



# 2<sup>nd</sup> Quarter : 2008



## Highlights

- Sales of \$2,372.4 million, up 0.7%
- Net earnings of \$58.1 million, down 6%
- Fully diluted net earnings per share of \$0.51, down 3.8%
- Declared dividend of \$0.125 per share, up 8.7%
- Eric R. La Flèche is appointed President and Chief Executive Officer of METRO INC.

**INTERIM REPORT**  
24-week period ended March 15, 2008





## REPORT TO SHAREHOLDERS

The Company's 2008 second quarter sales of \$2,372.4 million were up 0.7% over the \$2,356.2 million for the corresponding quarter of last year. Excluding decreased sales of tobacco products, sales were up 1.2% over last year's.

Second quarter net earnings were \$58.1 million versus \$61.8 million for the corresponding quarter last year. Fully diluted net earnings per share were \$0.51 versus \$0.53 last year. Although lower than last year due to the competitive environment that still prevails in Ontario, these results are an improvement over those of the first quarter of the current fiscal year, since second quarter EBITDA<sup>(1)</sup> as a percentage of sales increased 30 basis points from the first quarter, to 5.7% versus 5.4%. Second quarter EBITDA<sup>(1)</sup>, excluding equity earnings from our investment in Alimentation Couche-Tard, was 5.5% of sales versus 5.2% for the first quarter of 2008.

The learning curve associated with our new information systems at A&P Canada in Ontario progressed significantly in the second quarter of 2008, enabling us to increase our gross margins. In Québec, all Food Services operations were brought together in the new warehouse, which should result in greater efficiency.

Since renewing our normal course issuer bid program last September, we have redeemed, as of April 4, 2008, 2,375,900 Class A Subordinate Shares, at an average price of \$26.90 per share, for a total of \$63.9 million. Under this program, we may repurchase up to 4 million shares.

Our financial position at the end of the second quarter of 2008 was very solid. We had an unused approved \$400 million line of credit, and a debt ratio (long-term debt/total capital) of 34.4%.

On April 15, 2008, the Board of Directors declared a quarterly dividend of \$0.125 per share, an increase of 8.7% over the dividend declared for the same quarter last year.

The progress realized in working with our new Ontario information systems and the integration of our Québec Food Services operations will enable us to focus, over the next months, on improving our results.

As announced in November, Mr. Eric R. La Flèche is taking over from me as President and Chief Executive Officer effective today and becomes a member of the Board of Directors.

Mr. Maurice Jodoin, who has been a Board Director since 1987 and Chairman since 2000, is retiring effective today. I am succeeding him as Executive Chairman of the Board of Directors. On behalf of my Board colleagues, I wish to thank Mr. Jodoin for his excellent work and leadership through these years of growth and expansion.

On my behalf, I wish to thank you for the confidence you have shown me through my 17 years as President and Chief Executive Officer. I am confident that under the leadership of Mr. La Flèche, the METRO INC. teams will maintain the tradition of excellence, growth and shareholder value creation.



PIERRE H. LESSARD, FCA  
Executive Chairman of the Board  
April 15, 2008

<sup>(1)</sup> See section "Non-GAAP Measurements".



# MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis sets out the financial position and consolidated results of METRO INC. on March 15, 2008. This discussion and analysis should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes in this interim report along with the consolidated financial statements for the fiscal year ended September 29, 2007 and related notes and Management's Discussion and Analysis presented in the Company's 2007 Annual Report. This analysis is based upon information as of April 4, 2008 unless otherwise stated. Additional information, including the Certification of Interim Filings letters for the quarter ended March 15, 2008 signed by the President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer, is also available on the SEDAR website at: [www.sedar.com](http://www.sedar.com).

## Forward-looking Statements

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

## Non-GAAP Measurements

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

**EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION (EBITDA) :** EBITDA is a measurement of earnings that excludes interest, taxes, depreciation and amortization. We believe that EBITDA is a measurement commonly used by readers of financial statements to evaluate a company's operational cash-generating capacity and ability to discharge its financial expenses.

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

<sup>(1)</sup> See section "Non-GAAP Measurements".



## Results of Operations

We realized net earnings of \$58.1 million in the second quarter of 2008, down 6% from \$61.8 million in the same quarter last year, and fully diluted net earnings per share of \$0.51, down 3.8% from \$0.53 last year. In the second quarter of 2007, we had A&P Canada acquisition-related integration and rationalization costs before taxes of \$5.4 million. Excluding these non-recurring items, 2008 second quarter net earnings and fully diluted net earnings per share were down 11.3% and 8.9% respectively compared to the 2007 second quarter adjusted net earnings<sup>(1)</sup> and adjusted fully diluted net earnings per share<sup>(1)</sup>.

**SALES** : Second quarter sales reached \$2,372.4 million, up 0.7% compared to fiscal 2007 second quarter sales of \$2,356.2 million. Excluding decreased sales of tobacco products, 2008 second quarter sales were up 1.2%. Same store sales were up 0.3% in the quarter.

Sales for the first 24 weeks of 2008 reached \$4,879.2 million, up 0.2% compared to sales of \$4,871.2 million for the corresponding period of fiscal 2007. Excluding decreased sales of tobacco products, sales increased by 0.7%.

**EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION (EBITDA)<sup>(1)</sup>** : Earnings before interest, taxes, depreciation and amortization for the second quarter of 2008 were \$135.8 million, down 3.1% from \$140.1 million for the same quarter last year. Second quarter EBITDA<sup>(1)</sup> represented 5.7% of sales versus 5.9% last year. Excluding A&P Canada acquisition-related integration and rationalization costs of \$5.4 million in 2007, EBITDA<sup>(1)</sup> for the second quarter of 2007 was 6.2% of sales.

Our second quarter equity earnings from our investment in Alimentation Couche-Tard were \$5.2 million in 2008, the same as in 2007.

Excluding non-recurring items as well as equity earnings from our investment in Alimentation Couche-Tard, 2008 second quarter EBITDA<sup>(1)</sup> was \$130.6 million or 5.5% of sales versus \$140.3 million or 6% of sales for the corresponding quarter of the previous fiscal year. The decrease in the percentage is due mainly to circumstances similar to those that affected our 2008 first quarter EBITDA<sup>(1)</sup>.

Despite the competitive environment that still prevails in Ontario, our 2008 second quarter EBITDA<sup>(1)</sup>, excluding equity earnings from our investment in Alimentation Couche-Tard, as a percentage of sales increased 30 basis points from the first quarter of 2008, to 5.5% versus 5.2%. The learning curve associated with our new information systems in Ontario progressed significantly in the second quarter of 2008, enabling us to increase our gross margins. All Québec Food Services operations were finally brought together in the new warehouse, which should result in greater efficiency.

EBITDA<sup>(1)</sup> for the first 24 weeks of 2008 was \$272.3 million or 5.6% of sales compared to \$294.7 million or 6% of sales for the same period last year.

Excluding A&P acquisition-related integration and rationalization costs of \$11 million in 2007, EBITDA<sup>(1)</sup> for the 2007 24-week period was 6.3% of sales.

<sup>(1)</sup> See section "Non-GAAP Measurements".



Equity earnings from our investment in Alimentation Couche-Tard were \$10.9 million for the 24-week period in 2008 compared to \$13.8 million in 2007. Excluding non-recurring items as well as equity earnings from our investment in Alimentation Couche-Tard, EBITDA<sup>(1)</sup> for the first 24 weeks of 2008 was \$261.4 million or 5.4% of sales versus \$291.9 million or 6% of sales for the corresponding period of the previous fiscal year.

The competitive environment in Ontario as well as the training and learning curve associated with our new Ontario information systems and new Québec Food Services warehouse affected our gross margins and costs.

EBITDA Adjustments<sup>(1)</sup>

(Millions of dollars,

unless otherwise indicated)

	12 weeks / Fiscal Year					
	2008			2007		
	EBITDA	Sales	EBITDA / Sales (%)	EBITDA	Sales	EBITDA / Sales (%)
EBITDA	135.8	2,372.4	5.7	140.1	2,356.2	5.9
Integration and rationalization costs	—	—	—	5.4	—	—
Adjusted EBITDA	135.8	2,372.4	5.7	145.5	2,356.2	6.2
Share of earnings from our investment in Alimentation Couche-Tard	(5.2)	—	—	(5.2)	—	—
Adjusted EBITDA excluding share of earnings	130.6	2,372.4	5.5	140.3	2,356.2	6.0

	24 weeks / Fiscal Year					
	2008			2007		
	EBITDA	Sales	EBITDA / Sales (%)	EBITDA	Sales	EBITDA / Sales (%)
EBITDA	272.3	4,879.2	5.6	294.7	4,871.2	6.0
Integration and rationalization costs	—	—	—	11.0	—	—
Adjusted EBITDA	272.3	4,879.2	5.6	305.7	4,871.2	6.3
Share of earnings from our investment in Alimentation Couche-Tard	(10.9)	—	—	(13.8)	—	—
Adjusted EBITDA excluding share of earnings	261.4	4,879.2	5.4	291.9	4,871.2	6.0

<sup>(1)</sup> See section "Non-GAAP Measurements".



**INTEREST, DEPRECIATION AND AMORTIZATION** : Total depreciation and amortization expenses for the second quarter and first 24 weeks of fiscal 2008 amounted to \$39.6 million and \$79.7 million respectively, compared with \$37.9 million and \$74.9 million for the same periods last year. The 2008 second quarter interest expenses totalled \$14.5 million versus \$14.1 million last year, while interest expenses for the 24-week period totalled \$28.5 million versus \$28.4 million last year. Interest rates for the first 24 weeks of 2008 averaged 5.4% as they did for the corresponding period of the previous fiscal year.

**INCOME TAXES** : The 2008 second quarter and 24-week period income tax expenses of \$24.1 million and \$38.2 million represent effective tax rates of 29.5% and 23.3% respectively. In 2007, the second quarter and 24-week period income tax expenses were \$27.6 million and \$59.9 million respectively and represented the same effective tax rate of 31.3%. In the first quarter of 2008, a decrease in our income tax expense of \$11.4 million was recorded after the Canadian government completed milestones in the approval process for its Economic Statement, reducing future general corporate income tax rates. Excluding this decrease in our income tax expense, the effective tax rate for the first 24 weeks of 2008 was 30.2%.

**NET EARNINGS** : Second quarter net earnings were \$58.1 million compared to \$61.8 million for the corresponding quarter of fiscal 2007, a decrease of 6%. Fully diluted net earnings per share dipped 3.8% to \$0.51 from \$0.53 last year. In the second quarter of 2007, we had A&P Canada acquisition-related integration and rationalization costs of \$5.4 million before taxes. Excluding these non-recurring items, adjusted net earnings<sup>(1)</sup> for the second quarter of 2007 was \$65.5 million, and the adjusted fully diluted net earnings per share<sup>(1)</sup> was \$0.56. Compared to the adjusted net earnings<sup>(1)</sup> and adjusted fully diluted net earnings per share<sup>(1)</sup> for the second quarter of 2007, 2008 second quarter net earnings and fully diluted net earnings per share were down 11.3% and 8.9% respectively.

Net earnings for the first 24 weeks of 2008 reached \$127.8 million versus \$129.7 million last year, a 1.5% decrease. Excluding the income tax expense decrease of \$11.4 million in 2008 and A&P Canada acquisition-related integration and rationalization costs of \$11 million before taxes over the first 24 weeks of fiscal 2007, the adjusted net earnings<sup>(1)</sup> of \$116.4 million and adjusted fully diluted net earnings per share<sup>(1)</sup> of \$1.02 for the first 24 weeks of 2008 were down 15.1% and 13.6% respectively from last year.

<sup>(1)</sup> See section "Non-GAAP Measurements".



Net Earnings Adjustments

(Millions of dollars,  
unless otherwise indicated)

	12 weeks / Fiscal Year					
	2008		2007		Change	
	Net earnings	Fully diluted EPS (Dollars)	Net earnings	Fully diluted EPS (Dollars)	Net earnings (%)	Fully diluted EPS (%)
Net earnings	58.1	0.51	61.8	0.53	(6.0)	(3.8)
Integration and rationalization costs after taxes	—	—	3.7	0.03		
Decrease in tax expense	—	—	—	—		
Adjusted net earnings <sup>(1)</sup>	58.1	0.51	65.5	0.56	(11.3)	(8.9)

	24 weeks / Fiscal Year					
	2008		2007		Change	
	Net earnings	Fully diluted EPS (Dollars)	Net earnings	Fully diluted EPS (Dollars)	Net earnings (%)	Fully diluted EPS (%)
Net earnings	127.8	1.12	129.7	1.11	(1.5)	0.9
Integration and rationalization costs after taxes	—	—	7.4	0.07		
Decrease in tax expense	(11.4)	(0.10)	—	—		
Adjusted net earnings <sup>(1)</sup>	116.4	1.02	137.1	1.18	(15.1)	(13.6)

<sup>(1)</sup> See section "Non-GAAP Measurements".



## Quarterly Highlights

(Millions of dollars, unless otherwise indicated)

	2008 (52 weeks)	2007 (52 weeks)	2006 (53 weeks)	Change (%)
<b>Sales</b>				
Q2	2,372.4	2,356.2	—	0.7
Q1	2,506.8	2,515.0	—	(0.3)
Q4	—	2,432.4	2,673.5	(9.0)
Q3	—	3,341.0	3,336.7	0.1
<b>Net earnings</b>				
Q2	58.1	61.8	—	(6.0)
Q1	69.7	67.9	—	2.7
Q4	—	57.6	78.9	(27.0)
Q3	—	89.3	85.1	4.9
<b>Adjusted net earnings<sup>(1)</sup></b>				
Q2	58.1	65.5	—	(11.3)
Q1	58.3	71.6	—	(18.6)
Q4	—	66.8	71.0	(5.9)
Q3	—	91.1	78.3	16.3
<b>Fully diluted net earnings per share (Dollars)</b>				
Q2	0.51	0.53	—	(3.8)
Q1	0.61	0.58	—	5.2
Q4	—	0.49	0.68	(27.9)
Q3	—	0.77	0.73	5.5
<b>Adjusted fully diluted net earnings per share<sup>(1)</sup></b>				
(Dollars)				
Q2	0.51	0.56	—	(8.9)
Q1	0.51	0.62	—	(17.7)
Q4	—	0.57	0.61	(6.6)
Q3	—	0.78	0.68	14.7

Sales for the first two quarters of 2008 versus those for 2007 were affected by strong competition. Excluding decreased sales of tobacco products, 2008 first quarter sales were up 0.3% and second quarter sales were up 1.2%.

Sales in the third and fourth quarters of 2007 versus those for the corresponding quarters of 2006 were affected by decreased sales of tobacco products, lost sales due to the disposal, in the fourth quarter of 2006, of our interest in a grocery wholesaler, and the impact of the 53<sup>rd</sup> week in 2006. Excluding these items, 2007 third and fourth quarter sales were up 3.2% and 0.7% respectively over 2006.

<sup>(1)</sup> See section "Non-GAAP Measurements".



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

Second quarter net earnings and fully diluted net earnings per share in 2008 were down 6% and 3.8% respectively from 2007. Excluding A&P acquisition-related integration and rationalization costs before taxes of \$5.4 million in the second quarter of 2007, net earnings and fully diluted net earnings per share for the second quarter of 2008 are down 11.3% and 8.9% respectively compared to the adjusted net earnings<sup>(1)</sup> and adjusted fully diluted net earnings per share<sup>(1)</sup> for the second quarter of 2007.

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

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

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

<sup>(1)</sup> See section "Non-GAAP Measurements".



<i>(Millions of dollars)</i>	2008		2007				2006	
	Q1	Q2	Q1	Q2	Q3	Q4	Q3	Q4
Net earnings	69.7	58.1	67.9	61.8	89.3	57.6	85.1	78.9
Integration and rationalization costs after taxes	—	—	3.7	3.7	3.6	9.2	2.6	2.1
Gain on disposal of investment after taxes	—	—	—	—	—	—	—	(8.6)
Decrease in tax expense	(11.4)	—	—	—	(1.8)	—	(9.4)	(1.4)
Adjusted net earnings <sup>(1)</sup> 53 <sup>rd</sup> week	58.3	58.1	71.6	65.5	91.1	66.8	78.3	71.0
	—	—	—	—	—	—	—	(6.4)
Adjusted net earnings <sup>(1)</sup> excluding 53 <sup>rd</sup> week	58.3	58.1	71.6	65.5	91.1	66.8	78.3	64.6

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

<sup>(1)</sup> See section "Non-GAAP Measurements".



## Cash Position

**OPERATING ACTIVITIES** : Operating activities generated cash flows of \$117.3 million in the second quarter and \$130.3 million over the first 24 weeks of 2008, compared to \$116.6 million and \$166 million respectively in the corresponding periods of fiscal 2007. The increase in second quarter cash flows in 2008 compared to 2007 is due mainly to a higher net change in non-cash items. The decrease in 24-week period cash flows compared to those for the same period of 2007 is due mainly to a change in future income taxes and a net change in non-cash working capital between the two periods.

**INVESTING ACTIVITIES** : Investing activities required outflows of \$21.3 million in the second quarter and \$76.3 million in the first 24 weeks of 2008 versus \$52.7 million in the second quarter of 2007 and \$121 million in the first 24 weeks of 2007. These decreases are due primarily to reduced capital expenditures.

During the first 24 weeks of 2008, the Company and its retailers invested \$101.3 million in our retail network, for a net expansion of 173,000 square feet or 0.9%. Major renovations and expansions of 15 stores were completed and 6 new stores were opened.

**FINANCING ACTIVITIES** : Financing activities required outflows of \$57.8 million in the second quarter of 2008 and \$88.7 million in the first 24 weeks of 2008 versus 2007 outflows of \$6.1 million in the second quarter and \$28.8 million over the first 24 weeks. This increase in outflows between the 2008 periods and the 2007 periods is attributable mainly to the redemption of Class A Subordinate Shares in the amount of \$10.4 million in second quarter of 2008 and \$51.3 million in the first 24 weeks of 2008, versus no redemption in the corresponding periods of 2007. The second quarter increase in outflows between 2008 and 2007 is due also to \$24.6 million used to pay down bank loans in 2008 versus \$0.2 million in 2007.

<sup>(1)</sup> See section "Non-GAAP Measurements".



## Financial Position

Our financial position at the end of the second quarter of 2008 was very solid. We had an unused approved \$400 million line of credit. Our long-term debt corresponds to 34.4% of the combined total of long-term debt and shareholders' equity (long-term debt/total capital).

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

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

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

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

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

<sup>(1)</sup> See section "Non-GAAP Measurements".



**FINANCIAL RATIOS :**

	As at March 15, 2008	As at September 29, 2007
<b>Financial structure</b>		
Long-term debt ( <i>Millions of \$</i> )	1,038.5	1,038.9
Shareholders' equity ( <i>Millions of \$</i> )	1,981.6	1,932.3
Long-term debt/total capital (%)	34.4	35.0
	Fiscal 2008 (24 weeks)	Fiscal 2007 (24 weeks)
<b>Results</b>		
EBITDA <sup>(1)</sup> /Interest ( <i>Times</i> )	9.6	10.4

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

	As at March 15, 2008	As at September 29, 2007
<b>Number of Class A Subordinate Shares outstanding (<i>Thousands</i>)</b>		
	111,865	113,683
<b>Number of Class B Shares outstanding (<i>Thousands</i>)</b>		
	772	804
<b>Stock options:</b>		
Number outstanding ( <i>Thousands</i> )	3,594	3,738
Exercise price	\$11.80 to \$39.17	\$11.80 to \$39.17
Weighted average exercise price	\$22.79	\$22.40
<b>Number of performance share units:</b>		
Number outstanding ( <i>Thousands</i> )	225	124
Weighted average maturity	24 months	22 months

<sup>(1)</sup> See section "Non-GAAP Measurements".



**NORMAL COURSE ISSUER BID PROGRAM** : Under the normal course issuer bid program, the Company may repurchase up to 4 million of its Class A Subordinate shares between September 5, 2007 and September 4, 2008. Since the program's inception and April 4, 2008, the Company repurchased 2,375,900 shares at an average price of \$26.90 per share for a total of \$63.9 million, including, in the first quarter of 2008, 1,500,000 shares repurchased from A&P US at \$27.25 per share for a total of \$40.9 million. This program offers us an additional option for using excess funds. Thus, we will be able to decide, in the shareholders' best interest, to reimburse debt or to repurchase Company shares.

**DIVIDENDS** : On April 15, 2008, the Company's Board of Directors declared a quarterly dividend of \$0.125 per Class A Subordinate Share and Class B Share payable June 2, 2008, an increase of 8.7% over the dividend for the same quarter last year. On an annualized basis, this dividend represents more than 20% of 2007 net earnings.

**SHARE TRADING** : METRO INC. share price remained in the range of \$21.00 to \$35.85 over the first and second quarters of fiscal 2008. During this period, a total of 48.4 million shares were traded on the Toronto Stock Exchange. The closing price on Friday, April 4, 2008 was \$24.92, compared with \$35.00 at the end of fiscal 2007.

## **New Accounting Policies**

### **ADOPTED IN 2008**

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

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

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

<sup>(1)</sup> See section "Non-GAAP Measurements".



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

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

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

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

**RECENTLY ISSUED**

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

**GOODWILL AND INTANGIBLE ASSETS** : In February 2008, the CICA issued a new Section 3064 "Goodwill and Intangible Assets" replacing Section 3062 "Goodwill and Other Intangible Assets" as well as Section 3450 "Research and Development Costs".

The new Section 3064 states that upon their initial identification, intangible assets are to be recognized as assets only if they meet the definition of an intangible asset and the recognition criteria. Section 3064 also provides further information on the recognition of internally generated intangible assets (including research and development costs).

<sup>(1)</sup> See section "Non-GAAP Measurements".



As for subsequent measurement of intangible assets, goodwill, and disclosure, Section 3064 carries forward the requirements of the old Section 3062.

The new Section applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. We are currently evaluating the effect of these new standards on our results, financial position and cash flows.

**INTERNATIONAL FINANCIAL REPORTING STANDARDS** : On February 13, 2008, the Accounting Standards Board confirmed the date of changeover from GAAP to International Financial Reporting Standards (IFRS). Canadian publicly accountable enterprises must adopt IFRS for their interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. We are currently developing our IFRS conversion plan and evaluating the effect of the new standards on our consolidated financial statements.

## **Outlook**

The progress realized in working with our new Ontario information systems and the integration of our Québec Food Services operations will enable us to focus, over the next months, on improving our results.

Montréal, April 15, 2008

<sup>(1)</sup> See section "Non-GAAP Measurements".



## Consolidated Statements of Earnings

Periods ended March 15, 2008 and March 17, 2007 <i>(Unaudited) (Millions of dollars, except for earnings per share)</i>	12 weeks Fiscal Year		24 weeks Fiscal Year	
	2008	2007	2008	2007
<b>Sales</b>	\$2,372.4	\$2,356.2	\$4,879.2	\$
4,871.2				
Cost of sales and operating expenses	2,241.8	2,215.9	4,617.8	4,579.3
Share of earnings in a public company subject to significant influence	(5.2)	(5.2)	(10.9)	(13.8)
Integration and rationalization costs <i>(note 3)</i>	—	5.4	—	11.0
<b>Earnings before interest, taxes, depreciation and amortization</b>	135.8	140.1	272.3	294.7
Depreciation and amortization	39.6	37.9	79.7	74.9
<b>Operating income</b>	96.2	102.2	192.6	219.8
Interest, net				
Short term	0.4	(0.6)	0.1	(1.3)
Long term	14.1	14.7	28.4	29.7
	14.5	14.1	28.5	28.4
<b>Earnings before income taxes</b>	81.7	88.1	164.1	191.4
Income taxes <i>(note 5)</i>	24.1	27.6	38.2	59.9
<b>Earnings before minority interest</b>	57.6	60.5	125.9	131.5
Minority interest	(0.5)	(1.3)	(1.9)	1.8
<b>Net earnings</b>	\$ 58.1	\$ 61.8	\$ 127.8	\$ 129.7
<b>Earnings per share</b> <i>(note 6)</i>				
Basic	\$ 0.52	\$ 0.54	\$ 1.13	\$ 1.13
Fully diluted	\$ 0.51	\$ 0.53	\$ 1.12	\$ 1.11

See accompanying notes



## Consolidated Balance Sheets

(Unaudited) (Millions of dollars)

	As at March 15, 2008	As at September 29, 2007
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 65.8	\$ 100.5
Accounts receivable	312.0	327.8
Inventories	594.5	588.2
Prepaid expenses	18.7	12.1
Future income taxes	19.1	26.1
	1,010.1	1,054.7
Investments and other assets	156.0	151.0
Fixed assets	1,199.1	1,202.8
Intangible assets	344.7	342.1
Goodwill	1,490.9	1,490.1
Accrued benefit assets	33.2	33.2
	\$ 4,234.0	\$ 4,273.9
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Bank loans	\$ 0.2	\$ 0.1
Accounts payable	999.8	1,043.6
Income taxes payable	3.5	20.3
Current portion of long-term debt	4.0	5.1
	1,007.5	1,069.1
Long-term debt	1,038.5	1,038.9
Accrued benefit obligations	50.7	54.9
Future income taxes	122.8	139.0
Other long-term liabilities	28.8	33.7
Minority interest	4.1	6.0
	2,252.4	2,341.6
<b>Shareholders' equity</b>		
Capital stock (note 7)	704.2	714.8
Contributed surplus	2.8	2.0
Retained earnings	1,275.8	1,214.3
Accumulated other comprehensive income (notes 2 and 8)	(1.2)	1.2
	1,981.6	1,932.3
	\$ 4,234.0	\$ 4,273.9

See accompanying notes



## Consolidated Statements of Cash Flows

Periods ended March 15, 2008 and March 17, 2007 (Unaudited) (Millions of dollars)	12 weeks Fiscal Year		24 weeks Fiscal Year	
	2008	2007	2008	2007
<b>Operating activities</b>				
Net earnings	\$ 58.1	\$ 61.8	\$ 127.8	\$ 129.7
Non-cash items				
Integration and rationalization costs (note 3)	—	2.4	—	4.2
Share of earnings in a public company subject to significant influence	(5.2)	(5.2)	(10.9)	(13.8)
Depreciation and amortization	39.6	37.9	79.7	74.9
Amortization of deferred financing costs	0.5	0.5	1.0	1.0
(Gain) Loss on disposal and write-off of fixed and intangible assets	(0.9)	0.2	(1.2)	0.3
Gain on disposal of investments	(0.6)	—	(0.6)	—
Future income taxes	3.6	2.9	(8.0)	6.5
Stock-based compensation cost	0.9	0.6	1.5	1.2
Difference between amounts paid for employee future benefits and current period cost	(2.7)	(0.6)	(4.2)	(0.4)
Minority interest	(0.5)	(1.3)	(1.9)	1.8
	92.8	99.2	183.2	205.4
Net change in non-cash working capital related to operations	24.5	17.4	(52.9)	(39.4)
	117.3	116.6	130.3	166.0
<b>Investing activities</b>				
Net change in investments and other assets	2.7	0.7	1.0	(1.1)
Dividends of a public company subject to significant influence	0.8	0.6	1.5	1.2
Acquisition of fixed assets	(19.9)	(44.9)	(63.9)	(105.1)
Disposal of fixed assets	6.1	—	6.4	2.5
Acquisition of intangible assets	(11.0)	(9.1)	(21.3)	(18.5)
	(21.3)	(52.7)	(76.3)	(121.0)
<b>Financing activities</b>				
Net change in bank loans	(24.6)	(0.2)	0.1	0.1
Issuance of shares (note 7)	0.9	8.3	1.9	9.7
Redemption of shares (note 7)	(10.4)	—	(51.3)	—
Acquisition of treasury shares (note 7)	(0.9)	(2.5)	(0.9)	(2.5)
Increase of long-term debt	0.3	1.0	1.1	1.8
Repayment of long-term debt	(1.3)	(2.2)	(3.0)	(4.8)
Net change in other long-term liabilities	(7.7)	2.7	(9.3)	(7.8)
Dividends paid	(14.1)	(13.2)	(27.3)	(25.3)
	(57.8)	(6.1)	(88.7)	(28.8)
<b>Net change in cash and cash equivalents</b>	38.2	57.8	(34.7)	16.2
Cash and cash equivalents — beginning of period	27.6	124.1	100.5	165.7
Cash and cash equivalents — end of period	\$ 65.8	\$ 181.9	\$ 65.8	\$ 181.9
<b>Other information</b>				
Interest paid	\$ 6.1	\$ 6.6	\$ 28.0	\$ 30.5
Income taxes paid	\$ 20.9	\$ 17.4	\$ 63.0	\$ 71.4

See accompanying notes



## Consolidated Statements of Retained Earnings

24-week periods ended March 15, 2008 and March 17, 2007 (Unaudited) (Millions of dollars)	Fiscal Year	
	2008	2007
<b>Balance — beginning of period</b>	\$ 1,214.3	\$ 1,013.2
Net earnings	127.8	129.7
Dividends	(27.3)	(25.3)
Share redemption premiums	(39.0)	—
<b>Balance — end of period</b>	<b>\$ 1,275.8</b>	<b>\$ 1,117.6</b>

See accompanying notes

## Consolidated Statements of Comprehensive Income

Periods ended March 15, 2008 and March 17, 2007 (Unaudited) (Millions of dollars) (notes 2 and 8)	12 weeks Fiscal Year		24 weeks Fiscal Year	
	2008	2007	2008	2007
<b>Net earnings</b>	\$ 58.1	\$ 61.8	\$ 127.8	\$ 129.7
<b>Other comprehensive income</b>				
Change in fair value of derivatives designated as cash flow hedges	(2.8)	—	(3.6)	(0.1)
Corresponding income taxes	0.9	—	1.2	—
<b>Comprehensive income</b>	<b>\$ 56.2</b>	<b>\$ 61.8</b>	<b>\$ 125.4</b>	<b>\$ 129.6</b>

See accompanying notes



# Notes to Interim Consolidated Financial Statements

Periods ended March 15, 2008 and March 17, 2007  
(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 preparing these interim consolidated financial statements are the same as those used in preparing the audited annual consolidated financial statements for the year ended September 29, 2007, except for the new accounting policies described in note 2. The unaudited interim consolidated financial statements should be read along with the audited annual consolidated financial statements and notes to the statements in the Company's 2007 Annual Report. The operating results for the interim period covered do not necessarily reflect overall results for the fiscal year. Certain comparative figures have been reclassified to conform to the presentation being used in the current fiscal year.

## 2 : New Accounting Policies

### ADOPTED IN 2008

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

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

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

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

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



## Notes to Interim Consolidated Financial Statements

Periods ended March 15, 2008 and March 17, 2007  
(Unaudited) (Millions of dollars, except for data per share)

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

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

### ADOPTED IN 2007

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

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

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

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

The Company has implemented the following classification:

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



## Notes to Interim Consolidated Financial Statements

Periods ended March 15, 2008 and March 17, 2007  
(Unaudited) (Millions of dollars, except for data per share)

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

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

### RECENTLY ISSUED

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

**GOODWILL AND INTANGIBLE ASSETS :** In February 2008, the CICA issued a new Section 3064 "Goodwill and Intangible Assets" replacing Section 3062 "Goodwill and Other Intangible Assets" as well as Section 3450 "Research and Development Costs".

The new Section 3064 states that upon their initial identification, intangible assets are to be recognized as assets only if they meet the definition of an intangible asset and the recognition criteria. Section 3064 also provides further information on the recognition of internally generated intangible assets (including research and development costs).

As for subsequent measurement of intangible assets, goodwill, and disclosure, Section 3064 carries forward the requirements of the old Section 3062.

The new Section applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. The Company is currently evaluating the effect of these new standards on its results, financial position and cash flows.



## Notes to Interim Consolidated Financial Statements

Periods ended March 15, 2008 and March 17, 2007  
(Unaudited) (Millions of dollars, except for data per share)

**INTERNATIONAL FINANCIAL REPORTING STANDARDS** : On February 13, 2008, the Accounting Standards Board confirmed the date of changeover from GAAP to International Financial Reporting Standards (IFRS). Canadian publicly accountable enterprises must adopt IFRS for their interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company is currently developing its IFRS conversion plan and evaluating the effect of the new standards on its consolidated financial statements.

### 3 : Integration and Rationalization Costs

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

During the period ended March 17, 2007, integration and rationalization plan costs were as follows:

#### By Nature of Project

	Fiscal year 2007	
	12 weeks	24 weeks
Stores	\$ —	\$ 2.2
Integration of operations	3.3	4.5
Implementation of information systems	2.1	4.3
	\$ 5.4	\$ 11.0

#### By Nature of Costs

	Fiscal year 2007	
	12 weeks	24 weeks
Retention bonuses, termination benefits and others	\$ 3.0	\$ 4.2
Training and IT implementation	2.1	4.3
Vacant premises	0.1	2.3
	\$ 5.2	\$ 10.8
Assets write-off	0.2	0.2
	\$ 5.4	\$ 11.0



## Notes to Interim Consolidated Financial Statements

Periods ended March 15, 2008 and March 17, 2007

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

### 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:

	12 weeks Fiscal Year				24 weeks Fiscal Year			
	2008		2007		2008		2007	
	Pension plans	Other plans	Pension plans	Other plans	Pension plans	Other plans	Pension plans	Other plans
<b>Defined contribution plans</b>	\$ 5.9	\$ 0.1	\$ 5.4	\$ —	\$ 12.0	\$ 0.2	\$ 11.6	\$ 0.1
<b>Defined benefit plans</b>								
Current service cost	5.2	0.3	5.7	0.2	10.5	0.7	11.4	0.5
Interest cost	7.0	0.5	6.3	0.3	14.1	0.9	12.6	0.6
Projected return on plan assets	(9.7)	—	(8.8)	—	(19.5)	—	(17.6)	—
Amortization of actuarial losses and past service cost	0.4	—	0.3	—	0.7	—	0.6	—
	2.9	0.8	3.5	0.5	5.8	1.6	7.0	1.1
	\$ 8.8	\$ 0.9	\$ 8.9	\$ 0.5	\$ 17.8	\$ 1.8	\$ 18.6	\$ 1.2

### 5 : Income Taxes

The effective income tax rates were as follows:

	12 weeks Fiscal Year		24 weeks Fiscal Year	
	2008	2007	2008	2007
	%	%	%	%
Combined statutory income tax rate	31.2	32.1	31.4	32.2
Changes				
Impact of federal tax rate decrease of 3.5%, spread until 2012, on future taxes (\$11.4 in 2008)	—	—	(6.9)	—
Share of earnings in a public company subject to significant influence	(1.0)	(0.8)	(1.1)	(1.0)
Other	(0.7)	—	(0.1)	0.1
	29.5	31.3	23.3	31.3



## Notes to Interim Consolidated Financial Statements

Periods ended March 15, 2008 and March 17, 2007  
(Unaudited) (Millions of dollars, except for data per share)

### 6 : Earnings per Share

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

(Millions)	12 weeks Fiscal Year		24 weeks Fiscal Year	
	2008	2007	2008	2007
Weighted average number of shares outstanding – Basic	113.0	115.1	113.5	114.9
Dilutive effect under stock option plan and performance share units	0.6	1.6	0.9	1.6
Weighted average number of shares outstanding – Diluted	113.6	116.7	114.4	116.5

### 7 : Capital Stock

#### OUTSTANDING

	Class A Subordinate Shares		Class B Shares		Total
	Number (Thousands)		Number (Thousands)		
Balance as at September 29, 2007	113,683	\$ 713.2	804	\$ 1.6	\$ 714.8
Shares issued for cash	155	1.9	—	—	1.9
Shares redeemed for cash, excluding premium of \$39.0	(1,965)	(12.3)	—	—	(12.3)
Conversion of shares	32	0.1	(32)	(0.1)	—
Acquisition of treasury shares	(40)	(0.2)	—	—	(0.2)
Balance as at March 15, 2008	111,865	\$ 702.7	772	\$ 1.5	\$ 704.2

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



## Notes to Interim Consolidated Financial Statements

Periods ended March 15, 2008 and March 17, 2007  
(Unaudited) (Millions of dollars, except for data per share)

**STOCK OPTION PLAN** : As at March 15, 2008, 3,594,260 stock options were outstanding at exercise prices varying from \$11.80 to \$39.17, with expiry dates up to 2014. Of these stock options, 2,491,740 could be exercised for a weighted average exercise price of \$20.80.

Granted stock options were as follows:

	12 weeks Fiscal Year		24 weeks Fiscal Year	
	2008	2007	2008	2007
Granted stock options during the period	—	—	53,800	4,500
Weighted average exercise price	\$ —	\$ —	\$ 28.09	\$ 35.71
Weighted average fair value	\$ —	\$ —	\$ 7.54	\$ 11.07

During the 24-week period of 2008, the weighted average fair value of stock options was established at the time of grant using the Black & Scholes model and based on the following weighted average assumptions: risk-free interest rate of 3.8% (2007 — 3.9%), expected six-year term (2007 — six-year term), anticipated volatility of 25% (2007 — 30%) and an anticipated 1.5% dividend yield (2007 — 1.5%).

The compensation expense for these stock options amounted to \$0.4 for the second quarter of 2008 (2007 — \$0.3) and to \$0.7 for the 24-week period of 2008 (2007 — \$0.7).

**PERFORMANCE SHARE UNIT PLAN** : As of March 15, 2008, 225,348 performance share units (PSUs) were outstanding. During the 24-week period of 2008, 108,441 PSUs were granted (2007 — 79,834) and 6,912 PSUs were cancelled (2007 — nil). In the second quarter, 80,694 PSUs were granted (2007 — 50,564) and 1,778 were cancelled (2007 — nil).

At the end of the second quarter, 194,000 shares were held in trust for participants until the PSUs shall have vested or been cancelled (2007 — 135,500). During this quarter, 40,000 shares have been acquired (2007 — 63,500).

A compensation expense of \$0.8 pertaining to PSUs was recorded in the 24-week period of 2008 (2007 — \$0.5), \$0.5 of which was recorded in the second quarter (2007 — \$0.3).

### 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 24-week period were as follows:

	Fiscal Year	
	2008	2007
Opening balance (net of income taxes of \$0.6 in 2008, \$0.2 in 2007)	\$ 1.2	\$ 0.4
Change in fair value during the period (net of income taxes of \$1.2 in 2008, nil in 2007)	(2.4)	(0.1)
Balance — end of period	\$ (1.2)	\$ 0.3



# Notes to Interim Consolidated Financial Statements

Periods ended March 15, 2008 and March 17, 2007  
(Unaudited) (Millions of dollars, except for data per share)

## 9 : Contingency

In January 2007, the Company was named in a suit brought by beneficiaries of a multiemployer pension plan. They claim that plan assets were mismanaged and are seeking, among others, damages of \$1 billion from the trustees and the employers. The Company was one of the 443 employers affected by the suit and did not participate in managing the plan. On April 4, 2008 with the consent of the parties involved, the Court rendered an order dismissing the suit against the employers, including the Company, which considered the suit to be without merit in any case.

## 10 : Management of Capital

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

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

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

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

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

- a long-term debt/total capital ratio of 34.4% (35% as at September 29, 2007);
- a BBB credit rating confirmed by S&P and DBRS during the first quarter of 2008 (same rating during fiscal year 2007);
- a return on shareholders' equity of 14.4% over the last 12 months (17.2% for the 12 previous months);
- a decrease in fully diluted net earnings per share of 5.6% over the last 12 months (37.7% increase for the 12 previous months);
- an annualized dividend representing 20.1% of net earnings for the previous fiscal year (20.5% in 2007).



## Notes to Interim Consolidated Financial Statements

Periods ended March 15, 2008 and March 17, 2007

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

The capital management objectives remain the same as for the previous fiscal year. Return on shareholders' equity and fully diluted net earnings per share for the last 12 months were down compared to the previous 12 months mainly due to a 2.1% drop in sales owing to a more intense competitive environment as well as a training and learning curve associated with new information systems and a new warehouse.

### 11 : Financial Instruments

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

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

At the end of every quarter, the Company provides the Audit Committee with a detailed report on all of its derivative financial instruments along with their respective fair value. The report as at March 15, 2008 presented the following information:

	Fixed rate	Notional amount	Maturity	Fair value	
				2008	2007
Interest rate swap contract	3.9480%	\$ 50.0	November 23, 2008	\$ (0.2)	\$ 0.2
Interest rate swap contract	3.9820%	\$ 50.0	December 16, 2009	\$ (0.7)	\$ 0.2
Interest rate swap contract	4.0425%	\$ 50.0	December 16, 2010	\$ (0.9)	\$ 0.1



## Notes to Interim Consolidated Financial Statements

Periods ended March 15, 2008 and March 17, 2007  
(Unaudited) (Millions of dollars, except for data per share)

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

	12 weeks/Fiscal Year			
	2008		2007	
	0.5% increase	0.5% decrease	0.5% increase	0.5% decrease
Impact on net earnings of interest rate changes for loans and receivables as well as for other variable rate liabilities	\$ (0.2)	\$ 0.2	\$ (0.2)	\$ 0.2
Impact on other comprehensive income items due to changes in fair value of derivatives designated as cash flow hedges	\$ 0.8	\$ (0.8)	\$ 1.3	\$ (1.3)

	24 weeks/Fiscal Year			
	2008		2007	
	0.5% increase	0.5% decrease	0.5% increase	0.5% decrease
Impact on net earnings of interest rate changes for loans and receivables as well as for other variable rate liabilities	\$ (0.4)	\$ 0.4	\$ (0.4)	\$ 0.4
Impact on other comprehensive income items due to changes in fair value of derivatives designated as cash flow hedges	\$ 0.8	\$ (0.8)	\$ 1.3	\$ (1.3)



# Notes to Interim Consolidated Financial Statements

Periods ended March 15, 2008 and March 17, 2007  
(Unaudited) (Millions of dollars, except for data per share)

## CREDIT RISK :

### Loans and receivables/endorsements

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

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

To cover its credit risk, the Company holds guarantees from its clients assets in the form of deposits, movable hypothec on the Company stock and/or second hypothecs on their inventories, movable goods, intangible assets and receivables.

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

As at March 15, 2008, not taking into account the guarantees held, the maximum credit risk exposure for loans and receivables corresponded to their carrying amount. Also as of that date, the maximum potential liability under the endorsements was \$7.9 (\$26.0 in 2007) and no liability had been recognized.

### Derivatives designated as cash-flow hedges

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

As at March 15, 2008, the maximum credit risk exposure for derivatives designated as cash-flow hedges corresponded to their carrying amount.

## INFORMATION

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