

**METRO INC.**

**Consolidated Statements of Earnings**

Periods ended September 24, 2005 and September 25, 2004  
(Unaudited) (Millions of dollars, except for earnings per share)

	12 weeks Fiscal		52 weeks Fiscal	
	2005	2004	2005	2004 (Restated – note 2)
<b>Sales</b>	<b>\$ 1,958.9</b>	\$ 1,406.2	<b>\$ 6,695.9</b>	\$ 5,998.9
Cost of sales and operating expenses	<b>1,852.8</b>	1,324.0	<b>6,329.9</b>	5,678.9
<b>Earnings before interest, taxes, depreciation and amortization</b>	<b>106.1</b>	82.2	<b>366.0</b>	320.0
Depreciation and amortization	<b>29.1</b>	17.2	<b>87.2</b>	71.7
<b>Operating income</b>	<b>77.0</b>	65.0	<b>278.8</b>	248.3
Interest	<b>5.4</b>	0.6	<b>7.4</b>	3.5
<b>Earnings before income taxes</b>	<b>71.6</b>	64.4	<b>271.4</b>	244.8
Income taxes	<b>21.4</b>	19.2	<b>81.0</b>	76.0
<b>Net earnings</b>	<b>\$ 50.2</b>	\$ 45.2	<b>\$ 190.4</b>	\$ 168.8
<b>Earnings per share (notes 2 and 5)</b>				
Basic	<b>\$ 0.48</b>	\$ 0.47	<b>\$ 1.94</b>	\$ 1.73
Fully diluted	<b>\$ 0.48</b>	\$ 0.47	<b>\$ 1.92</b>	\$ 1.72

See accompanying notes

**Consolidated Statements of Retained Earnings**

52-week periods ended September 24, 2005 and September 25, 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>190.4</b>	168.8
Dividends	<b>(38.9)</b>	(31.8)
Share redemption premium	<b>(34.4)</b>	(26.5)
<b>Balance at end of period</b>	<b>\$ 807.7</b>	\$ 690.6

See accompanying notes

## Consolidated Balance Sheets

(Unaudited) (Millions of dollars)

	As at September 24, 2005	As at September 25, 2004
<b>Assets</b>		
Current assets		
Cash	\$ 93.8	\$ 43.0
Accounts receivable	287.7	237.8
Inventories	551.9	314.1
Prepaid expenses	15.1	4.3
Future income taxes	12.4	8.1
	<b>960.9</b>	607.3
Investments and other assets	100.6	80.6
Fixed assets	1,106.4	504.9
Intangible assets	194.8	175.3
Goodwill	1,543.7	190.0
Accrued benefit assets	20.9	5.7
	<b>\$ 3,927.3</b>	<b>\$ 1,563.8</b>
<b>Liabilities and Shareholders' equity</b>		
Current liabilities		
Bank loans	\$ 0.3	\$ 1.5
Accounts payable	1,032.2	572.1
Income taxes payable	13.8	46.9
Current portion of long-term debt	7.7	3.4
	<b>1,054.0</b>	623.9
Long-term debt	1,205.0	9.0
Accrued benefit obligation	66.6	3.8
Future income taxes	82.1	74.6
	<b>2,407.7</b>	711.3
<b>Minority interest</b>	<b>6.3</b>	0.4
<b>Shareholders' equity</b>		
Capital stock (note 6)	703.8	160.8
Contributed surplus	1.8	0.7
Retained earnings	807.7	690.6
	<b>1,513.3</b>	852.1
	<b>\$ 3,927.3</b>	<b>\$ 1,563.8</b>
See accompanying notes		

## Consolidated Statements of Cash Flows

Periods ended September 24, 2005 and September 25, 2004  
(Unaudited) (Millions of dollars)

	12 weeks Fiscal		52 weeks Fiscal	
	2005	2004	2005	2004 (Restated – note 2)
<b>Operating activities</b>				
Net earnings	\$ 50.2	\$ 45.2	\$ 190.4	\$ 168.8
Non-cash items				
Equity earnings in a company subject to significant influence	(6.5)	(6.8)	(20.6)	(12.6)
Depreciation and amortization	29.1	17.2	87.2	71.7
Losses on disposal and writeoffs of fixed and intangible assets	3.2	4.0	3.2	5.4
Future income taxes and other items	6.3	(4.5)	12.9	(23.9)
Stock-based compensation cost	0.3	0.1	1.0	0.4
Excess (loss) of amounts paid for employee future benefits over expenses recognized	(0.8)	1.5	(0.5)	(0.1)
Minority interest	(1.0)	–	(1.0)	–
	<b>80.8</b>	56.7	<b>272.6</b>	209.7
Net change in non-cash working capital related to operations	<b>69.8</b>	50.1	<b>9.3</b>	99.7
	<b>150.6</b>	106.8	<b>281.9</b>	309.4
<b>Investing activities</b>				
Business acquisitions	(1,162.8)	(2.0)	(1,162.8)	(18.4)
Net change in investments	(0.5)	0.5	(4.9)	(25.3)
Purchase of fixed assets	(39.6)	(31.5)	(125.8)	(67.1)
Disposal of fixed assets	1.3	2.4	9.6	13.7
Purchase of intangible assets	(18.2)	(5.2)	(35.7)	(38.5)
	<b>(1,219.8)</b>	(35.8)	<b>(1,319.6)</b>	(135.6)
<b>Financing activities</b>				
Net change in bank loans	(0.4)	(27.5)	(1.2)	(99.7)
Issue of shares (note 6)	3.5	–	16.9	5.6
Redemption of shares (note 6)	–	(14.0)	(37.0)	(29.3)
Disposal of treasury shares (note 6)	–	4.3	2.0	4.3
Increase of long-term debt	1,250.0	1.1	1,251.5	2.3
Repayment of long-term debt	(101.4)	(2.4)	(104.8)	(4.7)
Dividends paid	(11.5)	(8.3)	(38.9)	(31.8)
	<b>1,140.2</b>	(46.8)	<b>1,088.5</b>	(153.3)
<b>Net change in cash and cash equivalents</b>	<b>71.0</b>	24.2	<b>50.8</b>	20.5
Cash and cash equivalents at beginning of period	22.8	18.8	43.0	22.5
Cash and cash equivalents at end of period	\$ 93.8	\$ 43.0	\$ 93.8	\$ 43.0
<b>Other information</b>				
Interest paid	\$ 2.2	\$ 0.3	\$ 4.1	\$ 3.2
Income taxes paid	\$ 21.4	\$ 16.6	\$ 110.3	\$ 74.3

See accompanying notes

## Notes to Interim Consolidated Financial Statements

Periods ended September 24, 2005 and September 25, 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 (GAAP). 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

#### 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 (Dollars)	(0.03)	0.04	(0.01)	–	–
Fully diluted net earnings (Dollars)	(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)

## 2. Changes in Accounting Policies (cont'd)

### 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 CICA. 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 September 24, 2005 and September 25, 2004.

## 3. Business Acquisitions

### 2005

On August 13, 2005, the Company acquired all of the issued and outstanding shares of The Great Atlantic and Pacific Tea Company, previously known as The Great Atlantic and Pacific Tea Company, Limited ("A&P Canada"), an indirect subsidiary of The Great Atlantic & Pacific Tea Company, Inc. ("A&P U.S."), for a total amount of C\$1,700, consisting of C\$1,200 in cash and C\$500 in the form of Class A Subordinate Shares (18,076,645 shares) of the Company. The cash component of the purchase price is subject to an adjustment related to the working capital of A&P Canada. This adjustment currently amounts to \$0.3, subject to the parties' approval. Moreover, under GAAP, the fair value of the shares issued by the Company has been adjusted based on the average quoted market price of the shares observed during a five-day period preceding and following July 19, 2005, the date on which the final agreement with A&P was announced. With this adjustment, the net consideration is \$526.8, net of issue costs of \$0.1 charged to share capital.

A&P Canada is a food retailer operating, at the date of acquisition, 236 retail stores in Ontario. Within its stores, A&P Canada corporately operated 75 full-service pharmacies. A&P Canada also managed 5 distribution centres.

The acquisition was accounted for using the purchase method. The results of A&P Canada have been consolidated as of the acquisition date. The preliminary purchase price allocation is as follows:

	\$
Consideration	
Cash	1,200.0
Shares	526.8
Working capital adjustment	0.3
Acquisition costs	13.6
<hr/> Total consideration paid	<hr/> 1,740.7
Net assets acquired as at August 13, 2005	
Cash	49.3
Other current assets	303.6
Long-term assets	680.6
Current liabilities assumed	(179.5)
Long-term liabilities assumed	(425.9)
<hr/> Total net assets acquired as at August 13, 2005	<hr/> 428.1
<hr/> Excess consideration paid over net assets acquired	<hr/> 1,312.6
Preliminary allocation of excess of consideration paid over net assets	
Future income taxes	22.8
Intangible assets	-
Adjustment to liabilities under leases	20.4
Adjustment to liabilities for employee future benefits	(83.5)
<hr/> Preliminary goodwill	<hr/> 1,352.9

### 3. Business Acquisitions (cont'd)

The Company has entered into a credit agreement with a banking syndicate in order to finance the cash component of the transaction.

The amount paid out in 2005 in respect of the acquisition included the cash consideration of \$1,200, an estimated initial amount of \$5.1 related to working capital and the payment of costs related to the acquisition amounting to \$6.2. As at September 24, 2005, a total of \$4.8 is receivable concerning the final working capital adjustment and \$7.4 is payable in relation to acquisition costs.

Management is currently carrying out a more specific analysis and changes will be made to the allocation of the excess of consideration paid over net assets acquired as the information becomes available. For example, since the measurement of the fair value of fixed assets had not yet been completed at the time of the preliminary allocation, fixed assets have been presented at cost. The measurement of indefinite and finite-lived intangible assets is also under way. Finally, the Company did not complete the assessment of possible costs related to the restructuring and integration of the activities of A&P potentially giving rise to the recognition of a liability in the allocation of the purchase price. As a result, the actual amounts allocated to the identifiable assets acquired and liabilities assumed and the related operating results will vary according to the amounts initially recorded, and such differences could be material.

#### 2004

On May 16, 2004, the Company acquired from an affiliate 15 Metro supermarkets including 343,158 Class A Subordinate Shares in METRO INC. valued at \$6 for a total cash consideration of \$16.4. Of the 343,158 acquired shares, 108,158 treasury shares are still held by the Company and have been temporarily presented in reduction of capital stock issued and outstanding until their eventual disposal. In 2005, the Company sold all the remaining treasury shares. The Company also purchased other stores. Following these acquisitions, goodwill of \$7.2 was recorded. Results of stores' operations have been included from the date of acquisition.

### 4. 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:

	12 weeks Fiscal				52 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>\$ 2.1</b>	<b>\$ 0.1</b>	\$ 1.8	\$ 0.1	<b>\$ 8.7</b>	<b>\$ 0.3</b>	\$ 7.4	\$ 0.3
<b>Defined benefit plans</b>								
Current service cost	2.3	0.2	1.1	0.1	6.3	0.7	4.7	0.6
Interest cost	2.9	0.2	1.2	0.1	7.5	0.4	5.3	0.3
Projected return on plan assets	(3.4)	–	(1.1)	–	(8.0)	–	(4.8)	–
Amortization of actuarial losses and past service cost	(0.2)	0.8	–	0.1	0.1	0.8	0.5	0.1
Plan amendment	0.3	–	0.2	–	0.3	–	0.2	–
	1.9	1.2	1.4	0.3	6.2	1.9	5.9	1.0
<b>Total</b>	<b>\$ 4.0</b>	<b>\$ 1.3</b>	\$ 3.2	\$ 0.4	<b>\$ 14.9</b>	<b>\$ 2.2</b>	\$ 13.3	\$ 1.3

## 5. 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		52 weeks Fiscal	
	2005	2004	2005	2004
Weighted average number of shares outstanding Basic (Millions)	104.6	96.9	98.1	97.6
Dilutive effect of stock option plan (Millions)	1.5	0.6	1.3	0.7
Weighted average number of shares outstanding Fully diluted (Millions)	106.1	97.5	99.4	98.3

## 6. Capital Stock

### Issued and Outstanding for Fiscal 2005

(Thousands)

	Class A Subordinate Shares		Class B Shares	
	12 weeks	52 weeks	12 weeks	52 weeks
Balance at beginning (As at July 2, 2005 and September 25, 2004)	95,146	95,622	934	977
Issue of shares	18,347	19,229	—	—
Redemption of shares	—	(1,509)	—	—
Conversion of shares	11	54	(11)	(54)
Disposal of treasury shares	—	108	—	—
Balance as at September 24, 2005	113,504	113,504	923	923

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 September 24, 2005, 4,374,100 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, 2,812,760 could be exercised for an average weighted exercise price of \$19.79.

	12 weeks Fiscal		52 weeks Fiscal	
	2005	2004	2005	2004
Granted stock options	—	—	452,900	401,000
Weighted average exercise price	—	—	\$ 26.67	\$ 20.86
Weighted average fair value	—	—	\$ 8.18	\$ 6.38

During the 52-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 \$1.0 for the 52-week period (2004 – \$0.4) and to \$0.3 for the third quarter (2004 – \$0.1).

## 7. Subsequent Events

On September 30, 2005, the Company filed the final version of the preliminary short form base shelf prospectus. Pursuant to the prospectus, the Company may offer to the public from time to time medium term notes with maturities of not less than one year from the date of issue, at prices and on terms determined at the time of agreement to issue, in an aggregate principal amount of up to \$750 million (or the equivalent thereof in foreign currencies or currency units) during the 25-month period that the short form base shelf prospectus, including any amendments thereto, remains valid.

On October 12, 2005, in accordance with the terms of the short form base shelf prospectus, the Company issued Series A 10-year medium term notes for a total amount of \$200 and Series B 30-year medium term notes for a total amount of \$400.

The Series A notes bear interest at a nominal rate of 4.98%, mature on October 15, 2015 and are redeemable at any time prior to maturity at the higher of their par value and the Canadian rate-of-return price, i.e., the price required to provide a rate equivalent to Canadian government bonds plus 0.26%.

The Series B notes bear interest at a normal rate of 5.97%, mature on October 15, 2035 and are redeemable at any time prior to maturity at the higher of their par value and the Canadian rate-of-return price, i.e., the price required to provide a rate equivalent to Canadian government bonds plus 0.44%.

The amounts received from these issues served to repay the outstanding balance of credit facility B and \$100 of Credit Facility A in accordance with the initial agreement entered into on August 12, 2005.

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