



# 2<sup>nd</sup>

QUARTER

## REPORT TO SHAREHOLDERS

24-week period ended March 17, 2007

### HIGHLIGHTS

- Net earnings increase of 8.4% to \$61.8 million
- 12% increase in adjusted fully diluted net earnings to \$0.56 per share
- Adjusted same-store sales increased by 2.5%
- Synergies of \$20.6 million achieved



# Report to shareholders

I am pleased to report on our second quarter of fiscal 2007 ended March 17, 2007.

Second quarter net earnings were \$61.8 million compared to \$57 million for the corresponding quarter of the previous fiscal year, an increase of 8.4%. Fully diluted net earnings per share increased by 8.2% to \$0.53 compared to \$0.49 last year.

Excluding non-recurring items recorded in the second quarters of 2007 and 2006, adjusted net earnings for the second quarter of 2007 would have been \$65.5 million, an increase of 11.6%, and adjusted fully diluted net earnings per share would have been \$0.56, an increase of 12%. The non-recurring items are integration and rationalization costs of \$5.4 million before taxes in the second quarter of 2007 and \$2.6 million before taxes in the corresponding quarter of 2006.

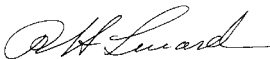
Our integration and rationalization plan related to the acquisition of A&P Canada is proceeding as planned. During the second quarter, we completed the implementation of our information systems in all of our Ontario warehouses. We also implemented our retail information systems in 10 stores and began implementation of our payroll and human resources management systems. We also achieved synergies of \$20.6 million in the second quarter of 2007 compared to \$9.2 million in the same quarter last year.

The Company's second quarter sales reached \$2,356.2 million. Excluding 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 fact that Christmas week fell in the first quarter of 2007 rather than in the second quarter as in 2006, sales would have increased by 3%.

Our financial position at the end of the second quarter of fiscal 2007 was very solid. Cash and cash equivalents totalled \$181.9 million. Our approved \$400 million line of credit remained unused. Percentage of long-term debt to total combined long-term debt and shareholders' equity (long-term debt/total capital) stood at 37.8%.

On April 17, 2007, the Board of Directors declared a quarterly dividend of \$0.115 per share, a 9.5% increase over the dividend declared for the same quarter last year.

Carrying out our integration and rationalization plan related to the acquisition of A&P Canada and achieving our synergies target remain our two priorities for this year. We will finish implementing our information systems throughout A&P Canada over the next few quarters and expect to achieve close to \$90 million of synergies in fiscal 2007. We are confident that METRO is well-positioned to continue its growth in the Canadian grocery market.



PIERRE H. LESSARD, FCA  
President and Chief Executive Officer

April 17, 2007

## Management's discussion and analysis

The following Management's Discussion and Analysis sets out the financial position and results of METRO INC. as at and for the period ended March 17, 2007. This discussion and analysis should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes in this quarterly report along with the consolidated financial statements for the fiscal year ended September 30, 2006 and related notes and Management's Discussion and Analysis presented in the Company's 2006 Annual Report. This analysis is based upon information as of April 6, 2007 unless otherwise stated. Additional information, including the Certification of Interim Filings letters for the quarter ended March 17, 2007 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 quarterly Management's Discussion and Analysis which does not constitute an historic fact, may be considered forward-looking. Verbs such as "believe", "foresee", "estimate" and other similar expressions appearing in this discussion and analysis generally indicate forward-looking statements. 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 forward-looking statements.

### Results of Operations

We realized net earnings of \$61.8 million in the second quarter of 2007, compared to \$57 million in the corresponding quarter of the previous fiscal year, and fully diluted net earnings per share of \$0.53 versus \$0.49 last year. Non-recurring items were recorded in the second quarters of 2007 and 2006, namely integration and rationalization costs of \$5.4 million before taxes in 2007 and \$2.6 million before taxes in 2006. Excluding these non-recurring items, adjusted net earnings<sup>(1)</sup> for the second quarter of 2007 would have been \$65.5 million, an increase of 11.6%, and adjusted fully diluted net earnings per share<sup>(1)</sup> would have been \$0.56, an increase of 12%.

**SALES** — Second quarter sales reached \$2,356.2 million, down 2.3% compared to fiscal 2006 second quarter sales of \$2,412.1 million. Excluding decreased sales of tobacco products and lost sales due to the disposal, in the fourth quarter of 2006, of our interest in a grocery wholesaler, and the fact that Christmas week fell in the first quarter of 2007 rather than in the second quarter as in 2006, sales would have increased by 3%. Excluding the Christmas week, same-store sales increased by 2.5% in the second quarter.

Sales for the first 24 weeks of 2007 reached \$4,871.2 million, down 1.3% compared to sales of \$4,933.8 million for the corresponding period of fiscal 2006. Excluding decreased sales of tobacco products and lost sales due to the disposal, in the fourth quarter of 2006, of our interest in a grocery wholesaler, sales would have increased by 1.8%.

(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.

**INTEGRATION AND RATIONALIZATION COSTS** — Following the acquisition of A&P Canada, we developed a plan to integrate and rationalize our operations. This three-part plan, dealing with our store network, the integration of our overall operations, and the implementation of our information systems at A&P, continued during the second quarter of 2007.

During the second quarter, we completed the implementation of our SAP and EXE purchasing and distribution systems in all of our Ontario warehouses. We also implemented our retail information systems in 10 stores and began implementing our payroll and human resource management systems.

Over the next quarter, the implementation of our retail systems in our other stores will continue, as will the implementation of our payroll and human resources management systems. So far, we have complied with our initial timetable and remained within the original budget. We expect to complete these implementations in the fourth quarter of 2007 as planned and stop outsourcing A&P US information systems.

Over fiscal 2006, integration and rationalization plan costs totalled \$28 million, and we anticipate another \$27 million in 2007. Costs incurred during the 24-week period of 2007 totalled \$11 million, \$5.4 million of which in the second quarter.

#### Integration and Rationalization Costs

(Millions of dollars)

	Incurred		2006 (53 weeks)	Anticipated	Total
	2007 (12 weeks)	2007 (24 weeks)			
Stores	—	2.2	11.9	2.4	16.5
Integration of operations	3.3	4.5	13.9	—	18.4
Implementation of information systems	2.1	4.3	2.2	13.6	20.1
	5.4	11.0	28.0	16.0	55.0

#### EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND

**AMORTIZATION (EBITDA)**<sup>(2)</sup> — Earnings before interest, taxes, depreciation and amortization for the second quarter of 2007 were \$140.1 million, down 0.2% from \$140.4 million for the same quarter last year. Second quarter EBITDA represented 5.9% of sales versus 5.8% last year. Second quarter integration and rationalization costs were \$5.4 million and \$2.6 million in 2007 and 2006, respectively.

Our second quarter equity earnings from our investment in Alimentation Couche-Tard were \$5.2 million in 2007 compared to \$6.6 million in 2006.

Excluding integration and rationalization costs as well as equity earnings from our investment in Alimentation Couche-Tard, 2007 second quarter EBITDA, as a percentage of sales, would have been 6% versus 5.7% in 2006. This improvement in EBITDA is due mainly to effective merchandising and further synergies in 2007.

In the second quarter of 2007, we recorded \$20.6 million in synergies compared to \$9.2 million in the second quarter of 2006. With these results, we will exceed our \$80 million objective in 2007 and expect to achieve close to \$90 million of synergies for fiscal year-end.

EBITDA for the 24-week period rose 18.8% to \$294.7 million or 6% of sales compared to \$248.1 million or 5% of sales for the same period last year. We incurred integration and rationalization costs of \$11 million in the first 24 weeks of 2007 versus \$20.9 million over the same period in 2006. Equity earnings from our investment in Alimentation Couche-Tard were \$13.8 million for the 24-week period compared to \$13.4 million in 2006.

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

Excluding integration and rationalization costs and earnings from our investment in Alimentation Couche-Tard, our EBITDA for the first 24 weeks of 2007 would be 6% of sales compared to 5.2% for the same period of fiscal 2006.

The increase in EBITDA is due mainly to effective merchandising and further synergies achieved in 2007.

We achieved \$39.6 million in synergies in the first 24 weeks of 2007 versus \$17.1 million in the same period of fiscal 2006.

**INTEREST, DEPRECIATION AND AMORTIZATION** — Total depreciation and amortization expenses for the second quarter and first 24 weeks of fiscal 2007 amounted to \$37.9 million and \$74.9 million, respectively, compared with \$39.1 million and \$77.9 million for the same periods last year. These decreases result primarily from additional amortization charges in fiscal 2006 following the reassessment of the useful life of certain assets. Second quarter interest expenses totalled \$14.1 million versus \$16.3 million last year, while interest expenses for the 24-week period totalled \$28.4 million versus \$31.8 million last year. These decreases are due primarily to a debt reduction of \$188 million since the end of the second quarter of 2006. Interest rates for the first 24 weeks of 2007 averaged 5.4% compared with 4.9% for the corresponding period of the previous fiscal year.

**INCOME TAXES** — The 2007 second quarter and 24-week period income tax expenses of \$27.6 million and \$59.9 million represent an effective tax rate of 31.3%. The 2006 second quarter and 24-week period income tax expenses of \$26.4 million and \$47.8 million represented effective tax rates of 31.1% and 34.5%, respectively. In the first quarter of 2006, we recorded an additional tax expense of \$5.3 million, following an approval milestone with regard to the Québec government's budget providing for a tax rate increase for large businesses. Excluding this additional expense, the effective tax rate for the first 24 weeks of 2006 would have been 30.7%.

**NET EARNINGS** — Second quarter net earnings were \$61.8 million compared to \$57 million for the corresponding quarter of fiscal 2006, an increase of 8.4%. Fully diluted net earnings per share increased 8.2% to \$0.53 compared to \$0.49 last year. Excluding second quarter integration and rationalization costs of \$5.4 million before taxes in 2007 and of \$2.6 million before taxes in 2006, adjusted net earnings for the second quarter would have been \$65.5 million, up 11.6% from net earnings for the same quarter last year. Adjusted fully diluted net earnings per share would have been \$0.56, an increase of 12% over last year.

Net earnings for the first 24 weeks of 2007 reached \$129.7 million versus \$89 million last year, a 45.7% increase. Excluding integration and rationalization costs of \$11 million before taxes for the first 24 weeks of 2007 and of \$20.9 million before taxes for the first 24 weeks of 2006, and the additional tax expense of \$5.3 million in 2006, adjusted net earnings for the 2007 24-week period would have been \$137.1 million, up 26.6% over the corresponding period last year. Fully diluted net earnings per share would have been \$1.18, up 26.9% over last year.

## Quarterly Highlights

(Millions of dollars, except earnings per share)

	2007 (52 weeks)	2006 (53 weeks)	2005 (52 weeks)	Variation (Percentage)
<b>Sales</b> (Restated – EIC-156)				
Q2	2,356.2	2,412.1	—	(2.3)
Q1	2,515.0	2,521.7	—	(0.3)
Q4	—	2,673.5	1,951.8	37.0
Q3	—	3,336.7	1,898.2	75.8
<b>Net earnings</b>				
Q2	61.8	57.0	—	8.4
Q1	67.9	32.0	—	112.2
Q4	—	78.9	50.2	57.2
Q3	—	85.1	56.9	49.6
<b>Adjusted net earnings</b>				
Q2	65.5 <sup>(3)</sup>	58.7 <sup>(3)</sup>	—	11.6
Q1	71.6 <sup>(3)</sup>	49.6 <sup>(3)</sup>	—	44.4
Q4	—	71.0 <sup>(3)</sup>	50.2	41.4
Q3	—	78.3 <sup>(3)</sup>	56.9	37.6
<b>Fully diluted net earnings per share</b> (Dollars)				
Q2	0.53	0.49	—	8.2
Q1	0.58	0.28	—	107.1
Q4	—	0.68	0.48	41.7
Q3	—	0.73	0.58	25.9
<b>Adjusted fully diluted net earnings per share</b> (Dollars)				
Q2	0.56 <sup>(3)</sup>	0.50 <sup>(3)</sup>	—	12.0
Q1	0.62 <sup>(3)</sup>	0.43 <sup>(3)</sup>	—	44.2
Q4	—	0.61 <sup>(3)</sup>	0.48	27.1
Q3	—	0.68 <sup>(3)</sup>	0.58	17.2

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

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

Decreased sales in fiscal 2007 quarters compared to 2006 resulted from decreased sales of tobacco products and lost sales due to the disposal, in the fourth quarter of 2006, of our interest in a grocery wholesaler, and the fact that Christmas week fell in the first quarter of 2007 rather than in the second quarter as in 2006. Excluding these items, 2007 first and second quarter sales would have been up 0.6% and 3%, respectively, over 2006.

Over the last four quarters, net earnings and fully diluted net earnings per share 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 the government.

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

	2007				2006			
Net earnings <i>(Millions of dollars)</i>	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Adjusted net earnings	71.6	65.5	—	—	49.6	58.7	78.3	71.0
Integration and rationalization costs after taxes	(3.7)	(3.7)	—	—	(12.3)	(1.7)	(2.6)	(2.1)
Investment disposal gain, after taxes	—	—	—	—	—	—	—	8.6
Decrease(increase) in tax expense	—	—	—	—	(5.3)	—	9.4	1.4
Net earnings	67.9	61.8	—	—	32.0	57.0	85.1	78.9

	2007				2006			
Fully diluted net earnings per share <i>(Dollars)</i>	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Adjusted fully diluted net earnings	0.62	0.56	—	—	0.43	0.50	0.68	0.61
Integration and rationalization costs after taxes	(0.04)	(0.03)	—	—	(0.10)	(0.01)	(0.03)	(0.02)
Investment disposal gain, after taxes	—	—	—	—	—	—	—	0.07
Decrease (increase) in tax expense	—	—	—	—	(0.05)	—	0.08	0.02
Fully diluted net earnings per share	0.58	0.53	—	—	0.28	0.49	0.73	0.68

Synergies before taxes <i>(Millions of dollars)</i>	Fiscal Year	
	2007	2006
Q1	19.0	7.9
Q2	20.6	9.2
Q3	—	15.5
Q4	—	18.7
	<b>39.6</b>	<b>51.3</b>

## Cash Position

**OPERATING ACTIVITIES** — Operating activities generated cash flows of \$116.6 million in the second quarter and \$166 million over the first 24 weeks of 2007, compared to \$177.6 million and \$124.6 million respectively in the corresponding periods of fiscal 2006. The decrease in 2007 second quarter cash flows compared to those of the second quarter of fiscal 2006 are mainly the consequence of Christmas week falling in the first quarter of 2007 rather than the second quarter as in 2006. The Christmas week reduction in inventories generated funds that increased 2006 second quarter cash flows compared with the first quarter of 2007.

**INVESTMENT ACTIVITIES** — Investing activities consumed \$52.7 million of cash in the second quarter of 2007 and \$121 million in the first 24 weeks versus \$32.8 million in the second quarter of 2006 and \$80.5 million in the first 24 weeks of 2006. These increases are due primarily to the acquisition of additional fixed assets related to new store construction, expansion, and renovation projects.

During the first 24 weeks of 2007, the Company and the retailers invested \$144.2 million in our retail network for an expansion of 506,400 square feet or 2.7%, for a net expansion of 149,000 square feet. The opening of 10 new stores, major renovations and expansions of 23 stores have been completed.

**FINANCING ACTIVITIES** — Financing activities consumed \$6.1 million of cash in the second quarter of 2007 and \$28.8 million in the first 24 weeks of 2007 versus 2006 second quarter outflows of \$8.2 million and cash inflows of \$80.2 million in the first 24 weeks of 2006. The main reason for this variation in 24-week period figures is the Company's issuance of \$600 million of 10-year and 30-year medium-term notes in the first quarter of 2006, with \$500 million of the proceeds used to pay down the credit facilities obtained for the acquisition of A&P Canada. The remaining \$100 million, kept as short-term cash assets, was the primary source of cash flows generated in the first quarter of 2006.

## Financial Position

Our financial position at the end of the second quarter of 2007 was very solid. We had \$181.9 million in cash and cash equivalents. We have not used our approved \$400 million line of credit. Our long-term debt corresponds to 37.8% 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	469.3	August 15, 2010
Medium-term Series A notes	Fixed rate of 4.98%	200.0	October 15, 2015
Medium-term Series B notes	Fixed rate of 5.97%	400.0	October 15, 2035

At the end of the second 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
4.6480%	50.0	November 23, 2008
4.6820%	50.0	December 16, 2009
4.7425%	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 4.6480% to 5.97% and \$319.3 million at variable rates which fluctuate with changes in bankers' acceptance rates.

#### FINANCIAL RATIOS

	As at March 17, 2007	As at September 30, 2006
Financial structure		
Long-term debt <i>(Millions of \$)</i>	<b>1,116.6</b>	1,116.6
Shareholders' equity <i>(Millions of \$)</i>	<b>1,836.9</b>	1,723.8
Long-term debt/total capital (%)	<b>37.8</b>	39.3
	<b>Fiscal 2007</b>	<b>Fiscal 2006</b>
	<i>(24 weeks)</i>	<i>(24 weeks)</i>
Results		
EBITDA/Interest <i>(Times)</i>	<b>10.4</b>	7.8

## Capital Stock, Stock Options and Performance Share Units

	As at March 17, 2007	As at September 30, 2006
Number of Class A Subordinate Shares outstanding ( <i>Thousands</i> )	<b>114,394</b>	113,852
Number of Class B Shares outstanding ( <i>Thousands</i> )	<b>848</b>	880
Stock options:		
Number outstanding ( <i>Thousands</i> )	<b>3,651</b>	4,233
Exercise price	<b>\$11.80 to \$35.71</b>	\$8.73 to \$33.87
Weighted average exercise price	<b>\$21.50</b>	\$20.85
Number of performance shares units:		
Number outstanding ( <i>Thousands</i> )	<b>128</b>	48
Weighted average maturity	<b>29 months</b>	30 months

**DIVIDENDS** — On April 17, 2007, the Company's Board of Directors declared a quarterly dividend of \$0.115 per Class A Subordinate Share and Class B Share payable June 4, 2007, an increase of 9.5% over the dividend for the corresponding quarter last year. On an annualized basis, this dividend represents 21% of 2006 net earnings.

**SHARE TRADING** — The value of METRO shares remained in the range of \$33.23 to \$40.83 over the first 24 weeks of fiscal 2007. During this period, a total of 25.4 million shares were traded on the Toronto Stock Exchange. The closing price on Friday, April 6, 2007 was \$36.83, compared with \$33.60 at the end of fiscal 2006.

### Outlook

Over the next quarters, we will pursue our integration and rationalization plan related to the acquisition of A&P Canada, which is on schedule and proceeding as planned. We are satisfied with our progress to date and are confident that METRO is well positioned to continue its growth in the Canadian grocery market.

Montreal, April 17, 2007

## Consolidated Statements of Earnings

Periods ended March 17, 2007 and March 11, 2006 <i>(Unaudited)</i> (Millions of dollars, except for earnings per share)	12 weeks Fiscal Year		24 weeks Fiscal Year	
	2007	2006 (Restated – note 2)	2007	2006 (Restated – note 2)
<b>Sales</b>	\$ 2,356.2	\$ 2,412.1	\$ 4,871.2	\$ 4,933.8
Cost of sales and operating expenses	2,210.7	2,269.1	4,565.5	4,664.8
Integration and rationalization costs (note 3)	5.4	2.6	11.0	20.9
<b>Earnings before interest, taxes, depreciation and amortization</b>	<b>140.1</b>	140.4	<b>294.7</b>	248.1
Depreciation and amortization	37.9	39.1	74.9	77.9
<b>Operating income</b>	<b>102.2</b>	101.3	<b>219.8</b>	170.2
Interest, net				
Short term	(0.6)	(0.1)	(1.3)	0.1
Long term	14.7	16.4	29.7	31.7
	14.1	16.3	28.4	31.8
<b>Earnings before income taxes</b>	<b>88.1</b>	85.0	<b>191.4</b>	138.4
Income taxes (note 5)	27.6	26.4	59.9	47.8
<b>Earnings before minority interest</b>	<b>60.5</b>	58.6	<b>131.5</b>	90.6
Minority interest	(1.3)	1.6	1.8	1.6
<b>Net earnings</b>	<b>\$ 61.8</b>	\$ 57.0	<b>\$ 129.7</b>	\$ 89.0
<b>Earnings per share (note 6)</b>				
Basic	\$ 0.54	\$ 0.50	\$ 1.13	\$ 0.78
Fully diluted	\$ 0.53	\$ 0.49	\$ 1.11	\$ 0.77

See accompanying notes

# Consolidated Balance Sheets

(Unaudited) (Millions of dollars)

	As at March 17, 2007	As at Sept. 30, 2006
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 181.9	\$ 165.7
Accounts receivable	300.3	302.1
Inventories	575.1	565.5
Prepaid expenses	17.2	11.3
Future income taxes	22.3	16.7
	<b>1,096.8</b>	1,061.3
Investments and other assets	141.4	117.9
Fixed assets	1,172.0	1,129.9
Intangible assets	335.5	331.7
Goodwill	1,490.1	1,490.1
Accrued benefit assets	33.0	33.0
	<b>\$ 4,268.8</b>	<b>\$ 4,163.9</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Bank loans	\$ 0.4	\$ 0.3
Accounts payable	1,046.8	1,049.5
Income taxes payable	18.4	36.8
Current portion of long-term debt	5.2	7.3
	<b>1,070.8</b>	1,093.9
Long-term debt	1,116.7	1,116.6
Accrued benefit obligations	60.2	60.6
Future income taxes	127.3	115.0
Other long-term liabilities	45.3	44.2
Minority interest	11.6	9.8
	<b>2,431.9</b>	2,440.1
<b>Shareholders' equity</b>		
Capital stock (note 7)	718.5	709.0
Contributed surplus	0.5	1.6
Retained earnings	1,117.6	1,013.2
Accumulated other comprehensive income (notes 2 and 8)	0.3	—
	<b>1,836.9</b>	1,723.8
	<b>\$ 4,268.8</b>	<b>\$ 4,163.9</b>

See accompanying notes

## Consolidated Statements of Cash Flows

Periods ended March 17, 2007 and March 11, 2006 <i>(Unaudited)</i> (Millions of dollars)	12 weeks Fiscal Year		24 weeks Fiscal Year	
	2007	2006	2007	2006
<b>Operating activities</b>				
Net earnings	\$ 61.8	\$ 57.0	\$ 129.7	\$ 89.0
Non-cash items				
Integration and rationalization costs <i>(note 3)</i>	2.4	1.5	4.2	19.5
Share of earnings in a public company subject to significant influence	(5.2)	(6.6)	(13.8)	(13.4)
Depreciation and amortization	37.9	39.1	74.9	77.9
Amortization of deferred financing costs	0.5	0.6	1.0	1.2
Loss on disposal and write-off of fixed and intangible assets	0.2	—	0.3	0.4
Future income taxes	2.9	2.8	6.5	6.1
Stock-based compensation cost	0.6	0.3	1.2	0.5
Difference between amounts paid for employee future benefits over current period cost	(0.6)	1.8	(0.4)	(9.6)
Minority interest	(1.3)	1.6	1.8	1.6
	99.2	98.1	205.4	173.2
Net change in non-cash working capital related to operations	17.4	79.5	(39.4)	(48.6)
	116.6	177.6	166.0	124.6
<b>Investing activities</b>				
Net change in investments and other assets	0.7	(1.9)	(1.1)	(1.6)
Dividend of a public company subject to significant influence	0.6	0.5	1.2	0.5
Acquisition of fixed assets	(44.9)	(29.4)	(105.1)	(71.7)
Disposal of fixed assets	—	2.2	2.5	6.5
Acquisition of intangible assets	(9.1)	(4.2)	(18.5)	(14.2)
	(52.7)	(32.8)	(121.0)	(80.5)
<b>Financing activities</b>				
Net change in bank loans	(0.2)	0.9	0.1	3.0
Issuance of shares	8.3	0.9	9.7	0.9
Acquisition of treasury shares	(2.5)	—	(2.5)	—
Increase of long-term debt	1.0	0.4	1.8	601.2
Repayment of long-term debt	(2.2)	(2.1)	(4.8)	(505.2)
Net change in other long-term liabilities	2.7	3.7	(7.8)	3.7
Dividends paid	(13.2)	(12.0)	(25.3)	(23.4)
	(6.1)	(8.2)	(28.8)	80.2
<b>Net change in cash and cash equivalents</b>	57.8	136.6	16.2	124.3
Cash and cash equivalents – beginning of period	124.1	81.5	165.7	93.8
Cash and cash equivalents – end of period	\$ 181.9	\$ 218.1	\$ 181.9	\$ 218.1
<b>Other information</b>				
Interest paid	\$ 6.6	\$ 4.8	\$ 30.5	\$ 14.5
Income taxes paid	\$ 17.4	\$ 21.2	\$ 71.4	\$ 41.6

See accompanying notes

## Consolidated Statements of Retained Earnings

24-week periods ended March 17, 2007 and March 11, 2006 <i>(Unaudited) (Millions of dollars)</i>	Fiscal Year	
	2007	2006
<b>Balance – beginning of period</b>	<b>\$ 1,013.2</b>	<b>\$ 807.7</b>
Net earnings	129.7	89.0
Dividends	(25.3)	(23.4)
<b>Balance – end of period</b>	<b>\$ 1,117.6</b>	<b>\$ 873.3</b>

See accompanying notes

## Consolidated Statements of Comprehensive Income

Periods ended March 17, 2007 and March 11, 2006 <i>(Unaudited) (Millions of dollars) (notes 2 and 8)</i>	12 weeks Fiscal Year		24 weeks Fiscal Year	
	2007	2006	2007	2006
<b>Net earnings</b>	<b>\$ 61.8</b>	<b>\$ 57.0</b>	<b>\$ 129.7</b>	<b>\$ 89.0</b>
<b>Other comprehensive income</b>				
Change in fair value of derivatives designated as cash flow hedges (net of income taxes)	—	—	(0.1)	—
<b>Comprehensive income</b>	<b>\$ 61.8</b>	<b>\$ 57.0</b>	<b>\$ 129.6</b>	<b>\$ 89.0</b>

See accompanying notes

Periods ended March 17, 2007 and March 11, 2006

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

## 1 } Statement Presentation

The unaudited interim consolidated financial statements were prepared by management in accordance with Canadian generally accepted accounting principles. The accounting policies and procedures used in assembling these interim consolidated financial statements are the same as those used in preparing the audited annual consolidated financial statements for the year ended September 30, 2006, except for the new accounting policies described in note 2. The unaudited interim consolidated financial statements should be read along with the audited annual consolidated financial statements and notes to the statements in the Company's 2006 Annual Report. The operating results for the interim period covered do not necessarily reflect overall results for the fiscal year. Certain comparative figures have been reclassified to conform to the presentation being used in the current fiscal year.

## 2 } New Accounting Policies

IN 2007

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

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

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

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

The Company has implemented the following classification:

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

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

Periods ended March 17, 2007 and March 11, 2006

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

## 2 } New Accounting Policies (cont'd)

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.

### IN 2006

The Company adopted, in the third quarter of fiscal 2006, EIC-156 "*Accounting by a Vendor for Consideration Given to a Customer (including a Reseller of the Vendor's Products)*". Under this new standard, certain rebates granted by the Company to its retailers have to be reclassified as a reduction in sales rather than as cost of sales. The new standard must be applied retroactively with restatement of prior interim financial statements. The reclassification between sales and cost of sales and operating expenses following the new standard's application and certain adjustments to A&P Canada's different accounting practices on previously stated results totalled \$3.4 for the second quarter of 2006 and \$5.8 for the 24-week period of 2006.

## 3 } Integration and Rationalization Costs

During the period ended March 17, 2007, the Company pursued its plan for the integration and rationalization of its operations following the acquisition of A&P Canada. This three-part plan deals with the store network, the integration of overall operations, and the implementation of information systems at A&P Canada.

Over fiscal 2006, integration and rationalization plan costs amounted to \$28, and \$27 is anticipated in 2007. Costs incurred over the 24-week period amounted to \$11, which includes \$5.4 in the second quarter of 2007.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Periods ended March 17, 2007 and March 11, 2006

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

**By Nature of Project**

	Incurred			Anticipated	Total
	2007		2006		
	(12 weeks)	(24 weeks)	(53 weeks)		
Stores	\$ —	\$ 2.2	\$ 11.9	\$ 2.4	\$ 16.5
Integration of operations	3.3	4.5	13.9	—	18.4
Implementation of information systems	2.1	4.3	2.2	13.6	20.1
	<b>\$ 5.4</b>	<b>\$ 11.0</b>	<b>\$ 28.0</b>	<b>\$ 16.0</b>	<b>\$ 55.0</b>

**By Nature of Costs for the 12-week period**

	Liability as at Dec. 23, 2006	Incurred 2007 (12 weeks)	Paid 2007 (12 weeks)	Liability as at March 17, 2007	Incurred 2006 (53 weeks)	Anticipated	Total
Retention bonuses, termination benefits and others	\$ 1.8	\$ 3.0	\$ 0.4	\$ 4.4	\$ 18.1	\$ 0.6	\$ 22.9
Training and IT implementation	—	2.1	2.1	—	2.2	13.6	20.1
Vacant premises	3.6	0.1	0.3	3.4	2.4	—	4.7
	\$ 5.4	\$ 5.2	\$ 2.8	\$ 7.8	\$ 22.7	\$ 14.2	\$ 47.7
Asset write-offs		0.2			5.3	1.8	7.3
		<b>\$ 5.4</b>			<b>\$ 28.0</b>	<b>\$ 16.0</b>	<b>\$ 55.0</b>

**By Nature of Costs for the 24-week period**

	Liability as at Sept. 30, 2006	Incurred 2007 (24 weeks)	Paid 2007 (24 weeks)	Liability as at March 17, 2007	Incurred 2006 (53 weeks)	Anticipated	Total
Retention bonuses, termination benefits and others	\$ 2.1	\$ 4.2	\$ 1.9	\$ 4.4	\$ 18.1	\$ 0.6	\$ 22.9
Training and IT implementation	—	4.3	4.3	—	2.2	13.6	20.1
Vacant premises	1.5	2.3	0.4	3.4	2.4	—	4.7
	\$ 3.6	\$ 10.8	\$ 6.6	\$ 7.8	\$ 22.7	\$ 14.2	\$ 47.7
Asset write-offs		0.2			5.3	1.8	7.3
		<b>\$ 11.0</b>			<b>\$ 28.0</b>	<b>\$ 16.0</b>	<b>\$ 55.0</b>

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

Periods ended March 17, 2007 and March 11, 2006

(Unaudited) (Millions of dollars, except for earnings 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			
	2007		2006		2007		2006	
	Pension plans	Other plans	Pension plans	Other plans	Pension plans	Other plans	Pension plans	Other plans
<b>Defined contribution plans</b>	\$ 5.4	\$ —	\$ 5.0	\$ 0.1	\$11.6	\$ 0.1	\$10.1	\$ 0.2
<b>Defined benefit plans</b>								
Current								
service cost	\$ 5.7	\$ 0.2	\$ 4.8	\$ 0.2	\$11.4	\$ 0.5	\$ 9.6	\$ 0.5
Interest cost	6.3	0.3	5.6	0.5	12.6	0.6	11.2	1.0
Projected return on plan assets	(8.8)	—	(7.7)	—	(17.6)	—	(15.4)	—
Amortization of actuarial losses and past service cost	0.3	—	0.2	—	0.6	—	0.4	—
	3.5	0.5	2.9	0.7	7.0	1.1	5.8	1.5
	\$ 8.9	\$ 0.5	\$ 7.9	\$ 0.8	\$18.6	\$ 1.2	\$15.9	\$ 1.7

## 5 } Income Taxes

The effective income tax rates were as follows:

	12 weeks Fiscal Year		24 weeks Fiscal Year	
	2007	2006	2007	2006
	%	%	%	%
Combined statutory income tax rate	32.1	31.8	32.2	31.8
Changes				
Impact of Québec tax rate increase of 3% on future taxes (\$5.3 in 2006)	—	—	—	3.8
Share of earnings of a public company subject to significant influence	(0.8)	(1.0)	(1.0)	(1.2)
Other	—	0.3	0.1	0.1
	31.3	31.1	31.3	34.5

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Periods ended March 17, 2007 and March 11, 2006

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

## 6 } Earnings per Share

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

<i>(Millions)</i>	12 weeks Fiscal Year		24 weeks Fiscal Year	
	2007	2006	2007	2006
Weighted average number of shares outstanding – Basic	115.1	114.5	114.9	114.5
Dilutive effect of stock option plan and performance share units	1.6	1.2	1.6	1.4
Weighted average number of shares outstanding – Diluted	116.7	115.7	116.5	115.9

## 7 } Capital Stock

### ISSUED AND OUTSTANDING

	Class A Subordinates Shares		Class B Shares		Total
	Number <i>(Thousands)</i>		Number <i>(Thousands)</i>		
Balance as at					
September 30, 2006	113,852	\$ 707.3	880	\$ 1.7	\$ 709.0
Share issue	574	9.7	—	—	9.7
Transfer from contributed surplus – options exercised	—	0.2	—	—	0.2
Conversion of shares	32	—	(32)	—	—
Acquisition of treasury shares	(64)	(0.4)	—	—	(0.4)
Balance as at					
March 17, 2007	114,394	\$ 716.8	848	\$ 1.7	\$ 718.5

**STOCK OPTION PLAN** — As at March 17, 2007, 3,650,540 stock options had been granted to certain employees at exercise prices varying from \$11.80 to \$35.71, with expiry dates up to 2013. Of these stock options, 2,324,940 could be exercised for an average weighted exercise price of \$20.46.

	12 weeks Fiscal Year		24 weeks Fiscal Year	
	2007	2006	2007	2006
Granted stock options during the period	—	15,000	4,500	45,000
Weighted average exercise price	\$ —	\$ 30.02	\$ 35.71	\$ 31.81
Weighted average fair value	\$ —	\$ 9.40	\$ 11.07	\$ 9.90

Periods ended March 17, 2007 and March 11, 2006

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

## 7 } Capital Stock (cont'd)

During the 24-week period of 2007, the weighted average fair value of stock options was established at the time of grant using the Black & Scholes model and based on the following weighted average assumptions: risk-free interest rate of 3.92% (2006 – 4%), expected six-year term (2006 – six-year term), anticipated volatility of 30% (2006 – 30%) and an anticipated 1.5% dividend yield (2006 – 1.5%).

The compensation expense for these stock options amounted to \$0.3 for the second quarter of 2007 (2006 – \$0.3) and to \$0.7 for the 24-week period of 2007 (2006 – \$0.5).

**PERFORMANCE SHARE UNIT PLAN** — As of March 17, 2007, a total of 128,282 performance share units (PSUs) had been granted to certain employees including 29,270 in the first quarter, as the Company met certain performance indicators, and 50,564 during the second quarter.

At the end of the second quarter, 135,500 shares were held in trust for participants until the PSUs shall have vested or been cancelled. None of these shares has been acquired during this quarter.

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

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

Periods ended March 17, 2007 and March 11, 2006

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

## 9 } Contingency

In January 2007, the Company was named in a suit brought by beneficiaries of a multi-employer pension plan. They claim that plan assets were mismanaged and are seeking, among others, damages of \$1 billion from the trustees and the employers. The Company is one of the 443 employers affected by the suit and did not participate in managing the plan. The Company forcefully contests the suit's merits and considers that it will have no future financial obligation relating to this recourse.

## 10 } Financial Instruments

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

	As at March 17, 2007		As at September 30, 2006	
	Book value	Fair value	Book value	Fair value
<b>Investments and other assets</b>				
Available-for-sale financial assets				
Investments in companies	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1
Loans and receivables				
Loans to certain customers	\$ 9.9	\$ 9.9	\$ 8.6	\$ 8.6
Derivatives designated as cash flow hedges				
Interest rate swaps	\$ 0.5	\$ 0.5	\$ —	\$ 0.6
<b>Long-term debt</b>				
Other financial liabilities				
Credit facility A	\$ 469.3	\$ 469.3	\$ 469.3	\$ 469.3
Series A notes	200.0	199.7	200.0	199.8
Series B notes	400.0	406.8	400.0	410.3
Loans	11.1	11.1	10.4	10.4
Obligations under capital leases	41.5	49.9	44.2	53.7
	<b>\$1,121.9</b>	<b>\$1,136.8</b>	<b>\$1,123.9</b>	<b>\$1,143.5</b>

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

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

Periods ended March 17, 2007 and March 11, 2006

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

## 10 } Financial Instruments (cont'd)

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

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

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

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

## Information

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