



# Report to shareholders

24-week period ended March 12, 2005

2<sup>nd</sup>  
quarter

## highlights

- 4.1% sales growth
- 14% increase in net earnings
- 15% increase in fully diluted net earnings to \$0.46 per share
- 17.6% increase in quarterly dividend to \$0.10 per share

# report to shareholders

I am pleased to present the report on our second quarter of fiscal 2005 ended March 12, 2005.

We achieved net earnings of \$44.7 million in the second quarter, up 14% from \$39.2 million the same quarter last year. Fully diluted net earnings rose 15% to \$0.46 per share from \$0.40 last year.

Our net earnings for the first half-year rose 13.8% over fiscal 2004, reaching \$83.3 million. Fully diluted net earnings for the first half-year rose 16.2% to \$0.86 per share from \$0.74 for the same period of the previous fiscal year.

Our second quarter sales increased 4.1% reaching \$1,376.6 million compared to \$1,322.1 million for the same quarter of the previous fiscal year. Sales for the first half-year reached \$2,822.7 million, up 4% from the same period of the previous fiscal year. Despite strong competition which continued in the first half-year, our merchandising strategies and our retail investment program enabled us to sustain sales growth. We achieved an increase in food segment sales of 3.8% for the second quarter and 3.5% for the first half-year, including 3.6% in same-store sales for the second quarter and 3.3% for the first half-year, while pharmaceutical segment sales grew by 7.9% in the second quarter and 9.9% in the first half-year of fiscal 2005.

Our earnings before interest, taxes, depreciation and amortization (EBITDA) for the second quarter rose to \$81.7 million or 5.9% of sales, compared to \$74.5 million or 5.6% for the same quarter last year. EBITDA for the first half-year stood at \$153.8 million or 5.4% of sales, compared to \$140.9 million or 5.2% of sales for the corresponding half-year of fiscal 2004.

Since the beginning of the current fiscal year, we have invested with the retailers \$109.2 million, resulting in a net increase of 147,100 square feet, an increase of nearly 1.5% for our retail network. Major expansion and renovations were completed in 13 stores, while nine new stores were opened.

On behalf of Management, I thank you for your continued trust and support. We are confident that, in the coming quarters, our merchandising strategies and retail investment program will enable us to maintain our competitive position.



Pierre H. Lessard, FCA  
President and Chief Executive Officer

April 13, 2005

# management's discussion and analysis

The following Management's Discussion and Analysis sets out the financial position and results of METRO INC. on March 12, 2005. This discussion and analysis should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes in this quarterly report and the consolidated financial statements along with notes and Management's Discussion and Analysis presented in the Company's 2004 Annual Report. This analysis is based upon information as of April 1, 2005 unless otherwise stated. Additional information, including the Certification of Interim Filings letters for the quarter ended March 12, 2005 signed by the President and Chief Executive Officer and the Senior Vice-President Finance and Treasurer, are also available on the SEDAR website at [www.sedar.com](http://www.sedar.com).

## 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.

## Results of Operations

### SALES

The Company's sales increased 4.1% in the second quarter ended March 12, 2005 and 4% in the first half-year to \$1,376.6 million and \$2,822.7 million respectively.

Labour conflicts, in corporate stores, reduced our second quarter and first half-year sales by \$14 million and \$34 million respectively. These decreases were offset by sales of nearly \$10 million and \$20 million respectively in the second quarter and first fiscal half-year linked to the purchase of 15 affiliated Metro supermarkets during the third quarter of the last fiscal year. Sales growth, excluding these events, would have been 4.4% for the second quarter and 4.5% for the first half of the fiscal year.

### Food Segment

Despite continuing strong competition during the first half-year, our merchandising strategies and retail investment program enabled us to sustain our sales growth in this segment with second quarter and first fiscal half-year increases of 3.8% and 3.5% respectively. Without the labour conflicts and the purchase of 15 affiliated Metro supermarkets, these increases would have been 4.1% and 4% respectively. Same store sales increased 3.6% for the second quarter and 3.3% for the first half of the fiscal year.

We have invested with the retailers \$109.2 million over the first fiscal half-year, resulting in a net increase of 147,100 square feet, an increase of nearly 1.5% for our retail network. Major expansions and renovations were completed in 13 stores, while nine new stores were opened. Our ongoing conversion and new store opening program focussed on the new *Metro Plus* store concept saw the opening last March 22 of the 48<sup>th</sup> *Metro Plus*. We had 36 *Metro Plus* stores at the end of the last fiscal year and expect to have 55 by the end of this fiscal year.

## Pharmaceutical Segment

Our sales in this sector grew 7.9% in the second quarter and 9.9% over the first fiscal half-year. At the end of the second quarter, the number of Brunet and Clini-Plus drugstores stood at 179 compared to 177 at the end of the corresponding quarter of the previous fiscal year.

## EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION (EBITDA)<sup>(1)</sup>

Earnings before interest, taxes, depreciation and amortization for the second quarter of fiscal 2005 reached \$81.7 million or 5.9% of sales compared to \$74.5 million or 5.6% for the same quarter last year. These increases are due mainly to sales growth and equity earnings from our investment in Alimentation Couche-Tard Inc., which reached \$4.8 million compared to \$0.9 million for the same quarter last year. EBITDA for the first half-year stood at \$153.8 million or 5.4% of sales compared to \$140.9 million or 5.2% of sales for the corresponding period of the last fiscal year. First fiscal half-year equity earnings from our investment in Alimentation Couche-Tard Inc. were \$10 million versus \$3.6 million last year. Had it not been for our increased equity earnings, our second quarter and first half-year EBITDA as a percentage of sales would be the same as last year's.

Our investment in Alimentation Couche-Tard Inc. is governed by a shareholders' agreement between Metro Inc., Développements Orano Inc., an investment company, and its major shareholders. This investment company, owned by main senior executives of Alimentation Couche-Tard Inc., holds a participation in Alimentation Couche-Tard Inc. During the second quarter, following negotiations, a new shareholders agreement was approved in continuance with former relations and as a replacement of the initial agreement of 1987. Certain initial rights are preserved namely the pre-emptive right and the right to appoint a candidate on the Board of directors of Alimentation Couche-Tard Inc. for as long as Metro Inc. holds at least 5% of its outstanding shares, on a fully diluted basis. In addition, Metro Inc. and Développements Orano Inc. retain their respective rights of first refusal on the sale or transfer of Alimentation Couche-Tard Inc.'s shares that they own, subject to certain exceptions.

## DEPRECIATION AND AMORTIZATION, INTEREST

Total depreciation and amortization expenses for the second quarter and the first half-year rose to \$17.3 million and \$34.3 million respectively compared with \$16.3 million and \$32.2 million for the corresponding periods last year. These increases result primarily from investments in our retail network.

Second quarter interest expenses totalled \$0.7 million, the same as last year. Interest expenses for the first fiscal half-year totalled \$1.3 million versus \$1.9 million for the same period last year. This decrease in interest expenses is due to reduced use of bank loans in the first six months compared to last year. The decrease in bank loans is due mainly to tax planning implemented in prior fiscal years, under which we had to finance government receivables.

## INCOME TAXES

Second quarter income tax expense represents an effective tax rate of 29.8% versus 31.8% for the corresponding quarter of fiscal 2004. The effective tax rate for the first half-year of fiscal 2005 was 29.5% versus 31.5% last year. The rate decreases are due mainly to a lower tax rate on our equity earnings compared with other taxable income and to the reduction in federal tax rates on January 1, 2004.

The tax rate decreases announced February 23, 2005 by the Minister of Finance when he tabled the federal budget have not been taken into account in our second quarter financial statements. As prescribed by the accounting rules of the Canadian Institute of Chartered Accountants, future income tax assets and future income tax liabilities have to be measured using the income tax laws or rates that are substantively enacted. When a minority government tables a budget, changes to

(1) 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.

the *Income Tax Act* are considered substantively enacted only after the third reading in the House of Commons. The announced rate changes from January 1, 2008 to January 1, 2010 will reduce the future income tax liabilities and income tax expense by \$6.8 million. Once the third reading is over, the income tax expense reductions will be accounted in our financial statements.

## NET EARNINGS

Second quarter net earnings reached \$44.7 million, up 14% from the previous fiscal year's second quarter net earnings of \$39.2 million. Net earnings as a percentage of sales stood at 3.2% in 2005 compared to 3% for the same quarter last year. Fully diluted net earnings per share increased 15% to \$0.46 from \$0.40 last year.

Net earnings for the first half-year reached \$83.3 millions, up 13.8% from the figure of \$73.2 million for the first half of the last fiscal year. Net earnings as a percentage of sales stood at 3% in 2005 compared to 2.7% for the corresponding period of 2004. Fully diluted net earnings per share increased 16.2% to \$0.86 from \$0.74 in 2004.

## Quarterly Highlights

(Millions of dollars, except earnings per share)

	2005	2004	2003	Change (Percentage)
<b>Sales</b>				
Q2 <sup>(1)</sup>	<b>1,376.6</b>	1,322.1	–	4.1
Q1 <sup>(1)</sup>	<b>1,446.1</b>	1,392.4	–	3.9
Q4 <sup>(1)</sup>	–	1,406.2	1,344.8	4.6
Q3 <sup>(2)</sup>	–	1,878.2	1,802.2	4.2
<b>Net earnings</b>				
Q2 <sup>(1)</sup>	<b>44.7</b>	39.2	–	14.0
Q1 <sup>(1)</sup>	<b>38.6</b>	34.0	–	13.5
Q4 <sup>(1)</sup>	–	45.2	40.1	12.7
Q3 <sup>(2)</sup>	–	50.4	53.0	(4.9)
<b>Fully diluted net earnings per share</b>				
<i>(Dollars)</i>				
Q2 <sup>(1)</sup>	<b>0.46</b>	0.40	–	15.0
Q1 <sup>(1)</sup>	<b>0.40</b>	0.34	–	17.6
Q4 <sup>(1)</sup>	–	0.47	0.40	17.5
Q3 <sup>(2)</sup>	–	0.51	0.53	(3.8)

<sup>(1)</sup>12 weeks

<sup>(2)</sup>16 weeks

The food distribution market has been very competitive for the last four quarters. To counteract this strong competition, we implemented, at the beginning of the second quarter of 2004, new merchandising strategies which, along with decreased operating expenses and higher equity earnings from our investment in a company subject to significant influence, resulted in renewed growth in net earnings of 12.7% in the fourth quarter of 2004, 13.5% in the first quarter of 2005, and 14% in the second quarter as compared to the previous years' corresponding quarters.

## Cash Position

### OPERATING ACTIVITIES

Operating activities generated \$85.7 million in funds in the second quarter of fiscal 2005, compared to \$53.9 million for the same quarter last year. This change is due to a payable portion in 2004 of future income taxes related to tax planning and to better inventory turnover in 2005. For the first half-year, operating activities generated \$33.8 million in funds compared to \$105.7 million for the same period last year. This decrease is due mainly to the collection in 2004 of \$116 million in government receivables resulting from tax planning and the payment of the \$40 million tax balance for fiscal 2004 also resulting from tax planning.

### INVESTING ACTIVITIES

Investment activities required outflows of \$31.2 million in the second quarter of 2005 compared to \$8.4 million in the same quarter last year. This increased outflow is due mainly to the acquisition of more fixed assets in 2005 versus the disposal of more fixed assets in 2004. Although slightly different in nature, investment activities in the first half of 2005 and the first half of 2004 required similar outflows, \$64.6 million and \$64.3 million respectively.

### FINANCING ACTIVITIES

Second quarter financing activities required an outflow of \$45.7 million compared to \$42.9 million in the same quarter of fiscal 2004. The Company redeemed 837,400 Class A Subordinate Shares for a total consideration of \$21 million at an average price of \$25.24 per share, whereas it had made no share redemption in the corresponding quarter last year. We also repaid \$15.9 million less in bank loans in fiscal 2005.

Cash flows from financing activities totalled \$14.4 million in the first half-year of 2005 compared to an outflow of \$45.6 million in the first half-year of 2004. The variation is due mainly to the repayment of bank loans following the collection of \$116 million in government receivables at the end of the first quarter of fiscal 2004. In the first half-year of fiscal 2005, the Company redeemed 1,221,900 Class A Subordinate Shares for a total consideration of \$29.1 million at an average price of \$23.88 per share, whereas it had made no share purchases in the corresponding period last year.

## Financial Position

Our financial position is very solid. At the end of the second quarter of 2005, long-term debt was \$10.6 million, while shareholders' equity was \$897.5 million and total assets were \$1,579 million compared to \$9.4 million in long-term debt, \$852.1 million in shareholders' equity and \$1,560 million in total assets at the end of fiscal 2004 as stated in the Management's Discussion and Analysis section of the 2004 Annual Report. Contractual obligations at the end of the second quarter and first half-year of 2005 have not changed significantly from September 25, 2004.

### CAPITAL STOCK

On April 1, 2005, the Company had 94,812,011 Class A Subordinate Shares (95,621,688 on September 25, 2004) and 955,440 Class B Multiple Voting Shares (977,040 on September 25, 2004) outstanding. At the same date, 4,692,920 stock options (5,072,180 on September 25, 2004) were outstanding at exercise prices between \$7.93 and \$23.34 (2004 - \$7.93 and \$21.75), for a weighted average per-share price of \$18.30 (2004 - \$17.91) with maturity dates until 2011.

## DIVIDENDS

On April 13, 2005, the Company's Board of Directors declared a quarterly dividend of \$0.10 per Class A Subordinate Share and Class B Share payable May 30, 2005, an increase of 17.6% over the dividend for the corresponding quarter last year. On a yearly basis, this dividend represents 23% of 2004 net earnings.

## SHARE TRADING

The value of METRO INC. shares remained in the range of \$18.50 to \$28.33 in the first half-year of fiscal 2005. During this period, a total of 18 million shares were traded on the Toronto Stock Exchange. The closing price on Friday, April 1, 2005 was \$27.47 compared with \$18.66 at the end of fiscal 2004, an increase of 47.2%.

## Changes in Accounting Policies

At the end of fiscal 2004, we adopted two new accounting standards: "Consolidation of Variable Interest Entities" (AcG-15) and "Accounting by a Customer (Including a Reseller) for Certain Considerations Received from a Vendor" (EIC-144). The financial statements of prior fiscal and interim periods have been restated to reflect these changes.

Recently, some Canadian retail companies announced restatements of their financial statements with respect to incorrect accounting policies regarding leases. This wave of restatements in the United States was followed with the publication, on February 7, 2005, by the U.S. Securities and Exchange Commission (SEC) of a reminder to chief financial officers of publicly traded companies of the long-standing accounting principles in the U.S. regarding leases, especially leasehold improvements, rent-free periods, and lease inducements. Accounting principles in Canada are similar to those in the U.S. and just as long-standing. We have reviewed all our accounting policies and our handling of leases with our outside auditors. We can affirm that our accounting policies regarding leases and their application fully comply with accounting principles in Canada.

## Outlook

We are confident that, in the coming quarters, our merchandising strategies and retail investment program will enable us to maintain our competitive position.

Montréal, April 13, 2005



# consolidated statements of earnings

Periods ended March 12, 2005 and March 13, 2004

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

	12 weeks Fiscal		24 weeks Fiscal	
	2005	2004 (Restated – note 2)	2005	2004 (Restated – note 2)
<b>Sales</b>	<b>\$ 1,376.6</b>	\$ 1,322.1	<b>\$ 2,822.7</b>	\$ 2,714.5
Cost of sales and operating expenses	<b>1,294.9</b>	1,247.6	<b>2,668.9</b>	2,573.6
<b>Earnings before interest, taxes, depreciation and amortization</b>	<b>81.7</b>	74.5	<b>153.8</b>	140.9
Depreciation and amortization	<b>17.3</b>	16.3	<b>34.3</b>	32.2
<b>Operating income</b>	<b>64.4</b>	58.2	<b>119.5</b>	108.7
Interest	<b>0.7</b>	0.7	<b>1.3</b>	1.9
<b>Earnings before income taxes</b>	<b>63.7</b>	57.5	<b>118.2</b>	106.8
Income taxes	<b>19.0</b>	18.3	<b>34.9</b>	33.6
<b>Net earnings</b>	<b>\$ 44.7</b>	\$ 39.2	<b>\$ 83.3</b>	\$ 73.2
<b>Earnings per share (notes 2 and 4)</b>				
Basic	<b>\$ 0.46</b>	\$ 0.40	<b>\$ 0.86</b>	\$ 0.75
Fully diluted	<b>\$ 0.46</b>	\$ 0.40	<b>\$ 0.86</b>	\$ 0.74

See accompanying notes

# consolidated statements of retained earnings

24-week period ended March 12, 2005 and March 13, 2004

(Unaudited) (Millions of dollars)

	Fiscal	
	2005	2004 (Restated – note 2)
<b>Balance at beginning of period</b>	<b>\$ 690.6</b>	\$ 580.2
Adjustment due to adoption of a new accounting standard (note 2)	–	(0.1)
<b>Restated balance at beginning of period</b>	<b>690.6</b>	580.1
Net earnings	<b>83.3</b>	73.2
Dividends	<b>(17.8)</b>	(15.2)
Share redemption premium	<b>(27.1)</b>	–
<b>Balance at end of period</b>	<b>\$ 729.0</b>	\$ 638.1

See accompanying notes

# consolidated balance sheets

(Unaudited) (Millions of dollars)

	As at March 12, 2005	As at September 25, 2004
<b>Assets</b>		
Current assets		
Cash	\$ 26.6	\$ 43.0
Accounts receivable	235.0	237.8
Inventories	316.0	314.1
Prepaid expenses	5.7	4.3
Future income taxes	7.9	8.1
	<b>591.2</b>	607.3
Investments and other assets	91.2	82.5
Fixed assets	533.9	504.9
Intangible assets	172.7	175.3
Goodwill	190.0	190.0
	<b>\$ 1,579.0</b>	\$ 1,560.0
<b>Liabilities and Shareholders' equity</b>		
Current liabilities		
Bank loans	\$ 55.0	\$ 1.5
Accounts payable	522.3	572.1
Income taxes payable	13.3	46.9
Current portion of long-term debt	2.0	3.4
	<b>592.6</b>	623.9
Long-term debt	10.6	9.4
Future income taxes	78.3	74.6
	<b>681.5</b>	707.9
<b>Shareholders' equity</b>		
Capital stock (note 5)	167.4	160.8
Contributed surplus	1.1	0.7
Retained earnings	729.0	690.6
	<b>897.5</b>	852.1
	<b>\$ 1,579.0</b>	\$ 1,560.0

See accompanying notes

# consolidated statements of cash flows

Periods ended March 12, 2005 and March 13, 2004

(Unaudited) (Millions of dollars)

	12 weeks Fiscal		24 weeks Fiscal	
	2005	2004 (Restated – note 2)	2005	2004 (Restated – note 2)
<b>Operating activities</b>				
Net earnings	\$ 44.7	\$ 39.2	\$ 83.3	\$ 73.2
Non-cash items				
Equity earnings in a company subject to significant influence	(4.8)	(0.9)	(10.0)	(3.6)
Depreciation and amortization	17.3	16.3	34.3	32.2
Future income taxes	1.7	(5.7)	3.9	(11.6)
Stock-based compensation cost	0.1	–	0.3	0.1
Excess (loss) of amounts paid for employee future benefits over expenses recognized	0.2	(1.9)	0.3	(1.8)
	59.2	47.0	112.1	88.5
Net change in non-cash working capital related to operations	26.5	6.9	(78.3)	17.2
	85.7	53.9	33.8	105.7
<b>Investing activities</b>				
Net change in investments	(5.2)	0.1	(4.6)	(25.8)
Purchase of fixed assets	(23.7)	(6.3)	(59.2)	(21.9)
Disposal of fixed assets	0.5	10.2	8.2	10.3
Purchase of intangible assets	(2.8)	(12.4)	(9.0)	(26.9)
	(31.2)	(8.4)	(64.6)	(64.3)
<b>Financing activities</b>				
Net change in bank loans	(20.2)	(36.1)	53.5	(32.4)
Issue of shares	6.1	2.0	6.7	3.4
Redemption of shares	(21.0)	–	(29.1)	–
Disposal of treasury shares (note 5)	–	–	2.0	–
Increase of long-term debt	0.3	0.7	1.3	0.9
Repayment of long-term debt	(1.3)	(1.1)	(2.2)	(2.3)
Dividends paid	(9.6)	(8.4)	(17.8)	(15.2)
	(45.7)	(42.9)	14.4	(45.6)
<b>Net change in cash and cash equivalents</b>	<b>8.8</b>	<b>2.6</b>	<b>(16.4)</b>	<b>(4.2)</b>
Cash and cash equivalents at beginning of period	17.8	15.7	43.0	22.5
Cash and cash equivalents at end of period	\$ 26.6	\$ 18.3	\$ 26.6	\$ 18.3
<b>Other information</b>				
Interest paid	\$ 0.6	\$ 0.8	\$ 1.2	\$ 2.0
Income taxes paid	\$ 10.9	\$ 11.9	\$ 64.5	\$ 46.7

See accompanying notes

# notes to interim consolidated financial statements

Periods ended March 12, 2005 and March 13, 2004

(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 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 25, 2004, except for the changes in 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 2004 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 with the presentation being used in the current fiscal year.

## 2) Changes in accounting policies

### **Stock-based Compensation and Other Stock-based Payments**

In the first quarter of 2004, the Company adopted the change to chapter 3870 "Stock-based Compensation and Other Stock-based Payments" published in November 2003 by Canadian Institute of Chartered Accountants (CICA). Under this change, a compensation cost based on the fair value method has to be accounted for all awards of stock options granted since the introduction of chapter 3870. The Company chose to apply the fair value method retroactively, without restatement of prior years, for awards of stock options granted since September 29, 2002. The retroactive application of this accounting policy change reduced by \$ 0.1 the opening balance of retained earnings and an increase of contributed surplus for the same amount.

### **Consolidation of Variable Interest Entities**

At the end of fiscal 2004, the Company adopted in advance the Accounting Standards Board Guideline AcG-15, "Consolidation of Variable Interest Entities" and has applied it retroactively and restated the prior interim financial statements. The impact of this accounting principle has been disclosed in the 2004 Annual Report and the effects for the fiscal year ended September 25, 2004 are as follow:

	1 <sup>st</sup> quarter	2 <sup>nd</sup> quarter	3 <sup>rd</sup> quarter	4 <sup>th</sup> quarter	Fiscal year
Sales	33.6	41.4	50.4	38.5	163.9
Total assets	18.3	15.3	12.2	9.1	9.1
Total liabilities	18.3	15.3	12.2	9.1	9.1

## notes to interim consolidated financial statements

### 2) Changes in accounting policies (cont'd)

#### **Accounting by a Customer (Including a Reseller) for Certain Considerations Received from a Vendor**

At the end of fiscal 2004, the Company adopted EIC-144, "Accounting by a Customer (Including a Reseller) for Certain Considerations Received from a Vendor" and has applied it retroactively and restated the prior interim financial statements. The impact in the application of this accounting principle has been disclosed in the 2004 Annual Report and the effects for the fiscal year ended September 25, 2004 are as follow:

	1 <sup>st</sup> quarter	2 <sup>nd</sup> quarter	3 <sup>rd</sup> quarter	4 <sup>th</sup> quarter	Fiscal year
Sales	10.3	10.0	13.7	9.9	43.9
Net earnings	(3.6)	4.0	(0.4)	0.2	0.2
Net earnings per share					
<i>(Dollars)</i>	(0.03)	0.04	(0.01)	—	—
Fully diluted net earnings					
<i>(Dollars)</i>	(0.04)	0.04	—	—	—
Inventories	(23.5)	(17.4)	(17.9)	(17.7)	(17.7)
Tax liabilities	(8.1)	(6.0)	(6.1)	(6.1)	(6.1)
Retained earnings	(15.4)	(11.4)	(11.8)	(11.6)	(11.6)

#### **Asset retirement obligations**

At the beginning of the first quarter of fiscal 2005, the Company adopted a new accounting principle contained in Section 3110 "Asset retirement obligations". This section establishes standards for the recognition, measurement and disclosure of liabilities for asset retirement obligations and the associated asset retirement costs. The adoption of this new standard did not have any significant effect on the Company's results, financial situation or cash flows.

### 3) Employee future benefits

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

## notes to interim consolidated financial statements

### 3) Employee future benefits (cont'd)

	12 weeks Fiscal				24 weeks Fiscal			
	2005		2004		2005		2004	
	Pension plans	Other plans	Pension plans	Other plans	Pension plans	Other plans	Pension plans	Other plans
<b>Defined contribution plans</b>	<b>\$ 1.7</b>	<b>\$ -</b>	\$ 1.7	\$ -	<b>\$ 3.4</b>	<b>\$ 0.1</b>	\$ 3.4	\$ 0.1
<b>Defined benefit plans</b>								
Current service cost	<b>\$ 1.2</b>	<b>\$ 0.2</b>	\$ 1.1	\$ 0.2	<b>\$ 2.3</b>	<b>\$ 0.3</b>	\$ 2.2	\$ 0.3
Interest cost	<b>1.4</b>	-	1.2	-	<b>2.8</b>	<b>0.1</b>	2.4	0.1
Projected return on plan assets	<b>(1.4)</b>	-	(1.1)	-	<b>(2.8)</b>	-	(2.2)	-
Amortization of actuarial losses and past service cost	-	-	0.1	-	<b>0.1</b>	-	0.2	-
	<b>\$ 1.2</b>	<b>\$ 0.2</b>	\$ 1.3	\$ 0.2	<b>\$ 2.4</b>	<b>\$ 0.4</b>	\$ 2.6	\$ 0.4

### 4) Earnings per share

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

	12 weeks Fiscal		24 weeks Fiscal	
	2005	2004	2005	2004
Weighted average number of shares outstanding				
Basic (Millions)	<b>96.1</b>	98.0	<b>96.4</b>	97.9
Dilutive effect of stock option plan (Millions)	<b>1.3</b>	0.9	<b>0.9</b>	0.9
Weighted average number of shares outstanding				
Fully diluted (Millions)	<b>97.4</b>	98.9	<b>97.3</b>	98.8

### 5) Capital stock

#### Issued and outstanding

As at March 12, 2005, the issued and outstanding capital stock was 94,974,553 Class A Subordinate Shares and 955,440 Class B Shares. During the first half-year, 445,007 Class A Subordinate Shares were issued of which 400,845 during the second quarter, 1,221,900 Class A Subordinate Shares were redeemed of which 837,400 during the second quarter and 21,600 Class B Shares were converted into Class A Subordinate Shares during the second quarter. During the first quarter, the 108,158 treasury shares held on September 25, 2004 have been disposed. The excess of proceeds over the purchase price of \$0.1 is presented in the contributed surplus.

## notes to interim consolidated financial statements

### 5) Capital stock (cont'd)

#### Stock option plan

As at March 12, 2005, 4,692,920 stock options had been granted to certain employees at exercise prices varying from \$7.93 to \$23.34, with expiry dates up to 2011. Of these stock options, 3,069,480 could be exercised for an average weighted exercise price of \$19.63.

	12 weeks Fiscal		24 weeks Fiscal	
	2005	2004	2005	2004
Granted stock options	–	–	<b>58,900</b>	61,300
Weighted average exercise price	–	–	<b>\$ 22.81</b>	\$ 19.00
Weighted average fair value	–	–	<b>\$ 7.01</b>	\$ 5.90

During the first half-year, 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% (2004 – 3.95%), expected six-year term (2004 – six-year term), anticipated volatility of 30% (2004 – 30%) and an anticipated 1.5% dividend yield (2004 – 1.5%).

The compensation cost for these stock options amounted to \$0.3 for the first half-year (2004 – \$0.1) and to \$0.1 for the second quarter (2004 – nil).

### 6) Segmented information

The Company operates primarily in the Canadian food distribution industry segment. The Company's sales in this segment amounted to \$1,257 for the 12-week period and to \$2,580 for the 24-week period ended March 12, 2005 (March 2004 – \$1,211.3 and \$2,493.7 respectively). The Company also operates in the Canadian pharmaceutical distribution industry.

## information

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