



**MANAGEMENT'S DISCUSSION AND ANALYSIS  
AND CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended September 28, 2019**

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The following Management's Discussion and Analysis sets out the financial position and consolidated results of METRO INC. for the fiscal year ended September 28, 2019, and should be read in conjunction with the annual consolidated financial statements and the accompanying notes as at September 28, 2019. This report is based upon information as at November 19, 2019 unless otherwise indicated. Additional information, including the Annual Information Form and Certification Letters for fiscal 2019, is available on the SEDAR website at [www.sedar.com](http://www.sedar.com).

## OVERVIEW

The Corporation is a leader in food and pharmaceutical industry in Québec and Ontario.

The Corporation, as a retailer, franchisor or distributor, operates under different grocery banners in the conventional supermarket and discount segments. For consumers seeking a higher level of service and a greater variety of products, we operate 327 supermarkets under the Metro and Metro Plus banners. The 232 discount stores operating under the Super C and Food Basics banners offer products at low prices to consumers who are both cost and quality-conscious. The Adonis banner, which currently has 13 stores, is specialized in fresh products and Mediterranean and Middle-Eastern products. The majority of the stores are owned by the Corporation or by structured entities and their financial statements are consolidated with those of the Corporation. Independent owners bound to the Corporation by leases or affiliation agreements operate a large number of Metro and Metro Plus stores. Supplying these stores contributes to our sales. The Corporation also acts as a distributor for independent neighborhood grocery stores. Their purchases are included in the Corporation's sales. The Corporation also operates Première Moisson, a company specialized in premium quality artisan bakery, pastry, and deli products. Première Moisson sells its products to the Corporation's stores, to restaurants and other chains as well as directly to consumers in its 25 stores.

The Corporation also acts as franchisor and distributor for 415 PJC Jean Coutu, PJC Health et PJC Health & Beauty drugstores as well as 163 Brunet Plus, Brunet, Brunet Clinique, and Clini Plus drugstores, held by pharmacist owners. The Corporation operates 72 drugstores in Ontario under Metro Pharmacy and Food Basics Pharmacy banners and their sales are included in the Corporation's sales. Sales also include the supply of non-franchised drugstores and various health centres. The Corporation is also active in generic drug manufacturing through its subsidiary Pro Doc Ltée.

## GOAL, MISSION AND STRATEGY

The Corporation's goal is to provide the best customer experience in each of its banners.

Our mission is to exceed our customers' expectations every day to earn their long-term loyalty.

The four pillars of our business strategy are : customer focus, best team, operational excellence and efficiency.

We put the customer at the heart of every decision. Friendly service, a pleasant and efficient shopping experience, quality products and competitive prices are our priorities.

The best team consists of leaders who put the Corporation's interests first. Employee growth and leadership development and succession planning ensure its continued strength.

Operational excellence and efficiency are achieved through high operating standards, a results-driven corporate culture, engaging all employees and monitoring performance so as to react swiftly.

Our business strategy is founded on corporate responsibility. The fundamental purpose of our actions is to ensure profitable growth for all: employees, shareholders, business partners and the communities that we serve.

<sup>(1)</sup> See table on "Net earnings adjustments" and section on "Non-IFRS measurements"

<sup>(2)</sup> See table on "Operating income before depreciation and amortization and associate's earnings adjustments" and section on "Non-IFRS measurements"

<sup>(3)</sup> See section on "Forward-looking information"

## KEY PERFORMANCE INDICATORS

We evaluate the Corporation's overall performance using the following principal indicators:

- sales:
  - same-store sales growth;
  - average customer transaction size and number of transactions;
  - average weekly sales;
  - average weekly sales per square foot;
  - prescription count growth;
  - percentage of sales represented by customers who are loyalty program members;
  - market share;
  - customer satisfaction;
- gross margin percentage;
- sales per hour worked by store to assess productivity;
- operating income before depreciation and amortization and associate's earnings as a percentage of sales;
- net earnings as a percentage of sales;
- net earnings per share growth;
- return on equity;
- retail network investments:
  - dollar value and nature of store investments;
  - number of stores;
  - store square footage growth.

## KEY ACHIEVEMENTS

Sales for fiscal 2019 totalled \$16,767.5 million versus \$14,383.4 million for fiscal 2018, an increase of 16.6%. Excluding from fiscal 2019 and fiscal 2018 sales of \$3,121.8 million and \$1,157.7 million, respectively, generated by the Jean Coutu Group, sales were up 3.2%. Net earnings for fiscal 2019 were \$714.4 million, a decrease of 58.4% from \$1,718.5 million for fiscal 2018. Fully diluted net earnings per share were \$2.78 compared with \$7.16, down 61.2%. Adjusted net earnings<sup>(1)</sup> for fiscal 2019 totalled \$731.6 million compared with \$579.2 million for fiscal 2018, and adjusted fully diluted net earnings per share<sup>(1)</sup> amounted to \$2.84 versus \$2.41, up 26.3% and 17.8%, respectively.

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

- We continued to combine pharmacy activities and share best practices between METRO and the Jean Coutu Group. The first phase of the consolidation of our wholesale pharmaceutical business was completed the past summer. Orders from over 300 Ontario clients are now centralized at our state-of-the-art Varennes distribution centre. This constitutes the first step toward implementing an integrated operational chain for greater agility and efficiency. Synergies generated in fiscal 2019 amounted to \$58 million and to date, we have generated annualized synergies of \$65 million<sup>(3)</sup>.
- Pursuant to the agreement reached with Canada's Commissioner of Competition following the Jean Coutu Group acquisition, we completed the divestiture of rights in 10 pharmacies.
- In October 2017, we announced a \$400 million investment over six years in our Ontario distribution network. As part of this investment, construction of the new semi-automated fresh food distribution centre located close to our current Vickers Road facility in Toronto started in September 2019. Our new distribution centre equipped with state-of-the-art technology will help us improve service to our store network and offer greater product freshness and variety. METRO will be able to better meet the constantly evolving customer preferences and position itself as the retailer providing the best customer experience in each of its banners.
- We continued to invest in our stores. In Québec, we relocated a Super C and an Adonis and carried out major renovations at ten other stores. In Ontario, we opened two Metro and three Food Basics stores as well as an Adonis store, converted two Metro stores into Food Basics and carried out major renovations at 10 other stores.
- With the opening of a bakery on Laurier Street in Montréal, Première Moisson now has 22 bakeries in the Montréal area plus one in Québec City and two more in the Ottawa-Gatineau area.
- We launched our online grocery service in Ontario on May 7, 2019 and now 1.9 million households in the Greater Toronto Area can benefit from this service. Customers can pick up their orders in one of two stores or have them

<sup>(1)</sup> See table on "Net earnings adjustments" and section on "Non-IFRS measurements"

<sup>(2)</sup> See table on "Operating income before depreciation and amortization and associate's earnings adjustments" and section on "Non-IFRS measurements"

<sup>(3)</sup> See section on "Forward-looking information"

delivered. Products are selected by METRO employees specially trained to choose the freshest food in the store, so that customers feel they have chosen their items themselves.

- METRO also placed 10<sup>th</sup> in a recent study on the reputation of companies doing business in Canada, by the Reputation Institute. This was the first time we made the top 50. The first Canadian BrandZ report ranked Metro the most valuable grocery brand in Canada and 19<sup>th</sup> most valuable Canadian brand overall.
- The Jean Coutu Group celebrated 50 years of operations, namely 50 years of quality customer service, 50 years of innovations, 50 years of friendships. During this holiday period, the Jean Coutu Group wishes, more than ever, to clarify and reaffirm the philosophy that has been driving it since inception: At Jean Coutu, "you'll find it all... even a friend!".
- We continued to implement our corporate responsibility plan and reiterated our commitment to help find solutions to some of the most pressing issues in our industry. On January 17, 2019, along with other companies, we made a public commitment to reduce by 50% food waste in our operations by 2025. We have already implemented major projects to this end, namely our waste management program and the *Récupartage* food donation program. During the year, we unveiled our packaging and print management policy and intend to reduce by 50% single-use plastic bags in METRO's food and pharmacy banners by the end of fiscal 2023. These initiatives complement those already in place, namely the energy efficiency of our buildings, a program for the packaging of our private label food products and the opportunity for our customers in Québec's Metro stores to bring their reusable containers to purchase fresh products.

## SELECTED ANNUAL INFORMATION

	2019	2018	Change	2017	Change
<i>(Millions of dollars, unless otherwise indicated)</i>	<i>(52 weeks)</i>	<i>(52 weeks)</i>	<i>%</i>	<i>(53 weeks)</i>	<i>%</i>
Sales	<b>16,767.5</b>	14,383.4	16.6	13,175.3	9.2
Net earnings attributable to equity holders of the parent	<b>711.6</b>	1,716.5	(58.5)	591.7	190.1
Net earnings attributable to non-controlling interests	<b>2.8</b>	2.0	40.0	16.7	(88.0)
Net earnings	<b>714.4</b>	1,718.5	(58.4)	608.4	182.5
Basic net earnings per share	<b>2.79</b>	7.20	(61.3)	2.59	178.0
Fully diluted net earnings per share	<b>2.78</b>	7.16	(61.2)	2.57	178.6
Adjusted net earnings <sup>(1)</sup>	<b>731.6</b>	579.2	26.3	548.2	5.7
Adjusted fully diluted net earnings per share <sup>(1)</sup>	<b>2.84</b>	2.41	17.8	2.31	4.3
Return on equity (%)	<b>12.3</b>	40.1	—	21.7	—
Dividends per share <i>(Dollars)</i>	<b>0.7800</b>	0.7025	11.0	0.6275	12.0
Total assets	<b>11,073.9</b>	10,922.2	1.4	6,050.7	80.5
Current and non-current portions of debt	<b>2,657.6</b>	2,643.7	0.5	1,454.5	81.8

Sales for fiscal 2019 totalled \$16,767.5 million versus \$14,383.4 million for fiscal 2018, an increase of 16.6%. Excluding from fiscal 2019 and fiscal 2018 sales of \$3,121.8 million and \$1,157.7 million, respectively, generated by the Jean Coutu Group, sales were up 3.2%. Sales for fiscal 2018 totalled \$14,383.4 million versus \$13,175.3 million for fiscal 2017, an increase of 9.2%. Excluding \$1,157.7 million in sales from fiscal 2018 resulting from the Jean Coutu Group as well as the 53<sup>rd</sup> week of fiscal 2017, sales were up 2.4%.

Net earnings for fiscal 2019, 2018 and 2017 totalled \$714.4 million, \$1,718.5 million and \$608.4 million, respectively, while fully diluted net earnings per share amounted to \$2.78, \$7.16 and \$2.57. Taking into account the items relating to fiscal 2019 and fiscal 2018 shown in the "Net earnings adjustments" table in the "Operating results" section, as well as the share of an associate's (ACT) earnings for fiscal 2017, adjusted net earnings<sup>(1)</sup> for fiscal 2019 stood at \$731.6 million compared with \$579.2 million for fiscal 2018 and \$548.2 million for fiscal 2017, while adjusted fully diluted net earnings per share<sup>(1)</sup> was \$2.84 for 2019 compared with \$2.41 for 2018 and \$2.31 for 2017, up 17.8% and 4.3%. The 53<sup>rd</sup> week of fiscal 2017 had a favourable impact of \$11.9 million on net earnings and \$0.05 on fully diluted net earnings per share.

<sup>(1)</sup> See table on "Net earnings adjustments" and section on "Non-IFRS measurements"

<sup>(2)</sup> See table on "Operating income before depreciation and amortization and associate's earnings adjustments" and section on "Non-IFRS measurements"

<sup>(3)</sup> See section on "Forward-looking information"

After performing exceptionally well at 40.1% in 2018 due to the gain on disposal of our investment in ACT in order to pay part of the acquisition of the Jean Coutu Group, return on equity in 2019 was 12.3%, impacted by the 2018 share issuance also in connection with acquisition of the Jean Coutu Group. This acquisition and the financing required explain the increase in assets as well as in debt in 2018 compared with 2017.

## **OUTLOOK<sup>(3)</sup>**

In Fiscal 2020, our teams will work to achieve our strategic priorities of combining pharmacy operations, modernizing our distribution network, accelerating the growth of online shopping and developing talent, while continuing to grow all our banners.

To do so, we will press ahead with Phase 2 of the work to combine our pharmacy activities and will continue to realize synergies. Work will also continue to build the two new automated distribution centres in Toronto.

<sup>(1)</sup> See table on "Net earnings adjustments" and section on "Non-IFRS measurements"

<sup>(2)</sup> See table on "Operating income before depreciation and amortization and associate's earnings adjustments" and section on "Non-IFRS measurements"

<sup>(3)</sup> See section on "Forward-looking information"

## 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. As such, the fiscal 2018 results include the results of the Jean Coutu Group for slightly more than 20 weeks. In addition, the results for the first quarter of 2018 include significant gains following the disposal of our investment in Alimentation Couche-Tard (ACT).

### SALES

Sales for fiscal 2019 totalled \$16,767.5 million versus \$14,383.4 million for fiscal 2018, an increase of 16.6%. Excluding from fiscal 2019 and fiscal 2018 sales of \$3,121.8 million and \$1,157.7 million, respectively, generated by the Jean Coutu Group, sales were up 3.2%. Food same-store sales were up 3.6%. Pharmacy same-store sales were up 2.4% with a 1.8% increase in prescription drugs (number of prescriptions were up 2.4%) and a 3.4% increase in 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 fiscal 2019 totalled \$1,321.5 million or 7.9% of sales compared with \$1,011.1 million or 7.0% of sales for fiscal 2018. During fiscal 2019, we recorded retail network restructuring expenses of \$36.0 million and generated a net gain of \$6.0 million on the divestiture of pharmacies while for fiscal 2018, we recorded pharmacy network closure and restructuring expenses of \$31.4 million, a \$28.7 million expense related to the Jean Coutu Group acquisition and a \$11.4 million expense for distribution network modernization. Excluding those items, adjusted operating income before depreciation and amortization and associates' earnings<sup>(2)</sup> for fiscal 2019 totalled \$1,351.5 million or 8.1% of sales, compared with \$1,082.6 million or 7.5% of sales for fiscal 2018. This increase was largely driven by the Jean Coutu Group acquisition.

Synergies related to the Jean Coutu acquisition generated in fiscal 2019 amounted to \$58 million and to date, we have generated annualized synergies of \$65 million<sup>(3)</sup>.

### Operating income before depreciation and amortization and associates' earnings adjustments (OI)<sup>(2)</sup>

<i>(Millions of dollars, unless otherwise indicated)</i>	2019			2018		
	OI	Sales	(%)	OI	Sales	(%)
Operating income before depreciation and amortization and associates' earnings	1,321.5	16,767.5	7.9	1,011.1	14,383.4	7.0
Retail network restructuring expenses	36.0			—		
Gain on divestiture of pharmacies	(6.0)			—		
Pharmacy network closure and restructuring expenses	—			31.4		
Business acquisition-related expenses	—			28.7		
Distribution network modernization project expenses	—			11.4		
Adjusted operating income before depreciation and amortization and associates' earnings <sup>(2)</sup>	1,351.5	16,767.5	8.1	1,082.6	14,383.4	7.5

Gross margin on sales for fiscal 2019 were 19.9% versus 19.7% for fiscal 2018.

For fiscal 2019, operating expenses as a percentage of sales was 12.0% compared with 12.6% for fiscal 2018. Excluding from fiscal 2019 the retail network restructuring expenses of \$36.0 million and the \$6.0 million net gain generated from the divestiture of pharmacies, and excluding from fiscal 2018 the \$31.4 million for pharmacy network closure and restructuring expenses, the \$28.7 million expense related to the Jean Coutu Group acquisition and the \$11.4 million expense for distribution network modernization, operating expenses as a percentage of sales was 11.8% in 2019 compared with 12.1% in 2018. This difference is attributable to the inclusion of the Jean Coutu Group, partially offset by higher transportation costs.

<sup>(1)</sup> See table on "Net earnings adjustments" and section on "Non-IFRS measurements"

<sup>(2)</sup> See table on "Operating income before depreciation and amortization and associate's earnings adjustments" and section on "Non-IFRS measurements"

<sup>(3)</sup> See section on "Forward-looking information"

**DEPRECIATION AND AMORTIZATION AND NET FINANCIAL COSTS**

Total depreciation and amortization expense for fiscal 2019 were \$286.4 million versus \$233.5 million for fiscal 2018. Amortization of intangible assets acquired in connection with the Jean Coutu Group acquisition amounted to \$38.7 million for fiscal 2019 compared with \$15.0 million for fiscal 2018.

Net financial costs for fiscal 2019 were \$103.8 million compared with \$80.2 million for fiscal 2018. 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 fiscal 2019, the Company disposed of its investment in Colo-D Inc., an associate presented in other assets, for a total cash consideration of \$59.0 million. A gain before income taxes of \$36.4 million on the disposal of this investment was recognized in earnings.

During the first quarter of fiscal 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 \$241.1 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 fiscal 2019 in comparison with a \$30.8 million share recorded in fiscal 2018.

**INCOME TAXES**

The income tax expense of \$254.8 million for fiscal 2019 and \$358.2 million for fiscal 2018 represented an effective tax rate of 26.3% and 17.2% respectively. 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<sup>(1)</sup>**

Net earnings for fiscal 2019 were \$714.4 million, a decrease of 58.4% from \$1,718.5 million for fiscal 2018. Fully diluted net earnings per share were \$2.78 compared with \$7.16, down 61.2%. Excluding the specific items shown in the table below, adjusted net earnings<sup>(1)</sup> for fiscal 2019 totalled \$731.6 million compared with \$579.2 million for fiscal 2018, and adjusted fully diluted net earnings per share<sup>(1)</sup> amounted to \$2.84 versus \$2.41, up 26.3% and 17.8%, respectively.

<sup>(1)</sup> See table on "Net earnings adjustments" and section on "Non-IFRS measurements"

<sup>(2)</sup> See table on "Operating income before depreciation and amortization and associate's earnings adjustments" and section on "Non-IFRS measurements"

<sup>(3)</sup> See section on "Forward-looking information"

**Net earnings adjustments<sup>(1)</sup>**

	2019		2018		Change (%)	
	(Millions of dollars)	Fully diluted EPS (Dollars)	(Millions of dollars)	Fully diluted EPS (Dollars)	Net earnings	Fully diluted EPS
Net earnings	<b>714.4</b>	<b>2.78</b>	1,718.5	7.16	(58.4)	(61.2)
Retail network restructuring expenses, after taxes	<b>26.4</b>		—			
Gain on divestiture of pharmacies, after taxes	<b>(4.7)</b>		—			
Pharmacy network closure and restructuring expenses, after taxes	—		23.0			
Business acquisition-related expenses, after taxes	—		22.7			
Distribution network modernization project expenses, after taxes	—		8.4			
Amortization of intangible assets acquired in connection with the Jean Coudu Group acquisition, after taxes	<b>28.5</b>		11.0			
Income on business acquisition-related short-term investments and security deposits, after taxes	—		(15.6)			
Interest on notes issued in connection with a business acquisition, after taxes	—		14.0			
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	<b>(31.9)</b>		(968.1)			
Gain on revaluation and disposal of an investment at fair value, after taxes	<b>(1.1)</b>		(209.3)			
Share of an associate's earnings, after taxes	—		(26.7)			
<b>Adjusted net earnings<sup>(1)</sup></b>	<b>731.6</b>	<b>2.84</b>	579.2	2.41	26.3	17.8

<sup>(1)</sup> See table on "Net earnings adjustments" and section on "Non-IFRS measurements"

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<sup>(3)</sup> See section on "Forward-looking information"

## QUARTERLY HIGHLIGHTS

<i>(Millions of dollars, unless otherwise indicated)</i>	<b>2019</b>	2018	Change (%)
<b>Sales</b>			
Q1 <sup>(4)</sup>	<b>3,977.7</b>	3,111.8	27.8
Q2 <sup>(4)</sup>	<b>3,701.6</b>	2,899.0	27.7
Q3 <sup>(5)</sup>	<b>5,229.3</b>	4,636.4	12.8
Q4 <sup>(4)</sup>	<b>3,858.9</b>	3,736.2	3.3
<b>Fiscal</b>	<b>16,767.5</b>	14,383.4	16.6
<b>Net earnings</b>			
Q1 <sup>(4)</sup>	<b>203.1</b>	1,299.1	(84.4)
Q2 <sup>(4)</sup>	<b>121.5</b>	106.9	13.7
Q3 <sup>(5)</sup>	<b>222.4</b>	167.5	32.8
Q4 <sup>(4)</sup>	<b>167.4</b>	145.0	15.4
<b>Fiscal</b>	<b>714.4</b>	1,718.5	(58.4)
<b>Adjusted net earnings<sup>(1)</sup></b>			
Q1 <sup>(4)</sup>	<b>172.2</b>	126.7	35.9
Q2 <sup>(4)</sup>	<b>155.1</b>	108.1	43.5
Q3 <sup>(5)</sup>	<b>230.3</b>	183.4	25.6
Q4 <sup>(4)</sup>	<b>174.0</b>	161.0	8.1
<b>Fiscal</b>	<b>731.6</b>	579.2	26.3
<b>Fully diluted net earnings per share (Dollars)</b>			
Q1 <sup>(4)</sup>	<b>0.79</b>	5.67	(86.1)
Q2 <sup>(4)</sup>	<b>0.47</b>	0.47	—
Q3 <sup>(5)</sup>	<b>0.86</b>	0.69	24.6
Q4 <sup>(4)</sup>	<b>0.66</b>	0.56	17.9
<b>Fiscal</b>	<b>2.78</b>	7.16	(61.2)
<b>Adjusted fully diluted net earnings per share<sup>(1)</sup> (Dollars)</b>			
Q1 <sup>(4)</sup>	<b>0.67</b>	0.55	21.8
Q2 <sup>(4)</sup>	<b>0.60</b>	0.47	27.7
Q3 <sup>(5)</sup>	<b>0.90</b>	0.75	20.0
Q4 <sup>(4)</sup>	<b>0.68</b>	0.63	7.9
<b>Fiscal</b>	<b>2.84</b>	2.41	17.8

<sup>(4)</sup> 12 weeks

<sup>(5)</sup> 16 weeks

Sales in the first quarter of fiscal 2019 reached \$3,977.7 million, up 27.8% compared with \$3,111.8 million in the first quarter of fiscal 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 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.

<sup>(1)</sup> See table on "Net earnings adjustments" and section on "Non-IFRS measurements"

<sup>(2)</sup> See table on "Operating income before depreciation and amortization and associate's earnings adjustments" and section on "Non-IFRS measurements"

<sup>(3)</sup> See section on "Forward-looking information"

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.

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.

Net earnings for the first quarter of fiscal 2019 were \$203.1 million, a decrease of 84.4% from \$1,299.1 million for the first quarter of fiscal 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 fiscal 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 fiscal 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<sup>(1)</sup> for the first quarter of fiscal 2019 totalled \$172.2 million compared with \$126.7 million for the corresponding quarter of fiscal 2018 and adjusted fully diluted net earnings per share<sup>(1)</sup> amounted to \$0.67 compared with \$0.55, up 35.9% and 21.8%, 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<sup>(1)</sup> 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<sup>(1)</sup> amounted to \$0.60 compared with \$0.47, up 43.5% and 27.7%, 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<sup>(1)</sup> 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<sup>(1)</sup> amounted to \$0.90 compared with \$0.75, up 25.6% and 20.0%, 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 of an investment at fair value of \$15.5 million, as well as income taxes relating to all these items, adjusted net earnings<sup>(1)</sup> for the fourth quarter of fiscal 2019 totalled \$174.0 million compared with \$161.0 million for the corresponding quarter of fiscal 2018

<sup>(1)</sup> See table on "Net earnings adjustments" and section on "Non-IFRS measurements"

<sup>(2)</sup> See table on "Operating income before depreciation and amortization and associate's earnings adjustments" and section on "Non-IFRS measurements"

<sup>(3)</sup> See section on "Forward-looking information"

and adjusted fully diluted net earnings per share<sup>(1)</sup> amounted to \$0.68 compared with \$0.63, up 8.1% and 7.9%, respectively.

<i>(Millions of dollars)</i>	2019				2018			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net earnings	203.1	121.5	222.4	167.4	1,299.1	106.9	167.5	145.0
Retail network restructuring expenses, after taxes	—	26.4	—	—	—	—	—	—
Loss (gain) on divestiture of pharmacies, after taxes	(5.4)	0.7	—	—	—	—	—	—
Pharmacy network closure and restructuring expenses, after taxes	—	—	—	—	—	—	—	23.0
Business acquisition-related expenses, after taxes	—	—	—	—	1.5	1.1	20.1	—
Distribution network modernization project expenses, after taxes	—	—	—	—	8.4	—	—	—
Amortization of intangible assets acquired in connection with the Jean Coutu Group acquisition, after taxes	6.6	6.5	8.8	6.6	—	—	4.4	6.6
Income on business acquisition-related short-term investments and security deposits, after taxes	—	—	—	—	(3.9)	(7.1)	(4.6)	—
Interest on notes issued in connection with a business acquisition, after taxes	—	—	—	—	1.6	7.2	5.2	—
Financial costs on the balance payable for the buyout of minority interests, after taxes	—	—	—	—	1.3	—	—	—
Gain on disposal of investments in associates, after taxes	(31.0)	—	(0.9)	—	(958.9)	—	(9.2)	—
Gain on revaluation and disposal of an investment at fair value, after taxes	(1.1)	—	—	—	(195.7)	—	—	(13.6)
Share of an associate's earnings, after taxes	—	—	—	—	(26.7)	—	—	—
Adjusted net earnings <sup>(1)</sup>	172.2	155.1	230.3	174.0	126.7	108.1	183.4	161.0

<i>(Dollars)</i>	2019				2018			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Fully diluted net earnings per share	0.79	0.47	0.86	0.66	5.67	0.47	0.69	0.56
Adjustments impact	(0.12)	0.13	0.04	0.02	(5.12)	—	0.06	0.07
Adjusted fully diluted net earnings per share <sup>(1)</sup>	0.67	0.60	0.90	0.68	0.55	0.47	0.75	0.63

## CASH POSITION

### OPERATING ACTIVITIES

Operating activities generated cash inflows of \$687.7 million in fiscal 2019 compared with \$750.4 million in fiscal 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.

<sup>(1)</sup> See table on "Net earnings adjustments" and section on "Non-IFRS measurements"

<sup>(2)</sup> See table on "Operating income before depreciation and amortization and associate's earnings adjustments" and section on "Non-IFRS measurements"

<sup>(3)</sup> See section on "Forward-looking information"

## INVESTING ACTIVITIES

In fiscal 2019, investing activities required cash outflows of \$308.5 million compared with \$1,677.5 million for fiscal 2018. This variation stemmed mainly from the \$3,033.0 million business acquisition, net of cash acquired, the \$221.2 million settlement of the buyout of minority interests in Adonis and Phoenicia, and \$1,791.6 million in net proceeds on disposal of the investment in ACT, all in 2018, compared with \$59.0 million in proceeds on disposal of the investment in associate Colo-D Inc. in 2019.

During fiscal 2019, we and our retailers opened 8 stores and carried out major expansions and renovations of 20 stores, 2 stores were relocated and 9 stores were closed for a net decrease of 11,800 square feet or 0.1% of our food retail network.

## FINANCING ACTIVITIES

In fiscal 2019, financing activities required cash outflows of \$332.7 million compared with cash inflows of \$1,005.1 million in 2018. This difference stemmed primarily from a \$1,173.6 million net increase in debt in 2018 owing to the issuance of Series F, G and H notes and to the term credit facility used to partly finance the Jean Coutu Group acquisition and \$145.9 million in share repurchase in 2019.

## FINANCIAL POSITION

We do not anticipate<sup>(3)</sup> any liquidity risk and consider our financial position at the end of fiscal 2019 as very solid. We had an unused authorized revolving credit facility of \$600.0 million. Our non-current debt represented 30.6% of the combined total of non-current debt and equity (non-current debt/total capital).

At the end 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, 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 September 28, 2019	As at September 29, 2018
Financial structure		
Non-current debt (Millions of dollars)	2,629.0	2,630.4
Equity (Millions of dollars)	5,968.6	5,656.0
Non-current debt/total capital (%)	30.6	31.7

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 to total capital.

<sup>(1)</sup> See table on "Net earnings adjustments" and section on "Non-IFRS measurements"

<sup>(2)</sup> See table on "Operating income before depreciation and amortization and associate's earnings adjustments" and section on "Non-IFRS measurements"

<sup>(3)</sup> See section on "Forward-looking information"

	2019	2018
<b>Results</b>		
Operating income before depreciation and amortization and associates' earnings/Financial costs <i>(Times)</i>	12.7	12.6

**CAPITAL STOCK**

<i>(Thousands)</i>	Common Shares issued	
	2019	2018
Balance – beginning of year	256,253	227,719
Share issue	—	28,031
Share redemption	(2,925)	—
Stock options exercised	1,112	503
Balance – end of year	254,440	256,253
Balance as at November 29, 2019 and November 30, 2018	254,222	256,272

<i>(Thousands)</i>	Treasury shares	
	2019	2018
Balance – beginning of year	603	579
Acquisition	115	250
Release	(141)	(226)
Balance – end of year	577	603
Balance as at November 29, 2019 and November 30, 2018	577	603

**STOCK OPTIONS PLAN**

	As at November 29, 2019	As at September 28, 2019	As at September 29, 2018
Stock options <i>(Thousands)</i>	2,249	2,281	3,067
Exercise prices <i>(Dollars)</i>	20.30 to 48.68	20.30 to 48.68	17.72 to 44.73
Weighted average exercise price <i>(Dollars)</i>	37.38	37.30	30.30

**PERFORMANCE SHARE UNIT PLAN**

	As at November 29, 2019	As at September 28, 2019	As at September 29, 2018
Performance share units <i>(Thousands)</i>	605	605	579

**NORMAL COURSE ISSUER BID PROGRAM**

Under the normal course issuer bid program covering the period between November 23, 2018 and November 22, 2019, the Corporation repurchased 3,175,000 Common Shares at an average price of 50.31 \$, for a total consideration of \$159.7 million.

The Corporation decided to renew the issuer bid program as an additional option for using excess funds. Thus, the Corporation will be able to repurchase, in the normal course of business, between November 25, 2019 and November 24, 2020, up to 7,000,000 of its Common Shares representing approximately 2.75 % of its issued and outstanding shares on November 12, 2019. Repurchases will be made through the facilities of the Toronto Stock Exchange at market price, in accordance with its policies and regulations, or through the facilities of alternative trading systems as well as by other means as may be permitted by a securities regulatory authority, including by private agreements.

<sup>(1)</sup> See table on "Net earnings adjustments" and section on "Non-IFRS measurements"

<sup>(2)</sup> See table on "Operating income before depreciation and amortization and associate's earnings adjustments" and section on "Non-IFRS measurements"

<sup>(3)</sup> See section on "Forward-looking information"

**BUYOUT OF NON-CONTROLLING INTEREST**

The Corporation will acquire the minority interest in Groupe Première Moisson Inc. in the first quarter of fiscal 2020. Consequently, the liability for this non-controlling interest has been reclassified in current liabilities.

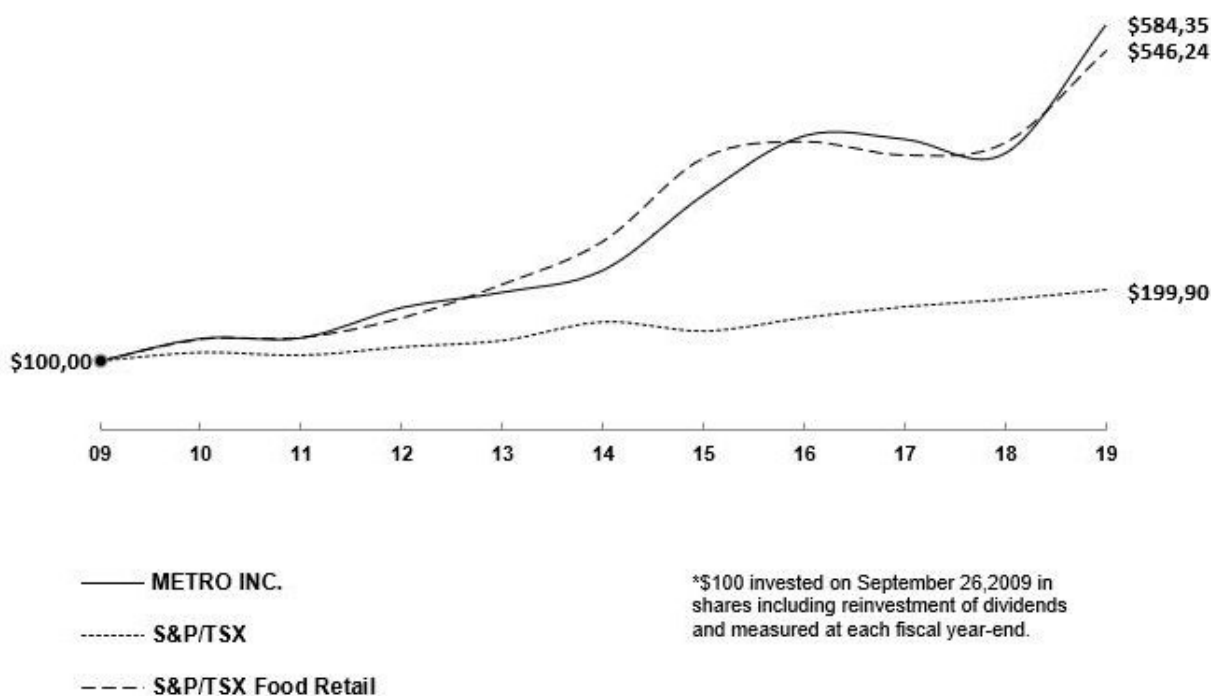
**DIVIDEND**

For the 25<sup>th</sup> consecutive year, the Corporation paid quarterly dividends to its shareholders. The annual dividend increased by 11.0%, to \$0.7800 per share compared to \$0.7025 in 2018, for total dividends of \$198.9 million in 2019 compared to \$164.8 million in 2018.

**SHARE TRADING**

The value of METRO shares remained in the \$39.04 to \$58.94 range throughout fiscal 2019 (\$38.32 to \$45.44 in 2018). A total of 139.6 million shares traded on the TSX during this fiscal year (120.4 million in 2018). The closing price on Friday, September 27, 2019 was \$57.91, compared to \$40.18 at the end of fiscal 2018. Since fiscal year-end, the value of METRO shares has remained in the \$54.52 to \$59.03 range. The closing price on November 29, 2019 was \$58.18. METRO shares have maintained sustained growth over the last 10 years.

**COMPARATIVE SHARE PERFORMANCE (10 YEARS)\***



<sup>(1)</sup> See table on "Net earnings adjustments" and section on "Non-IFRS measurements"

<sup>(2)</sup> See table on "Operating income before depreciation and amortization and associate's earnings adjustments" and section on "Non-IFRS measurements"

<sup>(3)</sup> See section on "Forward-looking information"

## CONTINGENCIES

In the normal course of business, various proceedings and claims are instituted against the Corporation. The Corporation contests the validity of these claims and proceedings and at this stage, the Corporation does not believe that these matters will have a material effect on the Corporation's financial position or on consolidated earnings. However, since any litigation involves uncertainty, it is not possible to predict the outcome of these litigations or the amount of potential losses. No accruals or provisions for contingent losses have been recognized in the Corporation's annual consolidated financial statements.

In May 2019, two proposed class actions relating to opioids were filed in Ontario and in Québec against a large group of defendants including a subsidiary of the Corporation, Pro Doc Ltée. The allegations in these proposed class actions are similar to the allegations contained in the proposed class action filed by the province of British Columbia in August 2018 against numerous manufacturers and distributors of opioids, including subsidiaries of the Corporation, Pro Doc Ltée and The Jean Coutu Group (PJC) Inc. These proposed class actions contain allegations of breach of the Competition Act, of fraudulent misrepresentation and deceit, and of negligence. The province of British Columbia seeks damages (unquantified) on behalf of all federal, provincial and territorial governments and agencies for expenses allegedly incurred in paying for opioid prescriptions and other healthcare costs that would be related to opioid addiction and abuse while the Ontario and Québec proposed claims seek recovery of damages on behalf of opioid users directly. The Corporation believes these proceedings are without merit and that, in certain cases, there is no jurisdiction.

In October 2017, the Canadian Competition Bureau began an investigation into the supply and sale of commercial bread which involves certain Canadian suppliers and retailers, including the Corporation. The Corporation continues to fully cooperate with the Competition Bureau. Class actions lawsuits have also been filed against the Corporation, suppliers and other retailers. Based on the information available to date, the Corporation does not believe that it or any of its employees have violated the Competition Act.

During the 2016 fiscal year, an application for authorization to institute a class action was served on the Jean Coutu Group by Sopropharm, an association incorporated under the Professional Syndicates Act of which certain franchised drugstore owners of the Jean Coutu Group are members. The application seeks to have the class action authorized in the form of a declaratory action seeking amongst others (i) to set aside certain contractual provisions of the Jean Coutu Group's standard franchise agreements, including the clause providing for the payment of royalties on sales of medication by franchised establishments; (ii) to restore certain benefits; and (iii) to reduce certain contractual obligations. On November 1, 2018, the Court granted the application for authorization to institute a class action, the authorization process being merely a procedural step and the judgment in no way decides the case on the merits. The Corporation intends to contest this action on the merits.

## SOURCES OF FINANCING

Our operating activities generated in 2019 cash flows in the amount of \$687.7 million. These cash flows were used to finance our investing activities, including \$396.3 million in fixed and intangible assets acquisition, to redeem shares for an amount of \$145.9 million, to pay dividends of \$198.9 million, and to carry out other investing and financing activities.

At 2019 fiscal year-end, our financial position mainly consisted of cash and cash equivalents in the amount of \$273.4 million, an unused authorized Revolving Credit Facility of \$600.0 million maturing in 2024, Series E Notes in the amount of \$400.0 million maturing in 2020, Series C Notes in the amount of \$300.0 million maturing in 2021, Series F Notes in the amount of \$300.0 million maturing in 2022, Series G Notes in the amount of \$450.0 million maturing in 2027, Series B Notes in the amount of \$400.0 million maturing in 2035, Series D Notes in the amount of \$300.0 million maturing in 2044 and Series H Notes in the amount of \$450.0 million maturing in 2047. The Company intends to refinance the Series E Notes presented under non-current debt.

We believe<sup>(3)</sup> that cash flows from next year's operating activities will be sufficient to finance the Corporation's current investing activities.

<sup>(1)</sup> See table on "Net earnings adjustments" and section on "Non-IFRS measurements"

<sup>(2)</sup> See table on "Operating income before depreciation and amortization and associate's earnings adjustments" and section on "Non-IFRS measurements"

<sup>(3)</sup> See section on "Forward-looking information"

## CONTRACTUAL OBLIGATIONS

Payment commitments by fiscal year (capital and interest)

<i>(Millions of dollars)</i>	Loans	Notes	Finance lease commitments	Service contract commitments	Operating lease commitments	Lease and sublease commitments <sup>(6)</sup>	Total
2020	25.9	495.5	4.9	141.9	194.6	99.5	962.3
2021	3.3	91.1	3.5	109.2	187.9	92.8	487.8
2022	2.3	383.1	2.3	84.4	169.6	84.0	725.7
2023	1.8	374.8	2.0	68.9	147.4	75.3	670.2
2024	1.5	73.4	2.0	67.8	124.2	66.1	335.0
2025 and thereafter	26.5	2,661.4	14.4	10.3	573.2	261.5	3,547.3
	61.3	4,079.3	29.1	482.5	1,396.9	679.2	6,728.3

<sup>(6)</sup> The Corporation has lease commitments with varying terms through 2040, to lease premises which it sublets to clients, generally under the same conditions.

## RELATED PARTY TRANSACTIONS

During fiscal 2019, we supplied drugstores held by a member of the Board of Directors and paid fees to Dunnhumby Canada Limited, a joint venture, for analysis of our customer sales data. These transactions were carried out in the normal course of business and recorded at exchange value. They are itemized in note 26 to the consolidated financial statements. The joint venture with Dunnhumby Canada Limited ended on February 28, 2019.

## EVENT AFTER THE REPORTING PERIOD

On December 9, 2019, the Corporation closed the sale of MissFresh as part of a transaction involving all of MissFresh's assets. The result of this transaction will be recorded in the first quarter of 2020.

## FOURTH QUARTER

<i>(Millions of dollars, except for net earnings per share)</i>	2019	2018	Change
Sales	<b>3,858.9</b>	3,736.2	3.3
Operating income before depreciation and amortization and associate's earnings	<b>321.6</b>	266.5	20.7
Adjusted operating income before depreciation and amortization and associate's earnings <sup>(1)</sup>	<b>321.6</b>	297.9	8.0
Net earnings	<b>167.4</b>	145.0	15.4
Adjusted net earnings <sup>(1)</sup>	<b>174.0</b>	161.0	8.1
Fully diluted net earnings per share	<b>0.66</b>	0.56	17.9
Adjusted fully diluted net earnings per share <sup>(1)</sup>	<b>0.68</b>	0.63	7.9
Cash flows from:			
Operating activities	<b>228.9</b>	250.9	—
Investing activities	<b>(146.1)</b>	207.1	—
Financing activities	<b>(72.7)</b>	(350.8)	—

<sup>(1)</sup> See table on "Net earnings adjustments" and section on "Non-IFRS measurements"

<sup>(2)</sup> See table on "Operating income before depreciation and amortization and associate's earnings adjustments" and section on "Non-IFRS measurements"

<sup>(3)</sup> See section on "Forward-looking information"

**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.

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

Operating income before depreciation and amortization and associates' earnings for the fourth quarter of fiscal 2019 totalled \$321.6 million, or 8.3% of sales, versus \$266.5 million, or 7.1% of sales, for the fourth quarter last year. During the fourth quarter of fiscal 2018, we recorded pharmacy network closure and restructuring expenses of \$31.4 million. Excluding this item, adjusted operating income before depreciation and amortization and associates' earnings<sup>(2)</sup> for the fourth quarter of fiscal 2018 totalled \$297.9 million, or 8.0% of sales.

Synergies related to the Jean Coutu acquisition generated for the fourth quarter of fiscal 2019 amounted to \$18 million compared with \$6.6 million for the corresponding quarter of fiscal 2018.

**Operating income before depreciation and amortization and associates' earnings adjustments (OI)<sup>(2)</sup>**

	12 weeks / Fiscal Year					
	2019			2018		
<i>(Millions of dollars, unless otherwise indicated)</i>	OI	Sales	(%)	OI	Sales	(%)
Operating income before depreciation and amortization and associates' earnings	321.6	3,858.9	8.3	266.5	3,736.2	7.1
Pharmacy network closure and restructuring expenses	—			31.4		
Adjusted operating income before depreciation and amortization and associates' earnings <sup>(2)</sup>	321.6	3,858.9	8.3	297.9	3,736.2	8.0

Gross margins on sales for the fourth quarter of 2019 were 20.2% versus 19.7% for the corresponding quarter of 2018.

Operating expenses as a percentage of sales for the fourth quarter of 2019 were 11.9% versus 12.6% for the corresponding quarter of fiscal 2018 (11.7% excluding the pharmacy network closure and restructuring expenses of \$31.4 million). This variation was a result of the inclusion of the Jean Coutu Group partially offset by higher transportation costs.

**DEPRECIATION AND AMORTIZATION AND NET FINANCIAL COSTS**

Total depreciation and amortization expense for the fourth quarter of fiscal 2019 were \$68.5 million versus \$65.0 million for the corresponding quarter of fiscal 2018. Amortization of intangible assets acquired in connection with the Jean Coutu Group acquisition amounted to \$9.0 million for the fourth quarter of fiscal 2019 as well as for the fourth quarter of fiscal 2018.

Net financial costs for the fourth quarter of fiscal 2019 were \$23.4 million compared with \$23.9 million for the corresponding quarter of fiscal 2018.

**INCOME TAXES**

The income tax expense of \$62.3 million for the fourth quarter of fiscal 2019 represented an effective tax rate of 27.1% compared with an income tax expense of \$48.1 million in the fourth quarter of fiscal 2018 which represented an effective tax rate of 24.9%. The lower rate for the fourth quarter of fiscal 2018 is related to the disposal of the investment in ACT.

**NET EARNINGS AND ADJUSTED NET EARNINGS<sup>(1)</sup>**

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 the specific items shown in the table below, adjusted net earnings<sup>(1)</sup> for the fourth quarter of fiscal 2019 totalled \$174.0 million compared with \$161.0 million for the corresponding quarter of

<sup>(1)</sup> See table on "Net earnings adjustments" and section on "Non-IFRS measurements"

<sup>(2)</sup> See table on "Operating income before depreciation and amortization and associate's earnings adjustments" and section on "Non-IFRS measurements"

<sup>(3)</sup> See section on "Forward-looking information"



fiscal 2018, and adjusted fully diluted net earnings per share<sup>(1)</sup> amounted to \$0.68 versus \$0.63, up 8.1% and 7.9%, respectively.

### Net earnings adjustments<sup>(1)</sup>

	12 weeks / Fiscal Year				Change (%)	
	2019		2018			
	(Millions of dollars)	Fully diluted EPS (Dollars)	(Millions of dollars)	Fully diluted EPS (Dollars)	Net earnings	Fully diluted EPS
Net earnings	167.4	0.66	145.0	0.56	15.4	17.9
Pharmacy network closure and restructuring expenses, after taxes	—		23.0			
Amortization of intangible assets acquired in connection with the Jean Coutu Group acquisition, after taxes	6.6		6.6			
Gain on revaluation and disposal of an investment at fair value, after taxes	—		(13.6)			
Adjusted net earnings <sup>(1)</sup>	174.0	0.68	161.0	0.63	8.1	7.9

### CASH POSITION

#### Operating activities

Operating activities generated cash inflows of \$228.9 million in the fourth quarter compared with \$250.9 million for the corresponding quarter of fiscal 2018. This difference is mainly due to a significant contribution to a pension plan.

#### Investing activities

Investing activities required cash outflows of \$146.1 million for the fourth quarter of fiscal 2019 compared with cash inflows of \$207.1 million for the corresponding quarter of fiscal 2018. The difference stemmed mainly from the disposal, in 2018, of a portion of the investment at fair value in ACT and the equity forward agreement entered into for the remaining shares of this investment which generated cash flows of \$257.6 million and \$68.4 million, respectively.

#### Financing activities

In the fourth quarter of 2019, financing activities required cash outflows of \$72.7 million compared with \$350.8 million in the corresponding quarter of 2018. This difference resulted primarily from a \$302.9 million net decrease in debt in 2018 and \$28.2 million in share repurchases in 2019.

### DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation adopted a financial risk management policy, approved by the Board of Directors in April 2010, setting forth guidelines relating to its use of derivative financial instruments. These guidelines prohibit the use of derivatives for speculative purposes. During fiscal 2019, the Corporation used derivative financial instruments as described in notes 2 and 28 to the consolidated financial statements.

### NEW ACCOUNTING STANDARDS

#### ACCOUNTING STANDARD ISSUED BUT NOT YET EFFECTIVE

##### 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 current distinction between finance leases and operating leases, most leases will be recognized in the statement of financial position. Certain exemptions will apply for short-term leases and leases of low-value assets. The accounting requirements for lessors remain similar to those under IAS 17. 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.

<sup>(1)</sup> See table on "Net earnings adjustments" and section on "Non-IFRS measurements"

<sup>(2)</sup> See table on "Operating income before depreciation and amortization and associate's earnings adjustments" and section on "Non-IFRS measurements"

<sup>(3)</sup> See section on "Forward-looking information"

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

As a lessee, the Corporation will recognize right-of-use assets and lease liabilities in respect of operating leases for property, vehicles and equipment. Depreciation expense for right-of-use assets and interest expense on lease liabilities will replace rental expense previously recognized under IAS 17 on a straight-line basis over the lease term. The lease liabilities will be measured at the present value of the remaining lease payments and the right-of-use assets will be measured using the modified retrospective approach. The discount rate used will be 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 expects an increase in current and non-current receivables recorded for leases that should be classified as finance leases.

The Corporation will use 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.

We expect<sup>(3)</sup> increases in liabilities ranging from \$2.1 billion to \$2.3 billion and in assets, including right-of-use assets as well as receivables (current and non-current) related to sublease agreements, ranging from \$1.9 billion to \$2.1 billion with the net impact recorded in opening retained earnings. Actual results from the initial application of IFRS 16 may differ from estimated amounts, the Corporation continues to perfect the estimates and input data that will be used in the calculations.

## 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.
- 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.

<sup>(1)</sup> See table on "Net earnings adjustments" and section on "Non-IFRS measurements"

<sup>(2)</sup> See table on "Operating income before depreciation and amortization and associate's earnings adjustments" and section on "Non-IFRS measurements"

<sup>(3)</sup> See section on "Forward-looking information"

- 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 losses 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 evaluation is calculated using the simplified method for cash and current assets and the general method for loans. 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.

### **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 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 annual report, different statements that could, within the context of regulations issued by the Canadian Securities Administrators, be construed as being forward-looking information. In general, any statement contained in this report that does not constitute a historical fact may be deemed a forward-looking statement. Expressions such as “annualize”, “continue”, “anticipate”, “believe”, “expect”, “estimate” and other similar expressions are generally indicative of forward-looking statements. The forward-looking statements contained in this report are based upon certain assumptions regarding the Canadian food industry, the general economy, our annual budget, as well as our 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 of those described under the “Risk Management” section of this annual report that could have an impact on these statements. We believe these statements to be reasonable and

<sup>(1)</sup> See table on “Net earnings adjustments” and section on “Non-IFRS measurements”

<sup>(2)</sup> See table on “Operating income before depreciation and amortization and associate's earnings adjustments” and section on “Non-IFRS measurements”

<sup>(3)</sup> See section on “Forward-looking information”

relevant as at the date of publication of this report and represent our expectations. The Corporation does not intend to update any forward-looking statement contained herein, except as required by applicable law.

## **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 PROCEDURES**

The President and Chief Executive Officer, and the Executive Vice President, Chief Financial Officer and Treasurer of the Corporation, are responsible for the implementation and maintenance of disclosure controls and procedures (DC&P), and of the internal control over financial reporting (ICFR), as provided for in National Instrument 52-109 regarding the Certification of Disclosure in Issuers' Annual and Interim Filings. They are assisted in this task by the Disclosure Committee, which is comprised of members of the Corporation's senior management.

An evaluation was completed under their supervision in order to measure the effectiveness of DC&P and ICFR. Based on this evaluation, the President and Chief Executive Officer and the Executive Vice President, Chief Financial Officer and Treasurer of the Corporation concluded that the DC&P and the ICFR were effective as at the end of the fiscal year ended September 28, 2019.

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

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

## **SIGNIFICANT JUDGEMENTS AND ESTIMATES**

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

<sup>(1)</sup> See table on "Net earnings adjustments" and section on "Non-IFRS measurements"

<sup>(2)</sup> See table on "Operating income before depreciation and amortization and associate's earnings adjustments" and section on "Non-IFRS measurements"

<sup>(3)</sup> See section on "Forward-looking information"

## JUDGEMENTS

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

### Consolidation of structured entities

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

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

The Corporation also has an agreement with a third party that operates a plant exclusively for the needs and according to the specifications of the Corporation, which assumes all costs and control the plant's main activities. For these reasons, the Corporation consolidates it in the Corporation's financial statements.

### Determination of the aggregation of operating segments

The Corporation uses judgment in determining the aggregation of business segments. The reportable operating segment comprises the food operations segment and the pharmaceutical operations segment. The Corporation has aggregated these two business segments due to the similar nature of their goods and services and similar economic characteristics: operations are carried on primarily in Québec and Ontario and are therefore subject to the same regulatory environment and competitive and economic market pressures, use the same product distribution methods and serve the same customers.

## ESTIMATES

The assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the value of assets and liabilities within the next period, are discussed below:

### Impairment of assets

In testing for impairment of intangible assets with indefinite useful lives and goodwill, value in use and fair value less costs of disposal are estimated using the discounted future cash flows model, the capitalized excess earnings before financial costs and taxes (EBIT) and royalty-free licence methods. These methods are based on various assumptions, such as the future cash flows estimate, excess EBIT, royalty rates, discount rate, earnings multiples and growth rates. The key assumptions are disclosed in notes 13 and 14 to the annual consolidated financial statements.

### Pension plans and other plans

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

### Non-controlling interests

The non-current liability related to the non-controlling interest is calculated in relation to the price to be paid by the Corporation for the non-controlling interest, which price is based mainly on the future earnings of MissFresh (MissFresh and Première Moisson in 2018) as of the date the options will become exercisable. Given the uncertainty associated with the estimation of these future earnings, the Corporation used, at the end of the fiscal year, its most probable estimate and various other assumptions, including the discount rate, growth rate and capital investments. Additional information is presented in note 28 to the annual consolidated financial statements.

<sup>(1)</sup> See table on "Net earnings adjustments" and section on "Non-IFRS measurements"

<sup>(2)</sup> See table on "Operating income before depreciation and amortization and associate's earnings adjustments" and section on "Non-IFRS measurements"

<sup>(3)</sup> See section on "Forward-looking information"

## RISK MANAGEMENT

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

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

### FOOD SAFETY

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

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

### CRISIS MANAGEMENT

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

### COMPUTER SYSTEMS

We rely on various computer systems that are necessary for our business activities and we could have to deal with certain security risks, notably cyberattacks, which could harm the availability and integrity of the systems or compromise data privacy.

In the normal course of our activities, we gather information that is confidential in nature concerning our customers, suppliers, employees, partners and loyalty program participants. Personal and confidential data is also gathered from customers who do business with the drugstores affiliated to one of our banners. Furthermore, the online shopping sites represent an additional risk with respect to the security of our systems. As a result, we are even more exposed to the risk of cyberattacks aimed at stealing information or interrupting our computer systems.

A systems breakdown could have a major impact on our business operations, while a cyberattack or an intrusion into our systems could result in unauthorized persons altering our systems or gaining access to sensitive and confidential information and then using or damaging it. Such situations could also affect third parties who provide essential services for our operations or who store confidential information. These events could have a negative impact on our customers and partners that could result in financial losses, reducing our competitive advantage or tarnishing our reputation.

In order to mitigate these risks, management deployed various technological security measures, which include a high-availability environment for all of its critical systems, and has set up processes, procedures and controls related to the various systems concerned. For instance, in addition to setting up strong controls with respect to systems access, the Company has hired a specialized firm to carry out occasional intrusion tests. We have also implemented an information security awareness and training program for our employees. Third parties integrated into our operations have been selected by the computer systems team, taking their specific expertise into consideration.

No significant technology-related incident occurred over the course of the fiscal year. Considering the rapid evolution of risks with respect to cybersecurity as well as the complexity of threats, we cannot guarantee that the measures taken,

<sup>(1)</sup> See table on "Net earnings adjustments" and section on "Non-IFRS measurements"

<sup>(2)</sup> See table on "Operating income before depreciation and amortization and associate's earnings adjustments" and section on "Non-IFRS measurements"

<sup>(3)</sup> See section on "Forward-looking information"

by the Company and the third parties that it deals with, will be adequate enough to prevent or detect a cyberattack on time. In that regard, we keep ourselves informed of the new information security trends and practices in order to take proactive action.

## **LABOUR RELATIONS**

The majority of our store and distribution centre employees are unionized. Collective bargaining may give rise to work stoppages or slowdowns that could impact negatively the Corporation. We negotiate agreements with different maturity dates and conditions that ensure our competitiveness, and terms that promote a positive work environment in all our business segments. We have experienced some minor labour conflicts over the last few years but expect<sup>(3)</sup> to maintain good labour relations in the future.

## **OCCUPATIONAL HEALTH AND SAFETY**

Workplace accidents may occur at any of our sites. To minimize this risk, we developed a worked-related accident prevention policy. Furthermore at all of our sites, we have workplace health and safety committees responsible for accident prevention.

## **HIRING, EMPLOYEE RETENTION , AND ORGANIZATION STRUCTURE**

Our recruitment program, salary structure, performance evaluation programs, succession, and training plans all entail risks which could negatively impact our capacity to execute our strategic plan as well as our ability to attract and retain necessary qualified resources to sustain the Corporation's growth and success. We have proven practices to attract the professionals necessary for our operations. We use performance evaluation practices supervised by our human resources department. Our salary structure is regularly reviewed in order to ensure that we remain competitive on the market. We have a succession plan in place to ensure we have well-identified resources for the key positions in the Corporation.

## **CORPORATE RESPONSIBILITY**

If our actions do not respect our environmental, social and economic responsibilities, we are exposed to criticism, claims, boycotts and even lawsuits, should we fail to comply with our legal obligations.

In order to go beyond its role of distributor and become an active player in sustainable development, the Corporation introduced in 2010 its Corporate Responsibility Roadmap. Closely linked to our business strategy, our approach is built on four pillars: Delighted Customers, Respect for the Environment, Strengthened Communities and Empowered Employees, all of which involve priorities. Since then, the Corporation has issued annual reports with status updates on the various projects. For more information, visit [metro.ca/Corporate Responsibility](http://metro.ca/CorporateResponsibility).

## **REGULATIONS**

Changes are regularly brought to accounting policies, laws, regulations, rules or policies impacting our operations. We monitor these changes closely.

With the acquisition of Jean Coutu Group, the Corporation is relying on prescription drug sales for a more significant portion of its sales and operating income. The pharmacy activities are exposed to risks related to the regulated nature of some of our activities and the activities of our pharmacist/owner franchisees.

Any changes to laws and regulations or policies regarding the Corporation's activities could have a material adverse effect on its performance and on the sales growth. Processes are in place to ensure our compliance as well as to monitor any and all changes to the laws and regulations in effect and any new laws and regulations.

## **MARKET AND COMPETITION**

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

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

<sup>(1)</sup> See table on "Net earnings adjustments" and section on "Non-IFRS measurements"

<sup>(2)</sup> See table on "Operating income before depreciation and amortization and associate's earnings adjustments" and section on "Non-IFRS measurements"

<sup>(3)</sup> See section on "Forward-looking information"

We have also developed a successful market segmentation strategy. Our grocery banners: the conventional Metro supermarkets, Super C and Food Basics discount banners, and Adonis ethnic food stores, target three different market segments. In fiscal 2014, we acquired Première Moisson, a company specialized in bakery, pastry, charcutery and other food offerings prepared on an artisanal basis and respectful of great traditions. In 2017, we acquired MissFresh, a company specializing in the delivery of meal kits, allowing us to continue our efforts aimed at meeting all of the emerging needs and behaviours in the food industry.

In the pharmacy market, we have large, medium, and small drugstores under the Jean Coutu, Brunet, Metro Pharmacy, and Food Basics Pharmacy banners. We acquired in 2018 the Jean Coutu Group which operates a network of 415 franchised drugstores in Québec, New Brunswick and Ontario under the PJC Jean Coutu, PJC Santé and PJC Santé Beauté banners.

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

### **PRICE OF FUEL, ENERGY AND UTILITIES**

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

### **SUPPLIERS**

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

### **FRANCHISEES AND AFFILIATES**

Some of our franchisees and affiliates might be in breach of certain provisions in the franchise or affiliation contracts, such as purchasing policies and marketing plans. Non-compliance with such contracts may have an impact on us. A team of retail operations advisers ensures our operating standards' consistent application in all of these stores.

### **FINANCIAL INSTRUMENTS**

We make some foreign-denominated purchases of goods and services and we have, depending on market conditions, US borrowings, exposing ourselves to exchange rate risks. According to our financial risk management policy, we may use derivative financial instruments, such as foreign exchange forward contracts and cross currency interest rate swaps. The policy's guidelines prohibit us from using derivative financial instruments for speculative purposes, but they do not guarantee that we will not sustain losses as a result of our derivative financial instruments.

We hold receivables generated mainly from sales to customers. To guard against credit losses, we have adopted a credit policy that defines mandatory credit requirements to be maintained and guarantees to be provided. Affiliate customer assets guarantee the majority of our receivables.

We are also exposed to liquidity risk mainly through our non-current debt and creditors. We evaluate our cash position regularly and estimate<sup>(3)</sup> that cash flows generated by our operating activities are sufficient to provide for all outflows required by our financing activities.

### **JEAN COUTU GROUP ACQUISITION**

The successful combination of the Jean Coutu Group's activities requires significant efforts on the part of management of the Corporation. Ineffective change management and poor integration decisions could cause disruptions to the pharmacy activities of the Corporation. Failure to successfully execute enterprise integration, to realize the anticipated strategic benefits or the synergies associated with this acquisition could adversely affect the reputation, operations or financial performance of the Corporation. A project management office, under the leadership of the Corporation's management, ensures that all directions and decisions are aligned with the realization of anticipated strategic benefits.

Montréal, Canada, December 12, 2019

<sup>(1)</sup> See table on "Net earnings adjustments" and section on "Non-IFRS measurements"

<sup>(2)</sup> See table on "Operating income before depreciation and amortization and associate's earnings adjustments" and section on "Non-IFRS measurements"

<sup>(3)</sup> See section on "Forward-looking information"