



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

For the year ended September 26, 2020

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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 26, 2020, and should be read in conjunction with the annual consolidated financial statements and the accompanying notes as at September 26, 2020. This report is based upon information as at November 17, 2020 unless otherwise indicated. Additional information, including the Annual Information Form and Certification Letters for fiscal 2020, is available on the SEDAR website at 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 326 supermarkets under the Metro and Metro Plus banners. The 236 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 14 stores, is specialized in fresh products as well as Mediterranean and Middle-Eastern products. The Corporation also operates Première Moisson, a banner 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 23 stores. 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 acts as franchisor and distributor for 414 PJC Jean Coutu, PJC Health and PJC Health & Beauty drugstores as well as 160 Brunet Plus, Brunet, Brunet Clinique, and Clini Plus drugstores, held by pharmacist owners. The Corporation operates 74 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.

PURPOSE, MISSION AND STRATEGY

As a leader in food and pharmacy in Eastern Canada, we provide essential services to the communities we serve and who rely on us for advice and support. That is why we have adopted a new purpose, *Nourish the health and well-being of our communities*, thereby redefining and updating our vision which was to offer the best customer experience in each of our banners. Our purpose better reflects our aspirations while fitting perfectly in our corporate responsibility framework. It is a purpose that is simple, clear and ambitious and which will continue to drive our teams to surpass themselves. This purpose goes beyond financial performance which remains essential to fulfill our mission over the long term.

Our mission, as it has been for years, 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 financial discipline.

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 financial discipline 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.

⁽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"

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;
 - 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 2020 totalled \$17,997.5 million versus \$16,767.5 million for fiscal 2019, an increase of 7.3%. Excluding the impact of the adoption of IFRS 16, sales were up 7.7%. Net earnings for fiscal 2020 were \$796.4 million, an increase of 11.5% from \$714.4 million for fiscal 2019. Fully diluted net earnings per share were \$3.14 compared with \$2.78 last year, up 12.9%. Adjusted net earnings⁽¹⁾ for fiscal 2020 totalled \$829.1 million compared with \$731.6 million for fiscal 2019, and adjusted fully diluted net earnings per share⁽¹⁾ amounted to \$3.27 versus \$2.84, up 13.3% and 15.1%, respectively.

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

- The crisis related to COVID-19 is unprecedented and has solicited all our resources to ensure the safety of our employees and customers, the resilience of our supply chain and our ability to maintain in-store operations. All of our employees, our retailers, and pharmacist owners, as well as our supplier partners, pulled together to provide our customers the essential services of food and pharmacy while never compromising on safety.
- Since the beginning of the pandemic, METRO has donated over \$4 million to support communities. Answering the call of these long-time community partners, the money was donated primarily to Feed Ontario, Food Banks of Québec and to the emergency fund of United Way/Centraide.
- In March 2020, METRO announced a \$420 million investment over five years for the construction of a new, automated distribution centre for fresh and frozen products in Terrebonne, just north of Montréal, and the expansion of its produce and dairy products distribution centre in Laval. These investments will enable METRO to better meet the expectations of its current and future customers and to continue its growth. The new Terrebonne distribution centre will open in 2023, while the expansion of the Laval distribution centre will be completed in 2024⁽³⁾.
- In October 2017, we announced a \$400 million investment over six years in our Ontario distribution network. Phase 1 of the project launched in 2019 was delayed slightly due to the pandemic but is now nearing completion. The start-up of our new fresh distribution centre is planned for January 2021⁽³⁾. Equipped with state-of-the-art technology, this facility 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 have accelerated our plans to increase capacity of our online grocery service. During the year, we expanded our service in Québec by adding hub stores in Québec City and Sherbrooke and will also be adding a third hub

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⁽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"

store in Ontario. We recently announced the opening of a dedicated store for online grocery to serve Montréal next summer⁽³⁾. This opening represents the next phase of our omnichannel strategy, efficiently adding capacity in a large urban area by leveraging our in-store pick model. We are also expanding our click-and-collect service from the 40 planned to more than 100 by the end of fiscal 2021⁽³⁾.

- We continued to combine pharmacy activities and best practices between METRO and the Jean Coutu Group. By the end of fiscal 2020, we had achieved our objective of generating \$75 million of annual cost synergies within three years of the acquisition.
- We continued to invest in our retail network. In Québec, we opened a Metro Plus and a Super C, we also relocated a Metro Plus and a Super C, and we carried out major renovations and expansions at 8 other stores. In Ontario, we opened a Metro, a Food Basics and an Adonis, converted 2 Metro stores into Food Basics and carried out major renovations and expansions at 9 other stores.
- We acquired the minority interest in Groupe Première Moisson inc. during the first quarter.
- We pursued the implementation of our corporate responsibility plan while also adapting our programs in the pandemic. We adopted a series of measures to ensure the safety of our customers and employees and revised our hiring practices to attain our recruitment targets within the health constraints. Through our One More Bite food donation program, the equivalent of nearly 8 million meals was distributed. During the fiscal year, we continued to roll out our local purchasing, sustainable procurement and food waste reduction initiatives and launched our actions to optimize our packaging and printed materials and decreased the intensity of our greenhouse gas emissions. Fiscal 2020 also marked the 10th anniversary of our corporate responsibility approach. The knowledge and expertise gained over the past decade constitute strong foundations for the future.

SELECTED ANNUAL INFORMATION

	2020	2019	Change	2018	Change
			%		%
<i>(Millions of dollars, unless otherwise indicated)</i>					
Sales	17,997.5	16,767.5	7.3	14,383.4	16.6
Net earnings attributable to equity holders of the parent	795.2	711.6	11.7	1,716.5	(58.5)
Net earnings attributable to non-controlling interests	1.2	2.8	(57.1)	2.0	40.0
Net earnings	796.4	714.4	11.5	1,718.5	(58.4)
Basic net earnings per share	3.15	2.79	12.9	7.20	(61.3)
Fully diluted net earnings per share	3.14	2.78	12.9	7.16	(61.2)
Adjusted net earnings ⁽¹⁾	829.1	731.6	13.3	579.2	26.3
Adjusted fully diluted net earnings per share ⁽¹⁾	3.27	2.84	15.1	2.41	17.8
Return on equity (%)	13.1	12.3	—	40.1	—
Dividends per share <i>(Dollars)</i>	0.8750	0.7800	12.2	0.7025	11.0
Total assets	13,423.9	11,073.9	21.2	10,922.2	1.4
Current and non-current portions of debt	2,632.6	2,657.6	(0.9)	2,643.7	0.5

Sales for fiscal 2020 totalled \$17,997.5 million versus \$16,767.5 million for fiscal 2019, an increase of 7.3%. Excluding the impact of IFRS 16 *Leases* adopted in the first quarter of fiscal 2020, sales were up 7.7%. Sales for fiscal 2019 totalled \$16,767.5 million versus \$14,383.4 million for fiscal 2018, an increase of 16.6%. Excluding sales generated by the Jean Coutu Group of \$3,121.8 million in fiscal 2019 and \$1,157.7 million in fiscal 2018, sales were up 3.2%.

Net earnings for fiscal 2020, 2019 and 2018 totalled \$796.4 million, \$714.4 million and \$1,718.5 million, respectively, while fully diluted net earnings per share amounted to \$3.14, \$2.78 and \$7.16. Taking into account the items relating to fiscal 2020 and fiscal 2019 shown in the "Net earnings adjustments" table in the "Operating results" section, as well as for fiscal 2018, principally the gain on disposal of the majority of our investment in Alimentation Couche-Tard (ACT), the fair value revaluation gain on our residual investment in ACT, the share of an associate's earnings (ACT),

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

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the pharmacy network closure and restructuring expenses and the expenses related to the Jean Coutu Group acquisition, adjusted net earnings⁽¹⁾ for fiscal 2020 stood at \$829.1 million compared with \$731.6 million for fiscal 2019 and \$579.2 million for fiscal 2018, while adjusted fully diluted net earnings per share⁽¹⁾ was \$3.27 for 2020 compared with \$2.84 for 2019 and \$2.41 for 2018, up 15.1% and 17.8% respectively.

Total assets reached \$13,423.9 million in 2020 compared with \$11,073.9 million in 2019, an increase of 21.2% mainly attributable to the recognition in 2020 of right-of-use assets totalling \$1,150.5 million and current and non-current accounts receivable on subleases totalling \$684.3 million following the adoption of IFRS 16.

Return on equity in 2020 was 13.1% compared with 12.3% in 2019 due to the strong increase in net earnings in the current year and to the share buybacks carried out during fiscal 2020. 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.

OUTLOOK⁽³⁾

The ongoing pandemic continues to impact our business and we expect that in the short-term, food revenues will continue to grow at higher-than-normal rates versus last year as a portion of restaurant and food service sales continue to transfer to the grocery channel.

The pandemic has accelerated certain trends already observed in the market, such as a concern for buying local and shopping in the community. These emerging trends position us well with consumers, thanks to our store formats, our procurement programs and our roots in the communities we serve. Online shopping is another example of an already emerging trend that has skyrocketed with the pandemic.

Some consumer behaviours are likely to change in the long term, particularly with the expansion of teleworking. We believe this change is beneficial for us and that a portion of the sales from restaurants should remain in our networks for some time. The pandemic was an opportunity to demonstrate our resilience and agility in turning challenges into opportunities, constantly adapting our product and service offering.

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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 the modified retrospective approach. The operating results of the previous fiscal year have not been restated.

SALES

Sales for fiscal 2020 totalled \$17,997.5 million versus \$16,767.5 million for fiscal 2019, an increase of 7.3%. Excluding the impact of the adoption of IFRS 16, sales were up 7.7%. Food same-store sales were up 9.7% (3.6% in 2019). Online food sales have nearly tripled versus last year. Pharmacy same-store sales were up 4.3% (2.4% in 2019), with a 4.8% increase in prescription drugs and a 3.1% 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 the gain on disposal of an 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 fiscal 2020 totalled \$1,683.6 million or 9.4% of sales compared with \$1,321.5 million or 7.9% of sales for fiscal 2019.

The adoption of IFRS 16 resulted in a \$54.2 million decrease in sales related to sublease income for fiscal 2020, with an equivalent reduction in gross margin. The adoption of IFRS 16 also resulted in a \$244.6 million decrease in operating expenses for fiscal 2020, as lease payments are now recorded as a reduction of lease liabilities. Together, these two elements had a favorable impact of \$190.4 million on operating income before depreciation and amortization and associate's earnings for fiscal 2020.

Impact of the adoption of IFRS 16 (Millions of dollars)	2020	IFRS 16	2020 excluding IFRS 16	% of sales	2019	% of sales
Sales	17,997.5	(54.2)	18,051.7		16,767.5	
Operating income before depreciation and amortization and associate's earnings	1,683.6	190.4	1,493.2	8.3	1,321.5	7.9

During fiscal 2020, we recognized a loss of \$7.5 million on disposal of our subsidiary MissFresh, while for 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. Excluding those items, adjusted operating income before depreciation and amortization and associate's earnings⁽²⁾ for fiscal 2020 totalled \$1,691.1 million, or 9.4% of sales (8.3% excluding the impact of the adoption of IFRS 16) compared with \$1,351.5 million, or 8.1% of sales for fiscal 2019.

Synergies related to the Jean Coutu acquisition generated during fiscal 2020 amounted to \$69 million compared to \$58 million for fiscal 2019. To date, we have generated annualized synergies of \$75 million⁽³⁾. Having achieved our publicly-stated objective of generating \$75 million⁽³⁾ of annual cost synergies within three years of the Jean Coutu Group acquisition, we will no longer disclose the level of synergies going forward.

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

(Millions of dollars, unless otherwise indicated)	2020			2019		
	OI	Sales	(%)	OI	Sales	(%)
Operating income before depreciation and amortization and associate's earnings	1,683.6	17,997.5	9.4	1,321.5	16,767.5	7.9
Loss on disposal of a subsidiary	7.5			—		
Retail network restructuring expenses	—			36.0		
Gain on divestiture of pharmacies	—			(6.0)		
Adjusted operating income before depreciation and amortization and associate's earnings ⁽²⁾	1,691.1	17,997.5	9.4	1,351.5	16,767.5	8.1

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Gross margin on sales for fiscal 2020 was 19.9% (20.1% excluding the impact of the adoption of IFRS 16) versus 19.9% for fiscal 2019.

Operating expenses as a percentage of sales for fiscal 2020 was 10.5% compared with 12.0% for fiscal 2019. Excluding from fiscal 2020 the \$7.5 million loss on disposal of our subsidiary MissFresh, and 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, operating expenses as a percentage of sales was 10.5% for 2020 (11.8% excluding the impact of the adoption of IFRS 16) compared with 11.8% in 2019. The costs related to COVID-19 for fiscal 2020 were approximately \$137 million.

DEPRECIATION AND AMORTIZATION AND NET FINANCIAL COSTS

Total depreciation and amortization expense for fiscal 2020 was \$462.5 million, of which \$149.2 million is an increase resulting from the adoption of IFRS 16, versus \$286.4 million for fiscal 2019.

Net financial costs for fiscal 2020 were \$136.8 million, of which \$33.5 million is an increase resulting from the adoption of IFRS 16, compared with \$103.8 million for fiscal 2019.

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

During fiscal 2019, the Corporation 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.

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 \$287.9 million for fiscal 2020 and \$254.8 million for fiscal 2019 represented an effective tax rate of 26.6% and 26.3% respectively. The impact of the adoption of IFRS 16 on the 2020 income tax expense is not significant.

NET EARNINGS AND ADJUSTED NET EARNINGS⁽¹⁾

Net earnings for fiscal 2020 were \$796.4 million, an increase of 11.5% from \$714.4 million for fiscal 2019. Fully diluted net earnings per share were \$3.14 compared with \$2.78 last year, up 12.9%. Excluding the specific items shown in the table below, adjusted net earnings⁽¹⁾ for fiscal 2020 totalled \$829.1 million compared with \$731.6 million for fiscal 2019, and adjusted fully diluted net earnings per share⁽¹⁾ amounted to \$3.27 versus \$2.84, up 13.3% and 15.1%, respectively. The adoption of IFRS 16 had an insignificant impact on net earnings and adjusted on fiscal 2020 net earnings⁽¹⁾.

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⁽³⁾ See section on "Forward-looking information"

Net earnings adjustments⁽¹⁾

	2020		2019		Change (%)	
	(Millions of dollars)	Fully diluted EPS (Dollars)	(Millions of dollars)	Fully diluted EPS (Dollars)	Net earnings	Fully diluted EPS
Net earnings	796.4	3.14	714.4	2.78	11.5	12.9
Loss on disposal of a subsidiary, after taxes	4.2		—			
Retail network restructuring expenses, after taxes	—		26.4			
Gain on divestiture of pharmacies, after taxes	—		(4.7)			
Amortization of intangible assets acquired in connection with the Jean Coutu Group acquisition, after taxes	28.5		28.5			
Gain on the disposal of an investment in an associate, after taxes	—		(31.9)			
Gain on revaluation and disposal of an investment at fair value, after taxes	—		(1.1)			
Adjusted net earnings ⁽¹⁾	829.1	3.27	731.6	2.84	13.3	15.1

Impacts of the adoption of IFRS 16

(Millions of dollars, unless otherwise indicated)	2020	IFRS 16	2020 excluding IFRS 16	2019
Sales	17,997.5	(54.2)	18,051.7	16,767.5
Operating income before depreciation and amortization and associate's earnings	1,683.6	190.4	1,493.2	1,321.5
Adjusted operating income before depreciation and amortization and associate's earnings ⁽²⁾	1,691.1	190.4	1,500.7	1,351.5
Depreciation	462.5	(149.2)	313.3	286.4
Net financial costs	136.8	(33.5)	103.3	103.8
Income taxes	287.9	(2.0)	285.9	254.8
Net earnings	796.4	5.7	790.7	714.4
Adjusted net earnings ⁽¹⁾	829.1	5.7	823.4	731.6
Fully diluted net earnings per share (Dollars)	3.14	0.02	3.12	2.78
Adjusted fully diluted net earnings per share ⁽¹⁾ (Dollars)	3.27	0.02	3.25	2.84

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⁽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

<i>(Millions of dollars, unless otherwise indicated)</i>	2020	2019	Change (%)
Sales			
Q1 ⁽⁴⁾	4,029.8	3,977.7	1.3
Q2 ⁽⁴⁾	3,988.9	3,701.6	7.8
Q3 ⁽⁵⁾	5,835.2	5,229.3	11.6
Q4 ⁽⁴⁾	4,143.6	3,858.9	7.4
Fiscal	17,997.5	16,767.5	7.3
Net earnings			
Q1 ⁽⁴⁾	170.2	203.1	(16.2)
Q2 ⁽⁴⁾	176.2	121.5	45.0
Q3 ⁽⁵⁾	263.5	222.4	18.5
Q4 ⁽⁴⁾	186.5	167.4	11.4
Fiscal	796.4	714.4	11.5
Adjusted net earnings⁽¹⁾			
Q1 ⁽⁴⁾	180.9	172.2	5.1
Q2 ⁽⁴⁾	182.8	155.1	17.9
Q3 ⁽⁵⁾	272.3	230.3	18.2
Q4 ⁽⁴⁾	193.1	174.0	11.0
Fiscal	829.1	731.6	13.3
Fully diluted net earnings per share (Dollars)			
Q1 ⁽⁴⁾	0.67	0.79	(15.2)
Q2 ⁽⁴⁾	0.69	0.47	46.8
Q3 ⁽⁵⁾	1.04	0.86	20.9
Q4 ⁽⁴⁾	0.74	0.66	12.1
Fiscal	3.14	2.78	12.9
Adjusted fully diluted net earnings per share⁽¹⁾ (Dollars)			
Q1 ⁽⁴⁾	0.71	0.67	6.0
Q2 ⁽⁴⁾	0.72	0.60	20.0
Q3 ⁽⁵⁾	1.08	0.90	20.0
Q4 ⁽⁴⁾	0.77	0.68	13.2
Fiscal	3.27	2.84	15.1

⁽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 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 and a 2.7% increase in front-store sales.

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Sales in the second quarter of fiscal 2020 reached \$3,988.9 million, up 7.8% compared to \$3,701.6 million in the second quarter of fiscal 2019. Excluding the impact of the adoption of IFRS 16 *Leases*, sales reached \$4,001.5 million, up 8.1%. Food same-store sales were up 9.7% (4.3% in 2019). The shift in Christmas sales represents 0.6% of the same-store sales increase. Our food basket inflation was approximately 2.0% (2.5% in 2019). Pharmacy same-store sales were up 7.9% (1.1% in 2019), with a 7.7% increase in prescription drugs and a 8.3% increase in front-store sales.

Sales in the third quarter of fiscal 2020 reached \$5,835.2 million, up 11.6% compared to \$5,229.3 million in the third quarter of fiscal 2019. Excluding the impact of the adoption of IFRS 16 *Leases*, sales reached \$5,851.9 million, up 11.9%. Food same-store sales were up 15.6% (3.1% in 2019). Our food basket inflation was approximately 3.0% (2.5% in 2019). Online food sales almost quadrupled in the quarter from a small base last year. Pharmacy same-store sales were up 1.0% (3.4% in 2019), with a 2.7% increase in prescription drugs and a 2.5% decrease in front-store sales.

Sales in the fourth quarter of fiscal 2020 reached \$4,143.6 million, up 7.4% compared to \$3,858.9 million in the fourth quarter of fiscal 2019. Excluding the impact of the adoption of IFRS 16 *Leases*, sales reached \$4,156.1 million, up 7.7%. Food same-store sales were up 10.0% (4.1% in 2019). Online food sales were up 160% versus last year. Our food basket inflation was approximately 2.8% (2.8% in 2019). Pharmacy same-store sales were up 5.5% (3.4% in 2019), with a 5.3% increase in prescription drugs and a 6.0% 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 second quarter of fiscal 2020 were \$176.2 million compared with \$121.5 million for the second quarter of fiscal 2019, while fully diluted net earnings per share were \$0.69 compared with \$0.47 in 2019, up 45.0% and 46.8%, respectively. Excluding from the second quarter of 2020 the amortization of intangible assets acquired in connection with the Jean Coutu Group acquisition of \$8.9 million, and from the second quarter of fiscal 2019 the retail network restructuring expenses of \$36.0 million, the \$1.4 million loss on divestiture of pharmacies and the amortization of intangible assets acquired in connection with the Jean Coutu Group acquisition of \$8.8 million, as well as income taxes relating to all these items, adjusted net earnings⁽¹⁾ for the second quarter of fiscal 2020 totalled \$182.8 million compared with \$155.1 million for the corresponding quarter of fiscal 2019 and adjusted fully diluted net earnings per share⁽¹⁾ amounted to \$0.72 compared with \$0.60, up 17.9% and 20.0%, respectively.

Net earnings for the third quarter of fiscal 2020 were \$263.5 million compared with \$222.4 million for the third quarter of fiscal 2019, while fully diluted net earnings per share were \$1.04 compared with \$0.86 in 2019, up 18.5% and 20.9%, respectively. Excluding from the third quarter of fiscal 2020 the amortization of intangible assets acquired in connection with the Jean Coutu Group acquisition of \$11.9 million, and from the third quarter of fiscal 2019 the \$1.0 million gain resulting from the selling price adjustment related to the investment in associate Colo-D Inc. and the amortization of intangible assets acquired in connection with the Jean Coutu Group acquisition of \$11.9 million, as well as income taxes relating to all these items, adjusted net earnings⁽¹⁾ for the third quarter of fiscal 2020 totalled \$272.3 million compared with \$230.3 million for the corresponding quarter of fiscal 2019 and adjusted fully diluted net earnings per share⁽¹⁾ amounted to \$1.08 compared with \$0.90, up 18.2% and 20.0%, respectively.

Net earnings for the fourth quarter of fiscal 2020 were \$186.5 million compared with \$167.4 million for the fourth quarter of fiscal 2019, while fully diluted net earnings per share were \$0.74 compared with \$0.66 in 2019, up 11.4% and 12.1%, respectively. Excluding from the fourth quarter of fiscal 2020 and 2019 the amortization of intangible assets acquired in connection with the Jean Coutu Group acquisition of \$9.0 million, as well as income taxes relating to these items, adjusted net earnings⁽¹⁾ for the fourth quarter of fiscal 2020 totalled \$193.1 million compared with

⁽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"

\$174.0 million for the corresponding quarter of fiscal 2019 and adjusted fully diluted net earnings per share⁽¹⁾ amounted to \$0.77 compared with \$0.68, up 11.0% and 13.2%, respectively.

	2020				2019			
(Millions of dollars)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net earnings	170.2	176.2	263.5	186.5	203.1	121.5	222.4	167.4
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	—	—	—	—	(5.4)	0.7	—	—
Amortization of intangible assets acquired in connection with the Jean Coutu Group acquisition, after taxes	6.5	6.6	8.8	6.6	6.6	6.5	8.8	6.6
Gain on disposal of an investment in an associate, after taxes	—	—	—	—	(31.0)	—	(0.9)	—
Gain on revaluation and disposal of an investment at fair value, after taxes	—	—	—	—	(1.1)	—	—	—
Adjusted net earnings ⁽¹⁾	180.9	182.8	272.3	193.1	172.2	155.1	230.3	174.0

	2020				2019			
(Dollars)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Fully diluted net earnings per share	0.67	0.69	1.04	0.74	0.79	0.47	0.86	0.66
Adjustments impact	0.04	0.03	0.04	0.03	(0.12)	0.13	0.04	0.02
Adjusted fully diluted net earnings per share ⁽¹⁾	0.71	0.72	1.08	0.77	0.67	0.60	0.90	0.68

CASH POSITION

OPERATING ACTIVITIES

Operating activities generated cash inflows of \$1,474.1 million in fiscal 2020 compared with \$794.6 million for fiscal 2019. This difference resulted primarily from the significant increase in earnings in 2020, payments and interests received in respect of subleases reclassified to investing activities and payments and interests in respect of lease liabilities reclassified to financing activities in 2020 following the adoption of IFRS 16, as well as, from 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 Alimentation Couche-Tard in fiscal 2018.

INVESTING ACTIVITIES

In fiscal 2020, investing activities required cash outflows of \$444.1 million compared with \$308.5 million for 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, the higher fixed assets and investment properties additions of \$106.4 million in 2020, and the proceeds of \$59.0 million on disposal of our investment in associate Colo-D Inc. in 2019. These items offset the impact of payments and interests in respect of sublease of \$101.5 million reclassified from operating activities following the adoption of IFRS 16 in 2020.

During fiscal 2020, we and our retailers opened 7 stores, carried out major expansions and renovations of 17 stores, relocated 2 stores and closed 5 stores for a net increase of 168,800 square feet or 0.8% 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

Financing activities required cash outflows of \$861.9 million in fiscal 2020 compared with \$439.6 million for fiscal 2019. This difference resulted mainly from payments and interest in respect of lease liabilities of \$304.0 million reclassified from operating activities following the adoption of IFRS 16 and from higher share repurchases of \$71.3 million in 2020.

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 41.8% of the combined total of non-current debt, lease liabilities and equity (ratio of non-current debt and lease liabilities/total capital).

At the end 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 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
Series I Notes	3.41% fixed rate	February 28, 2050	400.0

On February 26, 2020, the Corporation issued through a private placement Series I unsecured senior notes in the aggregate principal amount of \$400.0, bearing interest at a fixed nominal rate of 3.41%, maturing on February 28, 2050, and redeemable at the issuer's option at any time prior to maturity. On February 27, 2020, the Corporation redeemed all of the Series E notes in the amount of \$400.0 that matured on the same day.

Our main financial ratios were as follows:

	As at September 26, 2020	As at September 28, 2019
Financial structure		
Non-current debt (Millions of dollars)	2,612.0	2,629.0
Non-current lease liabilities (Millions of dollars)	1,811.4	—
	4,423.4	2,629.0
Equity (Millions of dollars)	6,155.4	5,968.6
Non-current debt and lease liabilities/total capital (%)	41.8	30.6

As at September 28, 2019 the Corporation intended to refinance the Series E Notes presented under 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.

⁽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"

Excluding the non-current lease liabilities related to the adoption of IFRS 16, the ratio stood at 29.8% as at September 26, 2020.

	2020	2019
Interest Coverage Ratio		
Operating income before depreciation and amortization and associate's earnings/Financial costs (<i>Times</i>)	12.3	12.7

CAPITAL STOCK

	Common Shares issued	
(Thousands)	2020	2019
Balance – beginning of year	254,440	256,253
Share redemption	(3,910)	(2,925)
Stock options exercised	265	1,112
Balance – end of year	250,795	254,440
Balance as at November 27, 2020 and November 29, 2019	249,746	254,222

	Treasury shares	
(Thousands)	2020	2019
Balance – beginning of year	577	603
Acquisition	112	115
Release	(137)	(141)
Balance – end of year	552	577
Balance as at November 27, 2020 and November 29, 2019	552	577

STOCK OPTIONS PLAN

	As at November 27, 2020	As at September 26, 2020	As at September 28, 2019
Stock options (<i>Thousands</i>)	2,310	2,322	2,281
Exercise prices (<i>Dollars</i>)	21.90 to 56.92	21.90 to 56.92	20.30 to 48.68
Weighted average exercise price (<i>Dollars</i>)	41.26	41.27	37.30

PERFORMANCE SHARE UNIT PLAN

	As at November 27, 2020	As at September 26, 2020	As at September 28, 2019
Performance share units (<i>Thousands</i>)	613	618	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 tax attributes.

⁽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"



NORMAL COURSE ISSUER BID PROGRAM

Under the normal course issuer bid program covering the period between November 25, 2019 and November 24, 2020, the Corporation repurchased 4,560,000 Common Shares at an average price of \$56.78, for a total consideration of \$258.9 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, 2020 and November 24, 2021, up to 7,000,000 of its Common Shares representing approximately 2.8% of its issued and outstanding shares on November 11, 2020. 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. Between November 25, 2020 and November 27, 2020, the Corporation has repurchased 200,000 Common Shares at an average price of \$59.75 for a total consideration of \$11.9 million.

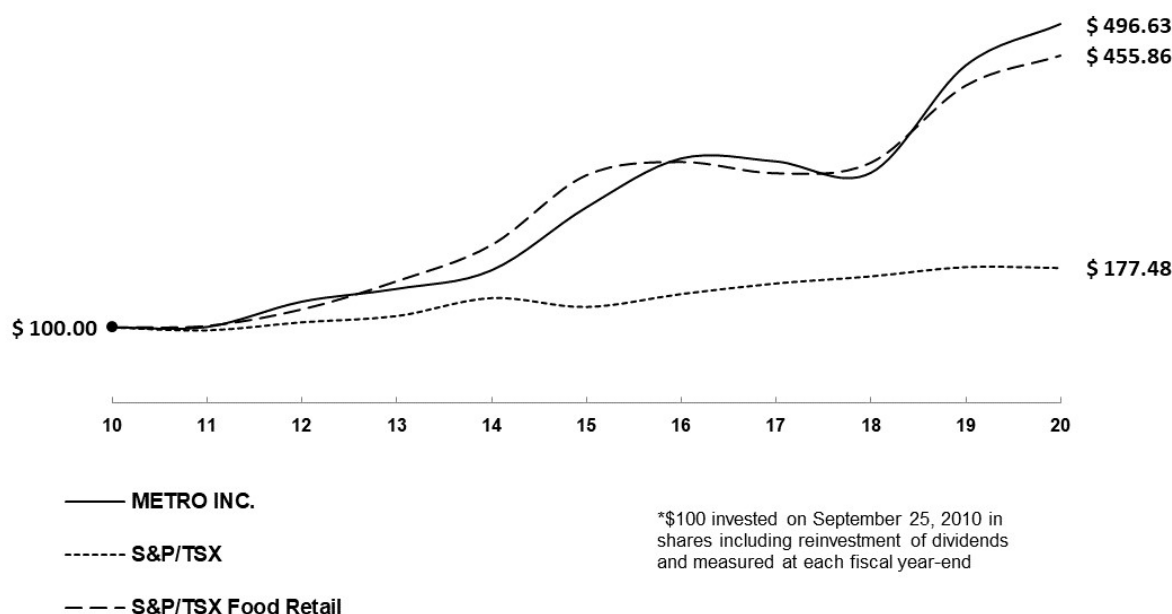
DIVIDEND

For the 26th consecutive year, the Corporation paid quarterly dividends to its shareholders. The annual dividend increased by 12.2%, to \$0.8750 per share compared to \$0.7800 in 2019, for total dividends of \$220.7 million in 2020 compared to \$198.9 million in 2019.

SHARE TRADING

The value of METRO shares remained in the \$49.03 to \$64.61 range throughout fiscal 2020 (\$39.04 to \$58.94 in 2019). A total of 156.7 million shares traded on the TSX during this fiscal year (139.6 million in 2019). The closing price on Friday, September 25, 2020 was \$64.02, compared to \$57.91 at the end of fiscal 2019. Since fiscal year-end, the value of METRO shares has remained in the \$59.54 to \$66.25 range. The closing price on November 27, 2020 was \$60.06. METRO shares have maintained sustained growth over the last 10 years.

COMPARATIVE SHARE PERFORMANCE (10 YEARS)*



(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"

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 February 2020, a proposed class action relating to opioids was filed in British Columbia by opioid end users against a large group of defendants including subsidiaries of the Corporation, Pro Doc Ltée. and The Jean Coutu Group (PJC) Inc. In May 2019, two proposed class actions relating to opioids were also filed in Ontario and in Québec by opioid end users 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, Québec and British Columbia proposed claims filed by opioid end users seek recovery of damages on behalf of opioid end users in general. The Corporation believes these proceedings are without merits and that, in certain cases, there is no jurisdiction. No provision for contingent losses has been recognized in the Corporation's annual consolidated financial statements.

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.

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. No provision for contingent losses has been recognized in the Corporation's annual consolidated financial statements.

SOURCES OF FINANCING

Our operating activities generated in 2020 cash flows in the amount of \$1,474.1 million. These cash flows were used to finance our investing activities, including \$510.7 million in fixed asset and intangible asset acquisitions, to redeem shares for an amount of \$217.2 million, to pay dividends of \$220.7 million, to reimburse interest on debt of \$107.1 million and to pay lease liabilities (principal and interest), nets of payments and interest received from subleases totalling \$202.5 million, as well as to carry out other investing and financing activities.

⁽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"

At the end of fiscal 2020, our financial position mainly consisted of cash and cash equivalents in the amount of \$441.5 million, an unused authorized Revolving Credit Facility of \$600.0 million maturing in 2024, 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, Series H Notes in the amount of \$450.0 million maturing in 2047 and Series I Notes in the amount of \$400.0 million maturing in 2050.

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

CONTRACTUAL OBLIGATIONS

Payment commitments by fiscal year (capital and interest)

<i>(Millions of dollars)</i>	Loans	Notes	Lease liabilities	Service contract commitments	Total
2021	21.7	104.7	306.3	100.2	532.9
2022	2.8	396.7	303.5	91.7	794.7
2023	3.4	388.4	298.1	70.5	760.4
2024	1.6	87.1	275.2	10.0	373.9
2025	1.3	87.1	241.7	6.4	336.5
2026 and thereafter	22.5	3,321.4	917.6	0.2	4,261.7
	53.3	4,385.4	2,342.4	279.0	7,060.1

RELATED PARTY TRANSACTIONS

During fiscal 2020, we supplied drugstores held by a member of the Board of Directors. 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.

FOURTH QUARTER

<i>(Millions of dollars, except for net earnings per share)</i>	2020	2019	Change (%)
Sales	4,143.6	3,858.9	7.4
Operating income before depreciation and amortization and associate's earnings	403.5	321.6	25.5
Adjusted operating income before depreciation and amortization and associate's earnings ⁽¹⁾	403.5	321.6	25.5
Net earnings	186.5	167.4	11.4
Adjusted net earnings ⁽¹⁾	193.1	174.0	11.0
Fully diluted net earnings per share	0.74	0.66	12.1
Adjusted fully diluted net earnings per share ⁽¹⁾	0.77	0.68	13.2
Cash flows from:			
Operating activities	415.8	232.4	—
Investing activities	(181.9)	(146.1)	—
Financing activities	(159.0)	(76.2)	—

⁽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"

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 the modified retrospective approach. The operating results of the previous fiscal year have not been restated.

SALES

Sales in the fourth quarter of fiscal 2020 reached \$4,143.6 million, up 7.4% compared to \$3,858.9 million in the fourth quarter of fiscal 2019. Excluding the impact of IFRS 16 *Leases* adopted in the first quarter of 2020, sales reached \$4,156.1 million, up 7.7%. Food same-store sales were up 10.0% (4.1% in 2019). Online food sales were up 160% versus last year. Our food basket inflation was approximately 2.8% (2.8% in 2019). Pharmacy same-store sales were up 5.5% (3.4% in 2019), with a 5.3% increase in prescription drugs and a 6.0% 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 the gain on disposal of an 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 fourth quarter of fiscal 2020 totalled \$403.5 million, or 9.7% of sales, versus \$321.6 million, or 8.3% of sales for the corresponding quarter of fiscal 2019.

The adoption of IFRS 16 resulted in a \$12.5 million decrease in sales related to sublease income for the fourth quarter of fiscal 2020, with an equivalent reduction in gross margin. The adoption of IFRS 16 also resulted in a decrease in operating expenses of \$56.5 million for the fourth quarter of fiscal 2020, as lease payments are now recorded as a reduction of the lease liabilities. Together, these two elements had a favorable impact of \$44.0 million on operating income before depreciation and amortization and associate's earnings for the fourth quarter of fiscal 2020.

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	4,143.6	(12.5)	4,156.1		3,858.9	
Operating income before depreciation and amortization and associate's earnings	403.5	44.0	359.5	8.6	321.6	8.3

No adjustment was recorded to operating income before depreciation and amortization and associate's earnings in the 2020 and 2019 fourth quarters. Excluding the impact of the adoption of IFRS 16, operating income before depreciation and amortization and associate's earnings for the fourth quarter of fiscal 2020 totalled \$359.5 million, or 8.6% of sales compared with \$321.6 million, or 8.3% of sales for the corresponding quarter of fiscal 2019.

Synergies related to the Jean Coutu acquisition generated for the fourth quarter of fiscal 2020 amounted to \$16 million compared to \$18 million (including a certain retroactive amount) for the corresponding quarter of fiscal 2019.

Gross margin on sales for the fourth quarter of fiscal 2020 were 20.2% (20.4% excluding the impact of the adoption of IFRS 16) versus 20.2% for the corresponding quarter of 2019.

Operating expenses as a percentage of sales for the fourth quarter of 2020 were 10.4% (11.8% excluding the impact of the adoption of IFRS 16) versus 11.9% for the corresponding quarter of fiscal 2019. The costs related to COVID-19 for the fourth quarter of fiscal 2020 were approximately \$27 million.

⁽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"

DEPRECIATION AND AMORTIZATION AND NET FINANCIAL COSTS

Total depreciation and amortization expense for the fourth quarter of fiscal 2020 was \$118.5 million, of which \$35.1 million is an increase resulting from the adoption of IFRS 16, versus \$68.5 million for the corresponding quarter of fiscal 2019. In the fourth quarter of 2020, we recorded accelerated amortization totalling \$10.7 million, or \$0.03 per share, related to the forthcoming opening of our new fresh product distribution centre in Ontario. We have not adjusted our 2020 earnings for this charge.

Net financial costs for the fourth quarter of 2020 were \$30.8 million, of which \$7.3 million is an increase resulting from the adoption of IFRS 16, compared with \$23.4 million for the corresponding quarter of fiscal 2019.

INCOME TAXES

The income tax expense of \$67.7 million for the fourth quarter of fiscal 2020 represented an effective tax rate of 26.6% compared with an income tax expense of \$62.3 million in the fourth quarter of fiscal 2019 which represented an effective tax rate of 27.1%. The impact of the adoption of IFRS 16 on the fourth quarter of 2020 income tax expense is not significant.

NET EARNINGS AND ADJUSTED NET EARNINGS⁽¹⁾

Net earnings for the fourth quarter of fiscal 2020 were \$186.5 million compared with \$167.4 million for the corresponding quarter of fiscal 2019, while fully diluted net earnings per share were \$0.74 compared with \$0.66 in 2019, up 11.4% and 12.1%, respectively. Excluding the specific items shown in the table below, adjusted net earnings⁽¹⁾ for the fourth quarter of fiscal 2020 totalled \$193.1 million compared with \$174.0 million for the corresponding quarter of fiscal 2019, and adjusted fully diluted net earnings per share⁽¹⁾ amounted to \$0.77 versus \$0.68, up 11.0% and 13.2%, respectively. The adoption of IFRS 16 had an insignificant impact on the fourth quarter of 2020 net earnings and adjusted net earnings⁽¹⁾.

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	186.5	0.74	167.4	0.66	11.4	12.1
Amortization of intangible assets acquired in connection with the Jean Coutu Group acquisition, after taxes	6.6		6.6			
Adjusted net earnings ⁽¹⁾	193.1	0.77	174.0	0.68	11.0	13.2

⁽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"

Impacts of the adoption of IFRS 16

12 weeks / Fiscal Year

<i>(Millions of dollars, unless otherwise indicated)</i>	2020	IFRS 16	2020 excluding IFRS 16	2019
Sales	4,143.6	(12.5)	4,156.1	3,858.9
Operating income before depreciation and amortization and associate's earnings	403.5	44.0	359.5	321.6
Adjusted operating income before depreciation and amortization and associate's earnings ⁽²⁾	403.5	44.0	359.5	321.6
Depreciation	118.5	(35.1)	83.4	68.5
Net financial costs	30.8	(7.3)	23.5	23.4
Income taxes	67.7	(0.4)	67.3	62.3
Net earnings	186.5	1.2	185.3	167.4
Adjusted net earnings ⁽¹⁾	193.1	1.2	191.9	174.0
Fully diluted net earnings per share <i>(Dollars)</i>	0.74	—	0.74	0.66
Adjusted fully diluted net earnings per share ⁽¹⁾ <i>(Dollars)</i>	0.77	—	0.77	0.68

CASH POSITION

Operating activities

Operating activities generated cash inflows of \$415.8 million in the fourth quarter of fiscal 2020 compared with \$232.4 million for the corresponding quarter of fiscal 2019. This difference resulted primarily from the significant increase in earnings in the fourth quarter of fiscal 2020, the change in non-cash working capital items as well as, from payments and interests received in respect of subleases reclassified to investing activities and payments and interests in respect of lease liabilities reclassified to financing activities in 2020 following the adoption of IFRS 16 as well as a significant contribution to a pension plan in 2019.

Investing activities

Investing activities required cash outflows of \$181.9 million in the fourth quarter of fiscal 2020 compared with \$146.1 million for the corresponding quarter of fiscal 2019. This difference stemmed mainly from the higher fixed assets and investment properties additions of \$52.7 million in 2020.

Financing activities

In the fourth quarter of 2020, financing activities required cash outflows of \$159.0 million compared with \$76.2 million in the corresponding quarter of 2019. This difference resulted mainly from payments and interests on lease liabilities of \$53.7 million reclassified from operating activities in 2020 following the adoption of IFRS 16.

DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation adopted a financial risk management policy, approved by the Board of Directors in April 2010 and amended in 2019, setting forth guidelines relating to its use of derivative financial instruments. These guidelines prohibit the use of derivatives for speculative purposes. During fiscal 2020, the Corporation used derivative financial instruments as described in notes 2 and 28 to the 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"

NEW ACCOUNTING STANDARDS

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 for 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. Comparative period numbers have not been restated.

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, lease liabilities have been measured at the present value of the remaining lease payments and right-of-use assets have been measured using the modified retrospective approach. The discount rate used was 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 related to subleases that should 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 assessment performed immediately before the initial application date to determine whether a lease is onerous, instead of performing a review of the impairment of the right-of-use assets.
- Exclude leases expiring within 12 months of the initial application date.
- 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:

<i>Increase (Decrease)</i>	As at September 29, 2019
ASSETS	
Current assets	
Accounts receivable 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 receivable 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 \$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 lease term 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)
Renewal 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
Total lease liabilities	2,199.8

The impact of the adoption of IFRS 16 on the results for fiscal year ended September 26, 2020 was as follows:

<i>Increase (Decrease)</i>		<i>Description</i>
Sales and gross margin	(54.2)	Sublease income now accounted as interest income and accounts receivable on subleases
Occupancy charges	(244.6)	Rental expense replaced by depreciation and financial costs
Depreciation	149.2	Depreciation of right-of-use assets
Financial costs	33.5	Interest expense on lease liabilities net of interest income on subleases
Earnings before income taxes	7.7	IFRS 16 impact before income taxes
Income taxes	2.0	
Net earnings	5.7	IFRS 16 net impact
Net earnings per share - Fully diluted	0.02	Diluted net earnings per share impact

The net financial costs included the financial costs of \$49.5 million related to lease liabilities and the interest revenues of \$16.0 million on subleases classified as finance leases for fiscal 2020.

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 leases 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.

⁽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"

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.

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 2021 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 the risks described under the "Risk Management" section of this annual report that could have an impact on these statements. As with the preceding risks, the COVID-19 pandemic constitutes a risk that could have an impact on the business, operations, projects, synergies and performance of the Corporation as well as on the realization of forward-looking statements contained in this document.

We believe these statements to be reasonable and 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 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.

⁽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"

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 26, 2020.

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 JUDGMENTS 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 judgments, 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.

JUDGMENTS

In applying the Corporation's accounting policies, management has made the following judgments, 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

⁽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"

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 license 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.

Leases

The application of IFRS 16 requires the use of estimates that affect the measurement of right-of-use-assets and lease liabilities, including the appropriate discount rate used to measure lease liabilities. The Corporation discounts lease payments at its incremental borrowing rate, which is based on estimates of the risk-free interest rate, credit spreads and lease terms. In addition, it assesses the duration of the lease based on the terms of the contract and the renewal options it has reasonable certainty to exercise. A change in these assumptions could affect the amounts recorded. The key assumptions are disclosed in note 12.

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 a 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

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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 beyond our control that could seriously affect the continuity of our operations may arise. We have set up business continuity plans for all our operations. These plans provide for some disaster alternative physical sites, generators in case of power outages and back-up computers as powerful as the Corporation's existing computers. A steering committee oversees our business continuity plans and their objectives, and ensures their regular review.

Amid the current pandemic environment, we have created a strategic committee responsible for overseeing the management and coordination of the actions required to protect the Corporation's employees, customers and partners from the effects of COVID-19. This committee is composed of executives from the Corporation's various business units.

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 business, 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 system 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 to 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. A committee comprised of executives from the Corporation oversees cybersecurity activities, including Information Security Service activities. This service sets up and coordinates prevention, detection and remediation measures in the area of cybersecurity. Cybersecurity measures include, among others, setting up strong controls with respect to systems access and hiring a specialized firm to carry out occasional intrusion tests. We have also implemented an information security awareness and training program for our employees.

No significant incident attributable to the Corporation's technology occurred over the past 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, by the Corporation and third parties it deals with, will be sufficient to prevent or detect a cyberattack. In that regard, we stay current with the latest 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 negatively impact the Corporation. We negotiate collective 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 develop contingency plans to minimize the impact of possible labour conflicts. We have experienced some labour conflicts over the last few years and we expect⁽³⁾ to maintain good labour relations in the future.

⁽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"

OCCUPATIONAL HEALTH AND SAFETY

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

HIRING, EMPLOYEE RETENTION AND ORGANIZATION STRUCTURE

Our recruitment program, salary structure, performance evaluation programs, succession plan and training plan 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. Our performance evaluation practices are 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 Corporation's key positions.

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 made 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, COMPETITION AND PRICES

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.

Increased competition could lead to pressure on retail prices and margins. As a result, we adopt innovative marketing strategies to better meet the evolving needs of consumers and protect our market shares.

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 international food stores, target three different market segments. The Première Moisson banner is specialized in bakery, pastry, deli products and other food offerings prepared on an artisanal basis and respectful of great traditions.

⁽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"



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 414 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*® loyalty programs in our Metro and Metro Plus supermarkets and our Jean Coutu drugstore 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.

Our online grocery service, websites and various mobile applications are part of the Corporation's overall digital strategy, which aims to position METRO as the retailer that offers the food experience most suited to the needs and behaviors of consumers.

MODERNIZATION OF OUR DISTRIBUTION FACILITIES

Investments in the modernization of our distribution centres in Québec and Ontario translate into large-scale projects. Poor management of human, material and financial resources could turn into significant costs and not meet our objective. Efficient project management and adequate change management of these new technologies, including automation, will allow us to achieve the expected results according to our business plan.

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. To remediate 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⁽³⁾ that cash flows generated by our operating activities will be sufficient to provide for all outflows required by our financing activities.

⁽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"

JEAN COUTU GROUP ACQUISITION

The successful combination with the Jean Coutu Group's activities requires significant efforts from the Corporation's management. 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 11, 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"