



1st Quarter : 2008



Highlights

- Sales of \$2,506.8 million
- Net earnings up 2.7% to \$69.7 million
- Fully diluted net earnings per share up 5.2% to \$0.61
- Declared dividend of \$0.125 per share, up 8.7%

INTERIM REPORT
12-week period ended December 22, 2007



REPORT TO SHAREHOLDERS

The Company's 2008 first quarter sales reached \$2,506.8 million compared to \$2,515 million for the corresponding quarter of the previous fiscal year.

First quarter net earnings were \$69.7 million compared to \$67.9 million for the corresponding quarter last year, an increase of 2.7%. Fully diluted net earnings per share increased by 5.2% to \$0.61 compared to \$0.58 last year.

In the first quarter, we benefited from a tax expense decrease of \$11.4 million. In the corresponding quarter of the previous fiscal year, we had A&P Canada acquisition-related integration and rationalization costs before taxes of \$5.6 million. Excluding these non-recurring items, our first quarter adjusted net earnings⁽¹⁾ would have been \$58.3 million and our adjusted fully diluted net earnings per share⁽¹⁾ \$0.51 versus \$71.6 million and \$0.62 respectively for the same quarter of the previous fiscal year.

A more intense competitive environment as well as the training and learning curve associated with our new information systems in Ontario and our new Food Services warehouse weakened our results.

Our financial position at the end of the first quarter of 2008 was very solid. We had an unused approved \$375.2 million line of credit, and a debt ratio (long-term debt/total capital) of 34.8%.

On January 28, 2008, the Board of Directors declared a quarterly dividend of \$0.125 per share, an increase of 8.7% over the dividend declared for the same quarter last year.

At the Annual General Meeting held January 29, 2008, the shareholders elected a new director to the Board of Directors of METRO INC., Mr. Réal Raymond, who was until recently President and Chief Executive Officer of the National Bank of Canada.

We expect that the issue related to our information systems in Ontario and our Food Services warehouse will be behind us in the next few months, and are confident our results will improve.



PIERRE H. LESSARD, FCA
President and Chief Executive Officer
January 29, 2008

⁽¹⁾ See section "Non-GAAP Measurements".



MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis sets out the financial position and consolidated results of METRO INC. on December 22, 2007. This discussion and analysis should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes in this quarterly report along with the consolidated financial statements for the fiscal year ended September 29, 2007 and related notes and Management's Discussion and Analysis presented in the Company's 2007 Annual Report. This analysis is based upon information as of January 18, 2008 unless otherwise stated. Additional information, including the Certification of Interim Filings letters for the quarter ended December 22, 2007 signed by the President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer, is also available on the SEDAR website at: www.sedar.com.

Forward-looking Statements

Any statement contained in this quarterly Management's Discussion and Analysis which does not constitute an historic fact, may be deemed a projection. Verbs such as "believe", "foresee", "estimate", "expect" and other similar expressions appearing in this discussion and analysis generally indicate projections. These projections do not provide guarantees as to the future performance of METRO INC. and are subject to risks, both known and unknown, as well as uncertainties which may cause the outlook, profitability and actual results of METRO INC. to differ significantly from the profitability or future results stated or implied in these projections. The risks identified by METRO INC. are described in the 2007 Annual Report under Risk Management. METRO INC. does not intend to update the forward-looking statements that may be contained herein, except as required by law.

Non-GAAP Measurements

In addition to the Canadian generally accepted accounting principles (GAAP) earnings measurements provided, we have included certain non-GAAP earnings measurements. These measurements are presented for information purposes only. They do not have a standardized meaning prescribed by GAAP and therefore may not be comparable to similar measurements presented by other public companies.

EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION (EBITDA)

: EBITDA is a measurement of earnings that excludes interest, taxes, depreciation and amortization. We believe that EBITDA is a measurement commonly used by readers of financial statements to evaluate a company's operational cash-generating capacity and ability to discharge its financial expenses.

ADJUSTED EBITDA, ADJUSTED NET EARNINGS AND ADJUSTED FULLY DILUTED NET EARNINGS PER SHARE

: Adjusted EBITDA, adjusted net earnings and adjusted fully diluted net earnings per share are earnings measurements that exclude non-recurring items. We believe that presenting earnings without non-recurring items leaves readers of financial statements better informed as to the current period and corresponding period's earnings, thus enabling them to better evaluate the Company's performance and judge its future outlook.

⁽¹⁾ See section "Non-GAAP Measurements".



Results of Operations

We realized net earnings of \$69.7 million in the first quarter of 2008, up 2.7% from \$67.9 million in the same quarter last year, and fully diluted net earnings per share of \$0.61 up 5.2% from \$0.58 last year. In the first quarter, we benefited from a tax expense decrease of \$11.4 million due to a net reduction of our future income tax assets and liabilities as a result of future federal income tax rate decreases totalling 3.5%.

In the first quarter last year, we had A&P Canada acquisition-related integration and rationalization costs before taxes of \$5.6 million. Excluding these non-recurring items, our first quarter adjusted net earnings⁽¹⁾ would have been \$58.3 million and our adjusted fully diluted net earnings per share⁽¹⁾ \$0.51 versus \$71.6 million and \$0.62 respectively for the same quarter last year.

SALES : First quarter sales reached \$2,506.8 million, down 0.3% compared to fiscal 2007 first quarter sales of \$2,515 million. Excluding decreased sales of tobacco products, 2008 first quarter sales would have been up 0.3%. Same store sales were flat.

EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION (EBITDA)⁽¹⁾ : Earnings before interest, taxes, depreciation and amortization for the first quarter were \$136.5 million, down 11.7% from \$154.6 million for the same quarter last year. First quarter EBITDA represented 5.4% of sales versus 6.1% last year. Excluding A&P Canada acquisition-related integration and rationalization costs of \$5.6 million in 2007, EBITDA as a percentage of sales would have been 6.4%.

A more intense competitive environment as well as the training and learning curve associated with our new information systems in Ontario and our new Food Services warehouse affected our gross profits and expenditures.

Our equity earnings from our investment in Alimentation Couche-Tard were \$5.7 million versus \$8.6 million in 2007. Excluding non-recurring items as well as equity earnings from our investment in Alimentation Couche-Tard, our 2008 first quarter EBITDA would have been \$130.8 million or 5.2% of sales versus \$151.6 million or 6% of sales for the corresponding quarter of the previous fiscal year.

EBITDA Adjustments⁽¹⁾

(Millions of dollars,
unless otherwise indicated)

	12 weeks / Fiscal Year					
	2008			2007		
	EBITDA	Sales	EBITDA / Sales (%)	EBITDA	Sales	EBITDA / Sales (%)
EBITDA	136.5	2,506.8	5.4	154.6	2,515.0	6.1
Integration and rationalization costs	—	—	—	5.6	—	—
Adjusted EBITDA	136.5	2,506.8	5.4	160.2	2,515.0	6.4
Share of earnings from our investment in Alimentation Couche-Tard	(5.7)	—	—	(8.6)	—	—
Adjusted EBITDA excluding share of earnings	130.8	2,506.8	5.2	151.6	2,515.0	6.0

⁽¹⁾ See section "Non-GAAP Measurements".



INTEREST, DEPRECIATION AND AMORTIZATION : The total first quarter depreciation and amortization expense was \$40.1 million compared with \$37 million last year. First quarter interest expenses totalled \$14 million versus \$14.3 million last year. First quarter interest rate averaged 5.5% compared with 5.4% for the corresponding quarter of the previous fiscal year.

INCOME TAXES : The income tax expense of \$14.1 million for the first quarter of 2008 represents an effective tax rate of 17.1% compared with \$32.3 million and an effective tax rate of 31.3% last year. In the first quarter of 2008, the Canadian government completed milestones in the approval process for its Economic Statement of October 30, 2007. It approved general federal corporate income tax rate reductions of 1% on January 1, 2008 increasing to 3.5% by January 1, 2012. These rate reductions brought about a net decrease in our future income tax assets and liabilities as well as a corresponding \$11.4 million decrease in our income tax expense. Excluding this decrease in income tax expense, the effective tax rate for the first quarter of 2008 would have been 30.9%.

NET EARNINGS : First quarter net earnings were \$69.7 million compared to \$67.9 million for the corresponding quarter last year, an increase of 2.7%. Fully diluted net earnings per share were \$0.61, up 5.2% from \$0.58 last year. Excluding the income tax expense decrease of \$11.4 million in 2008 and A&P Canada acquisition-related integration and rationalization costs of \$5.6 million before taxes in 2007, adjusted net earnings⁽¹⁾ for the first quarter of 2008 would have been \$58.3 million, down 18.6% from the same quarter last year. Adjusted net earnings⁽¹⁾ as a percentage of sales would have been 2.3% compared with 2.8% last year. Adjusted fully diluted net earnings per share⁽¹⁾ would have been \$0.51, for a decrease of 17.7% compared with last year.

Net Earnings Adjustments

(Millions of dollars,

unless otherwise indicated)

	12 weeks / Fiscal Year					
	2008		2007		Change	
	Net earnings	Fully diluted EPS (Dollars)	Net earnings	Fully diluted EPS (Dollars)	Net earnings (%)	Fully diluted EPS (%)
Net earnings	69.7	0.61	67.9	0.58	2.7	5.2
Integration and rationalization costs after taxes	—	—	3.7	0.04		
Decrease in tax expense	(11.4)	(0.10)	—	—		
Adjusted net earnings ⁽¹⁾	58.3	0.51	71.6	0.62	(18.6)	(17.7)

⁽¹⁾ See section "Non-GAAP Measurements".



Quarterly Highlights

(Millions of dollars, unless otherwise indicated)

	2008 (52 weeks)	2007 (52 weeks)	2006 (53 weeks)	Change (%)
Sales				
Q1	2,506.8	2,515.0	—	(0.3)
Q4	—	2,432.4	2,673.5	(9.0)
Q3	—	3,341.0	3,336.7	0.1
Q2	—	2,356.2	2,412.1	(2.3)
Net earnings				
Q1	69.7	67.9	—	2.7
Q4	—	57.6	78.9	(27.0)
Q3	—	89.3	85.1	4.9
Q2	—	61.8	57.0	8.4
Adjusted net earnings⁽¹⁾				
Q1	58.3	71.6	—	(18.6)
Q4	—	66.8	71.0	(5.9)
Q3	—	91.1	78.3	16.3
Q2	—	65.5	58.7	11.6
Fully diluted net earnings per share (Dollars)				
Q1	0.61	0.58	—	5.2
Q4	—	0.49	0.68	(27.9)
Q3	—	0.77	0.73	5.5
Q2	—	0.53	0.49	8.2
Adjusted fully diluted net earnings per share⁽¹⁾ (Dollars)				
Q1	0.51	0.62	—	(17.7)
Q4	—	0.57	0.61	(6.6)
Q3	—	0.78	0.68	14.7
Q2	—	0.56	0.50	12.0

First quarter sales were down 0.3% in 2008 compared to 2007 due to strong competition. Excluding decreased sales of tobacco products, 2008 first quarter sales would have been up to 0.3%.

Sales in the second, third and fourth quarters of 2007 versus those for the corresponding quarters of 2006 were affected by decreased sales of tobacco products, lost sales due to the disposal, in the fourth quarter of 2006, of our interest in a grocery wholesaler, the fact that Christmas fell in the first quarter of 2007 rather than the second as in 2006, and the impact of the 53rd week in 2006. Excluding these items, 2007 second, third and fourth quarters sales would have been up 3%, 3.2% and 0.7% respectively over 2006.

First quarter net earnings and fully diluted net earnings per share for 2008 were up 2.7% and 5.2% respectively over those for 2007. Excluding the income tax expense decrease of \$11.4 million in 2008 and A&P Canada acquisition-related integration and rationalization costs of \$5.6 million before taxes in 2007, adjusted net earnings⁽¹⁾ and adjusted fully diluted net earnings per share⁽¹⁾ would have been down 18.6% and 17.7% respectively. This drop in profitability stems from a more intense competitive environment and the training and learning curve associated with our information systems in Ontario and our Food Services warehouse.

⁽¹⁾ See section "Non-GAAP Measurements".



Second, third and fourth quarters net earnings and fully diluted net earnings per share in 2007 and 2006 were impacted by, among other things, integration and rationalization costs related to the acquisition of A&P Canada, a gain on disposal of an investment, and income tax expense variations resulting from fluctuations in tax rates applicable to large corporations announced by both governments.

Excluding these non-recurring items, increases in fiscal 2007 second and third quarters adjusted net earnings⁽¹⁾ and adjusted fully diluted net earnings per share⁽¹⁾, compared with those for fiscal 2006, are due primarily to more effective merchandising programs and additional synergies.

Excluding the impact of the 53rd week in 2006, adjusted net earnings⁽¹⁾ and adjusted fully diluted net earnings per share⁽¹⁾ for the fourth quarter 2007 were up 3.4% and 3.6% respectively over those for the corresponding period of 2006.

<i>(Millions of dollars)</i>	2008		2007			2006		
	Q1	Q1	Q2	Q3	Q4	Q2	Q3	Q4
Net earnings	69.7	67.9	61.8	89.3	57.6	57.0	85.1	78.9
Integration and rationalization costs after taxes	—	3.7	3.7	3.6	9.2	1.7	2.6	2.1
Gain on disposal of investment, after taxes	—	—	—	—	—	—	—	(8.6)
Decrease in tax expense	(11.4)	—	—	(1.8)	—	—	(9.4)	(1.4)
Adjusted net earnings ⁽¹⁾	58.3	71.6	65.5	91.1	66.8	58.7	78.3	71.0
53 rd week	—	—	—	—	—	—	—	(6.4)
Adjusted net earnings ⁽¹⁾ excluding 53 rd week	58.3	71.6	65.5	91.1	66.8	58.7	78.3	64.6

<i>(Dollars and per share)</i>	2008		2007			2006		
	Q1	Q1	Q2	Q3	Q4	Q2	Q3	Q4
Fully diluted net earnings	0.61	0.58	0.53	0.77	0.49	0.49	0.73	0.68
Integration and rationalization costs after taxes	—	0.04	0.03	0.03	0.08	0.01	0.03	0.02
Gain on disposal of investment, after taxes	—	—	—	—	—	—	—	(0.07)
Decrease in tax expense	(0.10)	—	—	(0.02)	—	—	(0.08)	(0.02)
Adjusted fully diluted net earnings ⁽¹⁾	0.51	0.62	0.56	0.78	0.57	0.50	0.68	0.61
53 rd week	—	—	—	—	—	—	—	(0.06)
Adjusted fully diluted net earnings ⁽¹⁾ excluding 53 rd week	0.51	0.62	0.56	0.78	0.57	0.50	0.68	0.55

⁽¹⁾ See section "Non-GAAP Measurements".



Cash Position

OPERATING ACTIVITIES : Operating activities generated cash flows of \$13 million in the first quarter of 2008 versus \$49.4 million in the corresponding quarter of 2007. This variation is due primarily to decreased first quarter adjusted net earnings⁽¹⁾ for 2008 as compared to 2007 and increased use of non-cash working capital. This increase is due in part to the fact that at the end of the first quarter of 2008, our level of inventories was high since Christmas was two days after the end of the quarter this year versus only one day in 2007.

INVESTMENT ACTIVITIES : Investing activities required outflows of \$55 million in the first quarter of 2008 compared to \$68.3 million in 2007. This decrease is due primarily to a lower investment in fixed assets with \$44 million invested in 2008 versus \$60.2 million in 2007. Over the quarter, the Company and the retailers invested \$50.7 million in our retail network for a net expansion of 108,000 square feet or 0.6%. Major renovations and expansions of 10 stores were completed, and 3 new stores were opened.

FINANCING ACTIVITIES : Financing activities required outflows of \$30.9 million in the first quarter of 2008 versus \$22.7 million in 2007. The main reason is the repurchase of 1.5 million Class A Subordinate Shares held by The Great Atlantic & Pacific Tea Company (A&P US) for the sum of \$40.9 million. No shares had been repurchased in the first quarter of 2007.

Financial Position

Our financial position at the end of the first quarter of 2008 was very solid. We had an unused approved \$375.2 million line of credit and a debt ratio (long-term debt/total capital) of 34.8%.

In the first quarter, the main elements of our long-term debt were as follows:

	Interest Rate	Balance <i>(Millions of dollars)</i>	Maturity
Credit Facility A	Rates fluctuate with changes in bankers' acceptance rates	394.5	August 15, 2012
Medium-term Series A notes	4.98% fixed rate	200.0	October 15, 2015
Medium-term Series B notes	5.97% fixed rate	400.0	October 15, 2035

At the end of the quarter, interest rate swap agreements in the notional amount of \$150 million were outstanding under Credit Facility A. These agreements provide for the exchange of variable interest payments for fixed interest payments according to the following terms:

Fixed Rate	Notional Amount <i>(Millions of dollars)</i>	Maturity
3.9480%	50.0	November 23, 2008
3.9820%	50.0	December 16, 2009
4.0425%	50.0	December 16, 2010

⁽¹⁾ See section "Non-GAAP Measurements".



Giving effect to these swap agreements, at the end of the quarter, long-term indebtedness comprised \$750 million at fixed rates ranging from 4.3980% to 5.97% and \$244.5 million at variable rates which fluctuate with changes in bankers' acceptance rates.

FINANCIAL RATIOS :

	As at December 22, 2007	As at September 29, 2007
Financial structure		
Long-term debt (<i>Millions of \$</i>)	1,038.9	1,038.9
Shareholders' equity (<i>Millions of \$</i>)	1,949.0	1,932.3
Long-term debt/total capital (%)	34.8	35.0
	Fiscal 2008 (12 weeks)	Fiscal 2007 (12 weeks)
Results		
EBITDA ⁽¹⁾ /Interest (<i>Times</i>)	9.8	10.8

**CAPITAL STOCK, STOCK
OPTIONS AND PERFORMANCE
SHARE UNITS :**

	As at December 22, 2007	As at September 29, 2007
Number of Class A Subordinate Shares outstanding (<i>Thousands</i>)		
	112,297	113,683
Number of Class B Shares outstanding (<i>Thousands</i>)		
	772	804
Stock options:		
Number outstanding (<i>Thousands</i>)	3,677	3,738
Exercise price	\$11.80 to \$39.17	\$11.80 to \$39.17
Weighted average exercise price	\$22.61	\$22.40
Number of performance share units:		
Number outstanding (<i>Thousands</i>)	146	124
Weighted average maturity	20 months	22 months

⁽¹⁾ See section "Non-GAAP Measurements".



NORMAL COURSE ISSUER BID PROGRAM : Under the normal course issuer bid program, the Company may repurchase up to 4 million of its Class A Subordinate Shares between September 5, 2007 and September 4, 2008. The Company repurchased 1,743,500 shares at an average price of \$28.33 per share for a total of \$49.4 million, including, in the first quarter of 2008, 1,500,000 shares repurchased from A&P US at \$27.25 per share for a total of \$40.9 million, exercising the option granted the Company by A&P US. This program offers us an additional option for using excess funds. Thus, we will be able to decide, in the shareholders' best interest, to reimburse debt or to repurchase Company shares.

DIVIDENDS : On January 28, 2008, the Company's Board of Directors declared a quarterly dividend of \$0.125 per Class A Subordinate Share and Class B Share payable March 10, 2008, an increase of 8.7% over the dividend for the same quarter last year. On an annualized basis, this dividend represents more than 20% of 2007 net earnings.

SHARE TRADING : The value of METRO INC. shares remained in the range of \$25.30 to \$35.85 over the first quarter of fiscal 2008. During this period, a total of 30 million shares were traded on the Toronto Stock Exchange. The closing price on Friday, January 18, 2008 was \$25.95, compared with \$35.00 at the end of fiscal 2007.

New Accounting Policies

ADOPTED IN 2008

CAPITAL AND FINANCIAL INSTRUMENTS : In the first quarter of 2008, we adopted three new Handbook sections issued by the Canadian Institute of Chartered Accountants (CICA).

Section 1535 "*Capital Disclosures*" establishes standards for disclosing information about an entity's capital and how it is managed. These standards require an entity to disclose the following:

- its objectives, policies and processes for managing capital;
- summary quantitative data about what it manages as capital;
- whether during the period it complied with any externally imposed capital requirements to which it is subject;
- when the entity has not complied with such requirements, the consequences of such non-compliance.

⁽¹⁾ See section "Non-GAAP Measurements".



Section 3862 "Financial Instruments – Disclosures" modifies the disclosure requirements for financial instruments that were included in Section 3861 "Financial Instruments – Disclosure and Presentation". The new standards require entities to provide disclosures in their financial statements that enable users to evaluate:

- the significance of financial instruments for the entity's financial position and performance;
- the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks.

Section 3863 "Financial Instruments – Presentation" carries forward unchanged the presentation requirements of the old Section 3861 "Financial Instruments – Disclosure and Presentation".

The adoption of these guidelines did not have any material effect on the Company's results, financial position or cash flows.

RECENTLY ISSUED

INVENTORIES : In March 2007, CICA issued the new Section 3031 "Inventories" which will replace Section 3030 "Inventories". The new Section prescribes measurement of inventories at the lower of cost and net realizable value. It provides guidance on the determination of cost, allows the use of the retail method, prohibits use in the future of the last-in, first-out (LIFO) method, and requires reversal of previous write-downs when there is a subsequent increase in the value of inventories. It also requires greater disclosure regarding inventories and the cost of sales. The new standard will be effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. We will adopt this new section in the first quarter of our 2009 fiscal year.

Outlook

We expect that this issue related to our new information systems in Ontario and our new Food Services warehouse will be behind us in the next few months, and are confident our results will improve.

Montréal, January 29, 2008

⁽¹⁾ See section "Non-GAAP Measurements".



Consolidated Statements of Earnings

12-week periods ended

December 22, 2007 and December 23, 2006

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

	Fiscal Year	
	2008	2007
Sales	\$ 2,506.8	\$ 2,515.0
Cost of sales and operating expenses	2,376.0	2,363.4
Share of earnings in a public company subject to significant influence	(5.7)	(8.6)
Integration and rationalization costs (note 3)	—	5.6
Earnings before interest, taxes, depreciation and amortization	136.5	154.6
Depreciation and amortization	40.1	37.0
Operating income	96.4	117.6
Interest, net		
Short term	(0.3)	(0.7)
Long term	14.3	15.0
	14.0	14.3
Earnings before income taxes	82.4	103.3
Income taxes (note 5)	14.1	32.3
Earnings before minority interest	68.3	71.0
Minority interest	(1.4)	3.1
Net earnings	\$ 69.7	\$ 67.9
Earnings per share (note 6)		
Basic	\$ 0.61	\$ 0.59
Fully diluted	\$ 0.61	\$ 0.58

See accompanying notes



Consolidated Balance Sheets

(Unaudited) (Millions of dollars)

	As at December 22, 2007	As at September 29, 2007
ASSETS		
Current assets		
Cash and cash equivalents	\$ 27.6	\$ 100.5
Accounts receivable	345.3	327.8
Inventories	662.5	588.2
Prepaid expenses	15.5	12.1
Future income taxes	19.1	26.1
	1,070.0	1,054.7
Investments and other assets	155.6	151.0
Fixed assets	1,215.4	1,202.8
Intangible assets	343.4	342.1
Goodwill	1,490.1	1,490.1
Accrued benefit assets	33.2	33.2
	\$ 4,307.7	\$ 4,273.9
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank loans	\$ 24.8	\$ 0.1
Accounts payable	1,076.8	1,043.6
Income taxes payable	3.6	20.3
Current portion of long-term debt	4.4	5.1
	1,109.6	1,069.1
Long-term debt	1,038.9	1,038.9
Accrued benefit obligations	53.4	54.9
Future income taxes	120.1	139.0
Other long-term liabilities	32.1	33.7
Minority interest	4.6	6.0
	2,358.7	2,341.6
Shareholders' equity		
Capital stock (note 7)	706.4	714.8
Contributed surplus	2.6	2.0
Retained earnings	1,239.3	1,214.3
Accumulated other comprehensive income (notes 2 and 8)	0.7	1.2
	1,949.0	1,932.3
	\$ 4,307.7	\$ 4,273.9

See accompanying notes



Consolidated Statements of Cash Flows

12-week periods ended
December 22, 2007 and December 23, 2006
(Unaudited) (Millions of dollars)

	Fiscal Year	
	2008	2007
Operating activities		
Net earnings	\$ 69.7	\$ 67.9
Non-cash items		
Integration and rationalization costs (note 3)	—	1.8
Share of earnings in a public company subject to significant influence	(5.7)	(8.6)
Depreciation and amortization	40.1	37.0
Amortization of deferred financing costs	0.5	0.5
(Gain) Loss on disposal and write-off of fixed and intangible assets	(0.3)	0.1
Future income taxes	(11.6)	3.6
Stock-based compensation cost	0.6	0.6
Difference between amounts paid for employee future benefits and current period cost	(1.5)	0.2
Minority interest	(1.4)	3.1
	90.4	106.2
Net change in non-cash working capital related to operations	(77.4)	(56.8)
	13.0	49.4
Investing activities		
Net change in investments and other assets	(1.7)	(1.8)
Dividends of a public company subject to significant influence	0.7	0.6
Acquisition of fixed assets	(44.0)	(60.2)
Disposal of fixed assets	0.3	2.5
Acquisition of intangible assets	(10.3)	(9.4)
	(55.0)	(68.3)
Financing activities		
Net change in bank loans	24.7	0.3
Issuance of shares (note 7)	1.0	1.4
Redemption of shares (note 7)	(40.9)	—
Increase of long-term debt	0.8	0.8
Repayment of long-term debt	(1.7)	(2.6)
Net change in other long-term liabilities	(1.6)	(10.5)
Dividends paid	(13.2)	(12.1)
	(30.9)	(22.7)
Net change in cash and cash equivalents	(72.9)	(41.6)
Cash and cash equivalents – beginning of period	100.5	165.7
Cash and cash equivalents – end of period	\$ 27.6	\$ 124.1
Other information		
Interest paid	\$ 21.9	\$ 23.9
Income taxes paid	\$ 42.1	\$ 54.0

See accompanying notes



Consolidated Statements of Retained Earnings

12-week periods ended December 22, 2007 and December 23, 2006 (Unaudited) (Millions of dollars)	Fiscal Year	
	2008	2007
Balance – beginning of period	\$ 1,214.3	\$ 1,013.2
Net earnings	69.7	67.9
Dividends	(13.2)	(12.1)
Share redemption premiums	(31.5)	—
Balance – end of period	\$ 1,239.3	\$ 1,069.0

See accompanying notes

Consolidated Statements of Comprehensive Income

12-week periods ended December 22, 2007 and December 23, 2006 (Unaudited) (Millions of dollars) (Notes 2 and 8)	Fiscal Year	
	2008	2007
Net earnings	\$ 69.7	\$ 67.9
Other comprehensive income		
Change in fair value of derivatives designated as cash flow hedges	(0.8)	(0.1)
Corresponding income taxes	0.3	—
Comprehensive income	\$ 69.2	\$ 67.8

See accompanying notes



Notes to Interim Consolidated Financial Statements

12-week periods ended December 22, 2007 and December 23, 2006

(Unaudited) (Millions of dollars, except for data per share)

1 : Statement Presentation

The unaudited interim consolidated financial statements were prepared by management in accordance with Canadian generally accepted accounting principles. The accounting policies and procedures used in preparing these interim consolidated financial statements are the same as those used in preparing the audited annual consolidated financial statements for the year ended September 29, 2007, except for the new accounting policies described in note 2. The unaudited interim consolidated financial statements should be read along with the audited annual consolidated financial statements and notes to the statements in the Company's 2007 Annual Report. The operating results for the interim period covered do not necessarily reflect overall results for the fiscal year. Certain comparative figures have been reclassified to conform to the presentation being used in the current fiscal year.

2 : New Accounting Policies

ADOPTED IN 2008

CAPITAL AND FINANCIAL INSTRUMENTS : In the first quarter of 2008, the Company adopted three new Handbook sections issued by the Canadian Institute of Chartered Accountants (CICA).

Section 1535 "Capital Disclosures" establishes standards for disclosing information about an entity's capital and how it is managed. These standards require an entity to disclose the following:

- its objectives, policies and processes for managing capital;
- summary quantitative data about what it manages as capital;
- whether during the period it complied with any externally imposed capital requirements to which it is subject;
- when the entity has not complied with such requirements, the consequences of such non-compliance.

Section 3862 "Financial Instruments – Disclosures" modifies the disclosure requirements for financial instruments that were included in Section 3861 "Financial Instruments – Disclosure and Presentation". The new standards require entities to provide disclosures in their financial statements that enable users to evaluate:

- the significance of financial instruments for the entity's financial position and performance;
- the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks.



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Section 3863 "Financial Instruments – Presentation" carries forward the presentation requirements of the old Section 3861 "Financial Instruments – Disclosure and Presentation", which remains unchanged.

The adoption of these guidelines did not have any material effect on the Company's results, financial position or cash flows.

ADOPTED IN 2007

COMPREHENSIVE INCOME, FINANCIAL INSTRUMENTS AND HEDGES : In the first quarter of 2007, the Company adopted the following new Handbook sections issued by the CICA.

Section 1530 "Comprehensive Income" introduces a new financial statement which shows the change in equity of an enterprise from transactions and other events and circumstances from non-owner sources.

Section 3855 "Financial Instruments — Recognition and Measurement" establishes standards for recognizing and measuring financial instruments, namely financial assets, financial liabilities and derivatives.

The new standard lays out how financial instruments are to be recognized depending on their classification. Depending on financial instruments' classification, changes in subsequent measurements are recognized in net income or comprehensive income.

The Company has implemented the following classification.

- Cash and cash equivalents are classified as "Financial Assets Held for Trading". These financial assets are marked-to-market through net income at each period end.
- Accounts receivable and loans to certain customers are classified as "Loans and Receivables". After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method. For the Company, the measured amount generally corresponds to cost.
- Investments in companies are classified as "Available-for-sale Securities". These financial assets are marked-to-market through comprehensive income at each period end.
- Bank loans, accounts payable, credit facilities, notes, loans payable, and obligations under capital leases are classified as "Other Financial Liabilities". After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method. For the Company, the measured amount generally corresponds to cost.

Section 3865 "Hedges", whose application is optional, establishes how hedge accounting may be applied. The Company, in accordance with its risk management strategy, has decided to apply hedge accounting to its interest rate swaps and treat them as cash flow hedges. These derivatives are marked-to-market at each period end and resulting gains/losses are recognized in comprehensive income to the extent the hedging relationship is effective.



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These new standards have to be applied without restatement of prior period amounts. Upon initial application all adjustments to the carrying amount of financial assets and liabilities shall be recognized as an adjustment to the opening balance of retained earnings or accumulated other comprehensive income, depending on the classification of existing assets or liabilities. The Company has recognized a \$0.4 adjustment to the opening balance of accumulated other comprehensive income with respect to the interest rate swaps designated as cash flow hedges. No adjustment has been recognized to the opening balance of retained earnings.

RECENTLY ISSUED

INVENTORIES : In March 2007, CICA issued the new Section 3031 "Inventories", which will replace Section 3030 "Inventories". The new Section prescribes measurement of inventories at the lower of cost and net realizable value. It provides guidance on the determination of cost, allows the use of the retail method, prohibits use in the future of the last-in, first-out (LIFO) method, and requires reversal of previous write-downs when there is a subsequent increase in the value of inventories. It also requires greater disclosure regarding inventories and the cost of sales. The new standard will be effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The Company will adopt this new section in the first quarter of its 2009 fiscal year.

3 : Integration and Rationalization Costs

Over fiscal 2007, the Company completed its plan for the integration and rationalization of its operations following the acquisition of A&P Canada. This three-part plan dealt with the store network, the integration of overall operations, and the implementation of information systems at A&P Canada.

During the period ended December 23, 2006, integration and rationalization plan costs amounted to \$5.6 and are described as follows:

By Nature of Project	Fiscal year 2007	
Stores	\$	2.2
Integration of operations		1.2
Implementation of information systems		2.2
	\$	5.6

By Nature of Costs	Fiscal year 2007	
Retention bonuses, termination benefits and others	\$	1.2
Training and IT implementation		2.2
Vacant premises		2.2
	\$	5.6



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4 : Employee Future Benefits

The Company offers several defined benefit and defined contribution plans that provide most participants with pension, other retirement and other post-employment benefits. The Company's defined benefit and defined contribution plan expenses were as follows:

	Fiscal Year			
	2008		2007	
	Pension plans	Other plans	Pension plans	Other plans
Defined contribution plans	\$ 6.1	\$ 0.1	\$ 6.2	\$ 0.1
Defined benefit plans				
Current service cost	5.3	0.4	5.7	0.3
Interest cost	7.1	0.4	6.3	0.3
Projected return on plan assets	(9.8)	—	(8.8)	—
Amortization of actuarial losses and past service cost	0.3	—	0.3	—
	2.9	0.8	3.5	0.6
	\$ 9.0	\$ 0.9	\$ 9.7	\$ 0.7

5 : Income Taxes

The effective income tax rates were as follows:

	Fiscal Year	
	2008 %	2007 %
Combined statutory income tax rate	31.6	32.3
Changes		
Impact of federal tax rate decrease of 3.5%, spread until 2012, on future taxes (\$11.4 in 2008)	(13.8)	—
Share of earnings in a public company subject to significant influence	(1.1)	(1.2)
Other	0.4	0.2
	17.1	31.3



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6 : Earnings per Share

Basic net earnings per share and fully diluted net earnings per share were calculated based on the following number of shares:

(Millions)	Fiscal Year	
	2008	2007
Weighted average number of shares outstanding – Basic	114.0	114.8
Dilutive effect under stock option plan and performance share units	1.1	1.6
Weighted average number of shares outstanding – Diluted	115.1	116.4

7 : Capital Stock

OUTSTANDING

	Class A Subordinate Shares		Class B Shares		Total
	Number		Number		
	(Thousands)		(Thousands)		
Balance as at September 29, 2007	113,683	\$ 713.2	804	\$ 1.6	\$ 714.8
Share issued for cash	82	1.0	—	—	1.0
Shares redeemed for cash, excluding premium of \$31.5	(1,500)	(9.4)	—	—	(9.4)
Conversion of shares	32	0.1	(32)	(0.1)	—
Balance as at December 22, 2007	112,297	\$ 704.9	772	\$ 1.5	\$ 706.4

On November 29, 2007, the Company took advantage of an option to purchase shares that had been granted by The Great Atlantic & Pacific Tea Company (A&P US), purchasing 1.5 million Class A Subordinate Shares sold by A&P US for a total amount of \$40.9. The shares purchased were cancelled and recorded as part of the Company's share buyback program.

STOCK OPTION PLAN : As at December 22, 2007, 3,676,960 stock options were outstanding at exercise prices varying from \$11.80 to \$39.17, with expiry dates up to 2014. Of these stock options, 2,558,540 could be exercised for a weighted average exercise price of \$20.54.

	Fiscal Year	
	2008	2007
Granted stock options during the period	53,800	4,500
Weighted average exercise price	\$ 28.09	\$ 35.71
Weighted average fair value	\$ 7.54	\$ 11.07



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During the first quarter of 2008, the weighted average fair value of stock options was established at the time of grant using the Black & Scholes model and based on the following weighted average assumptions: risk-free interest rate of 3.8% (2007 – 3.9%), expected six-year term (2007 – six-year term), anticipated volatility of 25% (2007 – 30%) and an anticipated 1.5% dividend yield (2007 – 1.5%).

The compensation expense for these stock options amounted to \$0.3 for the first quarter of 2008 (2007 – \$0.4).

PERFORMANCE SHARE UNIT PLAN : As of December 22, 2007, 146,432 performance share units (PSUs) were outstanding. During the first quarter, 27,747 PSUs were granted following the achievement of performance indicators related to fiscal 2007 (2007 – 29,270) and 5,134 PSUs were cancelled (2007 – nil).

At the end of the first quarter, 154,000 shares were held in trust for participants until the PSUs shall have vested or been cancelled (2007 – 72,000). None of these shares have been acquired during this quarter.

A compensation expense of \$0.3 pertaining to PSUs was recorded in the first quarter of 2008 (2007 — \$0.2).

8 : Accumulated Other Comprehensive Income

Derivatives designated as cash flow hedges constitute the sole item in Accumulated Other Comprehensive Income. The changes that occurred during the period were as follows:

	Fiscal Year	
	2008	2007
Opening balance (net of income taxes of \$0.6 in 2008, \$0.2 in 2007)	\$ 1.2	\$ 0.4
Change in fair value during the period (net of income taxes of \$0.3 in 2008, nil in 2007)	(0.5)	(0.1)
Balance – end of period	\$ 0.7	\$ 0.3

9 : Contingency

In January 2007, the Company was named in a suit brought by beneficiaries of a multiemployer pension plan. They claim that plan assets were mismanaged and are seeking, among others, damages of \$1 billion from the trustees and the employers. The Company is one of the 443 employers affected by the suit and did not participate in managing the plan. The Company forcefully contests the suit's merits and considers that it will have no future financial obligation relating to this recourse. The Company has received notice from counsel for the beneficiaries who have brought this suit indicating that he has received instructions from his client to discontinue the proceedings against the employers including the Company. Action to finalize the discontinuance is being pursued.



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10 : Management of Capital

The Company maintains a capital level that enables it to meet several objectives, namely:

- striving for a low percentage of long-term debt to total combined long-term debt and shareholders' equity (long-term debt/total capital ratio);
- maintaining an investment grade credit rating for its term notes;
- giving shareholders sustained growth of shareholder value by providing a return on shareholders' equity greater than 15%, increasing fully diluted net earnings per share, and paying total annual dividends representing approximately 20% of net earnings for the previous fiscal year before extraordinary items.

In its capital structure, the Company considers its stock option and performance share unit plans for key employees and officers. The Company's stock redemption plan is one of the tools the Company uses to achieve its objectives.

The Company is not subject to any capital requirements imposed by a regulator.

The Company's fiscal 2008 first quarter results regarding its capital management objectives were as follows:

- a long-term debt/total capital ratio of 34.8% (35% as at September 29, 2007);
- a BBB credit rating confirmed by S&P and DBRS during the first quarter of 2008 (same rating during fiscal year 2007);
- a return on shareholders' equity of 14.9% over the last 12 months (17.4% for the 12 previous months);
- a decrease in fully diluted net earnings per share of 3.2% over the last 12 months (37.8% increase for the 12 previous months);
- an annualized dividend representing 20.1% of net earnings for the previous fiscal year (20.5% in 2007).

The capital management objectives remain the same as for the previous fiscal year. Shareholders' equity and fully diluted net earnings per share for the last 12 months were down compared to the previous 12 months mainly due to a 2.8% drop in sales owing to a more intense competitive environment as well as a training and learning curve associated with new information systems and a new warehouse.

11 : Financial Instruments

INTEREST RATE RISK : In the normal course of business, the Company is exposed primarily to interest rate fluctuation risks as a result of loans and receivables as well as of borrowing at variable interest rates.



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In accordance with its risk management policy, the Company uses derivative financial instruments, such as interest rate swaps, to lock in a portion of its debt cost and reduce its interest rate risk, swapping its Credit Facility A variable interest rate payments for fixed interest rate payments. The Company has decided to designate its interest rate swaps as a cash flow hedge. Policy guidelines prohibit the Company from entering into derivative financial instruments for speculative purposes.

At the end of every quarter, the Company provides the Audit Committee with a detailed report on all of its derivative financial instruments along with their respective fair value. The report as at December 22, 2007 presented the following information:

	Fixed rate	Notional amount	Maturity	Fair value	
				2008	2007
Interest rate swap contract	3.9480%	\$ 50.0	November 23, 2008	\$ 0.2	\$ 0.2
Interest rate swap contract	3.9820%	\$ 50.0	December 16, 2009	\$ 0.3	\$ 0.2
Interest rate swap contract	4.0425%	\$ 50.0	December 16, 2010	\$ 0.5	\$ 0.1

A fluctuation in interest rates would have an impact on the Company's net earnings and other comprehensive income items. Based on the previous fiscal year's rate changes, a 0.5% interest rate change would reasonably be considered possible. The changes would have had the following impact:

	12 weeks Fiscal Year			
	2008		2007	
	0.5% increase	0.5% decrease	0.5% increase	0.5% decrease
Impact on net earnings of interest rate changes for loans and receivables as well as for other variable rate liabilities	\$ (0.2)	\$ 0.2	\$ (0.2)	\$ 0.2
Impact on other comprehensive income items due to changes in fair value of derivatives designated as cash flow hedges	\$ 0.9	\$ (0.9)	\$ 1.4	\$ (1.4)



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CREDIT RISK :

Loans and receivables/endorsements

The Company sells products to consumers and merchants in Canada. When it sells products, it gives merchants credit. As well, to help certain merchants with business acquisitions, the Company grants them long-term loans or endorses loans granted to them by financial institutions. Hence, the Company is subject to credit risk.

To mitigate such risk, the Company performs ongoing credit evaluations of its customers and has adopted a credit policy that defines the credit conditions to meet and required guarantees. No customer accounted for over 10% of total loans and receivables.

To cover its credit risk, the Company holds guarantees in the form of a movable hypothec on the Company stock held by these merchants and/or second hypothecs on their inventories, movable goods, intangible assets and receivables.

Over the past years, the Company has not suffered any material losses related to credit risk.

As at December 22, 2007, not taking into account the guarantees held, the maximum credit risk exposure for loans and receivables corresponded to their carrying amount. Also as of that date, the maximum potential liability under the endorsements was \$7.8 (\$28.3 in 2007) and no liability had been recognized.

Derivatives designated as cash-flow hedges

With regard to its derivative financial instruments, i.e., the interest rate swaps, the Company is also subject to credit risk when these swaps result in receivables from financial institutions. In accordance with its risk management policy, the Company has entered into these swaps with major financial institutions to reduce its credit risk.

As at December 22, 2007, the maximum credit risk exposure for derivatives designated as cash-flow hedges corresponded to their carrying amount.

INFORMATION

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