



INTERIM REPORT

12-week period ended March 11, 2017

2nd Quarter 2017

HIGHLIGHTS

- Fully diluted net earnings per share of \$0.56, up 9.8%
 - Sales of \$2,902.4 million, up 0.7%
 - Same-store sales up 0.3%
 - Net earnings of \$132.4 million, up 6.0%
 - Declared dividend of \$0.1625 per share, up 16.1%
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REPORT TO SHAREHOLDERS

Dear Shareholders,

It is with pleasure that I present our interim report for the second quarter of fiscal 2017 ended March 11, 2017.

Sales in the second quarter of 2017 reached \$2,902.4 million, up 0.7% compared to \$2,882.0 million in the second quarter of 2016. Same-store sales were up 0.3% (5.0% in the same quarter last year). Our food basket experienced more deflation than in the previous quarter, at about 2.0% (inflation of 3.0% last year), which largely explains our modest sales growth.

We realized net earnings of \$132.4 million in the second quarter of 2017, an increase of 6.0% from \$124.9 million for the corresponding quarter of 2016, and fully diluted net earnings per share of \$0.56 versus \$0.51 in 2016, an increase of 9.8%.

Deeming the market favourable, on February 27, 2017 we issued a private placement offering of \$400 million Series E senior unsecured notes at the floating bankers' acceptance rate plus 57 basis points (0.57%). The proceeds of this issuance were used to pay down our revolving credit facility.

Our financial position at the end of the second quarter of 2017 remains very solid. We had an unused authorized revolving credit facility of \$541.8 million and our debt ratio (non-current debt/total capital) was 35.8%.

On April 24, 2017, the Board of Directors declared a quarterly dividend of \$0.1625 per share, an increase of 16.1% over last year.

We are pleased with our second quarter results that show sales, net earnings and tonnage growth against a background of food deflation and intense competition. This growth reflects our effective execution and strong expense control. Also, we are pleased to announce that shortly after this fiscal year, we will acquire the minority interests of Adonis and Phoenicia, as planned in the 2011 agreement. We are confident that we will continue⁽¹⁾ on our growth path over the next quarters while food deflation should⁽¹⁾ ease.



Eric R. La Flèche
President and Chief Executive Officer

April 25, 2017

⁽¹⁾ See section on "Forward-looking Information"

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 March 11, 2017 and for the 12 and 24-week periods then ended. 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 12 and 24-week periods ended March 11, 2017 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 2016 Annual Report. Unless otherwise stated, the interim report is based upon information as at April 7, 2017.

Additional information, including the Certification of Interim Filings letters for quarter ended March 11, 2017 signed by the President and Chief Executive Officer and the Executive Vice-President, Chief Financial Officer and Treasurer, is also available on the SEDAR website at: www.sedar.com.

OPERATING RESULTS

SALES

Sales in the second quarter of 2017 reached \$2,902.4 million, up 0.7% compared to \$2,882.0 million in the second quarter of 2016. Same-store sales were up 0.3% (5.0% in the same quarter last year). Our food basket experienced more deflation than in the previous quarter, at about 2.0% (inflation of 3.0% last year), which largely explains our modest sales growth.

Sales in the first 24 weeks of fiscal 2017 totalled \$5,873.7 million versus \$5,843.6 million for the corresponding period of fiscal 2016, an increase of 0.5%.

OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION AND ASSOCIATE'S EARNINGS

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

Operating income before depreciation and amortization and associate's earnings (Alimentation Couche-Tard) for the second quarter of 2017 totalled \$212.0 million or 7.3% of sales versus \$202.0 million or 7.0% of sales for the same quarter last year, up 5.0%.

For the first 24 weeks of fiscal 2017, operating income before depreciation and amortization and associate's earnings totalled \$428.8 million or 7.3% of sales versus \$412.3 million or 7.1% of sales for the same period last year, up 4.0%.

Gross margins on sales for the second quarter and the first 24 weeks of 2017 were 20.1% and 19.9% respectively versus 19.9% and 19.7% for the corresponding periods of 2016. Operating expenses as a percentage of sales for the second quarter and the first 24 weeks of 2017 were 12.8% and 12.6% respectively versus 12.9% and 12.6% for the corresponding periods of 2016, reflecting strong expense control.

DEPRECIATION AND AMORTIZATION AND NET FINANCIAL COSTS

Total depreciation and amortization expenses for the second quarter and the first 24 weeks of 2017 were \$44.7 million and \$87.9 million respectively versus \$42.2 million and \$82.5 million for the corresponding periods of 2016.

Net financial costs for the second quarter of 2017 totalled \$15.5 million compared to \$14.7 million for the corresponding quarter last year. For the first 24 weeks of 2017, net financial costs totalled \$30.1 million compared to \$29.1 million in 2016.

SHARE OF AN ASSOCIATE'S EARNINGS

Our share of earnings in Alimentation Couche-Tard was \$21.4 million for the second quarter of 2017 versus \$21.2 million for the corresponding quarter of 2016.

For the first 24 weeks of 2017, our share of earnings in Alimentation Couche-Tard was \$45.3 million versus \$51.8 million in 2016.

⁽¹⁾ See section on "Forward-looking Information"

INCOME TAXES

The 2017 second quarter income tax expense of \$40.8 million represented an effective tax rate of 23.6% compared with the 2016 second quarter tax expense of \$41.4 million for an effective tax rate of 24.9%.

The 24-week period income tax expense of \$85.6 million for 2017 and \$87.8 million for 2016 represented effective tax rates of 24.0% and 24.9% respectively.

These decreases are mainly due to the 0.40% reduction in the corporate income tax rate over four years announced by the Government of Québec.

NET EARNINGS

Net earnings for the second quarter of 2017 were \$132.4 million, an increase of 6.0% from \$124.9 million for the second quarter of 2016. Fully diluted net earnings per share rose 9.8% to \$0.56 from \$0.51 last year.

Net earnings for the first 24 weeks of 2017 were \$270.5 million, an increase of 2.2% over net earnings of \$264.7 million for the same period of 2016. Fully diluted net earnings per share rose 6.5% to \$1.14 from \$1.07 last year.

QUARTERLY HIGHLIGHTS

<i>(Millions of dollars, unless otherwise indicated)</i>	2017	2016	2015	Change (%)
Sales				
Q2 ⁽²⁾	2,902.4	2,882.0		0.7
Q1 ⁽²⁾	2,971.3	2,961.6		0.3
Q4 ⁽²⁾		2,928.9	2,833.9	3.4
Q3 ⁽³⁾		4,015.4	3,842.3	4.5
Net earnings				
Q2 ⁽²⁾	132.4	124.9		6.0
Q1 ⁽²⁾	138.1	139.8		(1.2)
Q4 ⁽²⁾		145.0	131.7	10.1
Q3 ⁽³⁾		176.5	163.5	8.0
Fully diluted net earnings per share (Dollars)				
Q2 ⁽²⁾	0.56	0.51		9.8
Q1 ⁽²⁾	0.58	0.56		3.6
Q4 ⁽²⁾		0.60	0.52	15.4
Q3 ⁽³⁾		0.72	0.64	12.5

⁽²⁾ 12 weeks

⁽³⁾ 16 weeks

Sales in the second quarter of 2017 reached \$2,902.4 million, up 0.7% compared to \$2,882.0 million in the second quarter of 2016. Same-store sales were up 0.3% (5.0% in the same quarter last year). Our food basket experienced more deflation than in the previous quarter, at about 2.0% (inflation of 3.0% last year), which largely explains our modest sales growth.

Sales in the first quarter of 2017 reached \$2,971.3 million, up 0.3% compared to \$2,961.6 million in the first quarter of 2016. Same-store sales were up 0.7% (2.8% in the same quarter of 2016). Our aggregate food basket experienced deflation of 1.0% versus an inflation of 2.8% last year, which largely explains our lower sales growth. Certain other factors also impacted our sales negatively, namely our decision not to renew a supply agreement for a network of hospitals in our wholesale pharmaceutical business, as well as the closure for conversion of some Metro stores that has not been offset in the first quarter by sales of the newly-opened discount stores.

⁽¹⁾ See section on "Forward-looking Information"



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

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

Net earnings for the second quarter of 2017 were \$132.4 million, an increase of 6.0% from \$124.9 million for the second quarter of 2016. Fully diluted net earnings per share rose 9.8% to \$0.56 from \$0.51 last year.

Net earnings for the first quarter of 2017 were \$138.1 million, a decrease of 1.2% from \$139.8 million for the first quarter of 2016. Fully diluted net earnings per share rose 3.6% to \$0.58 from \$0.56 in 2016. The decrease in net earnings is due to a \$6.7 million decline in our share of an associate's earnings (Alimentation Couche-Tard).

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

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

CASH POSITION

OPERATING ACTIVITIES

Operating activities generated cash flows of \$189.3 million in the second quarter of 2017 compared to \$257.5 million for the same quarter of 2016. This difference is due mainly to the net change in non-cash working capital items.

Over the first 24 weeks of fiscal 2017, operating activities generated cash flows of \$244.8 million compared to \$250.7 million for the same period of 2016.

INVESTING ACTIVITIES

Investing activities required outflows of \$59.9 million in the second quarter and \$140.8 million over the first 24 weeks of fiscal 2017 versus \$46.6 million and \$142.2 million for the corresponding periods of 2016. These differences are primarily due to fixed and intangible asset acquisitions that were \$13.6 million and \$33.6 million greater respectively than in the corresponding periods of 2016 and to \$33.1 million in business acquisitions over the first 24 weeks of 2016.

During the first 24 weeks of 2017, we and our retailers opened 4 new stores and carried out major expansions and renovations of 14 stores for a net increase of 84,300 square feet or 0.4% of our retail network.

FINANCING ACTIVITIES

In the second quarter of 2017, we utilized \$81.4 million in funds compared to \$160.1 million for the corresponding quarter of 2016. This difference is attributable in part to net debt and bank loan increases of \$145.7 million and \$48.4 million in 2017 compared to 2016. In 2017, there was a \$550.6 million debt increase as well as a \$464.9 million debt repayment compared to a \$1.9 million increase and \$61.9 million repayment in the second quarter of 2016. The greater debt increase and repayment in 2017 are due to the issuance of unsecured notes. Also, redemption of shares was \$119.4 million greater in 2017 compared to 2016.

Over the first 24 weeks of 2017, we utilized \$76.9 million in funds compared to \$79.2 million for the corresponding period of 2016. This difference is attributable to a net debt increase of \$117.3 million offset by a \$105.4 million greater redemption of shares in 2017.

⁽¹⁾ See section on "Forward-looking Information"

FINANCIAL POSITION

We do not anticipate⁽¹⁾ any liquidity risk and consider our financial position at the end of the second quarter of fiscal 2017 as very solid. We had an unused authorized revolving credit facility of \$541.8 million. Our non-current debt corresponded to 35.8% of the combined total of non-current debt and equity (non-current debt/total capital).

At the end of the second quarter of fiscal 2017, the main elements of our non-current debt were as follows:

	Interest Rate	Maturity	Balance (Millions of dollars)
Revolving Credit Facility	Rates fluctuate with changes in bankers' acceptance rates	November 3, 2021	58.2
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 B Notes	5.97% fixed rate	October 15, 2035	400.0
Series D Notes	5.03% fixed rate	December 1, 2044	300.0

Our main financial ratios were as follows:

	As at March 11, 2017	As at September 24, 2016
Financial structure		
Non-current debt (Millions of dollars)	1,505.2	1,231.0
Equity (Millions of dollars)	2,698.1	2,693.2
Non-current debt/total capital (%)	35.8	31.4
	24 weeks / Fiscal Year	
	2017	2016
Results		
Operating income before depreciation and amortization and associate's earnings/Financial costs (Times)	14.2	14.2

CAPITAL STOCK, STOCK OPTIONS AND PERFORMANCE SHARE UNITS

	As at March 11, 2017	As at September 24, 2016
Number of Common Shares outstanding (Thousands)	227,595	233,846
Stock options:		
Number outstanding (Thousands)	3,477	3,483
Exercise prices (Dollars)	14.55 to 44.73	14.55 to 44.73
Weighted average exercise price (Dollars)	26.31	23.67
Performance share units:		
Number outstanding (Thousands)	596	664

⁽¹⁾ See section on "Forward-looking Information"

NORMAL COURSE ISSUER BID PROGRAM

Under its normal course issuer bid program, the Corporation may repurchase up to 12,000,000 of its Common Shares between September 12, 2016 and September 11, 2017. Between September 12, 2016 and April 7, 2017, the Corporation has repurchased 7,244,122 Common Shares at an average price of \$40.66 for a total of \$294.6 million.

BUYOUT OF NON-CONTROLLING INTERESTS

In accordance with the shareholder agreement, the Corporation will acquire the minority interests in Adonis and Phoenicia shortly after this fiscal year. Consequently, the Corporation has reclassified the liability for these non-controlling interests as current liabilities.

DIVIDENDS

On April 24, 2017, the Corporation's Board of Directors declared a quarterly dividend of \$0.1625 per Common Share payable June 15, 2017, an increase of 16.1% over the dividend declared for the same quarter last year. On an annualized basis, this dividend represents approximately 25% of 2016 net earnings, in accordance with the payout target communicated to shareholders in January 2014.

SHARE TRADING

The value of METRO shares remained in the \$38.00 to \$43.99 range over the first 24 weeks of 2017. During this period, a total of 89.1 million shares traded on the Toronto Stock Exchange. The closing price on April 7, 2017 was \$41.14 compared with \$44.09 at the end of fiscal 2016.

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", "should", "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 2017 action plan.

These forward-looking statements do not provide any guarantees as to the future performance of the Corporation and are subject to potential risks, known and unknown, as well as uncertainties that could cause the outcome to differ significantly. The arrival of a new competitor is an example described under the "Risk Management" section of the 2016 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.

OUTLOOK

We are pleased with our second quarter results that show sales, net earnings and tonnage growth against a background of food deflation and intense competition. This growth reflects our effective execution and strong expense control. We are confident that we will continue⁽¹⁾ on our growth path over the next quarters while food deflation should⁽¹⁾ ease.

Montréal, April 25, 2017

⁽¹⁾ See section on "Forward-looking Information"

Interim Condensed Consolidated Financial Statements

METRO INC.

March 11, 2017

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Condensed consolidated statements of income

Periods ended March 11, 2017 and March 12, 2016

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

	12 weeks Fiscal Year		24 weeks Fiscal Year	
	2017	2016	2017	2016
Sales	2,902.4	2,882.0	5,873.7	5,843.6
Cost of sales and operating expenses (note 3)	(2,690.4)	(2,680.0)	(5,444.9)	(5,431.3)
Operating income before depreciation and amortization and associate's earnings	212.0	202.0	428.8	412.3
Depreciation and amortization (note 3)	(44.7)	(42.2)	(87.9)	(82.5)
Financial costs, net (note 3)	(15.5)	(14.7)	(30.1)	(29.1)
Share of an associate's earnings (note 3)	21.4	21.2	45.3	51.8
Earnings before income taxes	173.2	166.3	356.1	352.5
Income taxes (note 4)	(40.8)	(41.4)	(85.6)	(87.8)
Net earnings	132.4	124.9	270.5	264.7
Attributable to:				
Equity holders of the parent	129.1	121.8	263.7	258.4
Non-controlling interests	3.3	3.1	6.8	6.3
	132.4	124.9	270.5	264.7
Net earnings per share (Dollars) (note 5)				
Basic	0.56	0.51	1.14	1.08
Fully diluted	0.56	0.51	1.14	1.07

See accompanying notes



Condensed consolidated statements of comprehensive income

Periods ended March 11, 2017 and March 12, 2016

(Unaudited) (Millions of dollars)

	12 weeks Fiscal Year		24 weeks Fiscal Year	
	2017	2016	2017	2016
Net earnings	132.4	124.9	270.5	264.7
Other comprehensive income				
Items that will not be reclassified to net earnings				
Changes in defined benefit plans				
Actuarial gains (losses)	13.0	(32.3)	113.0	(32.8)
Asset ceiling effect	(0.2)	1.4	(7.9)	(1.3)
Minimum funding requirement	—	—	0.7	1.3
Share of an associate's other comprehensive income	1.5	0.5	1.1	0.1
Corresponding income taxes	(3.6)	8.1	(28.2)	8.7
	10.7	(22.3)	78.7	(24.0)
Items that will be reclassified later to net earnings				
Share of an associate's other comprehensive income	(0.2)	(0.3)	0.5	(0.3)
Corresponding income taxes	—	—	(0.1)	—
	(0.2)	(0.3)	0.4	(0.3)
	10.5	(22.6)	79.1	(24.3)
Comprehensive income	142.9	102.3	349.6	240.4
Attributable to:				
Equity holders of the parent	139.6	99.2	342.8	234.1
Non-controlling interests	3.3	3.1	6.8	6.3
	142.9	102.3	349.6	240.4

See accompanying notes



Condensed consolidated statements of financial position

(Unaudited) (Millions of dollars)

	As at March 11, 2017	As at September 24, 2016
ASSETS		
Current assets		
Cash and cash equivalents	54.6	27.5
Accounts receivable	296.8	306.4
Inventories	818.7	827.5
Prepaid expenses	30.2	19.7
Current taxes	10.3	11.9
	1,210.6	1,193.0
Non-current assets		
Investment in an associate	437.5	396.5
Fixed assets	1,650.5	1,594.8
Investment properties	24.6	25.7
Intangible assets	389.6	391.7
Goodwill	1,967.0	1,955.4
Deferred taxes	7.2	9.4
Defined benefit assets	41.5	7.5
Other assets	32.5	32.1
	5,761.0	5,606.1
LIABILITIES AND EQUITY		
Current liabilities		
Bank loans	0.4	1.4
Accounts payable	934.3	1,012.8
Current taxes	28.9	35.2
Provisions	2.2	2.6
Current portion of debt	12.2	15.5
Non-controlling interests (note 8)	220.8	—
	1,198.8	1,067.5
Non-current liabilities		
Debt (note 6)	1,505.2	1,231.0
Defined benefit liabilities	89.2	160.7
Provisions	2.4	2.8
Deferred taxes	226.4	193.9
Other liabilities	11.5	12.2
Non-controlling interests (note 8)	29.4	244.8
	3,062.9	2,912.9
Equity		
Attributable to equity holders of the parent	2,685.1	2,680.6
Attributable to non-controlling interests	13.0	12.6
	2,698.1	2,693.2
	5,761.0	5,606.1

See accompanying notes



Condensed consolidated statements of changes in equity

Periods ended March 11, 2017 and March 12, 2016

(Unaudited) (Millions of dollars)

	Attributable to the equity holders of the parent					Total	Non-controlling interests	Total equity
	Capital stock (note 7)	Treasury shares (note 7)	Contributed surplus	Retained earnings	Accumulated other comprehensive income			
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	—	—	—	263.7	—	263.7	6.8	270.5
Other comprehensive income	—	—	—	78.7	0.4	79.1	—	79.1
Comprehensive income	—	—	—	342.4	0.4	342.8	6.8	349.6
Stock options exercised	7.0	—	(1.3)	—	—	5.7	—	5.7
Shares redeemed	(16.7)	—	—	—	—	(16.7)	—	(16.7)
Share redemption premium	—	—	—	(261.6)	—	(261.6)	—	(261.6)
Share-based compensation cost	—	—	4.0	—	—	4.0	—	4.0
Performance share units settlement	—	5.3	(5.2)	(0.1)	—	—	—	—
Dividends	—	—	—	(69.6)	—	(69.6)	(1.2)	(70.8)
Share of an associate's equity	—	—	—	(0.1)	—	(0.1)	—	(0.1)
Change in fair value of non-controlling interests liability (note 8)	—	—	—	—	—	—	(5.4)	(5.4)
Sale of shares in joint ventures	—	—	—	—	—	—	0.2	0.2
	(9.7)	5.3	(2.5)	(331.4)	—	(338.3)	(6.4)	(344.7)
Balance as at March 11, 2017	561.3	(15.2)	16.8	2,117.1	5.1	2,685.1	13.0	2,698.1

See accompanying notes



Condensed consolidated statements of changes in equity

Periods ended March 11, 2017 and March 12, 2016

(Unaudited) (Millions of dollars)

	Attributable to the equity holders of the parent					Total	Non-controlling interests	Total equity
	Capital stock	Treasury shares	Contributed surplus	Retained earnings	Accumulated other comprehensive income			
Balance as at September 26, 2015	579.0	(18.5)	18.0	2,059.7	5.2	2,643.4	13.8	2,657.2
Net earnings	—	—	—	258.4	—	258.4	6.3	264.7
Other comprehensive income	—	—	—	(24.0)	(0.3)	(24.3)	—	(24.3)
Comprehensive income	—	—	—	234.4	(0.3)	234.1	6.3	240.4
Stock options exercised	8.8	—	(1.5)	—	—	7.3	—	7.3
Shares redeemed	(11.3)	—	—	—	—	(11.3)	—	(11.3)
Share redemption premium	—	—	—	(161.6)	—	(161.6)	—	(161.6)
Acquisition of treasury shares	—	(7.1)	—	—	—	(7.1)	—	(7.1)
Share-based compensation cost	—	—	3.9	—	—	3.9	—	3.9
Performance share units settlement	—	5.1	(5.2)	(0.1)	—	(0.2)	—	(0.2)
Dividends	—	—	—	(61.2)	—	(61.2)	(0.9)	(62.1)
Share of an associate's equity	—	—	0.1	0.6	—	0.7	—	0.7
Change in fair value of non-controlling interests liability	—	—	—	—	—	—	(5.4)	(5.4)
Sale of shares in joint ventures	—	—	—	—	—	—	0.3	0.3
Repurchase of shares in joint ventures	—	—	—	0.8	—	0.8	(1.1)	(0.3)
	(2.5)	(2.0)	(2.7)	(221.5)	—	(228.7)	(7.1)	(235.8)
Balance as at March 12, 2016	576.5	(20.5)	15.3	2,072.6	4.9	2,648.8	13.0	2,661.8

See accompanying notes



Condensed consolidated statements of cash flows

Periods ended March 11, 2017 and March 12, 2016

(Unaudited) (Millions of dollars)

	12 weeks Fiscal Year		24 weeks Fiscal Year	
	2017	2016	2017	2016
Operating activities				
Earnings before income taxes	173.2	166.3	356.1	352.5
Non-cash items				
Share of an associate's earnings	(21.4)	(21.2)	(45.3)	(51.8)
Depreciation and amortization	44.7	42.2	87.9	82.5
Loss (gain) on disposal and write-offs of fixed and intangible assets and investment properties	(0.1)	0.2	0.4	0.4
Impairment losses on fixed and intangible assets	0.4	—	0.4	—
Impairment loss reversals on fixed and intangible assets	(0.8)	—	(3.7)	—
Share-based compensation cost	2.1	2.0	4.0	3.9
Difference between amounts paid for employee benefits and current period cost	0.1	(3.1)	(1.7)	(7.8)
Financial costs, net	15.5	14.7	30.1	29.1
	213.7	201.1	428.2	408.8
Net change in non-cash working capital items	15.9	85.5	(69.1)	(53.8)
Interest paid	(3.5)	(2.8)	(30.4)	(30.0)
Income taxes paid	(36.8)	(26.3)	(83.9)	(74.3)
	189.3	257.5	244.8	250.7
Investing activities				
Business acquisitions (note 2)	—	—	—	(33.1)
Sale of shares in joint ventures	—	—	0.1	—
Net change in other assets	(0.1)	0.3	(0.4)	(0.9)
Dividends from an associate	2.9	2.2	5.8	4.4
Additions to fixed assets	(58.5)	(42.6)	(125.9)	(97.8)
Disposal of fixed assets and investment properties	—	—	—	0.1
Additions to intangible assets	(4.2)	(6.5)	(20.4)	(14.9)
	(59.9)	(46.6)	(140.8)	(142.2)
Financing activities				
Net change in bank loans	(0.6)	(49.0)	(1.0)	0.1
Shares issued (note 7)	4.9	1.3	5.7	7.3
Shares redeemed (note 7)	(135.4)	(16.0)	(278.3)	(172.9)
Acquisition of treasury shares (note 7)	—	(7.1)	—	(7.1)
Performance share units cash settlement	—	(0.2)	—	(0.2)
Increase in debt	550.6	1.9	736.5	214.8
Repayment of debt	(464.9)	(61.9)	(469.5)	(65.1)
Net change in other liabilities	1.1	4.2	(0.7)	5.1
Dividends	(37.1)	(33.3)	(69.6)	(61.2)
	(81.4)	(160.1)	(76.9)	(79.2)
Net change in cash and cash equivalents	48.0	50.8	27.1	29.3
Cash and cash equivalents — beginning of period	6.6	—	27.5	21.5
Cash and cash equivalents — end of period	54.6	50.8	54.6	50.8

See accompanying notes



Notes to interim condensed consolidated financial statements

Periods ended March 11, 2017 and March 12, 2016

(Unaudited) (Millions of dollars, unless otherwise indicated)

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 12 and 24-week periods ended March 11, 2017 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 24, 2016. They should be read in conjunction with the audited annual consolidated financial statements and accompanying notes which were presented in the Corporation's 2016 Annual Report.

2. BUSINESS ACQUISITIONS

In the first quarter of 2016, the Corporation acquired the assets of three affiliated stores in Québec which it already supplied, and of a food store from a competitor in Ontario. The total purchase price was \$35.3, with a remaining balance of \$0.2 to be paid as at March 11, 2017. The acquisition of these stores was accounted for using the purchase method. The stores' results have been consolidated as of their respective acquisition dates.

Notes to interim condensed consolidated financial statements

Periods ended March 11, 2017 and March 12, 2016

(Unaudited) (Millions of dollars, unless otherwise indicated)

3. ADDITIONAL INFORMATION ON THE NATURE OF EARNINGS COMPONENTS

	12 weeks		24 weeks	
	Fiscal Year		Fiscal Year	
	2017	2016	2017	2016
Sales	2,902.4	2,882.0	5,873.7	5,843.6
Cost of sales and operating expenses				
Cost of sales	(2,318.7)	(2,308.5)	(4,705.7)	(4,694.1)
Wages and fringe benefits	(162.6)	(164.2)	(321.6)	(324.7)
Employee benefits expense	(18.8)	(17.4)	(37.4)	(35.4)
Rents and occupancy charges	(99.7)	(98.9)	(198.2)	(192.5)
Others	(90.6)	(91.0)	(182.0)	(184.6)
	(2,690.4)	(2,680.0)	(5,444.9)	(5,431.3)
Operating income before depreciation and amortization and associate's earnings	212.0	202.0	428.8	412.3
Depreciation and amortization				
Fixed assets	(37.7)	(36.1)	(74.0)	(70.2)
Intangible assets	(7.0)	(6.1)	(13.9)	(12.3)
	(44.7)	(42.2)	(87.9)	(82.5)
Financing costs, net				
Current interest	(1.3)	(1.1)	(2.7)	(2.6)
Non-current interest	(13.4)	(13.0)	(25.8)	(25.3)
Interest on defined benefit obligations net of plan assets	(0.9)	(1.0)	(2.0)	(1.7)
Amortization of deferred financing costs	(0.2)	(0.2)	(0.4)	(0.5)
Interest income	0.4	0.7	1.0	1.2
Passage of time	(0.1)	(0.1)	(0.2)	(0.2)
	(15.5)	(14.7)	(30.1)	(29.1)
Share of an associate's earnings	21.4	21.2	45.3	51.8
Earnings before income taxes	173.2	166.3	356.1	352.5



Notes to interim condensed consolidated financial statements

Periods ended March 11, 2017 and March 12, 2016

(Unaudited) (Millions of dollars, unless otherwise indicated)

4. INCOME TAXES

The effective income tax rates were as follows:

(Percentage)	12 weeks		24 weeks	
	Fiscal Year		Fiscal Year	
	2017	2016	2017	2016
Combined statutory income tax rate	26.8	26.8	26.8	26.8
Changes				
Share of an associate's earnings	(1.9)	(1.9)	(1.9)	(2.1)
Others	(1.3)	—	(0.9)	0.2
	23.6	24.9	24.0	24.9

5. 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)	12 weeks		24 weeks	
	Fiscal Year		Fiscal Year	
	2017	2016	2017	2016
Weighted average number of shares outstanding – Basic	228.9	237.6	230.4	238.6
Dilutive effect under:				
Stock option plan	1.3	1.5	1.3	1.6
Performance share unit plan	0.5	0.6	0.6	0.7
Weighted average number of shares outstanding – Fully diluted	230.7	239.7	232.3	240.9

6. DEBT

On February 27, 2017, the Corporation issued a private placement of \$400.0 aggregate principal amount of Series E unsecured senior notes, bearing interest at a floating rate equal to the 3-month bankers' acceptance rate plus 57 basis points (0.57%) set quarterly and maturing February 27, 2020. The Corporation decided to allocate the proceeds of this issue to repay \$450.0 million of its revolving credit facility which had a weighted average interest rate of 1.90%.



Notes to interim condensed consolidated financial statements

Periods ended March 11, 2017 and March 12, 2016

(Unaudited) (Millions of dollars, unless otherwise indicated)

7. CAPITAL STOCK

COMMON SHARES ISSUED

The Common Shares issued were summarized as follows:

	Number (Thousands)	
Balance as at September 26, 2015	242,285	579.0
Shares redeemed for cash, excluding premium of \$310.9	(8,477)	(20.4)
Stock options exercised	703	12.4
Balance as at September 24, 2016	234,511	571.0
Shares redeemed for cash, excluding premium of \$261.6	(6,865)	(16.7)
Stock options exercised	366	7.0
Balance as at March 11, 2017	228,012	561.3

TREASURY SHARES

The treasury shares were summarized as follows:

	Number (Thousands)	
Balance as at September 26, 2015	743	(18.5)
Acquisition	165	(7.1)
Release	(243)	5.1
Balance as at September 24, 2016	665	(20.5)
Release	(248)	5.3
Balance as at March 11, 2017	417	(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 227,595,000 outstanding Common Shares issued as at March 11, 2017 (233,846,000 as at September 24, 2016).

STOCK OPTION PLAN

The outstanding options were summarized as follows:

	Number (Thousands)	Weighted average exercise price (Dollars)
Balance as at September 26, 2015	3,838	20.34
Granted	392	40.40
Exercised	(703)	14.59
Cancelled	(44)	27.35
Balance as at September 24, 2016	3,483	23.67
Granted	394	40.23
Exercised	(366)	15.64
Cancelled	(34)	31.51
Balance as at March 11, 2017	3,477	26.31



Notes to interim condensed consolidated financial statements

Periods ended March 11, 2017 and March 12, 2016

(Unaudited) (Millions of dollars, unless otherwise indicated)

The exercise prices of the outstanding options ranged from \$14.55 to \$44.73 as at March 11, 2017 with expiration dates up to 2024. 914,680 of those options could be exercised at a weighted average exercise price of \$18.45.

The compensation expense for these options amounted to \$0.5 and \$0.9 respectively for the 12 and 24-week periods ended March 11, 2017 (\$0.6 and \$1.1 in 2016).

PERFORMANCE SHARE UNIT PLAN

The number of PSUs outstanding was as follows:

	Number (Thousands)
Balance as at September 26, 2015	741
Granted	184
Settled	(247)
Cancelled	(14)
Balance as at September 24, 2016	664
Granted	186
Settled	(248)
Cancelled	(6)
Balance as at March 11, 2017	596

The compensation expense for the PSU plan amounted to \$1.6 and \$3.1 respectively for the 12 and 24-week periods ended March 11, 2017 (\$1.4 and \$2.8 in 2016).

8. FINANCIAL INSTRUMENTS

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

	As at March 11, 2017		As at September 24, 2016	
	Book value	Fair value	Book value	Fair value
Other assets				
Loans and receivables				
Loans to certain customers	31.2	31.2	31.4	31.4
Non-controlling interests				
Financial liability held for trading	250.2	250.2	244.8	244.8
Debt				
Other financial liabilities				
Revolving Credit Facility	58.2	58.2	184.6	184.6
Series E Notes	400.0	400.2	—	—
Series C Notes	300.0	312.0	300.0	317.9
Series B Notes	400.0	474.0	400.0	494.2
Series D Notes	300.0	322.8	300.0	343.4
Loans	37.6	37.6	39.0	39.0
	1,495.8	1,604.8	1,223.6	1,379.1



Notes to interim condensed consolidated financial statements

Periods ended March 11, 2017 and March 12, 2016

(Unaudited) (Millions of dollars, unless otherwise indicated)

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

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

The fair value of the non-controlling interest-related liability is equivalent to the estimated price to be paid, which is based mainly on the discounted value of the projected future earnings of Adonis, Phoenicia and Première Moisson, as of the date the options will become exercisable. The Corporation categorized the fair value measurement in Level 3, as it is derived from data that is not observable. The projected future earnings of these entities are measured again at each period using a strategic development plan with a weighted annual growth rate of 7.1% as at March 11, 2017 (8.6% as at March 12, 2016). A 1% increase in these earnings would result in a \$2.1 increase in the fair value of the non-controlling interest-related liability.

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

	Total
Balance as at September 26, 2015	221.3
Change in fair value	23.5
Balance as at September 24, 2016	244.8
Change in fair value	5.4
Balance as at March 11, 2017	250.2
Current portion	220.8
Non-current portion	29.4
Balance as at March 11, 2017	250.2

In accordance with the shareholder agreement, the Corporation will acquire the minority interests in Adonis and Phoenicia shortly after this fiscal year. Consequently, the Corporation has reclassified the liability for these non-controlling interests as current liabilities.

9. APPROVAL OF FINANCIAL STATEMENTS

The interim condensed consolidated financial statements for the 12 and 24-week periods ended March 11, 2017 (including comparative figures) were approved for issue by the Board of Directors on April 24, 2017.

INFORMATION

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

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