metro

INTERIM REPORT

12-week period ended December 21, 2019

1st Quarter 2020

HIGHLIGHTS

2020 FIRST QUARTER

- **Sales of $4,029.8 million, up 1.3% and 1.6% when excluding the impact of IFRS 16**
- **Food same-store sales up 1.4%**
- **Pharmacy same-store sales up 3.6%**
- **Net earnings of $170.2 million, down 16.2%**
- **Adjusted net earnings(1) of $180.9 million, up 5.1%**
- **Fully diluted net earnings per share of $0.67, down 15.2%**
- **Adjusted fully diluted net earnings per share(1) of $0.71, up 6.0%**
- **Declared dividend of $0.225 per share, up 12.5%**
- **Dividend payout increase to a target range of 30% to 40% of the previous year's adjusted net earnings(1)**

REPORT TO SHAREHOLDERS

Dear Shareholders,

I am pleased to present our interim report for the first quarter of fiscal 2020 ended December 21, 2019.

Sales in the first quarter of fiscal 2020 reached $4,029.8 million, up 1.3% compared to $3,977.7 million in the first quarter of fiscal 2019. Excluding the impact of the adoption of IFRS 16 *Leases* adopted in the first quarter of 2020, sales reached $4,042.2 million, up 1.6%. Food same-store sales were up 1.4% (3.2% in 2019) and would have been up 2.0% taking into account the shift in Christmas sales. Our food basket inflation was approximately 2.0% (1.8% in 2019). Pharmacy same-store sales were up 3.6% (1.5% in 2019), with a 4.1% increase in prescription drugs (prescription count up 2.5%) and a 2.7% increase in front-store sales.

First quarter net earnings were $170.2 million in fiscal 2020 compared with $203.1 million in the same quarter of fiscal 2019, and fully diluted net earnings per share were $0.67 compared with $0.79 in 2019, down 16.2% and 15.2%, respectively. Taking into account the specific items of the 2020 first quarter, primarily the loss on disposal of our subsidiary MissFresh and the specific items of the 2019 first quarter, primarily the gain on disposal of our investment in associate Colo-D Inc. and the gain on the divestiture of 5 pharmacies, adjusted net earnings(1) for the first quarter of fiscal 2020 totalled $180.9 million compared with $172.2 million for the corresponding quarter of fiscal 2019, and adjusted fully diluted net earnings per share(1) amounted to $0.71 versus $0.67, up 5.1% and 6.0%, respectively.

Given our strong financial position, the Board of Directors has approved a change in the Corporation's dividend policy. The annual dividend payout has been increased to a target range of 30% to 40% of the previous fiscal year's adjusted net earnings(1). On January 27, 2020, the Board of Directors declared a quarterly dividend of $0.225 per share, an increase of 12.5% versus the same quarter last year.

The 2020 fiscal year is off to a good start with solid revenue and earnings growth in a very competitive environment. Our business is well diversified and we are confident in our ability to grow(3) by focusing on our customer's needs and continuing(3) to invest in our retail network and supply chain.

Eric R. La Flèche
President and Chief Executive Officer

January 28, 2020

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

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 21, 2019 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 21, 2019 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 2019 Annual Report. Unless otherwise stated, the interim report is based on information as at January 17, 2020.

Additional information, including the Certification of Interim Filings letters for quarter ended December 21, 2019 signed by the President and Chief Executive Officer and the Executive Vice-President, Chief Financial Officer and Treasurer, will also be available on the SEDAR website at: www.sedar.com.

OPERATING RESULTS

Effective the first quarter of 2020, the Corporation adopted IFRS 16 *Leases*, which replaces IAS 17 *Leases*. The Corporation adopted the standard using a modified retrospective approach. The operating results of the previous fiscal year have not been restated.

SALES

Sales in the first quarter of fiscal 2020 reached $4,029.8 million, up 1.3% compared to $3,977.7 million in the first quarter of fiscal 2019. Excluding the impact of the adoption of IFRS 16 *Leases* adopted in the first quarter of 2020, sales reached $4,042.2 million, up 1.6%. Food same-store sales were up 1.4% (3.2% in 2019) and would have been up 2.0% taking into account the shift in Christmas sales. Our food basket inflation was approximately 2.0% (1.8% in 2019). Pharmacy same-store sales were up 3.6% (1.5% in 2019), with a 4.1% increase in prescription drugs (prescription count up 2.5%) and a 2.7% increase in front-store sales.

OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION AND ASSOCIATE'S EARNINGS

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

Operating income before depreciation and amortization and associate's earnings for the first quarter of fiscal 2020 totalled $363.1 million, or 9.0% of sales, versus $320.6 million, or 8.1% of sales, for the first quarter last year.

The adoption of IFRS 16 resulted in a $12.4 million decrease in sales related to sublease income, with an equivalent reduction in gross margin, and a decrease in operating expenses of $55.0 million related to lease payments which are now recorded as a reduction of the lease liabilities. These two combined elements had a favorable impact of $42.6 million on operating income before depreciation and amortization and associates' earnings.

	12 weeks / Fiscal Year					
Impact of the adoption of IFRS 16 *(Millions of dollars)*	**2020**	**IFRS 16**	**2020** excluding IFRS 16	**% of sales**	2019	% of sales
Sales	**4,029.8**	**(12.4)**	**4,042.2**		3,977.7	
Operating income before depreciation and amortization and associate's earnings	**363.1**	**42.6**	**320.5**	**7.9**	320.6	8.1

During the first quarter of fiscal 2020, we recognized a loss of $7.5 million on disposal of our subsidiary MissFresh, while in the first quarter of 2019, we divested 5 pharmacies for a gain of $7.4 million. Excluding those items, adjusted operating income before depreciation and amortization and associate's earnings(2) for the first quarter of fiscal 2020 totalled $370.6 million, or 9.2% of sales (8.1% excluding the impact of the adoption of IFRS 16) compared with $313.2 million, or 7.9% of sales for the corresponding quarter of 2019.

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

Synergies related to the Jean Coutu acquisition generated for the first quarter of fiscal 2020 amounted to $15 million compared to $11 million for the first quarter last year and to date, we have generated annualized synergies of $65 million[3].

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

	12 weeks / Fiscal Year					
	2020			2019		
(Millions of dollars, unless otherwise indicated)	**OI**	**Sales**	*(%)*	OI	Sales	*(%)*
Operating income before depreciation and amortization and associate's earnings	**363.1**	**4,029.8**	**9.0**	320.6	3,977.7	8.1
Loss on disposal of a subsidiary	**7.5**			—		
Gain on divestiture of pharmacies	**—**			(7.4)		
Adjusted operating income before depreciation and amortization and associate's earnings[2]	**370.6**	**4,029.8**	**9.2**	313.2	3,977.7	7.9

Gross margin on sales for the first quarter of 2020 was 19.6% (19.9% excluding the impact of the adoption of IFRS 16) versus 19.4% for the corresponding quarter of 2019.

Operating expenses as a percentage of sales for the first quarter of 2020 were 10.6% versus 11.3% for the corresponding quarter of fiscal 2019. Excluding the $7.5 million loss on disposal of our subsidiary MissFresh in the first quarter of 2020, as well as gain on divestiture of pharmacies of $7.4 million in the first quarter of 2019, operating expenses as a percentage of sales were 10.4% in the first quarter of 2020 (11.7% excluding the impact of the adoption of IFRS 16) compared with 11.5% in the corresponding quarter of 2019.

DEPRECIATION AND AMORTIZATION AND NET FINANCIAL COSTS

Total depreciation and amortization expense for the first quarter of 2020 was $101.5 million, of which $33.7 million is an increase resulting from the adoption of IFRS 16, versus $63.7 million for the corresponding quarter of fiscal 2019.

Net financial costs for the first quarter of 2020 were $31.1 million, of which $8.0 million is an increase resulting from the adoption of IFRS 16, compared with $24.0 million for the corresponding quarter of fiscal 2019.

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

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

In the first quarter of fiscal 2019, we disposed of an investment at fair value and the final revaluation of the financial liability resulted in a gain of $1.5 million recognized in net earnings.

INCOME TAXES

The income tax expense of $60.3 million for the first quarter of fiscal 2020 represented an effective tax rate of 26.2% compared with an income tax expense of $66.7 million in the first quarter of fiscal 2019 which represented an effective tax rate of 24.7%. The Corporation recognized a $3.3 million tax benefit during the first quarter of fiscal 2020, following the sale of our subsidiary MissFresh. The impact of the adoption of IFRS 16 on the income tax expense is immaterial.

NET EARNINGS AND ADJUSTED NET EARNINGS[1]

Net earnings for the first quarter of fiscal 2020 were $170.2 million compared with $203.1 million for the first quarter of fiscal 2019, while fully diluted net earnings per share were $0.67 compared with $0.79 in 2019, down 16.2% and 15.2%, respectively. Excluding the specific items shown in the table below, adjusted net earnings[1] for the first quarter of fiscal 2020 totalled $180.9 million compared with $172.2 million for the corresponding quarter of fiscal 2019, and adjusted fully diluted net earnings per share[1] amounted to $0.71 versus $0.67, up 5.1% and 6.0%, respectively. The adoption of IFRS 16 had an immaterial impact on net earnings and adjusted net earnings[1].

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

Net earnings adjustments[1]

	12 weeks / Fiscal Year					
	2020		2019		Change (%)	
	(Millions of dollars)	**Fully diluted EPS (Dollars)**	(Millions of dollars)	Fully diluted EPS (Dollars)	Net earnings	Fully diluted EPS
Net earnings	**170.2**	**0.67**	203.1	0.79	(16.2)	(15.2)
Loss on disposal of a subsidiary, after taxes	**4.2**		—			
Gain on divestiture of pharmacies, after taxes	**—**		(5.4)			
Amortization of intangible assets acquired in connection with the Jean Coutu Group acquisition, after taxes	**6.5**		6.6			
Gain on the disposal of investment in an associate, after taxes	**—**		(31.0)			
Gain on revaluation and disposal of an investment at fair value, after taxes	**—**		(1.1)			
Adjusted net earnings[1]	**180.9**	**0.71**	172.2	0.67	5.1	6.0

Impacts of the adoption of IFRS 16

	12 weeks / Fiscal Year			
(Millions of dollars, unless otherwise indicated)	**2020**	**IFRS 16**	**2020** excluding IFRS 16	2019
Sales	**4,029.8**	**(12.4)**	**4,042.2**	3,977.7
Operating income before depreciation and amortization and associate's earnings	**363.1**	**42.6**	**320.5**	320.6
Adjusted operating income before depreciation and amortization and associate's earnings[2]	**370.6**	**42.6**	**328.0**	313.2
Depreciation	**101.5**	**(33.7)**	**67.8**	63.7
Net financial costs	**31.1**	**(8.0)**	**23.1**	24.0
Income taxes	**60.3**	**(0.2)**	**60.1**	66.7
Net earnings	**170.2**	**0.7**	**169.5**	203.1
Adjusted net earnings[1]	**180.9**	**0.7**	**180.2**	172.2
Fully diluted net earnings per share *(Dollars)*	**0.67**	**—**	**0.67**	0.79
Adjusted fully diluted net earnings per share[1] *(Dollars)*	**0.71**	**—**	**0.71**	0.67

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

QUARTERLY HIGHLIGHTS

(Millions of dollars, unless otherwise indicated)	**2020**	2019	2018	Change *(%)*
Sales				
Q1[4]	**4,029.8**	3,977.7		1.3
Q4[4]		3,858.9	3,736.2	3.3
Q3[5]		5,229.3	4,636.4	12.8
Q2[4]		3,701.6	2,899.0	27.7
Net earnings				
Q1[4]	**170.2**	203.1		(16.2)
Q4[4]		167.4	145.0	15.4
Q3[5]		222.4	167.5	32.8
Q2[4]		121.5	106.9	13.7
Adjusted net earnings[1]				
Q1[4]	**180.9**	172.2		5.1
Q4[4]		174.0	161.0	8.1
Q3[5]		230.3	183.4	25.6
Q2[4]		155.1	108.1	43.5
Fully diluted net earnings per share *(Dollars)*				
Q1[4]	**0.67**	0.79		(15.2)
Q4[4]		0.66	0.56	17.9
Q3[5]		0.86	0.69	24.6
Q2[4]		0.47	0.47	—
Adjusted fully diluted net earnings per share[1] *(Dollars)*				
Q1[4]	**0.71**	0.67	0.55	6.0
Q4[4]		0.68	0.63	7.9
Q3[5]		0.90	0.75	20.0
Q2[4]		0.60	0.47	27.7

[4] 12 weeks
[5] 16 weeks

Sales in the first quarter of fiscal 2020 reached $4,029.8 million, up 1.3% compared to $3,977.7 million in the first quarter of fiscal 2019. Excluding the impact of the adoption of IFRS 16 *Leases* adopted in the first quarter of 2020, sales reached $4,042.2 million, up 1.6%. Food same-store sales were up 1.4% (3.2% in 2019) and would have been up 2.0% taking into account the shift in Christmas sales. Our food basket inflation was approximately 2.0% (1.8% in 2019). Pharmacy same-store sales were up 3.6% (1.5% in 2019), with a 4.1% increase in prescription drugs (prescription count up 2.5%) and a 2.7% increase in front-store sales.

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

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

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

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

Net earnings for the first quarter of fiscal 2020 were $170.2 million compared with $203.1 million for the first quarter of fiscal 2019, while fully diluted net earnings per share were $0.67 compared with $0.79 in 2019, down 16.2% and 15.2%, respectively. Excluding from the first quarter of 2020 the $7.5 million loss on disposal of a subsidiary and the amortization of intangible assets acquired in connection with the Jean Coutu Group acquisition of $8.9 million and from the first quarter of fiscal 2019 the $7.4 million gain on divestiture of pharmacies, the amortization of intangible assets acquired in connection with the Jean Coutu Group acquisition of $9.0 million, 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, as well as income taxes relating to all these items, adjusted net earnings(1) for the first quarter of fiscal 2020 totalled $180.9 million compared with $172.2 million for the corresponding quarter of fiscal 2019 and adjusted fully diluted net earnings per share(1) amounted to $0.71 compared with $0.67, up 5.1% and 6.0%, respectively.

Net earnings for the fourth quarter of fiscal 2019 were $167.4 million, an increase of 15.4% from $145.0 million for the fourth quarter of fiscal 2018, while fully diluted net earnings per share were $0.66, compared with $0.56 for the corresponding quarter of fiscal 2018. Excluding from the fourth quarter of 2019 the amortization of intangible assets acquired in connection with the Jean Coutu Group acquisition of $9.0 million and from the fourth quarter of fiscal 2018 the pharmacy network closure and restructuring expenses of $31.4 million, the amortization of intangible assets acquired in connection with the Jean Coutu Group acquisition of $9.0 million, the gain on revaluation and disposal on an investment at fair value of $15.5 million, as well as income taxes relating to all these items, adjusted net earnings(1) for the fourth quarter of fiscal 2019 totalled $174.0 million compared with $161.0 million for the corresponding quarter of fiscal 2018 and adjusted fully diluted net earnings per share(1) amounted to $0.68 compared with $0.63, up 8.1% and 7.9%, respectively.

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

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

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

	2020	2019				2018		
(Millions of dollars)	**Q1**	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Net earnings	**170.2**	167.4	222.4	121.5	203.1	145.0	167.5	106.9
Retail network restructuring expenses, after taxes	**—**	—	—	26.4	—	—	—	—
Loss on disposal of a subsidiary, after taxes	**4.2**	—	—	—	—	—	—	—
Loss (gain) on divestiture of pharmacies, after taxes	**—**	—	—	0.7	(5.4)	—	—	—
Pharmacy network closure and restructuring expenses, after taxes	**—**	—	—	—	—	23.0	—	—
Business acquisition-related expenses, after taxes	**—**	—	—	—	—	—	20.1	1.1
Amortization of intangible assets acquired in connection with the Jean Coutu Group acquisition, after taxes	**6.5**	6.6	8.8	6.5	6.6	6.6	4.4	—
Income on business acquisition-related short-term investments and security deposits, after taxes	**—**	—	—	—	—	—	(4.6)	(7.1)
Interest on notes issued in connection with a business acquisition, after taxes	**—**	—	—	—	—	—	5.2	7.2
Gain on disposal of investments in associates, after taxes	**—**	—	(0.9)	—	(31.0)	—	(9.2)	—
Gain on revaluation and disposal of an investment at fair value, after taxes	**—**	—	—	—	(1.1)	(13.6)	—	—
Adjusted net earnings(1)	**180.9**	174.0	230.3	155.1	172.2	161.0	183.4	108.1

	2020	2019				2018		
(Dollars)	**Q1**	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Fully diluted net earnings per share	**0.67**	0.66	0.86	0.47	0.79	0.56	0.69	0.47
Adjustments impact	**0.04**	0.02	0.04	0.13	(0.12)	0.07	0.06	—
Adjusted fully diluted net earnings per share(1)	**0.71**	0.68	0.90	0.60	0.67	0.63	0.75	0.47

CASH POSITION

OPERATING ACTIVITIES

Operating activities generated cash inflows of $30.2 million in the first quarter of fiscal 2020 compared with cash outflows of $177.1 million for the corresponding quarter of fiscal 2019. This difference resulted primarily from the change in non-cash working capital items in 2020 and the payment in 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. As a result of the adoption of IFRS 16, payments received in respect of subleases have been reclassified to investing activities while payments in respect of lease liabilities were reclassified to financing activities in 2020.

INVESTING ACTIVITIES

Investing activities required cash outflows of $98.7 million for the first quarter of fiscal 2020 compared with cash inflows of $12.8 million for the corresponding quarter of fiscal 2019. This difference stemmed mainly from the buyout of minority interests in Groupe Première Moisson Inc. in the amount of $51.6 million in 2020 and the proceeds of $58.0 million on disposal of our investment in associate Colo-D Inc. in 2019.

During the first quarter of 2020, we and our retailers opened 4 stores and carried out major expansions and renovations of 8 stores, 2 stores were relocated and 4 stores were closed for a net increase of 86,000 square feet or 0.4% 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 associate's earnings adjustments" and section on "Non-IFRS Measurements"*
(3) *See section on "Forward-looking Information"*

FINANCING ACTIVITIES

In the first quarter of 2020, financing activities required cash outflows of $161.4 million compared with $11.0 million in the corresponding quarter of 2019. This difference resulted mainly from payments on lease liabilities of $74.3 million reclassified to financing activities following the adoption of IFRS 16 and share repurchases of $39.0 million in 2020, and by a net increase in debt of $34.9 million in 2019.

FINANCIAL POSITION

We do not anticipate[3] any liquidity risk and consider our financial position at the end of fiscal 2020 as very solid. We had an unused authorized revolving credit facility of $600.0 million. Our non-current debt and lease liabilities represented 43.4% of the combined total of non-current debt, lease liabilities and equity (non-current debt and lease liabilities/total capital).

At the end of the first quarter of fiscal 2020, the main elements of our non-current debt were as follows:

	Interest Rate	Maturity	Balance *(Millions of dollars)*
Revolving Credit Facility	Rates fluctuate with changes in bankers' acceptance rates	November 3, 2024	—
Series E Notes	Rates fluctuate with changes in bankers' acceptance rates	February 27, 2020	400.0
Series C Notes	3.20% fixed rate	December 1, 2021	300.0
Series F Notes	2.68% fixed rate	December 5, 2022	300.0
Series G Notes	3.39% fixed rate	December 6, 2027	450.0
Series B Notes	5.97% fixed rate	October 15, 2035	400.0
Series D Notes	5.03% fixed rate	December 1, 2044	300.0
Series H Notes	4.27% fixed rate	December 4, 2047	450.0

Our main financial ratios were as follows:

	As at December 21, 2019	As at September 28, 2019
Financial structure		
Non-current debt *(Millions of dollars)*	**2,612.8**	2,629.0
Non-current lease liabilities *(Millions of dollars)*	**1,905.3**	—
	4,518.1	2,629.0
Equity *(Millions of dollars)*	**5,899.4**	5,968.6
Non-current debt and lease liabilities/total capital *(%)*	**43.4**	30.6

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

Excluding the non-current debt on lease liabilities stemming from the adoption of IFRS 16, the percentage was 30.7%.

	12 weeks / Fiscal Year	
	2020	2019
Results		
Operating income before depreciation and amortization and associate's earnings/Financial costs *(Times)*	**11.7**	13.4

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

CAPITAL STOCK, STOCK OPTIONS AND PERFORMANCE SHARE UNITS

	As at December 21, 2019	As at September 28, 2019
Number of Common Shares outstanding *(Thousands)*	**253,199**	253,863
Stock options:		
Number outstanding *(Thousands)*	**2,600**	2,281
Exercise prices *(Dollars)*	**20.30 to 56.92**	20.30 to 48.68
Weighted average exercise price *(Dollars)*	**40.05**	37.30
Performance share units:		
Number outstanding *(Thousands)*	**605**	605

BUYOUT OF NON-CONTROLLING INTEREST

In accordance with the shareholder agreement, the Corporation acquired the minority interest in Groupe Première Moisson Inc. during the first quarter of fiscal 2020 for a cash consideration of $51.6 million.

MISSFRESH

The Corporation disposed of the assets of subsidiary MissFresh on December 9, 2019 for a cash consideration of $3.5 million and recorded a loss on disposal of $7.5 million mainly related to tangible and intangible assets. The Corporation also recognized a deferred tax asset of $3.3 million related to this subsidiary's fiscal attributes.

NORMAL COURSE ISSUER BID PROGRAM

Under the current normal course issuer bid program, the Corporation may repurchase up to 7,000,000 of its Common Shares between November 25, 2019 and November 24, 2020. Between November 25, 2019 and January 17, 2020, the Corporation has repurchased 850,000 Common Shares at an average price of $55.00, for a total consideration of $46.7 million.

DIVIDENDS

Given our strong financial position, the Board of Directors has approved a change in the Corporation's dividend policy. The annual dividend payout has been increased to a target range of 30% to 40% of the previous fiscal year's adjusted net earnings[(1)]. On January 27, 2020, the Board of Directors declared a quarterly dividend of $0.225 per share, an increase of 12.5% versus the same quarter last year.

SHARE TRADING

The value of METRO shares remained in the $54.15 to $59.03 range over the first quarter of fiscal 2020. During this period, a total of 30.2 million shares were traded on the Toronto Stock Exchange. The closing price on January 17, 2020 was $54.47 compared with $57.91 at the end of fiscal 2019.

CONTINGENCIES

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 28, 2019.

In October 2017, the Canadian Competition Bureau began an investigation into the supply and sale of commercial bread which involves certain Canadian suppliers and retailers, including the Corporation. The Corporation continues to fully cooperate with the Competition Bureau. Based on the information available to date, the Corporation does not believe that it or any of its employees have violated the Competition Act. Class actions lawsuits have also been filed against the Corporation, suppliers and other retailers. On December 19, 2019, the Québec Superior Court granted the application for authorization to institute one of these class actions, the authorization process being merely a procedural step and the judgment in no way decides the case on the merits. The Corporation intends to contest all these actions on the merits. No provision for contingent losses has been recognized in the Corporation's annual consolidated financial statements.

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

CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

ACCOUNTING STANDARD ADOPTED IN 2020

Leases

In January 2016, the IASB issued IFRS 16, *Leases*, which replaces IAS 17, *Leases* and related interpretations. Under IFRS 16, which provides a single accounting model for leases abolishing the IAS 17 distinction between finance leases and operating leases, most leases are recognized in the statement of financial position. Certain exemptions apply for short-term leases and leases of low-value assets. The accounting requirements for lessors remain similar to those under IAS 17, such as the distinction between operating leases and finance leases. IFRS 16 applies to fiscal years beginning on or after January 1, 2019, which for the Corporation is fiscal year beginning on September 29, 2019.

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

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

As an intermediate lessor under several leases, the Corporation has assessed the classification of its sublease agreements based on the right-of-use asset related to the main lease and not on the underlying asset. As a result of this change, the Corporation recognized current and non-current accounts receivable recorded for subleases that have been classified as finance leases.

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

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

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

The impact of the adoption of IFRS 16 on the Corporation's financial position as at September 29, 2019 was as follows:

Increase (Decrease)	**As at September 29, 2019**
ASSETS	
Current assets	
Accounts receivables on subleases	**86.4**
	86.4
Non-current assets	
Fixed assets	**(16.6)**
Right-of-use assets	**1,222.4**
Intangible assets	**(13.5)**
Deferred taxes	**38.1**
Accounts receivables on subleases	**645.6**
Other assets	**(0.1)**
	1,962.3
LIABILITIES AND EQUITY	
Current liabilities	
Deferred revenues	**(0.7)**
Provisions	**(0.9)**
Current portion of debt	**(3.6)**
Current portion of lease liabilities	**250.1**
	244.9
Non-current liabilities	
Debt	**(17.2)**
Lease liabilities	**1,949.7**
Provisions	**(9.5)**
Deferred taxes	**(24.1)**
Other liabilities	**(12.1)**
	2,131.7
Equity	
Retained earnings	**(169.4)**
	1,962.3

We recorded an increase of $2,131.7 million in liabilities and of $1,962.3 million in assets, including right-of-use-assets and accounts receivable (current and non-current) on subleases, with a net impact of $169.4 million recorded in opening retained earnings.

The Corporation used its incremental borrowing rate as at September 29, 2019 to measure the lease liabilities. The weighted average incremental borrowing rate was 2.42%. The weighted average remaining term of leases was 9 years as at September 29, 2019.

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

The table below shows the reconciliation between operating lease commitments under IAS 17 as at September 28, 2019 and the lease liabilities recognized as at September 29, 2019:

Operating lease commitments as at September 28, 2019	2,076.1
Impact of discounting using the incremental borrowing rate	(257.9)
Extension options reasonably certain to be exercised	360.7
Finance lease liabilities recognized as at September 28, 2019	20.9
Lease liabilities recognized as at September 29, 2019	**2,199.8**
Current portion of lease liabilities	**250.1**
Lease liabilities	**1,949.7**
Lease liabilities total	**2,199.8**

The impact of the adoption of IFRS 16 on first quarter of fiscal 2020 results was as follows:

Increase (Decrease)	IFRS 16 Impact	Description
Sales and gross margin	(12.4)	Sublease income now accounted as interest income and to sublease receivable
Occupancy charges	(55.0)	Rental expense replaced by depreciation and financial costs
Depreciation	33.7	Depreciation on right-of-use asset
Financial costs	8.0	Interest expense on lease liabilities net of interest income on sublease
Earnings before incomes taxes	0.9	IFRS 16 impact before income taxes
Income taxes	0.2	
Net earnings	0.7	IFRS 16 net impact
Net earnings per share - Fully diluted	—	Diluted net earnings per share impact

The net financial costs included the financial costs of $10.9 million related to lease liabilities and the interest revenues of $2.9 million on subleases classified as financial leases.

Changes in significant accounting policies relating to leases

Following adoption of IFRS 16, the Corporation updated its accounting policies relating to leases effective September 29, 2019:

The Corporation as lessee

The Corporation recognizes right-of-use assets and the corresponding lease liabilities at the lease inception date, the date at which the lessor makes available the leased asset to the Corporation. Rental payments under short-term or leases with low-value underlying assets and variable payments that are not based on an index or rate are recorded in operating expenses on a straight line basis over the duration of the lease.

Lease liabilities represent the present value of fixed and variable lease payments that are based on an index or rate, net of lease incentives receivable. Subsequent to the initial measurement, the Corporation measures the lease liabilities at amortized cost using the effective interest method. Lease liabilities are remeasured when a change is made to the lease agreement. Lease payments are discounted at the lessee's incremental borrowing rate at lease inception. The interest expense is recognized in net financial costs. The lease term includes renewal options that the Corporation is reasonably certain to exercise.

Right-of-use assets are measured at the initial value of the lease liabilities, less lease incentives received and restoration costs. Subsequent to initial measurement, the Corporation applies the cost model to right-of-use assets. Right-of-use assets are measured at cost less accumulated amortization, accumulated impairment losses and any remeasurement

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

of lease liabilities. Assets are depreciated from the lease inception date on a straight-line basis over the shorter of the asset’s useful life and the lease term.

The Corporation as lessor
For subleases, for which the Corporation acts as an intermediate lessor, it evaluates the classification in relation to the right-of-use assets arising from the main lease. The Corporation accounts for the main lease and the sublease as two separate leases. A sublease contract is classified as a finance lease if substantially all risks and rewards incidental to the underlying asset are transferred to the lessee. Otherwise, leases are classified as operating leases and rental income is recognized on a straight-line basis over the lease term.

For subleases that are classified as finance leases, the Corporation derecognizes the corresponding right-of-use assets and records a net investment in the subleases. Interest income is recorded in net financial costs. The net investment is presented in current and non-current accounts receivable on subleases.

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 "annualize", "continue", “grow”, "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 2020 action plan.

These forward-looking statements do not provide any guarantees as to the future performance of the Corporation and are subject to potential risks, known and unknown, as well as uncertainties that could cause the outcome to differ significantly. The arrival of a new competitor is an example described under the “Risk Management” section of the 2019 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 ASSOCIATE'S EARNINGS, ADJUSTED NET EARNINGS AND ADJUSTED FULLY DILUTED NET EARNINGS PER SHARE

Adjusted operating income before depreciation and amortization and associate's earnings, adjusted net earnings and adjusted fully diluted net earnings per share are earnings measurements that exclude some items that must be recognized under IFRS. They are non-IFRS measurements. We believe that presenting earnings without these items, 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.

OUTLOOK

The 2020 fiscal year is off to a good start with solid revenue and earnings growth in a very competitive environment. Our business is well diversified and we are confident in our ability to grow(3) by focusing on our customer's needs and continuing(3) to invest in our retail network and supply chain.

Montréal, January 28, 2020

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

Interim Condensed Consolidated Financial Statements

METRO INC.

December 21, 2019

metro

Table of contents

metro

Consolidated statements of income

Periods ended December 21, 2019 and December 22, 2018

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

	12 weeks	
	Fiscal Year	
	2020	2019
Sales	**4,029.8**	3,977.7
Cost of sales and operating expenses *(note 3)*	**(3,659.2)**	(3,664.5)
Loss on disposal of a subsidiary *(note 3)*	**(7.5)**	—
Gain on divestiture of pharmacies *(note 3)*	**—**	7.4
Operating income before depreciation and amortization and associate's earnings	**363.1**	320.6
Depreciation and amortization *(note 3)*	**(101.5)**	(63.7)
Financial costs, net *(note 3)*	**(31.1)**	(24.0)
Gain on disposal of an investment in an associate *(note 3)*	**—**	35.4
Gain on revaluation and disposal of an investment at fair value *(note 3)*	**—**	1.5
Earnings before income taxes	**230.5**	269.8
Income taxes *(note 4)*	**(60.3)**	(66.7)
Net earnings	**170.2**	203.1
Attributable to:		
Equity holders of the parent	**169.7**	202.5
Non-controlling interests	**0.5**	0.6
	170.2	203.1
Net earnings per share *(Dollars) (note 5)*		
Basic	**0.67**	0.79
Fully diluted	**0.67**	0.79

See accompanying notes

metro

Consolidated statements of comprehensive income

Periods ended December 21, 2019 and December 22, 2018

(Unaudited) (Millions of dollars)

	12 weeks Fiscal Year	
	2020	2019
Net earnings	**170.2**	203.1
Other comprehensive income		
Items that will not be reclassified to net earnings		
Changes in defined benefit plans		
Actuarial gains (losses)	**27.4**	(64.1)
Asset ceiling effect	**(5.2)**	3.3
Minimum funding requirement	**0.9**	0.2
Loss on disposal of the investment at fair value *(note 3)*	**—**	(1.3)
Corresponding income taxes	**(6.1)**	16.3
	17.0	(45.6)
Comprehensive income	**187.2**	157.5
Attributable to:		
Equity holders of the parent	**186.7**	156.9
Non-controlling interests	**0.5**	0.6
	187.2	157.5

See accompanying notes

metro

Consolidated statements of financial position

(Unaudited) (Millions of dollars)

	As at December 21, 2019	As at September 28, 2019
ASSETS		
Current assets		
Cash and cash equivalents	**43.5**	273.4
Accounts receivable	**731.0**	611.2
Accounts receivable on subleases *(note 2)*	**86.9**	—
Inventories	**1,325.1**	1,126.0
Prepaid expenses	**30.6**	33.2
Current taxes	**30.0**	44.5
	2,247.1	2,088.3
Non-current assets		
Fixed assets	**2,657.9**	2,657.8
Investment properties	**41.4**	41.5
Right-of-use assets *(note 2)*	**1,201.7**	—
Intangible assets	**2,861.2**	2,889.0
Goodwill	**3,300.1**	3,306.5
Deferred taxes *(note 2)*	**44.3**	2.8
Defined benefit assets	**32.2**	25.6
Accounts receivable on subleases *(note 2)*	**628.8**	—
Other assets	**62.0**	62.4
	13,076.7	11,073.9
LIABILITIES AND EQUITY		
Current liabilities		
Bank loans	**0.5**	—
Accounts payable	**1,386.3**	1,331.4
Deferred revenues	**24.1**	22.3
Current taxes	**17.4**	33.3
Provisions	**7.3**	10.9
Current portion of debt	**424.5**	428.6
Current portion of lease liabilities *(note 2)*	**251.4**	—
Non-controlling interest *(note 8)*	**—**	51.1
	2,111.5	1,877.6
Non-current liabilities		
Debt	**2,212.8**	2,229.0
Lease liabilities *(note 2)*	**1,905.3**	—
Defined benefit liabilities	**97.4**	113.0
Provisions	**21.9**	30.2
Deferred taxes *(note 2)*	**827.8**	842.7
Other liabilities	**0.6**	12.8
	7,177.3	5,105.3
Equity		
Attributable to equity holders of the parent	**5,885.5**	5,955.2
Attributable to non-controlling interests	**13.9**	13.4
	5,899.4	5,968.6
	13,076.7	11,073.9

See accompanying notes

metro

Consolidated statements of changes in equity

Periods ended December 21, 2019 and December 22, 2018

(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 28, 2019	**1,732.3**	**(24.6)**	**19.2**	**4,228.3**	**—**	**5,955.2**	**13.4**	**5,968.6**
Net earnings	**—**	**—**	**—**	**169.7**	**—**	**169.7**	**0.5**	**170.2**
Other comprehensive income	**—**	**—**	**—**	**17.0**	**—**	**17.0**	**—**	**17.0**
Comprehensive income	**—**	**—**	**—**	**186.7**	**—**	**186.7**	**0.5**	**187.2**
Stock options exercised	**1.3**	**—**	**(0.1)**	**—**	**—**	**1.2**	**—**	**1.2**
Shares redeemed	**(4.7)**	**—**	**—**	**—**	**—**	**(4.7)**	**—**	**(4.7)**
Share redemption premium	**—**	**—**	**—**	**(34.3)**	**—**	**(34.3)**	**—**	**(34.3)**
Share-based compensation cost	**—**	**—**	**2.1**	**—**	**—**	**2.1**	**—**	**2.1**
Dividends	**—**	**—**	**—**	**(50.8)**	**—**	**(50.8)**	**—**	**(50.8)**
Adoption of IFRS 16 "Leases" *(note 2)*	**—**	**—**	**—**	**(169.4)**	**—**	**(169.4)**	**—**	**(169.4)**
Change in fair value of a non-controlling interest liability	**—**	**—**	**—**	**(0.5)**	**—**	**(0.5)**	**—**	**(0.5)**
	(3.4)	**—**	**2.0**	**(255.0)**	**—**	**(256.4)**	**—**	**(256.4)**
Balance as at December 21, 2019	**1,728.9**	**(24.6)**	**21.2**	**4,160.0**	**—**	**5,885.5**	**13.9**	**5,899.4**

	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 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	—	—	—	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

See accompanying notes

metro

Consolidated statements of cash flows

Periods ended December 21, 2019 and December 22, 2018

(Unaudited) (Millions of dollars)

	12 weeks Fiscal Year 2020	12 weeks Fiscal Year 2019
Operating activities		
Earnings before income taxes	**230.5**	269.8
Non-cash items		
Gain on disposal of an investment in an associate *(note 3)*	**—**	(35.4)
Gain on revaluation and disposal of an investment at fair value *(note 3)*	**—**	(1.5)
Loss on disposal of a subsidiary *(note 3)*	**7.5**	—
Gain on divestiture of pharmacies *(note 3)*	**—**	(7.4)
Depreciation and amortization	**101.5**	63.7
Loss on disposal and write-offs of fixed and intangible assets and investment properties	**—**	0.3
Share-based compensation cost	**2.1**	1.9
Difference between amounts paid for employee benefits and current period cost	**(0.1)**	1.3
Financial costs, net	**31.1**	24.0
	372.6	316.7
Net change in non-cash working capital items	**(231.1)**	(150.4)
Interest paid	**(49.3)**	(49.2)
Income taxes paid	**(62.0)**	(294.2)
	30.2	(177.1)
Investing activities		
Net proceeds on disposal of a subsidiary *(note 3)*	**3.5**	—
Net proceeds on disposal of investments in an associate *(note 3)*	**—**	58.0
Proceeds on divestiture of pharmacies *(note 3)*	**—**	8.9
Sale of shares in joint ventures	**—**	0.2
Buyout of minority interests *(note 8)*	**(51.6)**	—
Net change in other assets	**0.5**	3.9
Additions to fixed assets and investment properties	**(71.7)**	(51.6)
Disposal of fixed assets and investment properties	**—**	0.1
Additions to intangible assets	**(5.0)**	(6.7)
Payments received from subleases	**22.7**	—
Interests received from subleases	**2.9**	—
	(98.7)	12.8
Financing activities		
Net change in bank loans	**0.5**	0.3
Shares issued	**1.2**	0.8
Shares redeemed	**(39.0)**	—
Increase in debt	**8.4**	41.2
Repayment of debt	**(7.3)**	(6.3)
Payment of lease liabilities (capital)	**(62.5)**	—
Payment of lease liabilities (interest)	**(11.8)**	—
Net change in other liabilities	**(0.1)**	(1.0)
Dividends	**(50.8)**	(46.0)
	(161.4)	(11.0)
Net change in cash and cash equivalents	**(229.9)**	(175.3)
Cash and cash equivalents — beginning of period	**273.4**	226.9
Cash and cash equivalents — end of period	**43.5**	51.6

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 pharmacy 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 21, 2019 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 28, 2019 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 2019 Annual Report.

2. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

ACCOUNTING STANDARD ADOPTED IN 2020

Leases

In January 2016, the IASB issued IFRS 16, *Leases*, which replaces IAS 17, *Leases* and related interpretations. Under IFRS 16, which provides a single accounting model for leases abolishing the IAS 17 distinction between finance leases and operating leases, most leases are recognized in the statement of financial position. Certain exemptions apply for short-term leases and leases of low-value assets. The accounting requirements for lessors remain similar to those under IAS 17, such as the distinction between operating leases and finance leases. IFRS 16 applies to fiscal years beginning on or after January 1, 2019, which for the Corporation is fiscal year beginning on September 29, 2019.

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

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

As an intermediate lessor under several leases, the Corporation has assessed the classification of its sublease agreements based on the right-of-use asset related to the main lease and not on the underlying asset. As a result of this change, the Corporation recognized current and non-current accounts receivable recorded for subleases that have been classified as finance leases.

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

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

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

The impact of the adoption of IFRS 16 on the Corporation's financial position as at September 29, 2019 was as follows:

Increase (Decrease)	**As at September 29, 2019**
ASSETS	
Current assets	
Accounts receivables on subleases	**86.4**
	86.4
Non-current assets	
Fixed assets	**(16.6)**
Right-of-use assets	**1,222.4**
Intangible assets	**(13.5)**
Deferred taxes	**38.1**
Accounts receivables on subleases	**645.6**
Other assets	**(0.1)**
	1,962.3
LIABILITIES AND EQUITY	
Current liabilities	
Deferred revenues	**(0.7)**
Provisions	**(0.9)**
Current portion of debt	**(3.6)**
Current portion of lease liabilities	**250.1**
	244.9
Non-current liabilities	
Debt	**(17.2)**
Lease liabilities	**1,949.7**
Provisions	**(9.5)**
Deferred taxes	**(24.1)**
Other liabilities	**(12.1)**
	2,131.7
Equity	
Retained earnings	**(169.4)**
	1,962.3

We recorded an increase of $2,131.7 in liabilities and of $1,962.3 in assets, including right-of-use-assets and accounts receivable (current and non-current) on subleases, with a net impact of $169.4 recorded in opening retained earnings.

The Corporation used its incremental borrowing rate as at September 29, 2019 to measure the lease liabilities. The weighted average incremental borrowing rate was 2.42%. The weighted average remaining term of leases was 9 years as at September 29, 2019.

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

The table below shows the reconciliation between operating lease commitments under IAS 17 as at September 28, 2019 and the lease liabilities recognized as at September 29, 2019:

Operating lease commitments as at September 28, 2019	2,076.1
Impact of discounting using the incremental borrowing rate	(257.9)
Extension options reasonably certain to be exercised	360.7
Finance lease liabilities recognized as at September 28, 2019	20.9
Lease liabilities recognized as at September 29, 2019	**2,199.8**
Current portion of lease liabilities	**250.1**
Lease liabilities	**1,949.7**
Lease liabilities total	**2,199.8**

Changes in significant accounting policies relating to leases

Following adoption of IFRS 16, the Corporation updated its accounting policies relating to leases effective September 29, 2019:

The Corporation as lessee
The Corporation recognizes right-of-use assets and the corresponding lease liabilities at the lease inception date, the date at which the lessor makes available the leased asset to the Corporation. Rental payments under short-term or leases with low-value underlying assets and variable payments that are not based on an index or rate are recorded in operating expenses on a straight line basis over the duration of the lease.

Lease liabilities represent the present value of fixed and variable lease payments that are based on an index or rate, net of lease incentives receivable. Subsequent to the initial measurement, the Corporation measures the lease liabilities at amortized cost using the effective interest method. Lease liabilities are remeasured when a change is made to the lease agreement. Lease payments are discounted at the lessee's incremental borrowing rate at lease inception. The interest expense is recognized in net financial costs. The lease term includes renewal options that the Corporation is reasonably certain to exercise.

Right-of-use assets are measured at the initial value of the lease liabilities, less lease incentives received and restoration costs. Subsequent to initial measurement, the Corporation applies the cost model to right-of-use assets. Right-of-use assets are measured at cost less accumulated amortization, accumulated impairment losses and any remeasurement of lease liabilities. Assets are depreciated from the lease inception date on a straight-line basis over the shorter of the asset's useful life and the lease term.

The Corporation as lessor
For subleases, for which the Corporation acts as an intermediate lessor, it evaluates the classification in relation to the right-of-use assets arising from the main lease. The Corporation accounts for the main lease and the sublease as two separate leases. A sublease contract is classified as a finance lease if substantially all risks and rewards incidental to the underlying asset are transferred to the lessee. Otherwise, leases are classified as operating leases and rental income is recognized on a straight-line basis over the lease term.

For subleases that are classified as finance leases, the Corporation derecognizes the corresponding right-of-use assets and records a net investment in the subleases. Interest income is recorded in net financial costs. The net investment is presented in current and non-current accounts receivable on subleases.

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

3. ADDITIONAL INFORMATION ON THE NATURE OF EARNINGS COMPONENTS

	12 weeks Fiscal Year			
	2020	**%**	2019	%
Sales	**4,029.8**		3,977.7	
Cost of sales	**(3,239.3)**		(3,205.7)	
Gross margin	**790.5**	**19.6**	772.0	19.4
Operating expenses				
Wages and fringe benefits	**(202.0)**		(206.4)	
Employee benefits expense	**(22.3)**		(19.6)	
Rents and occupancy charges *(note 2)*	**(73.7)**		(120.5)	
Loss on disposal of a subsidiary	**(7.5)**		—	
Gain on divestiture of pharmacies	**—**		7.4	
Others	**(121.9)**		(112.3)	
	(427.4)	**10.6**	(451.4)	11.3
Operating income before depreciation and amortization and associate's earnings	**363.1**	**9.0**	320.6	8.1
Depreciation and amortization				
Fixed assets	**(49.2)**		(46.2)	
Investment properties	**(0.1)**		(0.1)	
Right-of-use assets *(note 2)*	**(35.0)**		—	
Intangible assets	**(17.2)**		(17.4)	
	(101.5)		(63.7)	
Financial costs, net				
Current interest	**(0.8)**		(0.6)	
Non-current interest	**(23.6)**		(23.9)	
Net interests on lease liabilities *(note 2)*	**(8.0)**		—	
Interest on defined benefit obligations net of plan assets	**(1.0)**		(0.5)	
Amortization of deferred financing costs	**(0.6)**		(0.7)	
Interest income	**3.0**		1.7	
Passage of time	**(0.1)**		—	
	(31.1)		(24.0)	
Gain on disposal of an investment in an associate	**—**		35.4	
Gain on revaluation and disposal of an investment at fair value	**—**		1.5	
Earnings before income taxes	**230.5**		269.8	

The Corporation disposed of the assets of subsidiary MissFresh on December 9, 2019 for a cash consideration of $3.5 and recorded a loss on disposal of $7.5 mainly related to tangible and intangible assets. The Corporation also recognized a deferred tax asset of $3.3 related to this subsidiary's fiscal attributes.

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 recorded in fiscal 2019 a $7.4 gain before income taxes following the disposition of leases and buildings related to these pharmacies, for a total consideration in cash of $8.9.

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

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. (ACT) 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)	**2020**	2019
Combined statutory income tax rate	**26.6**	26.6
Changes		
Loss on disposal of a subsidiary *(note 3)*	**(0.5)**	—
Gain on disposal of investments in an associate *(note 3)*	**—**	(1.6)
Others	**0.1**	(0.3)
	26.2	24.7

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)	**2020**	2019
Weighted average number of shares outstanding – Basic	**253.6**	255.7
Dilutive effect under:		
Stock option plan	**0.7**	0.8
Performance share unit plan	**0.6**	0.6
Weighted average number of shares outstanding – Fully diluted	**254.9**	257.1

6. CAPITAL STOCK

COMMON SHARES ISSUED

The Common Shares issued were summarized as follows:

	Number *(Thousands)*	
Balance as at September 29, 2018	256,253	1,724.1
Shares redeemed for cash, excluding premium of $126.1	(2,925)	(19.8)
Stock options exercised	1,112	28.0
Balance as at September 28, 2019	**254,440**	**1,732.3**
Shares redeemed for cash, excluding premium of $34.3	**(700)**	**(4.7)**
Stock options exercised	**36**	**1.3**
Balance as at December 21, 2019	**253,776**	**1,728.9**

TREASURY SHARES

The treasury shares were summarized as follows:

	Number *(Thousands)*	
Balance as at September 29, 2018	603	(24.9)
Acquisition	115	(5.6)
Release	(141)	5.9
Balance as at September 28, 2019 and December 21, 2019	**577**	**(24.6)**

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 253,199,000 outstanding Common Shares issued as at December 21, 2019 (253,863,000 as at September 28, 2019).

STOCK OPTION PLAN

The outstanding options were summarized as follows:

	Number *(Thousands)*	Weighted average exercise price *(Dollars)*
Balance as at September 29, 2018	3,067	30.30
Granted	416	47.56
Exercised	(1,112)	21.55
Cancelled	(90)	40.71
Balance as at September 28, 2019	**2,281**	**37.30**
Granted	**355**	**56.92**
Exercised	**(36)**	**32.56**
Balance as at December 21, 2019	**2,600**	**40.05**

The exercise prices of the outstanding options ranged from $20.30 to $56.92 as at December 21, 2019 with expiration dates up to 2027. 705,940 of those options could be exercised at a weighted average exercise price of $30.73.

The compensation expense for these options amounted to $0.5 for the 12-week period ended December 21, 2019 ($0.4 in 2019).

PERFORMANCE SHARE UNIT PLAN

The number of PSUs outstanding was as follows:

	Number *(Thousands)*
Balance as at September 29, 2018	579
Granted	226
Settled	(141)
Cancelled	(59)
Balance as at September 28, 2019 and December 21, 2019	**605**

The compensation expense for the PSU plan amounted to $1.6 for the 12-week period ended December 21, 2019 ($1.5 in 2019).

7. CONTINGENCIES

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 28, 2019.

In October 2017, the Canadian Competition Bureau began an investigation into the supply and sale of commercial bread which involves certain Canadian suppliers and retailers, including the Corporation. The Corporation continues to fully cooperate with the Competition Bureau. Based on the information available to date, the Corporation does not believe that it or any of its employees have violated the Competition Act. Class actions lawsuits have also been filed against the Corporation, suppliers and other retailers. On December 19, 2019, the Québec Superior Court granted the application for authorization to institute one of these class actions, the authorization process being merely a procedural step and the judgment in no way decides the case on the merits. The Corporation intends to contest all these actions on the merits. No provision for contingent losses has been recognized in the Corporation's annual consolidated financial statements.

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

8. FINANCIAL INSTRUMENTS

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

	As at December 21, 2019		As at September 28, 2019	
	Book value	**Fair value**	Book value	Fair value
Other assets				
Assets measured at amortized cost				
Loans to certain customers	**62.3**	**62.3**	62.8	62.8
Debt				
Liabilities measured at amortized cost				
Series E Notes	**400.0**	**400.2**	400.0	400.3
Series C Notes	**300.0**	**305.0**	300.0	305.2
Series F Notes	**300.0**	**303.0**	300.0	302.4
Series G Notes	**450.0**	**464.2**	450.0	466.8
Series B Notes	**400.0**	**518.9**	400.0	512.0
Series D Notes	**300.0**	**366.3**	300.0	362.6
Series H Notes	**450.0**	**498.6**	450.0	491.8
Loans	**51.0**	**51.0**	51.0	51.0
	2,651.0	**2,907.2**	2,651.0	2,892.1

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

The 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.

Under the shareholder agreement, the Corporation acquired the minority interest in Première Moisson during the first quarter of fiscal 2020 for a cash consideration of $51.6, which represents the price payable based on Première Moisson’s fiscal 2019 results.

9. APPROVAL OF FINANCIAL STATEMENTS

The interim condensed consolidated financial statements for the 12-week period ended December 21, 2019 (including comparative figures) were approved for issue by the Board of Directors on January 27, 2020.

INFORMATION

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

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

metro