minimum funding requirement
Balance - beginning of year	**(16.2)**	**—**	(7.8)	(0.7)
Interests	**(0.6)**	**—**	(0.3)	—
Change in defined benefit assets	**(2.1)**	**—**	(8.1)	—
Change in defined benefit liabilities	**—**	**(0.2)**	—	0.7
Balance - end of year	**(18.9)**	**(0.2)**	(16.2)	—

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.

(Millions of dollars, unless otherwise indicated)

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

	2018		2017	
	Pension plans	**Other plans**	Pension plans	Other plans
Balance of defined benefit obligation – end of year	**(1,262.7)**	**(35.0)**	(1,170.9)	(34.1)
Fair value of plan assets – end of year	**1,290.6**	**—**	1,167.8	—
Funding position	**27.9**	**(35.0)**	(3.1)	(34.1)
Asset ceiling effect	**(18.9)**	**—**	(16.2)	—
Minimum funding requirement	**(0.2)**	**—**	—	—
	8.8	**(35.0)**	(19.3)	(34.1)
Defined benefit assets	**55.1**	**—**	39.3	—
Defined benefit liabilities	**(46.3)**	**(35.0)**	(58.6)	(34.1)
	8.8	**(35.0)**	(19.3)	(34.1)

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

	2018 *(52 weeks)*		2017 *(53 weeks)*	
	Pension plans	**Other plans**	Pension plans	Other plans
Defined contribution plans, including multi-employer plans	**36.3**	**0.6**	36.3	0.6
Defined benefit plans				
Current service cost	**40.2**	**2.0**	40.8	2.1
Past service cost	**1.7**	**0.2**	—	—
Actuarial losses (gains)	**—**	**0.9**	—	(1.1)
Administration costs	**1.7**	**—**	2.1	—
	43.6	**3.1**	42.9	1.0
Employee benefits expense	**79.9**	**3.7**	79.2	1.6
Interest on obligations, asset ceiling effect and minimum funding requirement net of plans assets, presented in financial costs	**1.9**	**1.3**	3.2	1.4
Net total expense	**81.8**	**5.0**	82.4	3.0

The remeasurements recognized as other comprehensive income were as follows:

	2018		2017	
	Pension plans	**Other plans**	Pension plans	Other plans
Actuarial gains on obligations incurred	**(4.4)**	**(0.2)**	(102.2)	(4.2)
Return on plan assets	**(32.6)**	**—**	(1.9)	—
Change in the effect of the asset ceiling	**2.1**	**—**	8.1	—
Change in the minimum funding requirement	**0.2**	**—**	(0.7)	—
	(34.7)	**(0.2)**	(96.7)	(4.2)

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 $42.5 in 2018 ($47.4 in 2017). The Corporation plans to contribute $42.6 to the defined benefit plans during the next fiscal year and $27,1 to multi-employer plans.

(Millions of dollars, unless otherwise indicated)

Weighted average duration of defined benefit obligations was 15 years as at September 29, 2018 and September 30, 2017).

The most recent actuarial valuations for funding purposes in respect of the Corporation's pension plans were performed on various dates between December 2014 and September 2018. The next valuations will be performed in December 2018.

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)*	**2018**	2017
Shares in Canadian corporations	**21**	21
Shares in foreign corporations	**24**	27
Government and corporation bonds	**48**	45
Others	**7**	7

Pension plan assets included shares issued by the Corporation with a fair value of $4.3 as at September 29, 2018 ($5.0 as at September 30, 2017).

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

	2018		2017	
(Percentage)	**Pension plans**	**Other plans**	Pension plans	Other plans
Discount rate on defined benefit obligation	**3.90**	**3.90**	3.90	3.90
Discount rate on service costs	**4.00**	**4.00**	3.50	3.50
Rate of compensation increase	**3.0**	**3.0**	3.0	3.0
Mortality table	**CPM2014Priv**	**CPM2014Priv**	CPM2014Priv	CPM2014Priv

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

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

	Pension plans		Other plans	
	1% increase	1% decrease	1% increase	1% decrease
Effect on defined benefit obligation	(176.7)	211.6	(2.8)	3.3

The assumed annual health care cost trend rate per participant was set at 5.6% (5.7% in 2017). 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)

(Millions of dollars, unless otherwise indicated)

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:

	2018	2017
Under 1 year	**188.4**	186.4
Between 1 and 5 years	**589.3**	565.9
Over 5 years	**522.0**	548.8
	1,299.7	1,301.1

In addition, the Corporation has committed to leases for premises, with varying terms through 2037 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:

	2018	2017
Under 1 year	**100.5**	44.9
Between 1 and 5 years	**326.5**	152.1
Over 5 years	**308.7**	169.1
	735.7	366.1

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	
	2018	2017	**2018**	2017
Under 1 year	**6.2**	5.4	**4.6**	3.7
Between 1 and 5 years	**12.5**	12.5	**8.8**	8.4
Over 5 years	**16.1**	18.1	**12.3**	13.6
Minimum lease payments	**34.8**	36.0	**25.7**	25.7
Future financial costs	**(9.1)**	(10.3)	**—**	—
Present value of minimum lease payments	**25.7**	25.7	**25.7**	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:

	2018	2017
Under 1 year	**121.4**	73.3
Between 1 and 5 years	**161.4**	95.2
Over 5 years	**27.4**	7.3
	310.2	175.8

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 $22.1 as at September 29, 2018 ($27.1 as at September 30, 2017). No liability has been recorded in respect of these guarantees for the years ended September 29, 2018 and September 30, 2017.

Buyback agreements

Under inventory repurchase agreements, the Corporation has undertaken with respect to financial institutions to repurchase 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 29, 2018, inventory financing amounted to $201.9. 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 29, 2018, financing related to the equipment amounted to $50.7.

No liability has been recorded in respect of these guarantees for the years ended September 29, 2018 and September 30, 2017 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 management believes that any forthcoming settlement in respect of these claims will not have a material effect on the Corporation's financial position or on consolidated earnings.

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. However, since any litigation involves uncertainty, it is not possible to predict the outcome of this litigation or the amount of potential losses. No provision for contingent losses has been recognized in the Corporation’s annual consolidated financial statements.

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. At this stage, the Corporation does not believe that these matters will have a material adverse effect on the Corporation’s business, results of operations or financial condition.

(Millions of dollars, unless otherwise indicated)

26. RELATED PARTY TRANSACTIONS

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

Names	Country of incorporation	Percentage of interest in the capital	Percentage of voting rights
Subsidiaries			
Metro Richelieu Inc.	Canada	100.0	100.0
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 ventures and Associates			
Dunnhumby Canada Limited	Canada	50.0	50.0
Medicus Group Inc.	Canada	46.5	46.5
Colo-D Inc.	Canada	23.1	23.1

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

	2018 *(52 weeks)*		2017 *(53 weeks)*	
	Sales	**Services received**	Sales	Services received
Joint venture	**—**	**9.6**	—	9.7
Companies controlled by a member of the Board of Directors	**25.1**	**—**	10.1	—
	25.1	**9.6**	10.1	9.7

	2018		2017	
	Accounts receivable	**Accounts payable**	Accounts receivable	Accounts payable
Joint venture	**—**	**(2.6)**	—	(1.1)
Companies controlled by a member of the Board of Directors	**5.1**	**—**	—	—
	5.1	**(2.6)**	—	(1.1)

(Millions of dollars, unless otherwise indicated)

Compensation for the principal officers and directors was as follows:

	2018 *(52 weeks)*	2017 *(53 weeks)*
Compensation and current benefits	**5.7**	5.6
Post-employment benefits	**2.7**	0.4
Share-based payment	**6.0**	4.4
	14.4	10.4

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 2018 annual results regarding its capital management objectives were as follows:

- a non-current debt/total capital ratio of 31.7% (33.0% as at September 30, 2017);
- a BBB credit rating confirmed by S&P and DBRS (same rating in 2017);
- a dividend representing 27.1% of net earnings, excluding non recurring items, for the previous fiscal year (24.5% in 2017).

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

(Millions of dollars, unless otherwise indicated)

28. FINANCIAL INSTRUMENTS

FAIR VALUE

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

	2018		2017	
	Book value	**Fair value**	Book value	Fair value
Investment at fair value				
Available for sale financial asset *(note 10)*	**66.9**	**66.9**	—	—
Other assets				
Loans and receivables				
Loans to certain customers *(note 15)*	**64.5**	**64.5**	40.3	40.3
Non-controlling interests				
Financial liability held for trading	**39.3**	**39.3**	36.6	36.6
Debt *(note 19)*				
Other financial liabilities				
Series E Notes	**400.0**	**401.2**	400.0	400.9
Series C Notes	**300.0**	**300.6**	300.0	308.1
Series F Notes	**300.0**	**292.9**	—	—
Series G Notes	**450.0**	**432.8**	—	—
Series B Notes	**400.0**	**474.7**	400.0	477.8
Series D Notes	**300.0**	**323.5**	300.0	322.4
Series H Notes	**450.0**	**432.5**	—	—
Loans	**35.2**	**35.2**	35.6	35.6
	2,635.2	**2,693.4**	1,435.6	1,544.8

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

The 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 Première Moisson and MissFresh, 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.

(Millions of dollars, unless otherwise indicated)

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

	2018	2017
Balance – beginning of year	**260.9**	244.8
Buyout of minority interests	**(221.2)**	—
Issuance through business combinations	**—**	3.2
Change in fair value	**(0.4)**	12.9
Balance – end of year	**39.3**	260.9
Current portion	**—**	224.3
Non-current portion	**39.3**	36.6
Balance – end of year	**39.3**	260.9

In accordance with the shareholder agreement, the Corporation acquired the minority interests in Adonis and Phoenicia during the first quarter of the year for a cash consideration of $221.2. Additionally, financial costs of $1.8, calculated on the balance payable as at September 30, 2017 until payment in December 2017, were recognized in net earnings and reported in the current interest of the financial costs.

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 29, 2018 and September 30, 2017, 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 29, 2018 and September 30, 2017, 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 29, 2018, the maximum potential liability under guarantees provided amounted to $22.1 ($27.1 as at September 30, 2017) 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.

(Millions of dollars, unless otherwise indicated)

As at September 29, 2018, the maximum exposure to credit risk for the foreign exchange forward contracts was equal to their carrying amount. As at September 30, 2017, 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 2023, 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	Facility and loans	Notes	Finance lease commitments	Non-controlling interests	Total
Maturing under 1 year	1,358.5	9.5	99.7	6.2	—	1,473.9
Maturing in 1 to 10 years	—	14.3	2,148.1	26.1	39.3	2,227.8
Maturing in 11 to 20 years	—	3.9	910.2	2.5	—	916.6
Maturing over 20 years	—	17.2	1,019.2	—	—	1,036.4
	1,358.5	44.9	4,177.2	34.8	39.3	5,654.7

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 29, 2018 and September 30, 2017, the fair value of foreign exchange forward contracts was insignificant.

29. EVENT AFTER THE REPORTING PERIOD

After a period of approximately one year during which the normal course issuer bid program was not renewed, in particular because the Corporation intended, during this period, to allocate the surplus cash available to reimburse part of the debt incurred for the Jean Coutu Group acquisition, the Board of Directors authorized, on November 20, 2018, the reinstatement of the share repurchase program. The Corporation will be able to repurchase, in the normal course of business, between November 23, 2018 and November 22, 2019 up to 7,000,000 of its Common Shares representing approximately 2.7% of its issued and outstanding shares on November 13, 2018. Repurchases will be made through the facilities of the Toronto Stock Exchange at market price, in accordance with its policies and regulations, as well as by other means as may be permitted by the TSX and any other securities regulatory authorities, including by private agreements. The Corporation considers that the normal course issuer bid program provides it with an additional option for using its excess funds.

30. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements of fiscal year ended September 29, 2018 (including comparative figures) were approved for issue by the Board of Directors on November 20, 2018.

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DIRECTORS AND OFFICERS

Board of Directors

Maryse Bertrand[(1)(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)]
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[(2)(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

Christian Bourbonnière
Executive Vice President and Quebec Division Head

Carmine Fortino
Executive Vice President and Ontario Division Head

Serge Boulanger
Senior Vice President, National Procurement and Corporate Brands

Martin Allaire
Vice President, Real Estate and Engineering

Marie-Claude Bacon
Vice President, Public Affairs and Communications

Geneviève Bich
Vice President, Human Resources

François J. Coutu
President
The Jean Coutu Group (PJC) Inc.

Mireille Desjarlais
Vice President, Corporate Controller

Dan Gabbard
Vice President, Supply Chain

Frédéric Legault
Vice President, Information Systems

Gino Plevano
Vice President, Digital Strategy and Online Shopping

Simon Rivet
Vice President, General Counsel and Corporate Secretary

Roberto Sbrugnera
Vice President, Treasury, Risk and Investor Relations

Yves Vézina
National Vice President, Logistics and Distribution

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***

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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 29, 2019 at 10:00 a.m. at:

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

DIVIDENDS*
2019 FISCAL YEAR

Declaration Date	Record Date	Payment Date
January 28, 2019	February 14, 2019	March 12, 2019
April 16, 2019	May 16, 2019	June 7, 2019
August 13, 2019	September 4, 2019	September 25, 2019
September 30, 2019	October 25, 2019	November 12, 2019

** Subject to approval by the Board of Directors*

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