metro

INTERIM REPORT

12-week period ended December 22, 2018

1st Quarter 2019

HIGHLIGHTS

- **Sales of $3,977.7 million, up 27.8% and up 3.5% when excluding the Jean Coutu Group**
- **Food same-store sales up 3.2%**
- **Pharmacy same-store sales up 1.5%**
- **Net earnings of $203.1 million, down 84.4%**
- **Adjusted net earnings(1) of $172.2 million, up 35.9%**
- **Fully diluted net earnings per share of $0.79, down 86.1%**
- **Adjusted fully diluted net earnings per share(1) of $0.67, up 21.8%**
- **Synergies of $10.7 million related to the Jean Coutu Group acquisition; $28.0 million on an annual basis**
- **Declared dividend of $0.20 per share, up 11.1%**

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REPORT TO SHAREHOLDERS

Dear Shareholders,

I am pleased to present our interim report for the first quarter of fiscal 2019 ended December 22, 2018.

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

First quarter net earnings were $203.1 million in 2019 compared with $1,299.1 million in the same quarter of 2018, and fully diluted net earnings per share were $0.79 versus $5.67 in 2018, down 84.4% and 86.1%, respectively. Taking into account the specific items of the first quarter of 2019, mainly the $35.4 million gain on disposal of our investment in associate Colo-D Inc. and the $7.4 million gain on the divestiture of 5 pharmacies, and the specific items of the first quarter of 2018, mainly the $1,107.4 million gain on disposal of the majority of our investment in Alimentation Couche-Tard (ACT), the $225.6 million fair value revaluation gain on our residual investment in ACT and the $30.8 million share of an associate’s earnings (ACT), as well as taxes related to all these items, adjusted net earnings(1) for the first quarter of 2019 totalled $172.2 million compared with $126.7 million for the corresponding quarter of 2018, and adjusted fully diluted net earnings per share(1) amounted to $0.67 versus $0.55, up 35.9% and 21.8%, respectively.

On January 28, 2019, the Board of Directors declared a quarterly dividend of $0.20 per share, an increase of 11.1% over the dividend declared for the same quarter last year.

We are very pleased with our first quarter results, which reflect strong execution of our business plans and the success so far of our combination with the Jean Coutu Group. In a very competitive market environment, we are well positioned to meet our customers' high expectations and continue(3) to create long-term value for our shareholders.

Eric R. La Flèche
President and Chief Executive Officer

January 29, 2019

(1) See table on "Net earnings adjustments" and section on "Non-IFRS Measurements"
(2) See table on "Operating income before depreciation and amortization and associates' earnings adjustments" and section on "Non-IFRS Measurements"
(3) 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 December 22, 2018, and for the 12-week period 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-week period ended December 22, 2018 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 2018 Annual Report. Unless otherwise stated, the interim report is based on information as at January 18, 2019.

Additional information, including the Certification of Interim Filings letters for quarter ended December 22, 2018 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

The Jean Coutu Group (PJC) Inc. (“Jean Coutu Group”) acquisition was completed on May 11, 2018, and its results were consolidated with the Corporation’s results as of that date. Therefore, the results for the first quarter of 2018 presented herein for comparison purposes do not include the results of the Jean Coutu Group. In addition, the results for the first quarter of 2018 included significant gains following the disposal of our investment in Alimentation Couche-Tard (ACT).

SALES

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

OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION AND ASSOCIATES' EARNINGS

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

Operating income before depreciation and amortization and associates' earnings for the first quarter of 2019 totalled $320.6 million, or 8.1% of sales, versus $217.8 million, or 7.0% of sales, for the same quarter last year. During the first quarter of 2019, we divested 5 pharmacies for a gain of $7.4 million, while in the first quarter of 2018, we recognized $11.4 million in distribution network modernization project expenses and $2.0 million in expenses related to the Jean Coutu Group acquisition. Excluding those items, adjusted operating income before depreciation and amortization and associates' earnings(2) for the first quarter of 2019 totalled $313.2 million, or 7.9% of sales, compared with $231.2 million, or 7.4% of sales, for the corresponding quarter of 2018. For the first quarter of 2019, adjusted operating income before depreciation and amortization and associates' earnings(2), excluding the Jean Coutu Group, totalled $226.3 million, or 7.0% of sales, compared with $231.2 million, or 7.4% of sales, for the corresponding quarter of 2018. This change stemmed mainly from the increase in minimum wages, particularly in Ontario, as well as real estate gains made in 2018.

During the first quarter of 2019, synergies of $10.7 million were realized and we have now generated an annualized amount of $28.0 million(3).

(1) See table on "Net earnings adjustments" and section on "Non-IFRS Measurements"
(2) See table on "Operating income before depreciation and amortization and associates' earnings adjustments" and section on "Non-IFRS Measurements"
(3) See section on "Forward-looking Information"

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

(Millions of dollars, unless otherwise indicated)	12 weeks / Fiscal Year 2019 OI	2019 Sales	2019 (%)	2018 OI	2018 Sales	2018 (%)
Operating income before depreciation and amortization and associates' earnings	**320.6**	**3,977.7**	**8.1**	217.8	3,111.8	7.0
Gain on divestiture of pharmacies	**(7.4)**			—		
Business acquisition-related expenses	**—**			2.0		
Distribution network modernization project expenses	**—**			11.4		
Adjusted operating income before depreciation and amortization and associates' earnings[2]	**313.2**	**3,977.7**	**7.9**	231.2	3,111.8	7.4
Jean Coutu Group operating income before depreciation and amortization	**86.9**	**757.1**		—	—	
Adjusted operating income before depreciation and amortization and associates' earnings[2], excluding the Jean Coutu Group	**226.3**	**3,220.6**	**7.0**	231.2	3,111.8	7.4

Gross margin on sales for the first quarter of 2019 was 19.4% versus 19.5% for the corresponding quarter of 2018.

Operating expenses as a percentage of sales for the first quarter of 2019 were 11.3% versus 12.5% for the corresponding quarter of 2018. Excluding the $7.4 million gain on divestiture of pharmacies in the first quarter of 2019, as well as business acquisition-related expenses of $2.0 million and distribution network modernization project expenses of $11.4 million in the first quarter of 2018, operating expenses as a percentage of sales were 11.5% in the first quarter of 2019 compared with 12.1% in the corresponding quarter of 2018. This variation resulted from the inclusion of the Jean Coutu Group partially offset by increases in the minimum wages, particularly in Ontario.

DEPRECIATION AND AMORTIZATION AND NET FINANCIAL COSTS

Total depreciation and amortization expense for the first quarter of 2019 was $63.7 million versus $46.9 million for the corresponding period of 2018. Amortization of intangible assets acquired in connection with the Jean Coutu Group acquisition amounted to $9.0 million for the first quarter of 2019.

Net financial costs for the first quarter of 2019 totalled $24.0 million compared with $12.3 million for the same quarter last year. This increase stemmed primarily from the notes issued for the Jean Coutu Group acquisition.

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

During the first quarter of fiscal 2019, the Company disposed of its investment in Colo-D Inc., an associate presented in other assets, for a total cash consideration of $58.0 million. A gain before income taxes of $35.4 million on the disposal of this investment was recognized in earnings.

During the first quarter of 2018, to fund a portion of the Jean Coutu Group acquisition, we disposed of most of our investment in ACT, and recorded a gain of $1,107.4 million. As a result of this disposal, the Corporation no longer has significant influence over ACT. Consequently, the investment was revalued at fair value and the Corporation recorded a $225.6 million fair value revaluation gain in net earnings. In the fourth quarter of fiscal 2018, we disposed of the majority of this investment at fair value and entered into a forward agreement with a financial institution for the disposal of the remaining shares. The disposal was completed in the first quarter of fiscal 2019 and the final revaluation of the financial liability resulted in a gain of $1.5 million recognized in net earnings.

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

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

INCOME TAXES

The income tax expense of $66.7 million for the first quarter of 2019 represented an effective tax rate of 24.7% compared with an income tax expense of $223.3 million in the first quarter of 2018 which represented an effective tax rate of 14.7%. The low effective rate in 2018 resulted from the gain on disposal of the majority of our investment in ACT and the gain on fair value revaluation and disposal of our residual investment.

NET EARNINGS AND ADJUSTED NET EARNINGS[(1)]

Net earnings for the first quarter of 2019 were $203.1 million, a decrease of 84.4% from $1,299.1 million for the first quarter of 2018. Fully diluted net earnings per share decreased by 86.1% to $0.79 from $5.67 last year. Excluding the specific items shown in the table below, adjusted net earnings[(1)] for the first quarter of 2019 totalled $172.2 million compared with $126.7 million for the corresponding quarter of 2018, and adjusted fully diluted net earnings per share[(1)] amounted to $0.67 versus $0.55, up 35.9% and 21.8%, respectively.

Net earnings adjustments[(1)]

	12 weeks / Fiscal Year					
	2019		2018		Change (%)	
	(Millions of dollars)	**Fully diluted EPS (Dollars)**	(Millions of dollars)	Fully diluted EPS (Dollars)	Net earnings	Fully diluted EPS
Net earnings	**203.1**	**0.79**	1,299.1	5.67	(84.4)	(86.1)
Gain on divestiture of pharmacies, after taxes	**(5.4)**		—			
Business acquisition-related expenses, after taxes	**—**		1.5			
Distribution network modernization project expenses, after taxes	**—**		8.4			
Amortization of intangible assets acquired in connection with the Jean Coutu Group acquisition, after taxes	**6.6**		—			
Income on business acquisition-related short-term investments and security deposits, after taxes	**—**		(3.9)			
Interest on notes issued in connection with a business acquisition, after taxes	**—**		1.6			
Financial costs on the balance payable for the buyout of minority interests, after taxes	**—**		1.3			
Gain on the disposal of investments in associates after taxes	**(31.0)**		(958.9)			
Gain on revaluation and disposal of an investment at fair value, after taxes	**(1.1)**		(195.7)			
Share of an associate's earnings, after taxes	**—**		(26.7)			
Adjusted net earnings[(1)]	**172.2**	**0.67**	126.7	0.55	35.9	21.8

[(1)] See table on "Net earnings adjustments" and section on "Non-IFRS Measurements"
[(2)] See table on "Operating income before depreciation and amortization and associates' earnings adjustments" and section on "Non-IFRS Measurements"
[(3)] See section on "Forward-looking Information"

QUARTERLY HIGHLIGHTS

(Millions of dollars, unless otherwise indicated)	**2019**	2018	2017	Change *(%)*
Sales				
Q1[4]	**3,977.7**	3,111.8		27.8
Q4[5]		3,736.2	3,228.4	15.7
Q3[6]		4,636.4	4,073.2	13.8
Q2[4]		2,899.0	2,902.4	(0.1)
Net earnings				
Q1[4]	**203.1**	1,299.1		(84.4)
Q4[5]		145.0	154.9	(6.4)
Q3[6]		167.5	183.0	(8.5)
Q2[4]		106.9	132.4	(19.3)
Adjusted net earnings[1]				
Q1[4]	**172.2**	126.7		35.9
Q4[5]		161.0	131.1	22.8
Q3[6]		183.4	165.1	11.1
Q2[4]		108.1	113.9	(5.1)
Fully diluted net earnings per share *(Dollars)*				
Q1[4]	**0.79**	5.67		(86.1)
Q4[5]		0.56	0.66	(15.2)
Q3[6]		0.69	0.78	(11.5)
Q2[4]		0.47	0.56	(16.1)
Adjusted fully diluted net earnings per share[1] *(Dollars)*				
Q1[4]	**0.67**	0.55		21.8
Q4[5]		0.63	0.56	12.5
Q3[6]		0.75	0.70	7.1
Q2[4]		0.47	0.48	(2.1)

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

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

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

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

[1] See table on "Net earnings adjustments" and section on "Non-IFRS Measurements"
[2] See table on "Operating income before depreciation and amortization and associates' earnings adjustments" and section on "Non-IFRS Measurements"
[3] See section on "Forward-looking Information"

Sales in the second quarter of 2018 reached $2,899.0 million, down 0.1% compared with $2,902.4 million in the second quarter of 2017. The small decrease in sales is due to the timing shift of the week before Christmas which fell in the first quarter in 2018, whereas it fell in the second quarter in 2017. Same-store sales for the second quarter were down 1.2% but would have been up 1.0% excluding the shift (increase of 0.3% in the same quarter of 2017). Our food basket experienced an inflation of about 0.8%, echoing the trend started in the fourth quarter of 2017.

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

Net earnings for the fourth quarter of 2018 were $145.0 million, down 6.4% from $154.9 million for the fourth quarter of 2017. Fully diluted net earnings per share decreased by 15.2% to $0.56 from $0.66 in 2017. Excluding from the fourth quarter of 2018, the pharmacy network closure and restructuring expenses of $31.4 million, the amortization of intangible assets acquired in connection with the Jean Coutu Group acquisition of $9.0 million and the gain on revaluation and disposal of an investment at fair value of $15.5 million, and excluding from the fourth quarter of 2017 the share of an associate's earnings (ACT) of $27.5 million, as well as income taxes relating to all these items, adjusted net earnings(1) for the fourth quarter of 2018 totalled $161.0 million compared with $131.1 million for the corresponding quarter of 2017 and adjusted net diluted earnings per share(1) amounted to $0.63 compared with $0.56, up 22.8% and 12.5%, respectively. If net earnings related to the 13th week of the fourth quarter of 2017 are also excluded, adjusted net earnings(1) for the fourth quarter of 2018 compares with $119.2 million for the corresponding quarter of 2017 and adjusted fully diluted net earnings per share(1) compares with $0.51, up 35.1% and 23.5%, respectively.

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

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

(1) See table on "Net earnings adjustments" and section on "Non-IFRS Measurements"
(2) See table on "Operating income before depreciation and amortization and associates' earnings adjustments" and section on "Non-IFRS Measurements"
(3) See section on "Forward-looking Information"

(Millions of dollars)	**2019 Q1**	2018 Q4	2018 Q3	2018 Q2	2018 Q1	2017 Q4	2017 Q3	2017 Q2
Net earnings	**203.1**	145.0	167.5	106.9	1,299.1	154.9	183.0	132.4
Gain on divestiture of pharmacies, after taxes	**(5.4)**	—	—	—	—	—	—	—
Pharmacy network closure and restructuring expenses, after taxes	**—**	23.0	—	—	—	—	—	—
Business acquisition-related expenses, after taxes	**—**	—	20.1	1.1	1.5	—	—	—
Distribution network modernization project expenses, after taxes	**—**	—	—	—	8.4	—	—	—
Amortization of intangible assets acquired in connection with the Jean Coutu Group acquisition, after taxes	**6.6**	6.6	4.4	—	—	—	—	—
Income on business acquisition-related short-term investments and security deposits, after taxes	**—**	—	(4.6)	(7.1)	(3.9)	—	—	—
Interest on notes issued in connection with a business acquisition, after taxes	**—**	—	5.2	7.2	1.6	—	—	—
Financial costs on the balance payable for the buyout of minority interests, after taxes	**—**	—	—	—	1.3	—	—	—
Gain on disposal of investments in associates, after taxes	**(31.0)**	—	(9.2)	—	(958.9)	—	—	—
Gain on revaluation and disposal of an investment at fair value, after taxes	**(1.1)**	(13.6)	—	—	(195.7)	—	—	—
Share of an associate's earnings, after taxes	**—**	—	—	—	(26.7)	(23.8)	(17.9)	(18.5)
Adjusted net earnings(1)	**172.2**	161.0	183.4	108.1	126.7	131.1	165.1	113.9

(Dollars)	**2019 Q1**	2018 Q4	2018 Q3	2018 Q2	2018 Q1	2017 Q4	2017 Q3	2017 Q2
Fully diluted net earnings per share	**0.79**	0.56	0.69	0.47	5.67	0.66	0.78	0.56
Adjustments impact	**(0.12)**	0.07	0.06	—	(5.12)	(0.10)	(0.08)	(0.08)
Adjusted fully diluted net earnings per share(1)	**0.67**	0.63	0.75	0.47	0.55	0.56	0.70	0.48

CASH POSITION

OPERATING ACTIVITIES

Operating activities required cash outflows of $177.1 million in the first quarter of 2019 compared with cash inflows of $42.4 million for the corresponding quarter of 2018. The difference resulted primarily from the payment in the first quarter of 2019 of taxes payable as at September 29, 2018, which were higher due to the gain realized on the disposal of our investment in ACT in fiscal 2018.

INVESTING ACTIVITIES

Investing activities generated cash inflows of $12.8 million for the first quarter of 2019 compared with $84.1 million for the corresponding period of 2018. The change resulted mainly from the difference between the proceeds on disposal of the investment in associate Colo-D Inc. of $58.0 million in the first quarter of 2019 and proceeds on disposal of the investment in ACT of $1,534.0 million in the corresponding quarter of 2018, reduced by security deposits in an amount of $1,200.0 million from the issuance of the Series F, G and H Notes and the $221.2 million settlement of the buyout of minority interests in Adonis and Phoenicia, also in 2018.

During the first quarter of 2019, we and our retailers carried out major expansions and renovations of 10 stores and 2 stores were closed for a net decrease of 29,900 square feet or 0.1% of our food retail network.

(1) See table on "Net earnings adjustments" and section on "Non-IFRS Measurements"
(2) See table on "Operating income before depreciation and amortization and associates' earnings adjustments" and section on "Non-IFRS Measurements"
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FINANCING ACTIVITIES

In the first quarter of 2019, financing activities required cash outflows of $11.0 million compared with cash inflows of $1,368.2 million in the corresponding quarter of 2018. The difference resulted primarily from the issuance, in 2018, of Series F, G and H Notes to fund a portion of the Jean Coutu Group acquisition.

FINANCIAL POSITION

We do not anticipate[3] any liquidity risk and consider our financial position at the end of the first quarter of 2019 as very solid. We had an unused authorized revolving credit facility of $561.6 million. Our non-current debt represented 31.6% of the combined total of non-current debt and equity (non-current debt/total capital).

At the end of the first quarter of fiscal 2019, the main elements of our non-current debt were as follows:

	Interest Rate	Maturity	Balance *(Millions of dollars)*
Revolving Credit Facility	Rates fluctuate with changes in bankers' acceptance rates	November 3, 2023	38.4
Series E Notes	Rates fluctuate with changes in bankers' acceptance rates	February 27, 2020	400.0
Series C Notes	3.20% fixed rate	December 1, 2021	300.0
Series F Notes	2.68% fixed rate	December 5, 2022	300.0
Series G Notes	3.39% fixed rate	December 6, 2027	450.0
Series B Notes	5.97% fixed rate	October 15, 2035	400.0
Series D Notes	5.03% fixed rate	December 1, 2044	300.0
Series H Notes	4.27% fixed rate	December 4, 2047	450.0

Our main financial ratios were as follows:

	As at December 22, 2018	As at September 29, 2018
Financial structure		
Non-current debt *(Millions of dollars)*	**2,669.0**	2,630.4
Equity *(Millions of dollars)*	**5,769.8**	5,656.0
Non-current debt/total capital *(%)*	**31.6**	31.7

	Fiscal year	
	2019 *12 weeks*	2018 *12 weeks*
Results		
Operating income before depreciation and amortization and associates' earnings/Financial costs *(Times)*	**13.4**	17.7

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

CAPITAL STOCK, STOCK OPTIONS AND PERFORMANCE SHARE UNITS

	As at December 22, 2018	As at September 29, 2018
Number of Common Shares outstanding *(Thousands)*	**255,684**	255,650
Stock options:		
Number outstanding *(Thousands)*	**3,011**	3,067
Exercise prices *(Dollars)*	**17.72 to 44.73**	17.72 to 44.73
Weighted average exercise price *(Dollars)*	**30.34**	30.30
Performance share units:		
Number outstanding *(Thousands)*	**571**	579

NORMAL COURSE ISSUER BID PROGRAM

Under the current normal course issuer bid, the Corporation may repurchase up to 7,000,000 of its common shares between November 23, 2018 and November 22, 2019. As at January 18, 2019, no shares had been repurchased.

DIVIDENDS

On January 28, 2019, the Corporation's Board of Directors declared a quarterly dividend of $0.20 per Common Share payable on March 12, 2019, an increase of 11.1% over the dividend declared for the same quarter last year.

SHARE TRADING

The value of METRO shares remained in the $39.04 to $48.09 range over the first quarter of fiscal 2019. During this period, a total of 41.2 million shares were traded on the Toronto Stock Exchange. The closing price on January 18, 2019 was $49.29 compared with $40.18 at the end of fiscal 2018.

CONTINGENCY

In the normal course of business, the Corporation is exposed to various contingencies as described in the Corporation’s audited annual consolidated financial statements dated September 30, 2018.

CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

ACCOUNTING STANDARDS ADOPTED IN 2019

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

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

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

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

- Cash and cash equivalents were classified as “Financial assets at fair value through profit and loss” before the adoption of IFRS 9 and are now classified as subsequently measured at amortized cost.
- Accounts receivable and loans to certain customers were classified as “Loans and receivables” before the adoption of IFRS 9 and are now classified as subsequently measured at amortized cost.

(1) See table on "Net earnings adjustments" and section on "Non-IFRS Measurements"
(2) See table on "Operating income before depreciation and amortization and associates' earnings adjustments" and section on "Non-IFRS Measurements"
(3) See section on "Forward-looking Information"

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

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

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

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

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

Hedge accounting
IFRS 9 establishes a new hedge accounting model to align hedge accounting relationships with corresponding risk management activities. The new hedge accounting requirements have not resulted in an adjustment to the Corporation’s interim condensed consolidated financial statements.

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

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

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

FORWARD-LOOKING INFORMATION

We have used, throughout this 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", "annualize", “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 2019 action plan.

(1) See table on "Net earnings adjustments" and section on "Non-IFRS Measurements"
(2) See table on "Operating income before depreciation and amortization and associates' earnings adjustments" and section on "Non-IFRS Measurements"
(3) See section on "Forward-looking Information"

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 2018 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.

NON-IFRS MEASUREMENTS

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

ADJUSTED OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION AND ASSOCIATES' EARNINGS, ADJUSTED NET EARNINGS AND ADJUSTED FULLY DILUTED NET EARNINGS PER SHARE

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

CONTROLS AND PRODEDURES

Corporation's senior management, including the President and Chief Executive Officer, and the Executive Vice President, Chief Financial Officer and Treasurer, is responsible for the implementation and maintenance of disclosure controls and procedures (DC&P), and of the internal control over financial reporting (ICFR), as provided for in National Instrument 52-109 regarding the *Certification of Disclosure in Issuers' Annual and Interim Filings*.

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

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

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

Since the acquisition date, the Jean Coutu Group’s results have been included in our consolidated financial statements. For the first quarter of 2019, the Jean Coutu Group’s sales and net earnings represented approximately 19% and 29% of consolidated sales and consolidated net earnings, respectively. As percentages of total consolidated current assets and liabilities, the Jean Coutu Group’s current assets and liabilities as at December 22, 2018 represented approximately 33% and 22% respectively, and its non-current assets and liabilities represented approximately 52% and 17% of total consolidated non-current assets and liabilities.

Other than the changes noted above, the Corporation made no other changes to ICFR during the first quarter of 2019 that materially affected, or are reasonably likely to materially affect, ICFR.

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

OUTLOOK

We are very pleased with our first quarter results, which reflect strong execution of our business plans and the success so far of our combination with the Jean Coutu Group. In a very competitive market environment, we are well positioned to meet our customers' high expectations and continue[3] to create long-term value for our shareholders.

Montréal, January 29, 2019

[1] See table on "Net earnings adjustments" and section on "Non-IFRS Measurements"
[2] See table on "Operating income before depreciation and amortization and associates' earnings adjustments" and section on "Non-IFRS Measurements"
[3] See section on "Forward-looking Information"

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Interim Condensed Consolidated Financial Statements

METRO INC.

December 22, 2018

Table of contents

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Condensed consolidated statements of income

Periods ended December 22, 2018 and December 23, 2017

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

	12 weeks	
	Fiscal Year	
	2019	2018
Sales	**3,977.7**	3,111.8
Cost of sales and operating expenses *(note 3)*	**(3,664.5)**	(2,882.6)
Gain on divestiture of pharmacies *(note 3)*	**7.4**	—
Distribution network modernization project expenses *(note 3)*	**—**	(11.4)
Operating income before depreciation and amortization and associates' earnings	**320.6**	217.8
Depreciation and amortization *(note 3)*	**(63.7)**	(46.9)
Financial costs, net *(note 3)*	**(24.0)**	(12.3)
Gain on disposal of investments in associates *(note 3)*	**35.4**	1,107.4
Gain on revaluation and disposal of an investment at fair value *(note 3)*	**1.5**	225.6
Share of an associate's earnings	**—**	30.8
Earnings before income taxes	**269.8**	1,522.4
Income taxes *(note 4)*	**(66.7)**	(223.3)
Net earnings	**203.1**	1,299.1
Attributable to:		
Equity holders of the parent	**202.5**	1,297.9
Non-controlling interests	**0.6**	1.2
	203.1	1,299.1
Net earnings per share *(Dollars) (note 5)*		
Basic	**0.79**	5.71
Fully diluted	**0.79**	5.67

See accompanying notes

metro

Condensed consolidated statements of comprehensive income

Periods ended December 22, 2018 and December 23, 2017

(Unaudited) (Millions of dollars)

	12 weeks	
	Fiscal Year	
	2019	2018
Net earnings	**203.1**	1,299.1
Other comprehensive income		
Items that will not be reclassified to net earnings		
Changes in defined benefit plans		
Actuarial losses	**(64.1)**	(14.0)
Asset ceiling effect	**3.3**	0.7
Minimum funding requirement	**0.2**	—
Loss on disposal of the investment at fair value *(note 3)*	**(1.3)**	—
Corresponding income taxes	**16.3**	3.4
	(45.6)	(9.9)
Items that will be reclassified later to net earnings		
Fair value revaluation of investment	**—**	33.1
Share of an associate's other comprehensive income	**—**	(3.9)
Corresponding income taxes	**—**	(4.0)
	—	25.2
	(45.6)	15.3
Comprehensive income	**157.5**	1,314.4
Attributable to:		
Equity holders of the parent	**156.9**	1,313.2
Non-controlling interests	**0.6**	1.2
	157.5	1,314.4

See accompanying notes

metro

Condensed consolidated statements of financial position

(Unaudited) (Millions of dollars)

	As at December 22, 2018	As at September 29, 2018
ASSETS		
Current assets		
Cash and cash equivalents	**51.6**	226.9
Accounts receivable	**626.3**	538.1
Inventories	**1,239.2**	1,099.1
Prepaid expenses	**34.3**	32.1
Current taxes	**12.5**	20.6
	1,963.9	1,916.8
Non-current assets		
Fixed assets	**2,527.7**	2,523.4
Investment properties	**46.0**	46.1
Intangible assets	**2,900.2**	2,914.4
Goodwill	**3,305.2**	3,302.2
Deferred taxes	**4.7**	4.5
Defined benefit assets	**33.3**	55.1
Investment at fair value *(note 3)*	**—**	66.9
Other assets *(note 3)*	**66.3**	92.8
	10,847.3	10,922.2
LIABILITIES AND EQUITY		
Current liabilities		
Bank loans	**0.4**	0.1
Accounts payable	**1,345.6**	1,358.5
Current taxes	**26.1**	254.8
Provisions	**7.5**	8.0
Current portion of debt	**10.8**	13.3
	1,390.4	1,634.7
Non-current liabilities		
Debt	**2,669.0**	2,630.4
Defined benefit liabilities	**121.9**	81.3
Provisions	**22.3**	22.3
Deferred taxes	**823.5**	846.5
Other liabilities	**10.7**	11.7
Non-controlling interests	**39.7**	39.3
	5,077.5	5,266.2
Equity		
Attributable to equity holders of the parent	**5,756.4**	5,642.8
Attributable to non-controlling interests	**13.4**	13.2
	5,769.8	5,656.0
	10,847.3	10,922.2

See accompanying notes

metro

Condensed consolidated statements of changes in equity

Periods ended December 22, 2018 and December 23, 2017

(Unaudited) (Millions of dollars)

	Attributable to the equity holders of the parent							
	Capital stock *(note 6)*	Treasury shares *(note 6)*	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total	Non-controlling interests	Total equity
Balance as at September 29, 2018	**1,724.1**	**(24.9)**	**20.3**	**3,918.4**	**4.9**	**5,642.8**	**13.2**	**5,656.0**
Net earnings	**—**	**—**	**—**	**202.5**	**—**	**202.5**	**0.6**	**203.1**
Other comprehensive income	**—**	**—**	**—**	**(45.6)**	**—**	**(45.6)**	**—**	**(45.6)**
Comprehensive income	**—**	**—**	**—**	**156.9**	**—**	**156.9**	**0.6**	**157.5**
Stock options exercised	**0.9**	**—**	**(0.1)**	**—**	**—**	**0.8**	**—**	**0.8**
Share-based compensation cost	**—**	**—**	**1.9**	**—**	**—**	**1.9**	**—**	**1.9**
Dividends	**—**	**—**	**—**	**(46.0)**	**—**	**(46.0)**	**(0.2)**	**(46.2)**
Adoption of IFRS 9 "Financial instruments" on the investment at fair value *(note 2)*	**—**	**—**	**—**	**4.9**	**(4.9)**	**—**	**—**	**—**
Change in fair value of non-controlling interests liability	**—**	**—**	**—**	**—**	**—**	**—**	**(0.4)**	**(0.4)**
Sale of shares in joint ventures	**—**	**—**	**—**	**—**	**—**	**—**	**0.2**	**0.2**
	0.9	**—**	**1.8**	**(41.1)**	**(4.9)**	**(43.3)**	**(0.4)**	**(43.7)**
Balance as at December 22, 2018	**1,725.0**	**(24.9)**	**22.1**	**4,034.2**	**—**	**5,756.4**	**13.4**	**5,769.8**

	Attributable to the equity holders of the parent							
	Capital stock	Treasury shares	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total	Non-controlling interests	Total equity
Balance as at September 30, 2017	565.8	(21.9)	19.8	2,343.9	3.5	2,911.1	12.8	2,923.9
Net earnings	—	—	—	1,297.9	—	1,297.9	1.2	1,299.1
Other comprehensive income	—	—	—	(9.9)	25.2	15.3	—	15.3
Comprehensive income	—	—	—	1,288.0	25.2	1,313.2	1.2	1,314.4
Share-based compensation cost	—	—	2.7	—	—	2.7	—	2.7
Performance share units settlement	—	1.4	(1.4)	—	—	—	—	—
Dividends	—	—	—	(36.9)	—	(36.9)	(0.2)	(37.1)
Change in fair value of non-controlling interests liability	—	—	—	3.1	—	3.1	(0.6)	2.5
	—	1.4	1.3	(33.8)	—	(31.1)	(0.8)	(31.9)
Balance as at December 23, 2017	565.8	(20.5)	21.1	3,598.1	28.7	4,193.2	13.2	4,206.4

See accompanying notes

metro

Condensed consolidated statements of cash flows

Periods ended December 22, 2018 and December 23, 2017

(Unaudited) (Millions of dollars)

	12 weeks Fiscal Year	
	2019	2018
Operating activities		
Earnings before income taxes	**269.8**	1,522.4
Non-cash items		
Gain on disposal of investments in associates *(note 3)*	**(35.4)**	(1,107.4)
Gain on revaluation and disposal of an investment at fair value *(note 3)*	**(1.5)**	(225.6)
Share of an associate's earnings	**—**	(30.8)
Gain on divestiture of pharmacies *(note 3)*	**(7.4)**	—
Depreciation and amortization	**63.7**	46.9
Loss (gain) on disposal and write-offs of fixed and intangible assets and investment properties	**0.3**	(10.9)
Impairment losses on fixed assets	**—**	5.8
Share-based compensation cost	**1.9**	2.7
Difference between amounts paid for employee benefits and current period cost	**1.3**	(0.3)
Distribution network modernization project expenses *(note 3)*	**—**	11.4
Financial costs, net	**24.0**	12.3
	316.7	226.5
Net change in non-cash working capital items	**(150.4)**	(111.1)
Interest paid	**(49.2)**	(29.2)
Income taxes paid	**(294.2)**	(43.8)
	(177.1)	42.4
Investing activities		
Net proceeds on disposal of investments in associates *(note 3)*	**58.0**	1,534.0
Proceeds on divestiture of pharmacies *(note 3)*	**8.9**	—
Security deposits	**—**	(1,200.0)
Sale of shares in joint ventures	**0.2**	—
Buyout of minority interests	**—**	(221.2)
Net change in other assets	**3.9**	(0.1)
Additions to fixed assets and investment properties	**(51.6)**	(51.2)
Disposal of fixed assets and investment properties	**0.1**	26.1
Additions to intangible assets	**(6.7)**	(3.5)
	12.8	84.1
Financing activities		
Net change in bank loans	**0.3**	0.1
Shares issued	**0.8**	—
Increase in debt	**41.2**	1,411.3
Repayment of debt	**(6.3)**	(7.3)
Net change in other liabilities	**(1.0)**	1.0
Dividends	**(46.0)**	(36.9)
	(11.0)	1,368.2
Net change in cash and cash equivalents	**(175.3)**	1,494.7
Cash and cash equivalents — beginning of period	**226.9**	148.9
Cash and cash equivalents — end of period	**51.6**	1,643.6

See accompanying notes

1. STATEMENT PRESENTATION

METRO INC. (the Corporation) is a company incorporated under the laws of Québec. One of Canada's leading food and pharmacy retailers and distributors, the Corporation operates a network of supermarkets, discount stores and drugstores. Its head office is located at 11011 Maurice-Duplessis Blvd., Montréal, Québec, Canada, H1C 1V6. Its two business segments, food operations and pharmaceutical operations, are combined into one reportable operating segment due to the similar nature of their operations.

The unaudited interim condensed consolidated financial statements for the 12-week period ended December 22, 2018 have been prepared by management in accordance with IAS 34 *Interim Financial Reporting* and using the same accounting policies and methods of computation as those used in preparing the audited annual consolidated financial statements for the year ended September 29, 2018 except for changes presented 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 2018 Annual Report.

2. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

ACCOUNTING STANDARDS ADOPTED IN 2019

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

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

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

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

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

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

Hedge accounting
IFRS 9 establishes a new hedge accounting model to align hedge accounting relationships with corresponding risk management activities. The new hedge accounting requirements have not resulted in an adjustment to the Corporation’s interim condensed consolidated financial statements.

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

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

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

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

3. ADDITIONAL INFORMATION ON THE NATURE OF EARNINGS COMPONENTS

	12 weeks			
	Fiscal Year			
	2019	**%**	2018	%
Sales	**3,977.7**		3,111.8	
Cost of sales	**(3,205.7)**		(2,504.4)	
Gross margins	**772.0**	**19.4**	607.4	19.5
Operating expenses				
Wages and fringe benefits	**(206.4)**		(165.3)	
Employee benefits expense	**(19.6)**		(18.5)	
Rents and occupancy charges	**(120.5)**		(100.0)	
Gain on divestiture of pharmacies	**7.4**		—	
Distribution network modernization project expenses	**—**		(11.4)	
Others	**(112.3)**		(94.4)	
	(451.4)	**11.3**	(389.6)	12.5
Operating income before depreciation and amortization and associates' earnings	**320.6**	**8.1**	217.8	7.0
Depreciation and amortization				
Fixed assets	**(46.2)**		(39.8)	
Investment properties	**(0.1)**		—	
Intangible assets	**(17.4)**		(7.1)	
	(63.7)		(46.9)	
Financial costs, net				
Current interest	**(0.6)**		(2.1)	
Non-current interest	**(23.9)**		(15.6)	
Interest on defined benefit obligations net of plan assets	**(0.5)**		(0.6)	
Amortization of deferred financing costs	**(0.7)**		(0.3)	
Interest income	**1.7**		6.4	
Passage of time	**—**		(0.1)	
	(24.0)		(12.3)	
Gain on disposal of investments in associates	**35.4**		1,107.4	
Gain on revaluation and disposal of an investment at fair value	**1.5**		225.6	
Share of an associate's earnings	**—**		30.8	
Earnings before income taxes	**269.8**		1,522.4	

During the first quarter of fiscal 2019, pursuant to the agreement reached with the Competition Bureau following the Jean Coutu Group acquisition, the Corporation completed the divestiture of rights in 5 of the 10 locations where pharmacies are in operation. Consequently, the Corporation recognized a $7.4 gain on divestiture of pharmacies before income taxes following the disposal of the leases and a building related to these pharmacies for a total cash consideration of $8.9. Transactions to divest of the 5 other pharmacies are underway and expected to close in the second quarter of fiscal 2019.

During the first quarter of fiscal 2019, the Company disposed of its investment in Colo-D Inc., an associate presented in other assets, for a total cash consideration of $58.0. A gain of $35.4 before income taxes ($31.0 after income taxes) on the disposal of this investment was recognized in earnings.

In addition, during the first quarter of 2019, the Corporation finalized the disposal of the entire investment at fair value in Alimentation Couche Tard Inc. for final proceeds of $65.7, an amount of $68.4 was received in the fourth quarter of fiscal 2018 upon entering into a forward agreement. The completion of this agreement following the disposal of the investment resulted in a revaluation gain of $1.5 before income taxes presented in earnings as a gain on revaluation and disposal of an investment at fair value. A loss on disposal of $1.3 before income taxes was recognized in accumulated other comprehensive income.

4. INCOME TAXES

The effective income tax rates were as follows:

	12 weeks	
	Fiscal Year	
(Percentage)	**2019**	2018
Combined statutory income tax rate	**26.6**	26.7
Changes		
Gain on disposal of investments in associates *(note 3)*	**(1.6)**	(9.7)
Gain on revaluation and disposal of an investment at fair value	**—**	(2.0)
Share of an associate's earnings	**—**	(0.3)
Others	**(0.3)**	—
	24.7	14.7

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:

	12 weeks	
	Fiscal Year	
(Millions)	**2019**	2018
Weighted average number of shares outstanding – Basic	**255.7**	227.2
Dilutive effect under:		
Stock option plan	**0.8**	1.0
Performance share unit plan	**0.6**	0.6
Weighted average number of shares outstanding – Fully diluted	**257.1**	228.8

6. CAPITAL STOCK

COMMON SHARES ISSUED

The Common Shares issued were summarized as follows:

	Number *(Thousands)*	
Balance as at September 30, 2017	227,719	565.8
Shares issued	28,031	1,147.9
Stock options exercised	503	10.4
Balance as at September 29, 2018	**256,253**	**1,724.1**
Stock options exercised	**34**	**0.9**
Balance as at December 22, 2018	**256,287**	**1,725.0**

TREASURY SHARES

The treasury shares were summarized as follows:

	Number *(Thousands)*	
Balance as at September 30, 2017	579	(21.9)
Acquisition	250	(10.2)
Release	(226)	7.2
Balance as at September 29, 2018 and December 22, 2018	**603**	**(24.9)**

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

Excluding treasury shares from the Common Shares issued, the Corporation had 255,684,000 outstanding Common Shares issued as at December 22, 2018 (255,650,000 as at September 29, 2018).

STOCK OPTION PLAN

The outstanding options were summarized as follows:

	Number *(Thousands)*	Weighted average exercise price *(Dollars)*
Balance as at September 30, 2017	3,180	26.94
Granted	390	41.16
Exercised	(503)	17.49
Balance as at September 29, 2018	**3,067**	**30.30**
Exercised	**(34)**	**21.02**
Cancelled	**(22)**	**39.91**
Balance as at December 22, 2018	**3,011**	**30.34**

The exercise prices of the outstanding options ranged from $17.72 to $44.73 as at December 22, 2018 with expiration dates up to 2025. 1,339,340 of those options could be exercised at a weighted average exercise price of $23.54.

The compensation expense for these options amounted to $0.4 for the 12-week period ending December 22, 2018 ($0.4 in 2018).

PERFORMANCE SHARE UNIT PLAN

The number of PSUs outstanding was as follows:

	Number *(Thousands)*
Balance as at September 30, 2017	547
Granted	230
Settled	(193)
Cancelled	(5)
Balance as at September 29, 2018	**579**
Cancelled	**(8)**
Balance as at December 22, 2018	**571**

The compensation expense for the PSU plan amounted to $1.5 for the 12-week period ended December 22, 2018 ($2.3 in 2018).

7. FINANCIAL INSTRUMENTS

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

	As at December 22, 2018		As at September 29, 2018	
	Book value	**Fair value**	Book value	Fair value
Investment at fair value				
Asset measured at fair value through other comprehensive income *(note 3)*	**—**	**—**	66.9	66.9
Other assets				
Amortized cost				
Loans to certain customers	**63.1**	**63.1**	64.5	64.5
Non-controlling interests				
Liability measured at fair value through net earnings	**39.7**	**39.7**	39.3	39.3
Debt				
Liabilitiy measured at amortized cost				
Revolving Credit Facility	**38.4**	**38.4**	—	—
Series E Notes	**400.0**	**399.2**	400.0	401.2
Series C Notes	**300.0**	**299.3**	300.0	300.6
Series F Notes	**300.0**	**291.9**	300.0	292.9
Series G Notes	**450.0**	**427.9**	450.0	432.8
Series B Notes	**400.0**	**459.0**	400.0	474.7
Series D Notes	**300.0**	**311.8**	300.0	323.5
Series H Notes	**450.0**	**415.5**	450.0	432.5
Loans	**33.4**	**33.4**	35.2	35.2
	2,671.8	**2,676.4**	2,635.2	2,693.4

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

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

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

The fair value of the non-controlling interest-related non-current liability is equivalent to the estimated price to be paid, which is based mainly on the discounted value of the projected future earnings of Première Moisson and MissFresh, as of the date the options will become exercisable. The Corporation categorized the fair value measurement in Level 3, as it is derived from data that is not observable.

8. APPROVAL OF FINANCIAL STATEMENTS

The interim condensed consolidated financial statements for the 12-week period ended December 22, 2018 (including comparative figures) were approved for issue by the Board of Directors on January 28, 2019.

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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