



PRESS RELEASE

METRO INCREASED ADJUSTED NET EARNINGS BY 44.4% IN THE FIRST QUARTER OF 2007

FIRST QUARTER 2007 HIGHLIGHTS

- The Company realized net earnings of \$67.9 million compared to \$32 million, an increase of 112.2%. Fully diluted net earnings per share reached \$0.58, up 107.1% from \$0.28.
- Excluding non-recurring items recorded in the first quarters of 2007 and 2006, adjusted net earnings for the first quarter of 2007 would have been \$71.6 million, an increase of 44.4%, and adjusted fully diluted net earnings per share would have been \$0.62, an increase of 44.2%. Non-recurring items include integration and rationalization costs of \$5.6 million before taxes for the first quarter of 2007 and \$18.3 million before taxes for the first quarter of 2006, and an additional tax expense of \$5.3 million for the first quarter of 2006.
- Sales dipped 0.3% to \$2,515 million. Excluding decreased sales of tobacco products and lost sales due to the disposal, in the fourth quarter of 2006, of our interest in a grocery wholesaler, sales would have increased by 2.8%.
- Synergies of \$19 million were achieved in the first quarter compared to \$7.9 million in the same quarter last year.

(Montréal, January 23, 2007) – METRO INC. realized net earnings of \$67.9 million in the first quarter of 2007 compared to \$32 million for the corresponding quarter of the previous fiscal year, and fully diluted net earnings per share of \$0.58 versus \$0.28 last year. Non-recurring items were recorded in the first quarters of 2007 and 2006, namely integration and rationalization costs of \$5.6 million before taxes in 2007 and \$18.3 million before taxes in 2006, and an additional tax expense of \$5.3 million for the first quarter of 2006. Excluding these non-recurring items, adjusted net earnings⁽¹⁾ for the first quarter of 2007 would have been \$71.6 million, an increase of 44.4% over the same quarter last year, and adjusted fully diluted net earnings per share⁽¹⁾ would have been \$0.62, an increase of 44.2%.

SALES

First quarter sales reached \$2,515 million, down 0.3% compared to fiscal 2006 first quarter sales of \$2,521.7 million. Excluding decreased sales of tobacco products and lost sales due to the disposal, in the fourth quarter of 2006, of our interest in a grocery wholesaler, sales would have increased by 2.8%. The drop in tobacco sales stems largely from a tobacco supplier's decision to sell directly to retailers, beginning in the early fall of 2006, rather than going through wholesalers.

The sales increase is due in part to how Christmas fell. First quarter sales for fiscal 2007 include the figures for the Christmas week whereas, in fiscal 2006, the figures for that week were included in the second quarter. This timing which gave a boost to the results of the first quarter of fiscal 2007 will probably cause sales to drop in the second quarter of fiscal 2007 compared to fiscal 2006 second quarter sales. Same store sales increased by 2.3% in the first quarter and include the Christmas week.

INTEGRATION AND RATIONALIZATION COSTS

Following the acquisition of A&P Canada, we developed a plan to integrate and rationalize our operations. This three-part plan dealing with our store network, the integration of our overall operations, and the implementation of our information systems at A&P continued its progress during the first quarter.

In October 2006, our SAP and EXE purchasing and distribution systems were implemented at our main Ontario grocery warehouse; our store construction project management system was implemented as well. Implementation of our information systems is proceeding according to schedule, and our systems will be installed in all our Ontario warehouses over the next quarter.

Over fiscal 2006 integration and rationalization plan costs totalled \$28 million, and we anticipate another \$27 million in 2007. Costs incurred over the first quarter totalled \$5.6 million.

Integration and Rationalization Costs

(Millions of \$)

	Incurred		Anticipated	Total
	Q1 2007	2006		
Stores	2.2	11.9	1.9	16.0
Integration of operations	1.2	13.9	3.9	19.0
Implementation of information systems	2.2	2.2	15.6	20.0
	5.6	28.0	21.4	55.0

⁽¹⁾ These earnings are presented for information purposes only. They do not have a standardized meaning prescribed by Canadian GAAP and therefore may not be comparable to similar measures presented by other public companies.

EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION (EBITDA)⁽²⁾

Earnings before interest, taxes, depreciation and amortization for the first quarter were \$154.6 million, up 43.5% over \$107.7 million for the same quarter last year. First quarter EBITDA represented 6.1% of sales versus 4.3% last year. Excluding integration and rationalization costs of \$5.6 million and \$18.3 million respectively for the first quarters of 2007 and 2006, EBITDA as a percentage of sales would have been 6.4% and 5%.

The increase in EBITDA is due mainly to more effective merchandising, further synergies and increased equity earnings from a company subject to significant influence.

As results began to improve in the second quarter of 2006 due to more effective merchandising, starting with the second quarter of fiscal 2007, improvements over corresponding quarters of fiscal 2006 will be less marked.

In the first quarter of 2007, we generated \$19 million in synergies compared to \$7.9 million in the first quarter of 2006. We are confident that we shall generate \$80 million in synergies in 2007.

Our equity earnings from our investment in Alimentation Couche-Tard were \$8.6 million compared to \$6.8 million in 2006.

INTEREST, DEPRECIATION AND AMORTIZATION

Total depreciation and amortization expense for the first quarter was \$37 million compared with \$38.8 million last year. First quarter interest expenses totalled \$14.3 million versus \$15.5 million last year. First quarter interest rates averaged 5.4% compared with 4.7% for the corresponding quarter of the previous fiscal year.

INCOME TAXES

The income tax expense of \$32.3 million for the first quarter of 2007 represents an effective tax rate of 31.3% compared with \$21.4 million and an effective tax rate of 40.1% last year. In the first quarter of 2006, we recorded an additional tax expense of \$5.3 million, following an approval milestone with regard to the Québec government's budget providing for the increase of large businesses tax rates. Excluding this additional expense, the effective tax rate would have been 30.2% in the first quarter of 2006.

NET EARNINGS

First quarter net earnings were \$67.9 million compared to \$32 million for the corresponding quarter of fiscal 2006, an increase of 112.2%. Fully diluted net earnings per share increased 107.1% to \$0.58 compared to \$0.28 last year. Excluding integration and rationalization costs of \$5.6 million before taxes in 2007 and of \$18.3 million before taxes in 2006 and the additional tax expense of \$5.3 million in 2006, adjusted net earnings would have been \$71.6 million, up 44.4% from the same quarter last year. Net earnings as a percentage of sales would have been 2.8% compared to 2% last year. Adjusted fully diluted net earnings per share would have been \$0.62, an increase of 44.2% over last year.

⁽²⁾ Earnings are presented for information purposes only. They do not have a standardized meaning prescribed by Canadian GAAP and therefore may not be comparable to similar measures presented by other public companies.

Quarterly Highlights

(Millions of dollars, except earnings per share)

	2007 (52 weeks)	2006 (53 weeks)	2005 (52 weeks)	Variation (Percentage)
Sales – (Restated – EIC-156)				
Q1	2,515.0	2,521.7	–	(0.3)
Q4	–	2,673.5	1,951.8	37.0
Q3	–	3,336.7	1,898.2	75.8
Q2	–	2,412.1	1,363.7	76.9
Net earnings				
Q1	67.9	32.0	–	112.2
Q4	–	78.9	50.2	57.2
Q3	–	85.1	56.9	49.6
Q2	–	57.0	44.7	27.5
Adjusted net earnings				
Q1	71.6 ⁽³⁾	49.6 ⁽³⁾	–	44.4
Q4	–	71.0 ⁽³⁾	50.2	41.4
Q3	–	78.3 ⁽³⁾	56.9	37.6
Q2	–	58.7 ⁽³⁾	44.7	31.3
Fully diluted net earnings per share (Dollars)				
Q1	0.58	0.28	–	107.1
Q4	–	0.68	0.48	41.7
Q3	–	0.73	0.58	25.9
Q2	–	0.49	0.46	6.5
Adjusted fully diluted net earnings per share (Dollars)				
Q1	0.62 ⁽³⁾	0.43 ⁽³⁾	–	44.2
Q4	–	0.61 ⁽³⁾	0.48	27.1
Q3	–	0.68 ⁽³⁾	0.58	17.2
Q2	–	0.50 ⁽³⁾	0.46	8.7

The variations in the results for the last four quarters are due primarily to the August 13, 2005 acquisition of A&P Canada and the effect of our integration plan during those quarters.

The impact of this acquisition is well demonstrated by the relatively constant increase in second and third quarter sales in 2006 over the same quarters of 2005. A&P Canada was included for the whole of the fourth quarter of 2006, comprising 13 weeks versus 12 weeks for the corresponding quarter of 2005, while it was included for only 6 weeks of the fourth quarter of 2005. First quarter sales for 2007 are comparable to those for the corresponding quarter of 2006 with respect to the acquisition of A&P Canada.

Over the last four quarters, net earnings and fully diluted net earnings per share were affected by, among other things, integration and rationalization costs related to the acquisition of A&P Canada, a gain on disposal of investment and income tax expense variations resulting from fluctuations in tax rates for large corporations announced by governmental authorities.

⁽³⁾ Earnings are presented for information purposes only. They do not have a standardized meaning prescribed by Canadian GAAP and therefore may not be comparable to similar measures presented by other public companies.

Excluding these non-recurring items, increases in fiscal 2006 second, third and fourth quarter adjusted net earnings and adjusted fully diluted net earnings per share, compared with those for the corresponding quarters of fiscal 2005, are due primarily to the acquisition of A&P Canada, synergies and the impact of the 53rd week. Increases in adjusted net earnings and adjusted fully diluted net earnings per share for the first quarter of fiscal 2007 compared with those for 2006 are due primarily to more effective merchandising programs, further synergies and additional equity earnings in a company subject to significant influence.

	2007				2006			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net earnings <i>(Millions of dollars)</i>								
Adjusted net earnings	71.6	—	—	—	49.6	58.7	78.3	71.0
Integration and rationalization costs after taxes	(3.7)	—	—	—	(12.3)	(1.7)	(2.6)	(2.1)
Investment disposal gain after taxes	—	—	—	—	—	—	—	8.6
Decrease (increase) in tax expense	—	—	—	—	(5.3)	—	9.4	1.4
Net earnings	67.9	—	—	—	32.0	57.0	85.1	78.9

	2007				2006			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Fully diluted net earnings per share <i>(Dollars)</i>								
Adjusted fully diluted net earnings	0.62	—	—	—	0.43	0.50	0.68	0.61
Integration and rationalization costs after taxes	(0.04)	—	—	—	(0.10)	(0.01)	(0.03)	(0.02)
Investment disposal gain after taxes	—	—	—	—	—	—	—	0.07
Decrease (increase) in tax expense	—	—	—	—	(0.05)	—	0.08	0.02
Fully diluted net earnings per share	0.58	—	—	—	0.28	0.49	0.73	0.68

Synergies before taxes

(Millions of dollars)

	Fiscal Year	
	2007	2006
Q1	19.0	7.9
Q2	—	9.2
Q3	—	15.5
Q4	—	18.7
	19.0	51.3

Cash Position

OPERATING ACTIVITIES

Operating activities generated cash flows of \$49.4 million in the first quarter of 2007 versus outflows of \$53 million in the first quarter of 2006. This variation is due primarily to increased first quarter net earnings for 2007 as compared to 2006 and decreased use of non-cash components of working capital. Since results for the week before Christmas were included in the first quarter of 2007 instead of the second quarter as happened in 2006, outflows for larger level of inventories to cover pre-Christmas sales were more important in the first quarter of 2006 versus 2007.

INVESTMENT ACTIVITIES

Investing activities required outflows of \$68.3 million in the first quarter of 2007 compared to \$47.7 million in 2006. This increase is due primarily to a greater investment in fixed assets with \$60.2 million invested in 2007 versus \$42.3 million in 2006. Over the quarter, the Company and the retailers invested \$85.5 million in our retail network for an expansion of 404,500 square feet or 2.2% and a net expansion of 136,200 square feet. The opening of 8 new stores and major renovations and expansions of 16 stores have been completed.

FINANCING ACTIVITIES

Financing activities required outflows of \$22.7 million in the first quarter of 2007 compared to inflows of \$88.4 million in 2006. The main reason for this variation is the Company's issuance of \$600 million worth of 10-year and 30-year medium-term notes in the first quarter of 2006, with \$500 million of the proceeds used to pay down the credit facilities obtained for the acquisition of A&P Canada. The remaining \$100 million, kept as short-term cash assets, was the primary source of cash flows in the first quarter of 2006.

Financial Position

Our financial position at the end of the first quarter of 2007 is very solid. We have \$124.1 million in cash and cash equivalents. We have not used our approved \$400 million line of credit. Our long-term debt corresponds to 38.5% of the combined total of long-term debt and shareholder equity (long-term debt/total capital).

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

	Interest Rate	Balance (Millions of dollars)	Maturity
Credit Facility A	Variable rates which fluctuate with changes in banker's acceptance rates	469.3	August 15, 2010
Medium-term notes Series A	Fixed rate of 4.98%	200.0	October 15, 2015
Medium-term notes Series B	Fixed rate of 5.97%	400.0	October 15, 2035

At the end of the first quarter, with interest rate swap contracts for a total notional amount of \$150 million of Credit Facility A, we were able to exchange variable interest payments for fixed interest rate payments in accordance with the following terms:

Fixed Rate	Notional Amount (Millions of dollars)	Maturity
4.6480%	50.0	November 23, 2008
4.6820%	50.0	December 16, 2009
4.7425%	50.0	December 16, 2010

Given the swap contracts, at the end of the fiscal year, the equivalent of \$750 million of our long-term debt was at fixed rates varying from 4.6480% to 5.97% and \$319.3 million at variable rates that fluctuate with changes in banker's acceptance rates.

FINANCIAL RATIOS

	As at December 23, 2006	As at September 30, 2006
Financial structure		
Long-term debt (<i>Millions of \$</i>)	1,116.6	1,116.6
Shareholders' equity (<i>Millions of \$</i>)	1,781.9	1,723.8
Long-term debt/total capital (%)	38.5	39.3
	Fiscal 2007 (12 weeks)	Fiscal 2006 (12 weeks)
Results		
EBITDA/Interest (<i>Times</i>)	10.8	6.9

CAPITAL STOCK, STOCK OPTIONS AND PERFORMANCE SHARE UNITS

	As at December 23, 2006	As at September 30, 2006
Number of Class A Subordinate Shares outstanding (<i>Thousands</i>)	113,980	113,852
Number of Class B Shares outstanding (<i>Thousands</i>)	858	880
Stock options:		
Number outstanding (<i>Thousands</i>)	4,131	4,233
Exercise price	\$8.73 to \$35.71	\$8.73 to \$33.87
Weighted average exercise price	\$21.05	\$20.85
Number of performance shares units:		
Number outstanding (<i>Thousands</i>)	78	48
Weighted average maturity	28 months	30 months

DIVIDENDS

On January 22, 2007, the Company's Board of Directors declared a quarterly dividend of \$0.115 per Class A Subordinate Share and Class B Share payable March 2, 2007, an increase of 9.5% over the dividend for the corresponding quarter last year. On an annualized basis, this dividend represents 21% of 2006 net earnings.

SHARE TRADING

The value of METRO shares remained in the range of \$33.23 to \$38.15 over the first quarter of fiscal 2007. During this period, a total of 7.7 million shares were traded on the Toronto Stock Exchange. The closing price on Friday, January 12, 2007 was \$37.72, compared with \$33.60 at the end of fiscal 2006.

New Accounting Policies

In the first quarter, we adopted three new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA): section 1530, Comprehensive Income; section 3855, Financial Instruments — Recognition and Measurement; and section 3865, Hedges. These new standards establish standards for recognizing and measuring financial instruments, namely financial assets, financial liabilities and derivatives. Certain changes in the value of these financial instruments are presented in a new financial statement, Comprehensive Income. The application of these new standards had a negligible effect on the Company's financial statements and financial position.

Subsequent Event

In January 2007, we were 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. We are one of the 443 employers affected by the suit and did not participate in managing the plan. We forcefully contest the suit's merits.

Outlook

"Over the next quarters, we shall pursue our integration and rationalization plan related to the acquisition of A&P Canada, which is on schedule and proceeding as planned. We are satisfied with our progress to date and are confident that METRO is well positioned to pursue its growth in the Canadian grocery market," stated the President and Chief Executive Officer, Mr. Pierre H. Lessard.

Projections

Any statement contained in the present quarterly Management's Discussion and Analysis which does not constitute an historic fact, may be deemed a projection. Verbs such as "believe", "foresee", "estimate" 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.

Conference Call

Financial analysts and investors are invited to participate in a conference call at **4:00 p.m. EDT on January 23, 2007**. To access the conference call, please dial 416-644-3417 or 514-940-2795. The media and public are invited to listen to the call in real time or delayed time on the METRO INC. Web site at www.metro.ca.

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

Consolidated Statements of Earnings

12-week periods ended December 23, 2006 and December 17, 2005

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

	Fiscal Year	
	2007	2006 (Restated – note 2)
Sales	\$ 2,515.0	\$ 2,521.7
Cost of sales and operating expenses	2,354.8	2,395.7
Integration and rationalization costs <i>(note 3)</i>	5.6	18.3
Earnings before interest, taxes, depreciation and amortization	154.6	107.7
Depreciation and amortization	37.0	38.8
Operating income	117.6	68.9
Interest, net		
Short term	(0.7)	0.2
Long term	15.0	15.3
	14.3	15.5
Earnings before income taxes	103.3	53.4
Income taxes <i>(note 5)</i>	32.3	21.4
Earnings before minority interest	71.0	32.0
Minority interest	3.1	–
Net earnings	\$ 67.9	\$ 32.0
Earnings per share <i>(note 6)</i>		
Basic	\$ 0.59	\$ 0.28
Fully diluted	\$ 0.58	\$ 0.28

See accompanying notes

Consolidated Balance Sheets

(Unaudited) (Millions of dollars)

	As at December 23, 2006	As at September 30, 2006
Assets		
Current assets		
Cash and cash equivalents	\$ 124.1	\$ 165.7
Accounts receivable	338.5	302.1
Inventories	612.8	565.5
Prepaid expenses	12.2	11.3
Future income taxes	21.1	16.7
	1,108.7	1,061.3
Investments and other assets	141.4	117.9
Fixed assets	1,158.2	1,129.9
Intangible assets	333.6	331.7
Goodwill	1,490.1	1,490.1
Accrued benefit assets	33.0	33.0
	\$ 4,265.0	\$ 4,163.9
Liabilities and Shareholders' equity		
Current liabilities		
Bank loans	\$ 0.6	\$ 0.3
Accounts payable	1,108.7	1,049.5
Income taxes payable	11.5	36.8
Current portion of long-term debt	6.2	7.3
	1,127.0	1,093.9
Long-term debt	1,116.6	1,116.6
Accrued benefit obligations	60.8	60.6
Future income taxes	123.2	115.0
Other long-term liabilities	42.6	44.2
Minority interest	12.9	9.8
	2,483.1	2,440.1
Shareholders' equity		
Capital stock (note 7)	710.5	709.0
Contributed surplus	2.1	1.6
Retained earnings	1,069.0	1,013.2
Accumulated other comprehensive income (notes 2 and 8)	0.3	—
	1,781.9	1,723.8
	\$ 4,265.0	\$ 4,163.9
See accompanying notes		

Consolidated Statements of Cash Flows

12-week periods ended December 23, 2006 and December 17, 2005
(Unaudited) (Millions of dollars)

Fiscal Year

	2007	2006
Operating activities		
Net earnings	\$ 67.9	\$ 32.0
Non-cash items		
Integration and rationalization costs (note 3)	1.8	18.0
Share of earnings in a public company subject to significant influence	(8.6)	(6.8)
Depreciation and amortization	37.0	38.8
Amortization of deferred financing costs	0.5	0.6
Loss on disposal and write-off of fixed and intangible assets	0.1	0.4
Future income taxes	3.6	3.3
Stock-based compensation cost	0.6	0.2
Difference between amounts paid for employee future benefits over current period cost	0.2	(11.4)
Minority interest	3.1	—
	106.2	75.1
Net change in non-cash working capital related to operations	(56.8)	(128.1)
	49.4	(53.0)
Investing activities		
Net change in investments and other assets	(1.8)	0.3
Dividend of a public company subject to significant influence	0.6	—
Acquisition of fixed assets	(60.2)	(42.3)
Disposal of fixed assets	2.5	4.3
Acquisition of intangible assets	(9.4)	(10.0)
	(68.3)	(47.7)
Financing activities		
Net change in bank loans	0.3	2.1
Issuance of shares	1.4	—
Increase of long-term debt	0.8	600.8
Repayment of long-term debt	(2.6)	(503.1)
Net change in other long-term liabilities	(10.5)	—
Dividends paid	(12.1)	(11.4)
	(22.7)	88.4
Net change in cash and cash equivalents	(41.6)	(12.3)
Cash and cash equivalents – beginning of period	165.7	93.8
Cash and cash equivalents – end of period	\$ 124.1	\$ 81.5
Other information		
Interest paid	\$ 23.9	\$ 9.7
Income taxes paid	\$ 54.0	\$ 20.4

See accompanying notes

Consolidated Statements of Retained Earnings

12-week periods ended December 23, 2006 and December 17, 2005
(Unaudited) (Millions of dollars)

	Fiscal Year	
	2007	2006
Balance – beginning of period	\$ 1,013.2	\$ 807.7
Net earnings	67.9	32.0
Dividends	(12.1)	(11.4)
Balance – end of period	\$ 1,069.0	\$ 828.3

See accompanying notes

Consolidated Statements of Comprehensive Income

12-week periods ended December 23, 2006 and December 17, 2005
(Unaudited) (Millions of dollars) (notes 2 and 8)

	Fiscal Year	
	2007	2006
Net earnings	\$ 67.9	\$ 32.0
Other comprehensive income		
Change in fair value of derivatives designated as cash flow hedges (net of income taxes)	(0.1)	—
Comprehensive income	\$ 67.8	\$ 32.0

See accompanying notes

Notes to Interim Consolidated Financial Statements

12-week periods ended December 23, 2006 and December 17, 2005
(Unaudited) (Millions of dollars, except for earnings 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 assembling these interim consolidated financial statements are the same as those used in preparing the audited annual consolidated financial statements for the year ended September 30, 2006, except for the new accounting policies described in note 2. The unaudited interim consolidated financial statements and notes to the statements in the Company's 2006 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

In 2007

In the first quarter of 2007, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants (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 keeping 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.

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.

2. New Accounting Policies (cont'd)

In 2006

Accounting by a Vendor for Consideration Given to a Customer (including a Reseller of the Vendor's Products)

The Company adopted, in the third quarter of fiscal 2006, EIC-156 "Accounting by a Vendor for Consideration Given to a Customer (including a Reseller of the Vendor's Products)". Under this new standard, certain rebates granted by the Company to its retailers have to be reclassified as a reduction in sales rather than as cost of sales. The new standard must be applied retroactively with restatement of prior interim financial statements. The reclassification between sales and cost of sales and operating expenses following the new standard's application and certain adjustments to A&P Canada's different accounting practices on previously stated results totalled \$2.4 for the first quarter of 2006.

3. Integration and Rationalization Costs

During the period ended December 23, 2006, the Company pursued its plan for the integration and rationalization of its operations following the acquisition of A&P Canada. This three-part plan deals with the store network, the integration of overall operations, and the implementation of information systems at A&P Canada.

Over fiscal 2006, integration and rationalization plan costs totalled \$28 with a further \$27 anticipated in 2007. Costs incurred over the first quarter totalled \$5.6.

By Nature of Project

	Incurred 2007 (12 weeks)	2006 (53 weeks)	Anticipated	Total
Stores	\$ 2.2	\$ 11.9	\$ 1.9	\$ 16.0
Integration of operations	1.2	13.9	3.9	19.0
Implementation of information systems	2.2	2.2	15.6	20.0
	\$ 5.6	\$ 28.0	\$ 21.4	\$ 55.0

By Nature of Costs

	Liability as at Sept. 30, 2006	Incurred in 2007 (12 weeks)	Paid (12 weeks)	Liability as at Dec. 23, 2006	Incurred in 2006 (53 weeks)	Antici- pated	Total
Retention bonuses and termination benefits	\$ 2.1	\$ 0.2	\$ 0.5	\$ 1.8	\$ 17.6	\$ 2.4	\$ 20.2
Training and IT implementation	—	2.2	2.2	—	2.2	15.6	20.0
Vacant premises	1.5	2.2	0.1	3.6	2.4	0.2	4.8
Other	—	1.0	1.0	—	0.5	3.2	4.7
	\$ 3.6	\$ 5.6	\$ 3.8	\$ 5.4	\$ 22.7	\$ 21.4	\$ 49.7
Asset write-offs		—			5.3	—	5.3
		\$ 5.6			\$ 28.0	\$ 21.4	\$ 55.0

Although the integration plan comprising the projects listed above has not changed since the acquisition of A&P Canada, the anticipated costs by nature have been revised.

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			
	2007		2006	
	Pension plans	Other plans	Pension plans	Other plans
Defined contribution plans	\$ 6.2	\$ 0.1	\$ 5.1	\$ 0.1
Defined benefit plans				
Current service cost	\$ 5.7	\$ 0.3	\$ 4.8	\$ 0.3
Interest cost	6.3	0.3	5.6	0.5
Projected return on plan assets	(8.8)	—	(7.7)	—
Amortization of actuarial losses and past service cost	0.3	—	0.2	—
	3.5	0.6	2.9	0.8
	\$ 9.7	\$ 0.7	\$ 8.0	\$ 0.9

5. Income Taxes

The effective income tax rates were as follows:

	Fiscal Year	
	2007 %	2006 %
Combined statutory income tax rate	32.3	31.8
Changes		
Impact of Québec tax rate increase of 3% on future taxes (\$5.3 in 2006)	—	9.9
Share of earnings of a public company subject to significant influence	(1.2)	(1.3)
Other	0.2	(0.3)
	31.3	40.1

6. Earnings per Share

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

<i>(Millions)</i>	Fiscal Year	
	2007	2006
Weighted average number of shares outstanding – Basic	114.8	114.4
Dilutive effect of stock option plan and performance share units	1.6	1.6
Weighted average number of shares outstanding – Diluted	116.4	116.0

7. Capital Stock

Issued and Outstanding for Fiscal 2007

	Class A Subordinate Shares		Class B Shares		Total
	Number <i>(Thousands)</i>		Number <i>(Thousands)</i>		
Balance as at September 30, 2006	113,852	\$ 707.3	880	\$ 1.7	\$ 709.0
Share issue	106	1.4	—	—	1.4
Transfer from contributed surplus – options exercised	—	0.1	—	—	0.1
Conversion of shares	22	—	(22)	—	—
Balance as at December 23, 2006	113,980	\$ 708.8	858	\$ 1.7	\$ 710.5

Stock Option Plan

As at December 23, 2006, 4,131,200 stock options had been granted to certain employees at exercise prices varying from \$8.73 to \$35.71, with expiry dates up to 2013. Of these stock options, 2,792,360 could be exercised for an average weighted exercise price of \$19.97.

	Fiscal Year	
	2007	2006
Granted stock options during the period	4,500	30,000
Weighted average exercise price	\$ 35.71	\$ 32.70
Weighted average fair value	\$ 11.07	\$ 10.16

During the first quarter of 2007, 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 3.92% (2006 – 4%), expected six-year term (2006 – six-year term), anticipated volatility of 30% (2006 – 30%) and an anticipated 1.5% dividend yield (2006 – 1.5%).

The compensation expense for these stock options amounted to \$0.4 for the first quarter of 2007 (2006 – \$0.2).

7. Capital Stock (cont'd)

Performance Share Unit Plan

As of December 23, 2006, a total of 77,718 performance share units (PSUs) had been granted to certain employees including 29,270 in the first quarter, after the Company's met certain performance indicators.

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

A compensation expense of \$0.2 pertaining to PSUs was recorded in the first quarter of 2007.

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	
	2007	2006
Adjusted opening balance due to the new accounting policies adopted regarding financial instruments (net of income taxes of \$0.2) (note 2)	\$ 0.4	\$ —
Change in fair value, net of income taxes, during the period	(0.1)	—
Balance – end of period	\$ 0.3	\$ —

9. Financial Instruments

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

	Fiscal Year			
	2007		2006	
	Book value	Fair value	Book value	Fair value
Investments and other assets				
Available-for-sale financial assets				
Investments in companies	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1
Loans and receivables				
Loans to certain customers	\$ 9.9	\$ 9.9	\$ 8.6	\$ 8.6
Derivatives designated as cash flow hedges				
Interest rate swaps	\$ 0.5	\$ 0.5	\$ —	\$ 0.6
Long-term debt				
Other financial liabilities				
Credit facility A	\$ 469.3	\$ 469.3	\$ 469.3	\$ 469.3
Series A notes	200.0	199.4	200.0	199.8
Series B notes	400.0	410.8	400.0	410.3
Loans	10.6	10.6	10.4	10.4
Obligations under capital leases	42.9	52.1	44.2	53.7
	\$1,122.8	\$1,142.2	\$1,123.9	\$1,143.5

9. Financial Instruments (cont'd)

The fair value of cash and cash equivalents, accounts receivable, bank loans and accounts payable approximates their carrying value because of the short-term maturity of these instruments.

The fair value of investments in companies, public companies for the most part, is evaluated based on stock market prices at the balance sheet date.

The fair value of loans to certain customers, credit facilities and loans payable is equivalent to their carrying value since their interest rates are comparable to market rates.

The fair value of the derivative financial instruments generally reflects the estimates of the amounts the Company would receive by way of settlement of favourable contracts or that it would pay to terminate unfavourable contracts at the balance sheet date. The fair values of the interest rate swaps are calculated using the prices obtained from major financial institutions.

The fair value of notes represents the obligations that the Company would have to face in the event of the negotiation of similar notes under current market conditions.

The fair value of the obligations under capital leases represents the obligations that the Company would have to face in the event of the negotiation of similar leases under current market conditions.

10. Subsequent Event

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.