# INTERIM REPORT

**16-week period ended July 5, 2014**

## 3rd Quarter 2014

---

## HIGHLIGHTS

- **Sales of $3,622.1 million, up 1.4% over last year**
- **Same-store sales up 1.0%**
- **Net earnings of $144.5 million, flat versus last year**
- **Fully diluted net earnings per share of $1.63, up 9.4%**
- **Declared dividend of $0.30 per share, up 20%**

---

metro

## REPORT TO SHAREHOLDERS

Dear Shareholders,

I am pleased to present our interim report for the third quarter of fiscal 2014 ended July 5, 2014.

2014 third quarter sales reached $3,622.1 million versus $3,572.2 million last year, an increase of 1.4%. Same-store sales were up 1.0%. Our aggregate food basket experienced inflation higher than previous quarters but lower than the consumer price index of food purchased from stores as published by Statistics Canada. Our merchandising strategies and investments, as well as our reorganization of our Ontario store network enabled us to increase sales in a market that remains intensely competitive.

We realized net earnings of $144.5 million in the third quarter of 2014 versus $144.4 million for the corresponding period of 2013 and fully diluted net earnings per share of $1.63 versus $1.49 in 2013, an increase of 9.4%.

Our financial position at the end of the third quarter of 2014 remains very solid. We had an unused authorized revolving line of credit of $336.8 million. Our debt ratio (non-current debt/total capital) was 25.6%.

On August 12, 2014, the Board of Directors declared a quarterly dividend of $0.30 per share, an increase of 20% over last year.

We are satisfied with our third quarter results achieved in an environment that remains challenging. We concluded the acquisition of Première Moisson Bakery last week and we will continue[3] to invest in our network in order to offer a superior experience to our customers and to pursue our growth.

Eric R. La Flèche
President and Chief Executive Officer

August 13, 2014

*[1] See table on "Operating income before depreciation and amortization and associate's earnings adjustments"*
*[2] See table on "Net earnings from continuing operations adjustments"*
*[3] See section on "Forward-looking Information"*
*[4] See section on "IFRS and Non-IFRS Measurements"*

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) sets out the financial position and consolidated results of METRO INC. on July 5, 2014. It should be read in conjunction with the unaudited interim condensed consolidated financial statements and accompanying notes in this interim report.

The unaudited interim condensed consolidated financial statements for the 16 and 40-week periods ended July 5, 2014 have been prepared by management in accordance with IAS 34 “Interim Financial Reporting”. They should be read in conjunction with the audited annual consolidated financial statements and accompanying notes and the MD&A presented in the Corporation's 2013 Annual Report. Certain comparative figures in this interim report have been restated as a consequence of amendments to the accounting policy related to employee benefits which the Corporation adopted in the first quarter of 2014 (see note 2 of the interim condensed consolidated financial statements). Unless otherwise stated, the interim report is based upon information as at August 1, 2014.

Additional information, including the Certification of Interim Filings letters for the quarter ended July 5, 2014 signed by the President and Chief Executive Officer and the Senior Vice-President, Chief Financial Officer and Treasurer, is also available on the SEDAR website at: www.sedar.com.

## OPERATING RESULTS

We realized net earnings of $144.5 million and fully diluted net earnings per share of $1.63 in the third quarter of 2014 compared to $144.4 million and $1.49 respectively in 2013.

### SALES

Sales in the third quarter of 2014 totalled $3,622.1 million, up 1.4% compared to $3,572.2 million for the same quarter last year. Same-store sales were up 1.0%. Our aggregate food basket experienced inflation higher than previous quarters but lower than the consumer price index of food purchased from stores as published by Statistics Canada. Our merchandising strategies and investments, as well as our reorganization of our Ontario store network enabled us to increase sales in a market that remains intensely competitive.

Sales in the first 40 weeks of fiscal 2014 totalled $8,878.2 million versus $8,788.9 million for the corresponding period of fiscal 2013, an increase of 1.0%.

### OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION AND ASSOCIATE'S EARNINGS[(4)]

Operating income before depreciation and amortization and associate's earnings[(4)] for the third quarter of 2014 totalled $253.3 million or 7.0% of sales versus $260.8 million or 7.3% of sales for the same quarter last year.

Operating income before depreciation and amortization and associate's earnings[(4)] for the first 40 weeks of fiscal 2014 totalled $593.1 million versus $621.6 million for the corresponding period of the previous fiscal year. Non-recurring closure costs of $6.4 million were recorded in the first quarter of 2014 as a result of our decision to consolidate our Québec produce and dairy distribution operations in our new Laval distribution centre and to close our decades-old Québec City produce warehouse. Excluding this non-recurring expense, adjusted operating income before depreciation and amortization and associate's earnings[(1)(4)] for the first 40 weeks of fiscal 2014 was $599.5 million, or 6.8% of sales compared to $621.6 million or 7.1% of sales for the corresponding period of 2013.

This lower profitability is mainly due to the decreases in gross margins which were 18.9% and 19.1% respectively for the third quarter and 40-week period of fiscal 2014 compared to 19.2% and 19.3% for the corresponding periods of 2013, as part of the merchandising strategies we adopted at the beginning of fiscal 2014 to improve sales. Strong cost control enabled us to maintain operating expenses at a percentage of sales equal to last year’s.

*(1) See table on "Operating income before depreciation and amortization and associate's earnings adjustments"*
*(2) See table on "Net earnings from continuing operations adjustments"*
*(3) See section on "Forward-looking Information"*
*(4) See section on "IFRS and Non-IFRS Measurements"*

**Operating income before depreciation and amortization and associate's earnings adjustments (OI)[4]**

| | 40 weeks / Fiscal Year | | | | | |
|---|---|---|---|---|---|---|
| | **2014** | | | 2013 | | |
| *(Millions of dollars, unless otherwise indicated)* | **OI** | **Sales** | **(%)** | OI | Sales | (%) |
| Operating income before depreciation and amortization and associate's earnings | **593.1** | **8,878.2** | **6.7** | 621.6 | 8,788.9 | 7.1 |
| Closure costs | **6.4** | | | — | | |
| Adjusted operating income before depreciation and amortization and associate's earnings[4] | **599.5** | **8,878.2** | **6.8** | 621.6 | 8,788.9 | 7.1 |

## DEPRECIATION AND AMORTIZATION AND NET FINANCIAL COSTS

Total depreciation and amortization expenses for the third quarter and the first 40 weeks of fiscal 2014 amounted to $54.2 million and $135.7 million respectively versus $55.0 million and $138.3 million in 2013. Net financial costs for the third quarter of 2014 totalled $15.3 million compared to $14.0 million for the corresponding quarter last year. Net financial costs for the first 40 weeks of fiscal 2014 totalled $37.0 million compared to $38.9 million in 2013. The average financing rate was 4.8% for the first 40 weeks of fiscal 2014 versus 4.9% for the corresponding period last fiscal year.

## SHARE OF AN ASSOCIATE'S EARNINGS

Our share of earnings in Alimentation Couche-Tard was $9.1 million for the third quarter of 2014 versus $8.8 million for the corresponding period of 2013.

Our share of earnings for the first 40 weeks of fiscal 2014 was $33.2 million versus $35.8 million in 2013. This decline results mainly from our reduced holding compared to last year following the sale of nearly half of our investment in the second quarter of 2013.

## INCOME TAXES

Third quarter and 40-week period income tax expenses of $48.4 million and $113.0 million in 2014 represented effective tax rates of 25.1% and 24.9% compared with third quarter and 40-week period tax expenses of $56.1 million and $169.8 million respectively in 2013 for effective tax rates of 28.0% and 21.5%. Excluding the $307.8 million gain on disposal of part of our investment in Alimentation Couche-Tard and related income tax of $41.4 million, the effective tax rate for the 40-week period of 2013 was 26.7%.

## NET EARNINGS

Net earnings for the third quarter of 2014 were $144.5 million, an increase of 0.1% over net earnings of $144.4 million for the same quarter of 2013. Fully diluted net earnings per share rose 9.4% to $1.63 from $1.49 last year.

Net earnings for the first 40 weeks of fiscal 2014 were $340.6 million, down 45.5% from $624.4 million for the corresponding period of 2013. Fully diluted net earnings per share were $3.76 compared with $6.42 last year, a decrease of 41.4%.

*[1] See table on "Operating income before depreciation and amortization and associate's earnings adjustments"*
*[2] See table on "Net earnings from continuing operations adjustments"*
*[3] See section on "Forward-looking Information"*
*[4] See section on "IFRS and Non-IFRS Measurements"*

## ADJUSTED NET EARNINGS FROM CONTINUING OPERATIONS[4]

Excluding from the third quarter of 2013 the $0.1 million net loss on discontinued operation following the sale of our Distagro division, 2014 third quarter net earnings from continuing operations[2] were flat over the same period in 2013, and fully diluted net earnings per share from continuing operations[2] were up 9.4% compared to the corresponding quarter of 2013.

Excluding after-tax Québec produce warehouse closing costs of $4.7 million in the 40-week period of 2014 as well as the after-tax gain of $266.4 million on disposal of part of our investment in Alimentation Couche-Tard and net gain of $6.2 million on discontinued operation following the sale of our Distagro division in the 40-week period of 2013, adjusted net earnings from continuing operations[2][4] for the 40-week period ended July 5, 2014 were down 1.8% while adjusted fully diluted net earnings per share from continuing operations[2][4] were up 6.1% compared to the corresponding period of 2013.

### Net earnings from continuing operations adjustments

| | 16 weeks / Fiscal Year | | | | | |
|---|---|---|---|---|---|---|
| | **2014** | | 2013 | | Change *(%)* | |
| | ***(Millions of dollars)*** | **Fully diluted EPS *(Dollars)*** | *(Millions of dollars)* | Fully diluted EPS *(Dollars)* | Net earnings | Fully diluted EPS |
| Net earnings | **144.5** | **1.63** | 144.4 | 1.49 | 0.1 | 9.4 |
| Net loss from discontinued operation | **—** | **—** | 0.1 | — | | |
| Net earnings from continuing operations | **144.5** | **1.63** | 144.5 | 1.49 | — | 9.4 |

| | 40 weeks / Fiscal Year | | | | | |
|---|---|---|---|---|---|---|
| | **2014** | | 2013 | | Change *(%)* | |
| | ***(Millions of dollars)*** | **Fully diluted EPS *(Dollars)*** | *(Millions of dollars)* | Fully diluted EPS *(Dollars)* | Net earnings | Fully diluted EPS |
| Net earnings | **340.6** | **3.76** | 624.4 | 6.42 | (45.5) | (41.4) |
| Net earnings from discontinued operation | **—** | **—** | (6.2) | (0.07) | | |
| Net earnings from continuing operations | **340.6** | **3.76** | 618.2 | 6.35 | (44.9) | (40.8) |
| Gain on disposal of a portion of the investment in an associate after taxes | **—** | **—** | (266.4) | (2.76) | | |
| Closure costs after taxes | **4.7** | **0.05** | — | — | | |
| Adjusted net earnings from continuing operations[4] | **345.3** | **3.81** | 351.8 | 3.59 | (1.8) | 6.1 |

*[1] See table on "Operating income before depreciation and amortization and associate's earnings adjustments"*
*[2] See table on "Net earnings from continuing operations adjustments"*
*[3] See section on "Forward-looking Information"*
*[4] See section on "IFRS and Non-IFRS Measurements"*

## QUARTERLY HIGHLIGHTS

| *(Millions of dollars, unless otherwise indicated)* | **2014** | 2013 | 2012 | Change *(%)* |
|---|---|---|---|---|
| **Sales** | | | | |
| Q3[6] | **3,622.1** | 3,572.2 | | 1.4 |
| Q2[5] | **2,554.8** | 2,512.0 | | 1.7 |
| Q1[5] | **2,701.3** | 2,704.7 | | (0.1) |
| Q4[7] | | 2,611.0 | 2,862.2 | (8.8) |
| **Net earnings** | | | | |
| Q3[6] | **144.5** | 144.4 | | 0.1 |
| Q2[5] | **96.9** | 362.7 | | (73.3) |
| Q1[5] | **99.2** | 117.3 | | (15.4) |
| Q4[7] | | 79.5 | 142.6 | (44.2) |
| **Adjusted net earnings from continuing operations[4]** | | | | |
| Q3[6] | **144.5** | 144.5 | | — |
| Q2[5] | **96.9** | 96.4 | | 0.5 |
| Q1[5] | **103.9** | 110.9 | | (6.3) |
| Q4[7] | | 108.9 | 121.3 | (10.2) |
| **Fully diluted net earnings per share** ***(Dollars)*** | | | | |
| Q3[6] | **1.63** | 1.49 | | 9.4 |
| Q2[5] | **1.07** | 3.73 | | (71.3) |
| Q1[5] | **1.06** | 1.19 | | (10.9) |
| Q4[7] | | 0.83 | 1.43 | (42.0) |
| **Adjusted fully diluted net earnings per share from continuing operations[4]** ***(Dollars)*** | | | | |
| Q3[6] | **1.63** | 1.49 | | 9.4 |
| Q2[5] | **1.07** | 0.98 | | 9.2 |
| Q1[5] | **1.11** | 1.12 | | (0.9) |
| Q4[7] | | 1.15 | 1.22 | (5.7) |

[5] 12 weeks
[6] 16 weeks
[7] 2013 - 12 weeks, 2012 - 13 weeks

Sales in the third quarter of 2014 totalled $3,622.1 million, up 1.4% compared to $3,572.2 million for the same quarter last year. Same-store sales were up 1.0%. Our aggregate food basket experienced inflation higher than previous quarters but lower than the consumer price index of food purchased from stores as published by Statistics Canada. Our merchandising strategies and investments, as well as our reorganization of our Ontario store network enabled us to increase sales in a market that remains intensely competitive.

Sales in the second quarter of 2014 reached $2,554.8 million versus $2,512.0 million last year, an increase of 1.7%. Same-store sales were up 1.0%. Our aggregate food basket experienced slight inflation. Our merchandising strategies and investments, as well as our reorganization of our Ontario store network enabled us to increase sales in a market that remains intensely competitive.

Sales in the first quarter of 2014 reached $2,701.3 million essentially flat versus $2,704.7 million for the corresponding quarter last year. Same-store sales were down 0.5%, an improvement over the last two quarters of 2013.

*[1] See table on "Operating income before depreciation and amortization and associate's earnings adjustments"*
*[2] See table on "Net earnings from continuing operations adjustments"*
*[3] See section on "Forward-looking Information"*
*[4] See section on "IFRS and Non-IFRS Measurements"*

Sales in the fourth quarter of 2013 reached $2,611.0 million versus $2,862.2 million in 2012, down 8.8%. Excluding the 13th week of the 2012 fourth quarter, our 2013 fourth quarter sales were down 1.1% compared to 2012. Increased competition and higher promotional sales caused minor deflation in our aggregate food basket. Same-store sales decreased 1.8%.

Net earnings for the third quarter of 2014 were $144.5 million, up 0.1% from net earnings of $144.4 million for the same quarter of 2013. Excluding the $0.1 million net loss on discontinued operation following the sale of our Distagro division, 2013 net earnings from continuing operations were $144.5 million. Fully diluted net earnings per share were up 9.4% to $1.63 from $1.49 last year.

Net earnings for the second quarter of 2014 were $96.9 million, down 73.3% from net earnings of $362.7 million for the same quarter of 2013. Fully diluted net earnings per share were down 71.3% to $1.07 from $3.73 last year. Excluding the after-tax gain of $266.4 million on disposal of part of our investment in Alimentation Couche-Tard as well as the $0.1 million net loss on discontinued operation following the sale of our Distagro division, adjusted net earnings from continuing operations[(4)] were $96.9 million compared to $96.4 million last year, up 0.5%, and adjusted fully diluted net earnings per share from continuing operations[(4)] were $1.07 compared to $0.98 last year, up 9.2%.

Net earnings for the first quarter of 2014 were $99.2 million, down 15.4% from net earnings of $117.3 million for the same quarter of 2013. Fully diluted net earnings per share were down 10.9% to $1.06 from $1.19 last year. Excluding the non-recurring Québec produce warehouse closure costs of $6.4 million before taxes ($4.7 million after taxes) recorded in the first quarter of 2014 and the net earnings of $6.4 million on discontinued operation in the first quarter of 2013 following the sale of our Distagro division, adjusted net earnings from continuing operations[(4)] were $103.9 million compared to $110.9 million for the same period last year, and adjusted fully diluted net earnings per share from continuing operations[(4)] were $1.11 compared to $1.12 in the first quarter last year, down 0.9%.

Net earnings for the fourth quarter of 2013 were $79.5 million, a decrease of 44.2% from net earnings of $142.6 million for the same quarter of 2012. Fully diluted net earnings per share were down 42.0% to $0.83 from $1.43 in 2012. Excluding the 2013 fourth quarter $29.4 million post-tax Ontario store network reorganization cost, and excluding the 2012 fourth quarter Couche-Tard dilution gain of $21.7 million after taxes, adjusted net earnings from continuing operations[(4)] for the fourth quarter of 2013 were $108.9 million, down 10.2% from $121.3 million for the same quarter of 2012, and adjusted fully diluted net earnings per share from continuing operations[(4)] were $1.15, down 5.7% from $1.22 in 2012. Excluding the impact of the 13th week in the fourth quarter of 2012, adjusted net earnings from continuing operations[(4)] for the fourth quarter of 2013 were down 1.3% and adjusted fully diluted net earnings per share from continuing operations[(4)] for the fourth quarter of 2013 were up 3.6%.

| | **2014** | | | 2013 | | | | 2012 |
|---|---|---|---|---|---|---|---|---|
| *(Millions of dollars)* | **Q3** | **Q2** | **Q1** | Q3 | Q2 | Q1 | Q4 | Q4 |
| Net earnings | **144.5** | **96.9** | **99.2** | 144.4 | 362.7 | 117.3 | 79.5 | 142.6 |
| Net loss (earnings) from discontinued operation | **—** | **—** | **—** | 0.1 | 0.1 | (6.4) | — | 0.4 |
| Net earnings from continuing operations | **144.5** | **96.9** | **99.2** | 144.5 | 362.8 | 110.9 | 79.5 | 143.0 |
| Gain on disposal of a portion of the investment in an associate after taxes | **—** | **—** | **—** | — | (266.4) | — | — | — |
| Dilution gain from an associate after taxes | **—** | **—** | **—** | — | — | — | — | (21.7) |
| Restructuring charges after taxes | **—** | **—** | **—** | — | — | — | 29.4 | — |
| Closure costs after taxes | **—** | **—** | **4.7** | — | — | — | — | — |
| Adjusted net earnings from continuing operations[(4)] | **144.5** | **96.9** | **103.9** | 144.5 | 96.4 | 110.9 | 108.9 | 121.3 |

*(1) See table on "Operating income before depreciation and amortization and associate's earnings adjustments"*
*(2) See table on "Net earnings from continuing operations adjustments"*
*(3) See section on "Forward-looking Information"*
*(4) See section on "IFRS and Non-IFRS Measurements"*

| (Dollars and per share) | 2014 Q3 | 2014 Q2 | 2014 Q1 | 2013 Q3 | 2013 Q2 | 2013 Q1 | 2013 Q4 | 2012 Q4 |
|---|---|---|---|---|---|---|---|---|
| Fully diluted net earnings | **1.63** | **1.07** | **1.06** | 1.49 | 3.73 | 1.19 | 0.83 | 1.43 |
| Fully diluted net loss (earnings) from discontinued operation | **—** | **—** | **—** | — | — | (0.07) | — | 0.01 |
| Fully diluted net earnings from continuing operations | **1.63** | **1.07** | **1.06** | 1.49 | 3.73 | 1.12 | 0.83 | 1.44 |
| Gain on disposal of a portion of the investment in an associate after taxes | **—** | **—** | **—** | — | (2.75) | — | — | — |
| Dilution gain from an associate after taxes | **—** | **—** | **—** | — | — | — | — | (0.22) |
| Restructuring charges after taxes | **—** | **—** | **—** | — | — | — | 0.32 | — |
| Closure costs after taxes | **—** | **—** | **0.05** | — | — | — | — | — |
| Adjusted fully diluted net earnings from continuing operations[4] | **1.63** | **1.07** | **1.11** | 1.49 | 0.98 | 1.12 | 1.15 | 1.22 |

## CASH POSITION

### OPERATING ACTIVITIES

Operating activities generated cash flows of $185.8 million in the third quarter and $303.8 million over the first 40 weeks of fiscal 2014 compared to $167.8 million and $406.4 million in the corresponding periods of 2013. The third quarter increase is attributable mainly to changes in non-cash working capital items. The 40-week period decrease is attributable to changes in non-cash working capital items and also to the higher amount of taxes paid in the first quarter of 2014 for current income taxes due as at September 28, 2013.

### INVESTING ACTIVITIES

Investing activities required outflows of $56.1 million in the third quarter and $137.7 million over the first 40 weeks of fiscal 2014 versus outflows of $70.9 million and $308.4 million of generated cash flows in the corresponding periods of 2013. These changes are mainly due to higher fixed assets additions in 2013 and the proceeds from the disposal of part of our investment in Alimentation Couche-Tard for $472.6 million in the second quarter of 2013.

During the first 40 weeks of fiscal 2014, we and our retailers invested in the opening of 6 new stores and 23 major expansions and renovations for a gross expansion of 491,800 square feet and a net increase of 95,500 square feet or 0.5% of our retail network.

### FINANCING ACTIVITIES

In the third quarter of fiscal 2014, we utilized funds of $104.3 million versus $203.6 million for the corresponding period of 2013. This change is largely attributable to the lower redemption of shares in the third quarter of 2014, in the amount of $147.2 million versus $181.8 million for the same quarter period of 2013, and also to a $70.5 million increase in our debt in the third quarter of 2014 versus a $1.5 million increase in the third quarter of 2013.

Over the 40-week period ended July 5, 2014, we utilized funds of $212.6 million versus $699.7 million for the corresponding period of 2013. This change is attributable to the greater redemption of shares in the 40-week period of 2014, in the amount of $391.7 million versus $311.1 million for the corresponding period of 2013, as well as to a $267.4 million increase in our debt in 2014 versus $5.5 million in 2013 and a $9.1 million repayment of the debt in 2014 versus $333.3 million in 2013 mainly from the proceeds of the disposal of part of our investment in Alimentation Couche-Tard.

*(1) See table on "Operating income before depreciation and amortization and associate's earnings adjustments"*
*(2) See table on "Net earnings from continuing operations adjustments"*
*(3) See section on "Forward-looking Information"*
*(4) See section on "IFRS and Non-IFRS Measurements"*

## FINANCIAL POSITION

We do not anticipate[3] any liquidity risk and consider our financial position at the end of the third quarter of fiscal 2014 as very solid. We had an unused authorized revolving credit facility of $336.8 million. Our non-current debt corresponded to 25.6% of the combined total of non-current debt and equity (non-current debt/total capital).

At the end of the third quarter of 2014, the main elements of our non-current debt were as follows:

| | Interest Rate | Balance *(Millions of dollars)* | Maturity |
|---|---|---|---|
| Revolving Credit Facility | Rates fluctuate with changes in bankers' acceptance rates | 263.2 | November 3, 2018 |
| Series A Notes | 4.98% fixed rate | 200.0 | October 15, 2015 |
| Series B Notes | 5.97% fixed rate | 400.0 | October 15, 2035 |

At the end of the third quarter, we had foreign exchange forward contracts to hedge against the effect of foreign exchange rate fluctuations on our future foreign-denominated purchases of goods and services.

Our main financial ratios were as follows:

| | **As at July 5, 2014** | As at September 28, 2013 |
|---|---|---|
| Financial structure | | |
| Non-current debt *(Millions of dollars)* | **915.2** | 650.0 |
| Equity *(Millions of dollars)* | **2,666.1** | 2,799.8 |
| Non-current debt/total capital *(%)* | **25.6** | 18.8 |
| | 40 weeks / Fiscal Year | |
| | **2014** | 2013 |
| Results | | |
| Operating income before depreciation and amortization and associate's earnings[4]/Financial costs *(Times)* | **16.0** | 16.0 |

### CAPITAL STOCK, STOCK OPTIONS AND PERFORMANCE SHARE UNITS

| | **As at July 5, 2014** | As at September 28, 2013 |
|---|---|---|
| Number of Common Shares outstanding *(Thousands)* | **85,417** | 91,386 |
| Stock options: | | |
| Number outstanding *(Thousands)* | **1,397** | 1,351 |
| Exercise prices *(Dollars)* | **24.73 to 66.29** | 24.73 to 66.29 |
| Weighted average exercise price *(Dollars)* | **50.37** | 46.12 |
| Performance share units: | | |
| Number outstanding *(Thousands)* | **246** | 257 |

### NORMAL COURSE ISSUER BID PROGRAM

Under the present normal course issuer bid program, the Corporation may repurchase up to 7,000,000 of its Common Shares between September 10, 2013 and September 9, 2014. As at August 1, 2014, the Corporation repurchased 6,637,700 Common Shares at an average price of $63.99 for a total of $424.8 million. The Corporation intends to renew its normal course issuer bid program as an additional option for using excess funds.

*(1) See table on "Operating income before depreciation and amortization and associate's earnings adjustments"*
*(2) See table on "Net earnings from continuing operations adjustments"*
*(3) See section on "Forward-looking Information"*
*(4) See section on "IFRS and Non-IFRS Measurements"*

### DIVIDENDS

On August 12, 2014, the Corporation's Board of Directors declared a quarterly dividend of $0.30 per Common Share payable September 19, 2014, an increase of 20% over the dividend declared for the same quarter last year. On an annualized basis, this dividend represents approximately 22% of 2013 adjusted net earnings from continuing operations [(4)].

### SHARE TRADING

The value of METRO shares remained in the $60.00 to $69.45 range over the first 40 weeks of fiscal 2014. During this period, a total of 58.3 million shares traded on the Toronto Stock Exchange. The closing price on August 1, 2014 was $70.65 compared with $64.74 at the end of fiscal 2013.

## NEW ACCOUNTING POLICIES

### ADOPTED IN 2014

In the first quarter of 2014, the Corporation adopted the new accounting policies described below.

#### Employee benefits

IAS 19 “Employee Benefits” (IAS 19R) was amended. IAS 19R eliminates the corridor method for recognizing changes (actuarial gains and losses) in defined benefit obligations and plan assets and requires that they be recognized in other comprehensive income when they occur. Application of this amendment had no impact, as the Corporation has used immediate recognition of actuarial gains and losses in other comprehensive income since the transition to International Financial Reporting Standards (IFRS).

IAS 19R eliminates the possibility of deferring recognition of past service costs related to unvested benefits and requires their immediate recognition in the income statement. Application of this amendment had no impact for the Corporation, as no past service costs have been deferred since the transition to IFRS.

Under IAS 19, the employee benefit expense includes interest income corresponding to management’s expected return on plan assets. IAS 19R eliminates the return on plan assets component and requires recognition of interest on the difference between defined benefit obligations and plan assets based on the discount rate for measuring obligations. This net interest is no longer presented as an employee benefit expense but as part of financial costs.

IAS 19R also requires additional disclosures to present the characteristics of defined benefit plans which will be presented in the Corporation's next annual consolidated financial statements.

IAS 19R has been applied retroactively with restatement of prior periods’ consolidated financial statements.

The adjustments are explained in note 2 to the interim condensed consolidated financial statements included in this interim report.

#### Offsetting financial assets and financial liabilities

IAS 32 “Financial Instruments: Presentation” was amended to clarify the requirements for offsetting financial assets and financial liabilities. It specifies that the right of set-off has to be legally enforceable even in the event of bankruptcy. IFRS 7 “Financial Instruments: Disclosures” was also amended to improve disclosures on offsetting of financial assets and financial liabilities. These amendments did not impact the Corporation's interim condensed consolidated financial statements, but additional information is disclosed in note 8 of these financial statements.

*(1) See table on "Operating income before depreciation and amortization and associate's earnings adjustments"*
*(2) See table on "Net earnings from continuing operations adjustments"*
*(3) See section on "Forward-looking Information"*
*(4) See section on "IFRS and Non-IFRS Measurements"*

**Fair value measurement**

IFRS 13 “Fair Value Measurement” establishes a single framework for fair value measurement of financial and non-financial items. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also requires disclosure of more information on fair value measurements. This new standard did not impact the Corporation's interim condensed consolidated financial statements, but additional information is disclosed in note 12 of these financial statements.

**Impairment of assets**

IAS 36 “Impairment of Assets” was amended to require disclosures about assets or cash generating units for which an impairment loss was recognized or reversed during the period. Additional information is disclosed in note 3 to the interim condensed consolidated financial statements.

**Consolidated financial statements**

IFRS 10 “Consolidated Financial Statements” replaces SIC-12 “Consolidation - Special Interest Entities” and certain parts of IAS 27 “Consolidated and Separate Financial Statements”. This standard eliminates the risk/benefit-based approach and uses control as the sole basis for consolidation. An investor controls an investee if and only if the investor has all of the following elements:

a) power over the investee;
b) exposure or rights to variable returns from involvement with the investee;
c) the ability to use power over the investee to affect the amount of the investor's returns.

This new standard did not impact the Corporation's interim condensed consolidated financial statements.

**Joint arrangements**

IFRS 11 “Joint Arrangements” supersedes IAS 31 “Interests in Joint Ventures” and SIC-13 “Jointly Controlled Entities - Non-Monetary Contributions by Venturers”. This standard describes two types of joint arrangements which differ according to the rights and obligations of the partners: joint operations and joint ventures. IFRS 11 eliminates the proportionate consolidation method for joint ventures and requires the equity method. For joint operations, it requires recognition of a joint operator’s share of each of the items comprising the joint arrangement. This new standard did not impact the Corporation's interim condensed consolidated financial statements.

**Disclosure of interests in other entities**

IFRS 12 “Disclosure of Interests in Other Entities” requires that an entity disclose more information on the nature of and risks associated with its interests in other entities (i.e. subsidiaries, joint arrangements, associates or unconsolidated structured entities) and the effects of those interests on its financial statements. Additional information will be disclosed through notes in the Corporation's next annual consolidated financial statements.

**RECENTLY ISSUED**

**Financial instruments**

In November 2009, the International Accounting Standards Board (IASB) issued IFRS 9 “Financial Instruments”. This new standard replaces the various rules of IAS 39 “Financial Instruments: Recognition and Measurement” with a single approach to determine whether a financial asset is measured at amortized cost or fair value. This approach is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets.

In October 2010, the IASB issued revisions to IFRS 9, adding the requirements for classification and measurement of financial liabilities contained in IAS 39.

*(1) See table on "Operating income before depreciation and amortization and associate's earnings adjustments"*
*(2) See table on "Net earnings from continuing operations adjustments"*
*(3) See section on "Forward-looking Information"*
*(4) See section on "IFRS and Non-IFRS Measurements"*

In November 2013, the IASB incorporated a new hedge accounting model into IFRS 9 to enable financial statement users to better understand an entity's risk exposure and its risk management activities.

In July 2014, the IASB issued the mandatory effective date of IFRS 9 to fiscal years beginning on or after January 1, 2018. Earlier application is permitted. The Corporation is assessing the impact of this new standard on its consolidated financial statements.

**Revenue from contracts with customers**

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers" which is a replacement of IAS 18 "Revenue", IAS 11 "Construction Contracts" and related interpretations. Under IFRS 15 standard, revenue is recognized at the point in time when control of the goods or services transfers to the customer rather than when the significant risks and rewards are transferred. The new standard also requires additional disclosures through notes to financial statements. IFRS 15 shall be applied to fiscal years beginning on or after January 1, 2017. Earlier application is permitted. The Corporation is assessing the impact of this new standard on its consolidated financial statements.

## FORWARD-LOOKING INFORMATION

We have used, throughout this 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 herein that does not constitute a historical fact may be deemed a forward-looking statement. Expressions such as "continue", "anticipate" and other similar expressions are generally indicative of forward-looking statements. The forward-looking statements contained herein are based upon certain assumptions regarding the Canadian food industry, the general economy, our annual budget, as well as our 2014 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. An economic slowdown or recession, or the arrival of a new competitor, are examples described under the "Risk Management" section of the 2013 Annual Report which could have an impact on these statements. We believe these statements to be reasonable and pertinent 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.

## IFRS AND NON-IFRS MEASUREMENTS

We have included certain IFRS and 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.

### OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION AND ASSOCIATE'S EARNINGS

Operating income before depreciation and amortization and associate's earnings is a measurement of earnings before financial costs, taxes, depreciation and amortization **(EBITDA)** and associate's earnings. It is an IFRS measurement and it is presented separately in the condensed consolidated statements of income. We believe that this measurement helps readers of financial statements to better evaluate the Corporation's operational cash-generating capacity.

*(1) See table on "Operating income before depreciation and amortization and associate's earnings adjustments"*
*(2) See table on "Net earnings from continuing operations adjustments"*
*(3) See section on "Forward-looking Information"*
*(4) See section on "IFRS and Non-IFRS Measurements"*

**ADJUSTED OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION AND ASSOCIATE'S EARNINGS, ADJUSTED NET EARNINGS FROM CONTINUING OPERATIONS AND ADJUSTED FULLY DILUTED NET EARNINGS PER SHARE FROM CONTINUING OPERATIONS**

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

## EVENT AFTER THE REPORTING PERIOD

On August 8, 2014, the Corporation has completed the acquisition of a 75% interest in Première Moisson Bakery which has 23 stores and 3 production centres in Québec. This acquisition will allow the Corporation to offer customers a broader range of premium bakery products and differentiate itself even more.

## OUTLOOK

We are satisfied with our third quarter results achieved in an environment that remains challenging. We concluded the acquisition of Première Moisson Bakery last week and we will continue[3] to invest in our network in order to offer a superior experience to our customers and to pursue our growth.

Montréal, August 13, 2014

*[1] See table on "Operating income before depreciation and amortization and associate's earnings adjustments"*
*[2] See table on "Net earnings from continuing operations adjustments"*
*[3] See section on "Forward-looking Information"*
*[4] See section on "IFRS and Non-IFRS Measurements"*

*Intentionally left blank*

Interim Condensed Consolidated Financial Statements

# METRO INC.

July 5, 2014

metro

## Table of contents

metro

## Condensed consolidated statements of income

**Periods ended July 5, 2014 and July 6, 2013**

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

| | 16 weeks Fiscal Year | | 40 weeks Fiscal Year | |
|---|---|---|---|---|
| | **2014** | 2013 *(Restated - note 2)* | **2014** | 2013 *(Restated - note 2)* |
| **Continuing operations** | | | | |
| **Sales** | **3,622.1** | 3,572.2 | **8,878.2** | 8,788.9 |
| Cost of sales and operating expenses *(note 3)* | **(3,368.8)** | (3,311.4) | **(8,278.7)** | (8,167.3) |
| Closure expenses *(note 3)* | **—** | — | **(6.4)** | — |
| **Operating income before depreciation and amortization and associate's earnings** | **253.3** | 260.8 | **593.1** | 621.6 |
| Depreciation and amortization *(note 3)* | **(54.2)** | (55.0) | **(135.7)** | (138.3) |
| Financial costs, net *(note 3)* | **(15.3)** | (14.0) | **(37.0)** | (38.9) |
| Share of an associate's earnings *(note 3)* | **9.1** | 8.8 | **33.2** | 35.8 |
| Gain on disposal of a portion of the investment in an associate *(note 3)* | **—** | — | **—** | 307.8 |
| **Earnings before income taxes from continuing operations** | **192.9** | 200.6 | **453.6** | 788.0 |
| Income taxes *(note 4)* | **(48.4)** | (56.1) | **(113.0)** | (169.8) |
| **Net earnings from continuing operations** | **144.5** | 144.5 | **340.6** | 618.2 |
| **Discontinued operation** | | | | |
| **Net earnings (loss) from discontinued operation** *(note 5)* | **—** | (0.1) | **—** | 6.2 |
| **Net earnings** | **144.5** | 144.4 | **340.6** | 624.4 |
| Attributable to: | | | | |
| Equity holders of the parent | **141.5** | 141.9 | **333.9** | 618.1 |
| Non-controlling interests | **3.0** | 2.5 | **6.7** | 6.3 |
| | **144.5** | 144.4 | **340.6** | 624.4 |
| **Net earnings per share** *(Dollars) (note 6)* | | | | |
| **Continuing operations and discontinued operation** | | | | |
| Basic | **1.64** | 1.50 | **3.78** | 6.47 |
| Fully diluted | **1.63** | 1.49 | **3.76** | 6.42 |
| **Continuing operations** | | | | |
| Basic | **1.64** | 1.50 | **3.78** | 6.40 |
| Fully diluted | **1.63** | 1.49 | **3.76** | 6.35 |

*See accompanying notes*

metro

## Condensed consolidated statements of comprehensive income

**Periods ended July 5, 2014 and July 6, 2013**

*(Unaudited) (Millions of dollars)*

| | 16 weeks Fiscal Year | | 40 weeks Fiscal Year | |
|---|---|---|---|---|
| | **2014** | 2013 *(Restated - note 2)* | **2014** | 2013 *(Restated - note 2)* |
| Net earnings | **144.5** | 144.4 | **340.6** | 624.4 |
| Other comprehensive income | | | | |
| Items that will not be reclassified to net earnings | | | | |
| Changes in defined benefit plans | | | | |
| Actuarial gains (losses) | **(19.6)** | 58.2 | **(15.8)** | 88.8 |
| Asset ceiling effect | **4.3** | (2.5) | **1.1** | (5.9) |
| Minimum funding requirement | **12.6** | (10.2) | **6.6** | (10.3) |
| Share of an associate's other comprehensive income | **(0.1)** | (1.6) | **—** | — |
| Corresponding income taxes | **0.6** | (11.9) | **2.1** | (19.3) |
| | **(2.2)** | 32.0 | **(6.0)** | 53.3 |
| Items that may be reclassified later to net earnings | | | | |
| Share of an associate's other comprehensive income | **0.1** | 0.1 | **0.1** | — |
| | **(2.1)** | 32.1 | **(5.9)** | 53.3 |
| Comprehensive income | **142.4** | 176.5 | **334.7** | 677.7 |
| Attributable to: | | | | |
| Equity holders of the parent | **139.4** | 174.0 | **328.0** | 671.4 |
| Non-controlling interests | **3.0** | 2.5 | **6.7** | 6.3 |
| | **142.4** | 176.5 | **334.7** | 677.7 |

*See accompanying notes*

metro

## Condensed consolidated statements of financial position

*(Unaudited) (Millions of dollars)*

| | **As at July 5, 2014** | As at September 28, 2013 *(Restated - note 2)* | As at September 29, 2012 *(Restated - note 2)* |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | **34.3** | 80.8 | 73.3 |
| Accounts receivable | **286.8** | 300.2 | 329.1 |
| Inventories | **768.4** | 781.3 | 784.4 |
| Prepaid expenses | **25.3** | 15.3 | 6.6 |
| Current taxes | **18.1** | 10.9 | 13.9 |
| | **1,132.9** | 1,188.5 | 1,207.3 |
| Assets held for sale *(note 7)* | **5.2** | 0.9 | 0.6 |
| | **1,138.1** | 1,189.4 | 1,207.9 |
| **Non-current assets** | | | |
| Investment in an associate | **236.3** | 206.4 | 324.5 |
| Other financial assets | **30.2** | 27.5 | 25.8 |
| Fixed assets | **1,340.3** | 1,328.4 | 1,280.3 |
| Investment properties | **20.3** | 20.7 | 22.1 |
| Intangible assets | **345.0** | 365.1 | 373.1 |
| Goodwill | **1,855.5** | 1,855.6 | 1,859.5 |
| Deferred taxes | **57.5** | 56.6 | 60.3 |
| Defined benefit assets | **16.1** | 14.5 | 1.4 |
| | **5,039.3** | 5,064.2 | 5,154.9 |
| **LIABILITIES AND EQUITY** | | | |
| **Current liabilities** | | | |
| Bank loans | **0.5** | 2.0 | 0.3 |
| Accounts payable *(note 8)* | **933.3** | 1,004.9 | 1,086.9 |
| Current taxes | **76.5** | 147.3 | 60.5 |
| Provisions *(note 9)* | **18.9** | 39.7 | 11.2 |
| Current portion of debt *(note 10)* | **7.5** | 12.4 | 12.1 |
| | **1,036.7** | 1,206.3 | 1,171.0 |
| **Non-current liabilities** | | | |
| Debt *(note 10)* | **915.2** | 650.0 | 973.9 |
| Defined benefit liabilities | **85.3** | 80.1 | 173.7 |
| Provisions *(note 9)* | **4.8** | 4.5 | 3.1 |
| Deferred taxes | **155.5** | 148.9 | 147.3 |
| Other liabilities | **10.8** | 14.1 | 13.9 |
| Non-controlling interest *(note 12)* | **164.9** | 160.5 | 139.3 |
| | **2,373.2** | 2,264.4 | 2,622.2 |
| **Equity** | | | |
| Capital stock *(note 11)* | **604.4** | 640.4 | 666.3 |
| Treasury shares *(note 11)* | **(15.2)** | (14.4) | (12.2) |
| Contributed surplus | **14.5** | 14.6 | 16.2 |
| Retained earnings | **2,061.5** | 2,157.8 | 1,861.5 |
| Accumulated other comprehensive income | **0.2** | 0.1 | 0.1 |
| Equity attributable to equity holders of the parent | **2,665.4** | 2,798.5 | 2,531.9 |
| Non-controlling interests | **0.7** | 1.3 | 0.8 |
| | **2,666.1** | 2,799.8 | 2,532.7 |
| | **5,039.3** | 5,064.2 | 5,154.9 |

*See accompanying notes*

metro

## Condensed consolidated statements of changes in equity

**Periods ended July 5, 2014 and July 6, 2013**

*(Unaudited) (Millions of dollars)*

| | Attributable to the equity holders of the parent | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Capital stock *(note 11)* | Treasury shares *(note 11)* | Contributed surplus | Retained earnings *(Restated - note 2)* | Accumulated other comprehensive income | Total | Non-controlling interests | Total equity |
| Balance as at September 28, 2013 | **640.4** | **(14.4)** | **14.6** | **2,157.8** | **0.1** | **2,798.5** | **1.3** | **2,799.8** |
| Net earnings | **—** | **—** | **—** | **333.9** | **—** | **333.9** | **6.7** | **340.6** |
| Other comprehensive income | **—** | **—** | **—** | **(6.0)** | **0.1** | **(5.9)** | **—** | **(5.9)** |
| Comprehensive income | **—** | **—** | **—** | **327.9** | **0.1** | **328.0** | **6.7** | **334.7** |
| Stock options exercised | **6.9** | **—** | **(1.3)** | **—** | **—** | **5.6** | **—** | **5.6** |
| Shares redeemed | **(42.9)** | **—** | **—** | **—** | **—** | **(42.9)** | **—** | **(42.9)** |
| Share redemption premium | **—** | **—** | **—** | **(348.8)** | **—** | **(348.8)** | **—** | **(348.8)** |
| Acquisition of treasury shares | **—** | **(4.6)** | **—** | **—** | **—** | **(4.6)** | **—** | **(4.6)** |
| Share-based compensation cost | **—** | **—** | **5.0** | **—** | **—** | **5.0** | **—** | **5.0** |
| Performance share units settlement | **—** | **3.8** | **(3.8)** | **(0.3)** | **—** | **(0.3)** | **—** | **(0.3)** |
| Dividends | **—** | **—** | **—** | **(75.1)** | **—** | **(75.1)** | **(2.9)** | **(78.0)** |
| Reclassification of a non-controlling interest liability | **—** | **—** | **—** | **—** | **—** | **—** | **(4.4)** | **(4.4)** |
| | **(36.0)** | **(0.8)** | **(0.1)** | **(424.2)** | **—** | **(461.1)** | **(7.3)** | **(468.4)** |
| Balance as at July 5, 2014 | **604.4** | **(15.2)** | **14.5** | **2,061.5** | **0.2** | **2,665.4** | **0.7** | **2,666.1** |

| | Attributable to the equity holders of the parent | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Capital stock | Treasury shares | Contributed surplus | Retained earnings *(Restated - note 2)* | Accumulated other comprehensive income | Total | Non-controlling interests | Total equity |
| Balance as at September 29, 2012 | 666.3 | (12.2) | 16.2 | 1,861.5 | 0.1 | 2,531.9 | 0.8 | 2,532.7 |
| Net earnings | — | — | — | 618.1 | — | 618.1 | 6.3 | 624.4 |
| Other comprehensive income | — | — | — | 53.3 | — | 53.3 | — | 53.3 |
| Comprehensive income | — | — | — | 671.4 | — | 671.4 | 6.3 | 677.7 |
| Stock options exercised | 16.8 | — | (3.4) | — | — | 13.4 | — | 13.4 |
| Shares redeemed | (33.3) | — | — | — | — | (33.3) | — | (33.3) |
| Share redemption premium | — | — | — | (277.8) | — | (277.8) | — | (277.8) |
| Acquisition of treasury shares | — | (6.3) | — | — | — | (6.3) | — | (6.3) |
| Share-based compensation cost | — | — | 4.1 | — | — | 4.1 | — | 4.1 |
| Performance share units settlement | — | 4.1 | (3.8) | (0.6) | — | (0.3) | — | (0.3) |
| Dividends | — | — | — | (68.6) | — | (68.6) | (2.7) | (71.3) |
| Reclassification of a non-controlling interest liability | — | — | — | — | — | — | (2.9) | (2.9) |
| | (16.5) | (2.2) | (3.1) | (347.0) | — | (368.8) | (5.6) | (374.4) |
| Balance as at July 6, 2013 | 649.8 | (14.4) | 13.1 | 2,185.9 | 0.1 | 2,834.5 | 1.5 | 2,836.0 |

*See accompanying notes*

metro

## Condensed consolidated statements of cash flows

**Periods ended July 5, 2014 and July 6, 2013**

*(Unaudited) (Millions of dollars)*

| | 16 weeks Fiscal Year | | 40 weeks Fiscal Year | |
|---|---|---|---|---|
| | **2014** | 2013 *(Restated - note 2)* | **2014** | 2013 *(Restated - note 2)* |
| **Operating activities** | | | | |
| Earnings before income taxes from continuing operations | **192.9** | 200.6 | **453.6** | 788.0 |
| Earnings (loss) before income taxes from discontinued operation *(note 5)* | **—** | (0.1) | **—** | 8.5 |
| | **192.9** | 200.5 | **453.6** | 796.5 |
| Non-cash items | | | | |
| Share of an associate's earnings | **(9.1)** | (8.8) | **(33.2)** | (35.8) |
| Closure expenses *(note 3)* | **—** | — | **6.4** | — |
| Depreciation and amortization | **54.2** | 55.0 | **135.7** | 138.3 |
| Loss on disposal and write-offs of fixed and intangible assets | **—** | 0.2 | **0.4** | 1.2 |
| Gain on disposal of a portion of the investment in an associate | **—** | — | **—** | (307.8) |
| Gain on disposal of an operation *(note 5)* | **—** | — | **—** | (8.9) |
| Impairment losses on fixed and intangible assets | **1.4** | 3.8 | **4.3** | 6.0 |
| Impairment loss reversals on fixed and intangible assets | **—** | (1.6) | **(1.0)** | (3.8) |
| Share-based compensation cost | **1.7** | 1.1 | **5.0** | 4.1 |
| Difference between amounts paid for employee benefits and current period cost | **(1.9)** | 1.2 | **(4.5)** | 10.5 |
| Financial costs, net | **15.3** | 14.0 | **37.0** | 38.9 |
| | **254.5** | 265.4 | **603.7** | 639.2 |
| Net change in non-cash working capital items | **2.4** | (33.7) | **(70.7)** | (81.9) |
| Interest paid | **(22.2)** | (18.7) | **(46.0)** | (41.4) |
| Income taxes paid | **(48.9)** | (45.2) | **(183.2)** | (109.5) |
| | **185.8** | 167.8 | **303.8** | 406.4 |
| **Investing activities** | | | | |
| Business acquisitions | **—** | — | **—** | (11.6) |
| Proceeds on disposal of an operation | **—** | 2.2 | **—** | 22.7 |
| Proceeds on disposal of assets held for sale *(note 7)* | **—** | — | **0.9** | — |
| Proceeds on disposal of a portion of the investment in an associate | **—** | — | **—** | 472.6 |
| Net change in other financial assets | **(1.9)** | (0.6) | **(2.7)** | (0.9) |
| Dividends from an associate | **1.3** | 0.8 | **3.4** | 3.2 |
| Additions to fixed assets | **(51.9)** | (67.5) | **(127.9)** | (165.3) |
| Proceeds on disposal of fixed assets | **0.6** | 0.1 | **1.1** | 1.1 |
| Proceeds on disposal of investment properties | **—** | 0.3 | **—** | 2.5 |
| Additions to intangible assets | **(4.2)** | (6.2) | **(12.5)** | (15.9) |
| | **(56.1)** | (70.9) | **(137.7)** | 308.4 |
| **Financing activities** | | | | |
| Net change in bank loans | **0.2** | 0.9 | **(1.5)** | 0.6 |
| Shares issued *(note 11)* | **3.0** | 9.6 | **5.6** | 13.4 |
| Shares redeemed *(note 11)* | **(147.2)** | (181.8) | **(391.7)** | (311.1) |
| Acquisition of treasury shares *(note 11)* | **—** | (4.5) | **(4.6)** | (6.3) |
| Performance share units cash settlement | **—** | — | **(0.3)** | (0.3) |
| Increase in debt | **70.5** | 1.5 | **267.4** | 5.5 |
| Repayment of debt | **(2.9)** | (7.7) | **(9.1)** | (333.3) |
| Net change in other liabilities | **(2.0)** | 2.2 | **(3.3)** | 0.4 |
| Dividends | **(25.9)** | (23.8) | **(75.1)** | (68.6) |
| | **(104.3)** | (203.6) | **(212.6)** | (699.7) |
| **Net change in cash and cash equivalents** | **25.4** | (106.7) | **(46.5)** | 15.1 |
| Cash and cash equivalents — beginning of period | **8.9** | 195.1 | **80.8** | 73.3 |
| Cash and cash equivalents — end of period | **34.3** | 88.4 | **34.3** | 88.4 |

*See accompanying notes*

## 1. STATEMENT PRESENTATION

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

The unaudited interim condensed consolidated financial statements for the 16 and 40-week periods ended July 5, 2014 have been prepared by management in accordance with IAS 34 "Interim Financial Reporting" and using the same accounting policies as those used in preparing the audited annual consolidated financial statements for the year ended September 28, 2013, except for the newly adopted accounting policies described in note 2. They should be read in conjunction with the audited annual consolidated financial statements and accompanying notes which were presented in the Corporation's 2013 Annual Report. Operating income for the interim period presented does not necessarily reflect income for the whole year.

## 2. NEW ACCOUNTING POLICIES

### ADOPTED IN 2014

In the first quarter of 2014, the Corporation adopted the new accounting policies described below.

#### Employee benefits

IAS 19 "Employee Benefits" (IAS 19R) was amended. IAS 19R eliminates the corridor method for recognizing changes (actuarial gains and losses) in defined benefit obligations and plan assets and requires that they be recognized in other comprehensive income when they occur. Application of this amendment had no impact, as the Corporation has used immediate recognition of actuarial gains and losses in other comprehensive income since the transition to International Financial Reporting Standards (IFRS).

IAS 19R eliminates the possibility of deferring recognition of past service costs related to unvested benefits and requires their immediate recognition in the income statement. Application of this amendment had no impact for the Corporation, as no past service costs have been deferred since the transition to IFRS.

Under IAS 19, the employee benefit expense includes interest income corresponding to management's expected return on plan assets. IAS 19R eliminates the return on plan assets component and requires recognition of interest on the difference between defined benefit obligations and plan assets based on the discount rate for measuring obligations. This net interest is no longer presented as an employee benefit expense but as part of financial costs.

IAS 19R also requires additional disclosures to present the characteristics of defined benefit plans which will be presented in the Corporation's next annual consolidated financial statements.

IAS 19R has been applied retroactively with restatement of prior periods' consolidated financial statements.

The Corporation recorded the following adjustments:

**FINANCIAL POSITION ITEMS**

| *Increase (decrease)* | As at September 28, 2013 | As at July 6, 2013 | As at September 29, 2012 |
|---|---|---|---|
| Defined benefit liabilities | 10.3 | 15.9 | 16.8 |
| Deferred tax assets | 2.7 | 4.1 | 4.0 |
| Deferred tax liabilities | — | (0.1) | (0.4) |
| Retained earnings | (7.6) | (11.7) | (12.4) |

**INCOME AND COMPREHENSIVE INCOME ITEMS**

| | July 6, 2013 | | September 28, 2013 |
|---|---|---|---|
| *Increase (decrease)* | *(16 weeks)* | *(40 weeks)* | *(52 weeks)* |
| Cost of sales and operating expenses | 4.8 | 12.2 | 15.9 |
| Financial costs, net | 2.6 | 6.4 | 8.3 |
| Income taxes | (2.0) | (5.0) | (6.5) |
| Net earnings | (5.4) | (13.6) | (17.7) |
| Basic net earnings per share | (0.06) | (0.14) | (0.19) |
| Fully diluted net earnings per share | (0.06) | (0.14) | (0.18) |
| Basic net earnings per share from continuing operations | (0.06) | (0.14) | (0.19) |
| Fully diluted net earnings per share from continuing operations | (0.06) | (0.14) | (0.18) |
| Other comprehensive income, net of income taxes | 7.4 | 14.3 | 22.5 |

**Offsetting financial assets and financial liabilities**

IAS 32 “Financial Instruments: Presentation” was amended to clarify the requirements for offsetting financial assets and financial liabilities. It specifies that the right of set-off has to be legally enforceable even in the event of bankruptcy. IFRS 7 “Financial Instruments: Disclosures” was also amended to improve disclosures on offsetting of financial assets and financial liabilities. These amendments did not impact the Corporation's interim condensed consolidated financial statements, but additional information is disclosed in note 8.

**Fair value measurement**

IFRS 13 “Fair Value Measurement” establishes a single framework for fair value measurement of financial and non-financial items. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also requires disclosure of more information on fair value measurements. This new standard did not impact the Corporation's interim condensed consolidated financial statements, but additional information is disclosed in note 12.

**Impairment of assets**

IAS 36 “Impairment of Assets” was amended to require disclosures about assets or cash generating units for which an impairment loss was recognized or reversed during the period. Additional information is disclosed in note 3.

**Consolidated financial statements**

IFRS 10 “Consolidated Financial Statements” replaces SIC-12 “Consolidation - Special Interest Entities” and certain parts of IAS 27 “Consolidated and Separate Financial Statements”. This standard eliminates the risk/benefit-based approach and uses control as the sole basis for consolidation. An investor controls an investee if and only if the investor has all of the following elements:

a) power over the investee;
b) exposure or rights to variable returns from involvement with the investee;
c) the ability to use power over the investee to affect the amount of the investor's returns.

This new standard did not impact the Corporation's interim condensed consolidated financial statements.

### Joint arrangements

IFRS 11 “Joint Arrangements” supersedes IAS 31 “Interests in Joint Ventures” and SIC-13 “Jointly Controlled Entities - Non-Monetary Contributions by Venturers”. This standard describes two types of joint arrangements which differ according to the rights and obligations of the partners: joint operations and joint ventures. IFRS 11 eliminates the proportionate consolidation method for joint ventures and requires the equity method. For joint operations, it requires recognition of a joint operator’s share of each of the items comprising the joint arrangement. This new standard did not impact the Corporation's interim condensed consolidated financial statements.

### Disclosure of interests in other entities

IFRS 12 “Disclosure of Interests in Other Entities” requires that an entity disclose more information on the nature of and risks associated with its interests in other entities (i.e. subsidiaries, joint arrangements, associates or unconsolidated structured entities) and the effects of those interests on its financial statements. Additional information will be disclosed through notes in the Corporation's next annual consolidated financial statements.

## RECENTLY ISSUED

### Financial instruments

In November 2009, the International Accounting Standards Board (IASB) issued IFRS 9 “Financial Instruments”. This new standard replaces the various rules of IAS 39 “Financial Instruments: Recognition and Measurement” with a single approach to determine whether a financial asset is measured at amortized cost or fair value. This approach is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets.

In October 2010, the IASB issued revisions to IFRS 9, adding the requirements for classification and measurement of financial liabilities contained in IAS 39.

In November 2013, the IASB incorporated a new hedge accounting model into IFRS 9 to enable financial statement users to better understand an entity’s risk exposure and its risk management activities.

In July 2014, the IASB issued the mandatory effective date of IFRS 9 to fiscal years beginning on or after January 1, 2018. Earlier application is permitted. The Corporation is assessing the impact of this new standard on its consolidated financial statements.

### Revenue from contracts with customers

In May 2014, the IASB issued IFRS 15 “Revenue from Contracts with Customers” which is a replacement of IAS 18 “Revenue”, IAS 11 “Construction Contracts” and related interpretations. Under IFRS 15 standard, revenue is recognized at the point in time when control of the goods or services transfers to the customer rather than when the significant risks and rewards are transferred. The new standard also requires additional disclosures through notes to financial statements. IFRS 15 shall be applied to fiscal years beginning on or after January 1, 2017. Earlier application is permitted. The Corporation is assessing the impact of this new standard on its consolidated financial statements.

## 3. ADDITIONAL INFORMATION ON THE NATURE OF EARNINGS COMPONENTS

| | 16 weeks Fiscal Year | | 40 weeks Fiscal Year | |
|---|---|---|---|---|
| | **2014** | 2013 *(Restated - note 2)* | **2014** | 2013 *(Restated - note 2)* |
| **Continuing operations** | | | | |
| **Sales** | **3,622.1** | 3,572.2 | **8,878.2** | 8,788.9 |
| **Cost of sales and operating expenses** | | | | |
| Cost of sales | **(2,935.9)** | (2,885.2) | **(7,186.1)** | (7,090.2) |
| Wages and fringe benefits | **(199.3)** | (198.2) | **(497.2)** | (498.3) |
| Employee benefit expense | **(20.4)** | (19.9) | **(48.2)** | (49.4) |
| Rents, taxes and common costs | **(81.7)** | (80.2) | **(203.1)** | (200.2) |
| Electricity and natural gas | **(34.9)** | (36.6) | **(94.1)** | (88.2) |
| Impairment losses on fixed and intangible assets | **(1.4)** | (3.8) | **(4.3)** | (6.0) |
| Impairment loss reversals on fixed and intangible assets | **—** | 1.6 | **1.0** | 3.8 |
| Other expenses | **(95.2)** | (89.1) | **(246.7)** | (238.8) |
| | **(3,368.8)** | (3,311.4) | **(8,278.7)** | (8,167.3) |
| **Closure expenses** | **—** | — | **(6.4)** | — |
| **Operating income before depreciation and amortization and associate's earnings** | **253.3** | 260.8 | **593.1** | 621.6 |
| **Depreciation and amortization** | | | | |
| Fixed assets | **(44.1)** | (45.1) | **(110.5)** | (113.2) |
| Intangible assets | **(10.1)** | (9.9) | **(25.2)** | (25.1) |
| | **(54.2)** | (55.0) | **(135.7)** | (138.3) |
| **Financing costs, net** | | | | |
| Current interest | **(1.2)** | (0.5) | **(3.0)** | (1.7) |
| Non-current interest | **(13.2)** | (11.7) | **(31.8)** | (32.3) |
| Interest on defined benefit obligations net of plan assets | **(1.2)** | (2.6) | **(2.9)** | (6.4) |
| Amortization of deferred financing costs | **(0.2)** | (0.2) | **(0.6)** | (0.6) |
| Interest income | **0.5** | 1.0 | **1.5** | 2.2 |
| Passage of time | **—** | — | **(0.2)** | (0.1) |
| | **(15.3)** | (14.0) | **(37.0)** | (38.9) |
| **Share of an associate's earnings** | **9.1** | 8.8 | **33.2** | 35.8 |
| **Gain on disposal of a portion of the investment in an associate** | **—** | — | **—** | 307.8 |
| **Earnings before income taxes from continuing operations** | **192.9** | 200.6 | **453.6** | 788.0 |

Impairment losses and impairment loss reversals were on food stores where cash flows decreased or increased due to local competition. As at July 5, 2014, the recoverable amount for stores on which the Corporation recorded an impairment loss or impairment loss reversal was $3.5.

On November 28, 2013, the Corporation announced the spring 2014 closure of its Québec produce distribution centre. In the first quarter of fiscal 2014, non-recurring closure costs of $6.4 before taxes were recorded for severances, write-offs and other related items.

## 4. INCOME TAXES

The effective income tax rates were as follows:

| | 16 weeks Fiscal Year | | 40 weeks Fiscal Year | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| *(Percentage)* | | *(Restated - note 2)* | | *(Restated - note 2)* |
| Combined statutory income tax rate | **26.9** | 26.9 | **26.9** | 26.9 |
| Changes | | | | |
| Share of an associate's earnings | **(0.8)** | (0.7) | **(1.2)** | (0.7) |
| Gain on disposal of a portion of the investment in an associate | **—** | — | **—** | (5.3) |
| Others | **(1.0)** | 1.8 | **(0.8)** | 0.6 |
| | **25.1** | 28.0 | **24.9** | 21.5 |

## 5. DISCONTINUED OPERATION

On December 17, 2012, the Corporation disposed of its food service operation, the Distagro division, which supplied restaurant chains and convenience stores belonging to and operated by gas station chains. The final disposal price of this operation was $23.6.

Sales and other income statement items of this division for the 16 and 40-week periods ended July 6, 2013 were presented in the condensed consolidated statement of income in the "Discontinued operation" section.

The discontinued operation's net earnings (loss) were fully attributed to equity holders of the parent and are itemized below:

| | 16 weeks | 40 weeks |
|---|---|---|
| | Fiscal Year 2013 | |
| Sales | 15.7 | 96.1 |
| Cost of sales and operating expenses | (15.8) | (96.5) |
| Loss before income taxes | (0.1) | (0.4) |
| Income taxes | — | 0.1 |
| | (0.1) | (0.3) |
| Gain on disposal of an operation | — | 8.9 |
| Income taxes | — | (2.4) |
| | (0.1) | 6.2 |

The discontinued operation's basic net earnings per share and fully diluted net earnings per share were as follows:

| *(Dollars)* | 16 weeks Fiscal Year 2013 | 40 weeks Fiscal Year 2013 |
|---|---|---|
| Basic | — | 0.07 |
| Fully diluted | — | 0.07 |

The final disposal price allocation is itemized below:

| | |
|---|---|
| Assets | |
| Accounts receivable | 10.0 |
| Inventories | 11.6 |
| Other financial assets | 1.4 |
| Fixed assets | 0.7 |
| Goodwill | 4.0 |
| | 27.7 |
| Liabilities | |
| Accounts payable | (13.0) |
| Gain on disposal of an operation | 8.9 |
| Cash consideration | 23.6 |

The discontinued operation's operating activities generated inflows of $1.1 for the 16-week period ended July 6, 2013 and $5.1 for the first 40 weeks of fiscal 2013.

## 6. 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)* | 16 weeks Fiscal Year **2014** | 16 weeks Fiscal Year 2013 | 40 weeks Fiscal Year **2014** | 40 weeks Fiscal Year 2013 |
|---|---|---|---|---|
| Weighted average number of shares outstanding – Basic | **86.3** | 94.5 | **88.3** | 95.6 |
| Dilutive effect under: | | | | |
| Stock option plan | **0.3** | 0.5 | **0.3** | 0.5 |
| Performance share unit plan | **0.3** | 0.2 | **0.3** | 0.2 |
| Weighted average number of shares outstanding – Fully diluted | **86.9** | 95.2 | **88.9** | 96.3 |

## 7. ASSETS HELD FOR SALE

| | **As at July 5, 2014** | As at September 28, 2013 |
|---|---|---|
| Assets related to the closure of the distribution centre *(note 3)* | **5.2** | — |
| Balance receivable related to discontinued operation | **—** | 0.9 |
| | **5.2** | 0.9 |

As at July 5, 2014 and September 28, 2013, the Corporation was committed to sale plans for these assets. They were reclassified in the assets held for sale in the condensed consolidated statements of financial position and measured at the lower of carrying amount and fair value less costs to sell. A loss of $3.7 was recorded during the first quarter of 2014 on the assets related to the closure of the distribution centre of Québec City.

## 8. OFFSETTING

| | **As at July 5, 2014** | As at September 28, 2013 |
|---|---|---|
| Accounts payable (gross) | **986.9** | 1,052.4 |
| Vendor rebate receivables | **(53.6)** | (47.5) |
| Accounts payable (net) | **933.3** | 1,004.9 |

## 9. PROVISIONS

| | Onerous leases | Restructuring charges | Other | Total |
|---|---|---|---|---|
| Balance as at September 29, 2012 | 4.4 | — | 9.9 | 14.3 |
| Additional provisions | 1.1 | 34.3 | 7.8 | 43.2 |
| Amounts used | (1.7) | — | (11.6) | (13.3) |
| Balance as at September 28, 2013 | 3.8 | 34.3 | 6.1 | 44.2 |
| | | | | |
| Current provisions | 2.1 | 31.5 | 6.1 | 39.7 |
| Non-current provisions | 1.7 | 2.8 | — | 4.5 |
| Balance as at September 28, 2013 | 3.8 | 34.3 | 6.1 | 44.2 |
| | | | | |
| Balance as at September 28, 2013 | **3.8** | **34.3** | **6.1** | **44.2** |
| Additional provisions | **1.4** | **—** | **6.6** | **8.0** |
| Amounts used | **(2.4)** | **(14.2)** | **(11.9)** | **(28.5)** |
| Balance as at July 5, 2014 | **2.8** | **20.1** | **0.8** | **23.7** |
| | | | | |
| Current provisions | **0.8** | **17.3** | **0.8** | **18.9** |
| Non-current provisions | **2.0** | **2.8** | **—** | **4.8** |
| Balance as at July 5, 2014 | **2.8** | **20.1** | **0.8** | **23.7** |

The provision for onerous leases corresponds to leases for premises that are no longer used for the Corporation's operations. The amount of the provision 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 12 years.

The restructuring provision is related to the reorganization of the store network, in which, certain Metro supermarkets are converted into discount stores, collective agreements are bought out, early exit packages are offered to some employees and closure of stores.

Other provisions include amounts concerning provincial worker's compensation plans as well as a provision for costs related to the closure of the Québec produce distribution centre which occurred in the second quarter of fiscal 2014.

## 10. DEBT

| | **As at July 5, 2014** | As at September 28, 2013 | As at September 29, 2012 |
|---|---|---|---|
| Revolving Credit Facility, bearing interest at a weighted average rate of 2.58% for the first 40 weeks of 2014 (2.47% for fiscal 2013 and 2.48% for fiscal 2012), repayable on November 3, 2018 or earlier | **263.2** | — | 315.4 |
| Series A Notes, bearing interest at a fixed nominal rate of 4.98%, maturing on October 15, 2015 and redeemable at the issuer's option at fair value at any time prior to maturity | **200.0** | 200.0 | 200.0 |
| 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 | 400.0 |
| Loans, maturing on various dates through 2027, bearing interest at an average rate of 3.15% for the first 40 weeks of 2014 (3.16% for fiscal 2013 and 3.06% for fiscal 2012) | **25.8** | 28.1 | 32.6 |
| Obligations under finance leases, bearing interest at an effective rate of 8.5% for the first 40 weeks of 2014 (8.6% for fiscal 2013 and 2012) | **37.8** | 39.0 | 43.2 |
| Deferred financing costs | **(4.1)** | (4.7) | (5.2) |
| | **922.7** | 662.4 | 986.0 |
| Current portion | **7.5** | 12.4 | 12.1 |
| | **915.2** | 650.0 | 973.9 |

## 11. CAPITAL STOCK

### COMMON SHARES ISSUED

The Common Shares issued were summarized as follows:

| | Number *(Thousands)* | |
|---|---|---|
| Balance as at September 29, 2012 | 97,444 | 666.3 |
| Shares redeemed for cash, excluding premium of $366.1 | (6,241) | (43.3) |
| Stock options exercised | 445 | 17.4 |
| Balance as at September 28, 2013 | **91,648** | **640.4** |
| Shares redeemed for cash, excluding premium of $348.8 | **(6,131)** | **(42.9)** |
| Stock options exercised | **154** | **6.9** |
| Balance as at July 5, 2014 | **85,671** | **604.4** |

### TREASURY SHARES

The treasury shares were summarized as follows:

| | Number *(Thousands)* | |
|---|---|---|
| Balance as at September 29, 2012 | 258 | (12.2) |
| Acquisition | 94 | (6.3) |
| Release | (90) | 4.1 |
| Balance as at September 28, 2013 | **262** | **(14.4)** |
| Acquisition | **75** | **(4.6)** |
| Release | **(83)** | **3.8** |
| Balance as at July 5, 2014 | **254** | **(15.2)** |

The treasury shares are held in trust for the performance share unit plan (PSU). They are released into circulation when the PSUs settle.

Excluding the treasury shares from the Common Shares issued, the Corporation had 85,417,000 outstanding Common Shares issued as at July 5, 2014 (91,386,000 as at September 28, 2013).

### STOCK OPTION PLAN

The outstanding options were summarized as follows:

| | Number *(Thousands)* | Weighted average exercise price *(Dollars)* |
|---|---|---|
| Balance as at September 29, 2012 | 1,683 | 39.27 |
| Granted | 224 | 66.11 |
| Exercised | (445) | 31.16 |
| Cancelled | (111) | 42.54 |
| Balance as at September 28, 2013 | **1,351** | **46.12** |
| Granted | **235** | **65.67** |
| Exercised | **(154)** | **36.80** |
| Cancelled | **(35)** | **48.48** |
| Balance as at July 5, 2014 | **1,397** | **50.37** |

The exercise prices of the outstanding options ranged from $24.73 to $66.29 as at July 5, 2014 with expiration dates up to 2021. 428,760 of those options could be exercised at a weighted average exercise price of $37.56.

The compensation expense for these options amounted to $0.5 and $1.7 respectively for the 16-week and 40-week periods ended July 5, 2014 ($0.3 and $1.4 in 2013).

**PERFORMANCE SHARE UNIT PLAN**

The number of PSUs outstanding was as follows:

| | Number *(Thousands)* |
|---|---|
| Balance as at September 29, 2012 | 284 |
| Granted | 96 |
| Settled | (96) |
| Cancelled | (27) |
| Balance as at September 28, 2013 | **257** |
| Granted | **89** |
| Settled | **(88)** |
| Cancelled | **(12)** |
| Balance as at July 5, 2014 | **246** |

The compensation expense for the PSU plan amounted to $1.2 and $3.3 respectively for the 16-week and 40-week periods ended July 5, 2014 ($0.8 and $2.7 in 2013).

## 12. FINANCIAL INSTRUMENTS

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

| | **As at July 5, 2014** | | As at September 28, 2013 | |
|---|---|---|---|---|
| | **Book value** | **Fair value** | Book value | Fair value |
| **Other financial assets** | | | | |
| Loans and receivables | | | | |
| Loans to certain customers | **26.7** | **26.7** | 25.8 | 25.8 |
| **Non-controlling interest** | | | | |
| Financial liability held for trading | **164.9** | **164.9** | 160.5 | 160.5 |
| **Debt** *(note 10)* | | | | |
| Other financial liabilities | | | | |
| Revolving Credit Facility | **263.2** | **263.2** | — | — |
| Series A Notes | **200.0** | **208.1** | 200.0 | 211.5 |
| Series B Notes | **400.0** | **454.5** | 400.0 | 417.3 |
| Loans | **25.8** | **25.8** | 28.1 | 28.1 |
| Obligations under finance leases | **37.8** | **43.6** | 39.0 | 43.9 |
| | **926.8** | **995.2** | 667.1 | 700.8 |

The foreign exchange forward contracts, classified as "Financial assets or liabilities at fair value through net earnings", are not shown in the above table, as they are insignificant in value.

Fair value measurements of financial instruments recognized at fair value in the condensed consolidated statements of financial position or whose fair value is presented in the notes to the financial statements are categorized in accordance with the following levels:

- 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).

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

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

The fair value of the non-controlling interest-related liability is equivalent to the estimated price to be paid which is based mainly on the discounted value of the projected future earnings of Adonis and Phoenicia at the date the options become exercisable. The Corporation categorized the fair value measurement in Level 3, as it is derived from data that is not observable. The projected future earnings of Adonis and Phoenicia were measured again at each period using a strategic development plan with a weighted annual growth rate of 10% as at July 5, 2014. A 1% increase in these earnings would result in a $1.8 increase in the fair value of the non-controlling interest-related liability.

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

| | Total |
|---|---|
| Balance as at September 29, 2012 | 139.3 |
| Share of earnings | 7.8 |
| Dividends | (6.8) |
| Change in fair value | 20.2 |
| Balance as at September 28, 2013 | **160.5** |
| Share of earnings | **5.9** |
| Dividends | **(1.5)** |
| Balance as at July 5, 2014 | **164.9** |

## 13. EVENT AFTER THE REPORTING PERIOD

On August 8, 2014, the Corporation has completed the acquisition of a 75% interest in Première Moisson Bakery which has 23 stores and 3 production centres in Québec. This acquisition will allow the Corporation to offer customers a broader range of premium bakery products and differentiate itself even more.

## 14. COMPARATIVE FIGURES

Some of the corresponding figures have been reclassified in line with the presentation adopted for the current fiscal year.

## 15. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements for the 16 and 40-week periods ended July 5, 2014 (including comparative figures) were approved for issue by the Board of Directors on August 12, 2014.

**INFORMATION**

METRO INC.'s Investor Relations Department
Telephone: (514) 643-1000

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

metro