



Report to shareholders

40-week period ended July 2, 2005

3rd
quarter

highlights

- 12.9% increase in net earnings to \$56.9 million
- 13.7% increase in fully diluted net earnings to \$0.58 per share
- Acquisition of A&P Canada for a consideration of \$1.7 billion

report to shareholders

I am pleased to present the report on our third quarter of fiscal 2005 ended July 2, 2005.

We achieved net earnings of \$56.9 million in the third quarter, up 12.9% from \$50.4 million the same quarter last year. Fully diluted net earnings rose 13.7% to \$0.58 per share from \$0.51 last year.

Our net earnings for the first 40 weeks rose 13.4% over fiscal 2004, reaching \$140.2 million. Fully diluted net earnings for the first 40 weeks rose 15.2% to \$1.44 per share from \$1.25 for the same period of the previous fiscal year.

Our third quarter sales increased 1.9% reaching \$1,914.3 million compared to \$1,878.2 million for the same quarter of the previous fiscal year. Sales for the first 40 weeks reached \$4,737 million, up 3.1% from the same period of the previous fiscal year. We achieved an increase in food segment sales of 1.6% for the third quarter and 2.7% for the 40-week period, including 3.7% in same-store sales for the third quarter and 3.4% for the 40-week period, while pharmaceutical segment sales grew by 5.3% in the third quarter and 8% over the first 40 weeks of fiscal 2005.

Labour conflicts, losses of institutional customers, closings of stores and a decrease in sales of tobacco products negatively impacted the third quarter and the 40-week period sales. These impacts were in part compensated by the purchase of 15 affiliated Metro supermarkets realized in the third quarter of last year. Without these events, the growth of our sales would have been 4.4% for the third quarter and 5.6% for the 40-week period.

Our earnings before interest, taxes, depreciation and amortization (EBITDA) for the third quarter rose to \$106.1 million or 5.5% of sales, compared to \$96.9 million or 5.2% for the same quarter last year. EBITDA for the first 40 weeks stood at \$259.9 million or 5.5% of sales, compared to \$237.8 million or 5.2% of sales for the corresponding period of fiscal 2004.

Since the beginning of the current fiscal year, we have invested with the retailers \$153.6 million, resulting in a net increase of 159,400 square feet, an increase of nearly 1.6% for our retail network. Major expansions and renovations were completed in 21 stores, while 12 new stores were opened.

On July 19, we were pleased to announce the signature of a definitive agreement with The Great Atlantic & Pacific Tea Company Inc. and its subsidiary, A&P Luxembourg S.à.r.l., to acquire all of The Great Atlantic & Pacific Tea Company Limited (A&P Canada) issued and outstanding shares for a consideration of \$1.7 billion including \$500 million in Class A Subordinate Shares of the Company.

This transaction marks a new milestone in the Company's expansion. On the closing date, METRO INC. will hold the second largest market shares in Quebec and in Ontario with nearly \$11 billion in sales, representing a 16% share of the Canadian food market. Rest assured that we are confident that this acquisition will result in long-term value creation for shareholders.

On behalf of Management, I thank you for your continued trust and support.



Pierre H. Lessard, FCA
President and Chief Executive Officer

August 9, 2005

management's discussion and analysis

The following Management's Discussion and Analysis sets out the financial position and results of METRO INC. on July 2, 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 July 29, 2005 unless otherwise stated. Additional information, including the Certification of Interim Filings letters for the quarter ended July 2, 2005 signed by the President and Chief Executive Officer and the Senior Vice-President Finance and Treasurer, is also available on the SEDAR website at 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 1.9% in the third quarter ended July 2, 2005 and 3.1% over the first 40 weeks to \$1,914.3 million and \$4,737 million respectively.

Labour conflicts in corporate stores, closings of stores, losses of institutional customers in the food services divisions and a decrease in sales of tobacco negatively impacted our third quarter and our year-to-date sales. These decreases were in part offset by sales linked to the purchase of 15 affiliated Metro supermarkets realized during the third quarter of the last fiscal year. Sales growth, excluding these events, would have been 4.4% for the third quarter and 5.6% for the 40-week period.

Food Segment

Despite continuing strong competition, our merchandising strategies and retail investment program enabled us to sustain our sales growth in this segment with third quarter and 40-week increases of 1.6% and 2.7% respectively. Without the labour conflicts and the purchase of 15 affiliated Metro supermarkets, along with losses of customers, closings of stores and the decrease in sale of tobacco products, these increases would have been 4.3% and 5.3% respectively. Same-store sales increased 3.7% for the third quarter and 3.4% for the 40-week period.

We have invested with the retailers \$153.6 million over the first 40 weeks, resulting in a net increase of 159,400 square feet, an increase of nearly 1.6% for our retail network. Major expansions and renovations were completed in 21 stores, while 12 new stores were opened. Our ongoing conversion and new store opening program focussed on the new Metro Plus store concept and saw the opening July 12 of the 52nd 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 5.3% in the third quarter and 8% over the 40-week period. At the end of the third quarter, the number of Brunet and Clini-Plus drugstores stood at 184 compared to 176 at the end of the corresponding quarter of the previous fiscal year.

EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION (EBITDA)⁽¹⁾

Earnings before interest, taxes, depreciation and amortization for the third quarter of fiscal 2005 reached \$106.1 million or 5.5% of sales compared to \$96.9 million or 5.2% 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 \$4.1 million compared to \$2.2 million for the same quarter last year. EBITDA for the 40-week period stood at \$259.9 million or 5.5% of sales compared to \$237.8 million or 5.2% of sales for the corresponding period of the last fiscal year. Forty week equity earnings from our investment in Alimentation Couche-Tard Inc. was \$14.1 million versus \$5.8 million last year. Not counting our equity earnings, our third quarter EBITDA as a percentage of sales would be 5.3% compared with 5% for the corresponding period last year and 5.2% for the 40-week period versus 5.1% for the same period last year.

DEPRECIATION AND AMORTIZATION, INTEREST

Total depreciation and amortization expenses for the third quarter and first 40 weeks of fiscal 2005 rose to \$23.8 million and \$58.1 million respectively compared with \$22.3 million and \$54.5 million for the corresponding periods last year. These increases result primarily from investments in our retail network.

Third quarter interest expenses totalled \$0.7 million versus \$1 million for the same quarter last year. Interest expenses for the 40-week period totalled \$2 million versus \$2.9 million for the same period last year. These decreases in interest expenses are due to reduced use of bank loans during these periods compared to last year. The decrease in bank loans over the first 40 weeks of fiscal 2005 is due mainly to tax planning implemented in prior fiscal years, under which we had to finance government receivables.

INCOME TAXES

Third quarter income tax expense represents an effective tax rate of 30.3% versus 31.5% for the corresponding quarter of fiscal 2004. The effective tax rate for the first 40 weeks of fiscal 2005 was 29.8% 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.

In his budget tabled February 23, 2005, the federal Minister of Finance announced tax rate decreases which could have resulted in a \$6.8 million gain as explained in our second quarter report. These decreases will not materialize as they were eliminated by changes to the budget.

The Quebec Government's budget of April 21, 2005, included tax rate hikes consistent with federal tax rate reductions for a \$5.1 million increase in our future tax liabilities and income tax expense which was not taken into account. 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. These changes failed to make it through the various stages required for substantive enactment.

(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.

NET EARNINGS

Third quarter net earnings reached \$56.9 million, up 12.9% from the previous fiscal year's third quarter net earnings of \$50.4 million. Net earnings as a percentage of sales stood at 3% in 2005 compared to 2.7% for the same quarter last year. Fully diluted net earnings per share increased 13.7% to \$0.58 from \$0.51 last year.

Net earnings for the first 40 weeks reached \$140.2 million, up 13.4% from the figure of \$123.6 million for the same period last 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 15.2% to \$1.44 from \$1.25 in 2004.

Quarterly Highlights

(Millions of dollars, except for data per share)

	2005	2004 (Restated)	2003 (Restated)	Variation (Percentage)
Sales				
Q3 ⁽²⁾	1,914.3	1,878.2	–	1.9
Q2 ⁽¹⁾	1,376.6	1,322.1	–	4.1
Q1 ⁽¹⁾	1,446.1	1,392.4	–	3.9
Q4 ⁽¹⁾	–	1,406.2	1,344.8	4.6
Net earnings				
Q3 ⁽²⁾	56.9	50.4	–	12.9
Q2 ⁽¹⁾	44.7	39.2	–	14.0
Q1 ⁽¹⁾	38.6	34.0	–	13.5
Q4 ⁽¹⁾	–	45.2	40.1	12.7
Fully diluted net earnings per share				
<i>(Dollars)</i>				
Q3 ⁽²⁾	0.58	0.51	–	13.7
Q2 ⁽¹⁾	0.46	0.40	–	15.0
Q1 ⁽¹⁾	0.40	0.34	–	17.6
Q4 ⁽¹⁾	–	0.47	0.40	17.5

⁽¹⁾12 weeks

⁽²⁾16 weeks

The food distribution market has been very competitive for the last two years. 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, 14% in the second quarter of 2005, and 12.9% in the third quarter of 2005 as compared to the previous years' corresponding quarters.

Cash Position

OPERATING ACTIVITIES

Operating activities generated \$97.5 million in funds in the third quarter of fiscal 2005, compared to \$97.1 million for the same quarter last year. Over the first 40 weeks, operating activities generated \$131.3 million in funds compared to \$202.8 million for the same period last year. The 40-week period 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

Third quarter and 40 week investment activities required outflows similar to those for the same periods last year, namely \$35.2 million for the third quarter of 2005 versus \$35.7 million for the same quarter last year and \$99.8 million for the 40-week period versus \$100 million for the same period last year.

FINANCING ACTIVITIES

Third quarter financing activities required an outflow of \$66.1 million compared to \$60.9 million in the same quarter of fiscal 2004. The Company redeemed 287,500 Class A Subordinate Shares for a total consideration of \$7.9 million at an average price of \$27.06 per share, compared to 839,300 Class A Subordinate Shares for a total consideration of \$15.3 million at an average price of \$18.23 per share in the corresponding quarter last year. We also repaid \$14.5 million more in bank loans in fiscal 2005.

Cash flows from financing activities totalled \$51.7 million in the first 40 weeks of 2005 compared to \$106.5 million over the same period last year. In the first 40 weeks of 2005, The Company redeemed 1,509,400 Class A Subordinate Shares for a total consideration of \$37 million at an average price of \$24.49 per share, compared to 839,300 Class A Subordinate Shares for a total consideration of \$15.3 million at an average price of \$18.23 per share in the corresponding period last year. We also repaid \$71.4 million more in bank loans in fiscal 2004 than in 2005, following the collection of \$116 million in government receivables at the beginning of fiscal 2004.

Financial Position

Our financial position is very solid. At the end of the third quarter of 2005, long-term debt was \$11.1 million, while shareholders' equity was \$944 million and total assets were \$1,590 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. Excluding the final agreement to purchase all issued and outstanding shares of The Great Atlantic & Pacific Tea Company Limited (A&P Canada), contractual obligations at the end of the third quarter have not changed significantly from September 25, 2004. With the acquisition of A&P Canada, our corporate credit rating was revised and confirmed at investment grade BBB with a negative outlook.

CAPITAL-STOCK AND STOCK OPTIONS

	as at July 29, 2005	as at September 25, 2004
Number of Class A Subordinate Shares outstanding	95,156,840	95,621,688
Number of Class B multiple voting shares outstanding	923,040	977,040
Stock options:		
Outstanding	4,661,180	5,072,180
Exercise price	\$7.93 to \$27.25	\$7.93 to \$21.75
Weighted average exercise price	\$19.37	\$17.91

DIVIDENDS

On August 9, 2005, the Company's Board of Directors declared a quarterly dividend of \$0.10 per Class A Subordinate Share and Class B Share payable September 6, 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 \$29.15 over the first 40 weeks of fiscal 2005. During this period, a total of 28.6 million shares were traded on the Toronto Stock Exchange. The closing price on Friday, July 29, 2005 was \$30.99 compared with \$18.66 at the end of fiscal 2004, an increase of 66.1%.

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.

During the third quarter, we adopted the amendment to EIC-144 issued January 20, 2005 by the Canadian Institute of Chartered Accountants. The amendment requires disclosure in all financial statements of the amount of any vendor rebate that has been recognized in income but for which the full requirements for entitlement have not yet been met. The amendment's application does not represent a significant amount as at July 2, 2005 and July 3, 2004.

Outlook

On July 18, the Company signed a definitive agreement with The Great Atlantic & Pacific Tea Company Inc. and its subsidiary, A&P Luxembourg S.à.r.l., to acquire, in our fourth quarter, all of A&P Canada's issued and outstanding shares for a total acquisition price of \$1.7 billion, consisting of \$1.2 billion in cash and \$500 million in METRO Class A subordinate shares. We are confident that this acquisition will have a positive impact on the Company's future profitability.

Montréal, August 9, 2005



consolidated statements of earnings

Periods ended July 2, 2005 and July 3, 2004

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

	16 weeks Fiscal		40 weeks Fiscal	
	2005	2004 (Restated – note 2)	2005	2004 (Restated – note 2)
Sales	\$ 1,914.3	\$ 1,878.2	\$ 4,737.0	\$ 4,592.7
Cost of sales and operating expenses	1,808.2	1,781.3	4,477.1	4,354.9
Earnings before interest, taxes, depreciation and amortization	106.1	96.9	259.9	237.8
Depreciation and amortization	23.8	22.3	58.1	54.5
Operating income	82.3	74.6	201.8	183.3
Interest	0.7	1.0	2.0	2.9
Earnings before income taxes	81.6	73.6	199.8	180.4
Income taxes	24.7	23.2	59.6	56.8
Net earnings	\$ 56.9	\$ 50.4	\$ 140.2	\$ 123.6
Earnings per share (notes 2 and 4)				
Basic	\$ 0.60	\$ 0.51	\$ 1.46	\$ 1.26
Fully diluted	\$ 0.58	\$ 0.51	\$ 1.44	\$ 1.25

See accompanying notes

consolidated statements of retained earnings

40-week periods ended July 2, 2005 and July 3, 2004

(Unaudited) (Millions of dollars)

	Fiscal	
	2005	2004 (Restated – note 2)
Balance at beginning of period	\$ 690.6	\$ 580.2
Adjustment due to adoption of a new accounting standard (note 2)	–	(0.1)
Restated balance at beginning of period	690.6	580.1
Net earnings	140.2	123.6
Dividends	(27.4)	(23.5)
Share redemption premium	(34.4)	(13.9)
Balance at end of period	\$ 769.0	\$ 666.3

See accompanying notes

consolidated balance sheets

(Unaudited) (Millions of dollars)

	As at July 2, 2005	As at September 25, 2004
Assets		
Current assets		
Cash	\$ 22.8	\$ 43.0
Accounts receivable	250.2	237.8
Inventories	299.8	314.1
Prepaid expenses	6.5	4.3
Future income taxes	7.0	8.1
	586.3	607.3
Investments and other assets		
Fixed assets	95.0	82.5
Intangible assets	545.3	504.9
Goodwill	173.4	175.3
	190.0	190.0
	\$ 1,590.0	\$ 1,560.0
Liabilities and Shareholders' equity		
Current liabilities		
Bank loans	\$ 0.7	\$ 1.5
Accounts payable	542.2	572.1
Income taxes payable	10.9	46.9
Current portion of long-term debt	1.0	3.4
	554.8	623.9
Long-term debt		
Future income taxes	11.1	9.4
	80.1	74.6
	646.0	707.9
Shareholders' equity		
Capital stock (note 5)	173.5	160.8
Contributed surplus	1.5	0.7
Retained earnings	769.0	690.6
	944.0	852.1
	\$ 1,590.0	\$ 1,560.0

See accompanying notes

consolidated statements of cash flows

Periods ended July 2, 2005 and July 3, 2004

(Unaudited) (Millions of dollars)

	16 weeks Fiscal		40 weeks Fiscal	
	2005	2004 (Restated – note 2)	2005	2004 (Restated – note 2)
Operating activities				
Net earnings	\$ 56.9	\$ 50.4	\$ 140.2	\$ 123.6
Non-cash items				
Equity earnings in a company subject to significant influence	(4.1)	(2.2)	(14.1)	(5.8)
Depreciation and amortization	23.8	22.3	58.1	54.5
Future income taxes and other items	2.7	(6.5)	6.6	(18.1)
Stock-based compensation cost	0.4	0.2	0.7	0.3
Excess (loss) of amounts paid for employee future benefits over expenses recognized	–	0.2	0.3	(1.6)
	79.7	64.4	191.8	152.9
Net change in non-cash working capital related to operations				
	17.8	32.7	(60.5)	49.9
	97.5	97.1	131.3	202.8
Investing activities				
Business acquisitions	–	(16.4)	–	(16.4)
Net change in investments	0.2	–	(4.4)	(25.8)
Purchase of fixed assets	(27.0)	(13.6)	(86.2)	(35.5)
Disposal of fixed assets	0.1	1.0	8.3	11.3
Purchase of intangible assets	(8.5)	(6.7)	(17.5)	(33.6)
	(35.2)	(35.7)	(99.8)	(100.0)
Financing activities				
Net change in bank loans	(54.3)	(39.8)	(0.8)	(72.2)
Issue of shares (note 5)	6.7	2.2	13.4	5.6
Redemption of shares (note 5)	(7.9)	(15.3)	(37.0)	(15.3)
Disposal of treasury shares (note 5)	–	–	2.0	–
Increase of long-term debt	0.2	0.3	1.5	1.2
Repayment of long-term debt	(1.2)	–	(3.4)	(2.3)
Dividends paid	(9.6)	(8.3)	(27.4)	(23.5)
	(66.1)	(60.9)	(51.7)	(106.5)
Net change in cash and cash equivalents				
	(3.8)	0.5	(20.2)	(3.7)
Cash and cash equivalents at beginning of period				
	26.6	18.3	43.0	22.5
Cash and cash equivalents at end of period	\$ 22.8	\$ 18.8	\$ 22.8	\$ 18.8
Other information				
Interest paid	\$ 0.7	\$ 0.9	\$ 1.9	\$ 2.9
Income taxes paid	\$ 24.5	\$ 11.0	\$ 89.0	\$ 57.7

See accompanying notes

notes to interim consolidated financial statements

Periods ended July 2, 2005 and July 3, 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 st quarter	2 nd quarter	3 rd quarter	4 th 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 st quarter	2 nd quarter	3 rd quarter	4 th 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.

Vendor Rebates

The Company adopted the amendment to EIC-144 "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor" issued January 20, 2005 by the Canadian Institute of Chartered Accountants. The amendment requires disclosure in all financial statements of the amount of any vendor rebate that has been recognized in income but for which the full requirements for entitlement have not yet been met. This amendment should be applied retroactively to all financial statements for annual and interim periods commencing on or after February 15, 2005. The amendment's application does not represent a significant amount as at July 2, 2005 and July 3, 2004.

notes to interim consolidated financial statements

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:

	16 weeks Fiscal		2004 (Restated – note 2)		40 weeks Fiscal		2004 (Restated – note 2)	
	2005		Pension plans	Other plans	2005		Pension plans	Other plans
Defined contribution plans	\$ 2.4	\$ 0.1	\$ 2.2	\$ 0.1	\$ 5.8	\$ 0.2	\$ 5.6	\$ 0.2
Defined benefit plans								
Current service cost	1.7	0.2	1.5	0.2	4.0	0.5	3.6	0.5
Interest cost	1.8	0.1	1.6	0.1	4.6	0.2	4.1	0.2
Projected return on plan assets	(1.8)	–	(1.5)	–	(4.6)	–	(3.7)	–
Amortization of actuarial losses and past service cost	0.2	–	0.2	–	0.3	–	0.5	–
	1.9	0.3	1.8	0.3	4.3	0.7	4.5	0.7
Total	\$ 4.3	\$ 0.4	\$ 4.0	\$ 0.4	\$10.1	\$ 0.9	\$10.1	\$ 0.9

4) Earnings per share

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

	16 weeks Fiscal		40 weeks Fiscal	
	2005	2004	2005	2004
Weighted average number of shares outstanding				
Basic (Millions)	96.2	97.7	96.2	97.8
Dilutive effect of stock option plan (Millions)	1.3	0.7	1.1	0.8
Weighted average number of shares outstanding				
Fully diluted (Millions)	97.5	98.4	97.3	98.6

notes to interim consolidated financial statements

5) Capital stock

Issued and outstanding for Fiscal 2005

(Thousands)

	Class A Subordinates Shares		Class B Shares	
	16 weeks	40 weeks	16 weeks	40 weeks
Balance at beginning (As at March 12, 2005 and September 25, 2004)	94,975	95,622	955	977
Issue of shares	437	882	–	–
Redemption of shares	(287)	(1,509)	–	–
Conversion of shares	21	43	(21)	(43)
Disposal of treasury shares	–	108	–	–
Balance as at July 2, 2005	95,146	95,146	934	934

The treasury shares held on September 25, 2004 have been disposed during the first quarter and the excess of proceeds over the purchase price of \$0.1 is presented in the contributed surplus.

Stock option plan

As at July 2, 2005, 4,661,180 stock options had been granted to certain employees at exercise prices varying from \$7.93 to \$27.25, with expiry dates up to 2012. Of these stock options, 3,017,940 could be exercised for an average weighted exercise price of \$19.42.

	16 weeks Fiscal		40 weeks Fiscal	
	2005	2004	2005	2004
Granted stock options	391,700	339,700	450,600	401,000
Weighted average exercise price	\$ 27.25	\$ 21.20	\$ 26.67	\$ 20.86
Weighted average fair value	\$ 8.35	\$ 6.47	\$ 8.17	\$ 6.38

notes to interim consolidated financial statements

5) Capital stock (cont'd)

During the 40-week period, 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 – 3.7%), 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 \$0.7 for the 40-week period (2004 – \$0.3) and to \$0.4 for the third quarter (2004 – \$0.2).

6) Segmented information

The Company operates primarily in the Canadian food distribution industry segment. The Company's sales in this segment amounted to \$1,752.3 for the 16-week period and to \$4,332.4 for the 40-week period ended July 2, 2005 (July 2004 – \$1,724.3 and \$4,218 respectively). The Company also operates in the Canadian pharmaceutical distribution industry.

7) Subsequent event

On July 18, METRO INC. and a wholly owned subsidiary signed a definitive agreement with The Great Atlantic & Pacific Tea Company Inc. ("A&P") and its indirect subsidiary, A&P Luxembourg S.à.r.l., to acquire all of the shares of The Great Atlantic & Pacific Tea Company Limited, a subsidiary of A&P ("A&P Canada"). A&P Canada operates 236 food stores in Ontario. The acquisition price is \$1.7 billion, with \$1.2 billion in cash payable at the date of closing of the transaction and \$500 million in METRO INC. Class A Subordinate Shares. The Company has secured financing for the cash component of the consideration from a banking syndicate. The principal terms of this transaction are set out in the Material Change Report filed July 19 on SEDAR. As required under National Instrument 51-102 of the Canadian Securities Administrators, within 75 days of the transaction's closing date at the latest, we will file a Business Acquisition Report including Company pro forma financial statements that take the acquisition's effects into account.

information

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