



3rd Quarter : 2008



Highlights

- Sales of \$3,370.0 million, up 0.9%
- Net earnings of \$92.6 million, up 3.7%
- Fully diluted net earnings per share of \$0.82, up 6.5%
- Declared dividend of \$0.125 per share, up 8.7%
- Investment of \$200 million to launch the Metro banner in Ontario

INTERIM REPORT
40-week period ended July 5, 2008

metro

REPORT TO SHAREHOLDERS

Sales for the third quarter of 2008 were \$3,370.0 million compared to \$3,341.0 million for the corresponding quarter last year, an increase of 0.9%. Excluding decreased sales of tobacco products, sales were up 1.5% over last year.

Successful resolution of the issues associated with our new information systems in Ontario and the good performance of our Québec operations contributed to our earnings growth.

EBITDA⁽¹⁾ as a percentage of sales reached 6.1% in the third quarter, an improvement of 40 and 70 basis points respectively over our second and first quarter results.

The 2008 third quarter net earnings were \$92.6 million compared to \$89.3 million for the corresponding quarter last year, an increase of 3.7%. Fully diluted net earnings per share increased by 6.5% to \$0.82 compared to \$0.77 last year.

As part of our issuer bid program, between September 5, 2007 and July 30, 2008, we have redeemed 4,000,000 Class A Subordinate Shares, at an average price of \$26.55 per share, for a total consideration of \$106.2 million. Subject to regulatory approval, the Board of Directors renewed the issuer bid program on August 6, 2008 for the repurchase of up to 6,000,000 shares between September 5, 2008 and September 4, 2009.

Our financial position at the end of the third 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 33.8%.

On August 6, 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.

With the resolution of the issues associated with our new Ontario information systems now completed, we are announcing one of the final phases of our A&P Canada acquisition-related integration plan, the conversion of our five Ontario conventional banners under the Metro name, to create the largest grocery banner in Ontario.

We will invest \$200 million to remodel and refresh our 158 Ontario supermarkets, upgrade our food offering and launch new marketing programs. Following this conversion, at the end of 2009, the Metro banner will be a 376-store strong national network that will contribute to the Company's future growth. As we launch the Metro banner in Ontario, we are also unveiling a new Metro logo that will be used for our stores in both provinces and that becomes METRO INC's new signature.



ÉRIC R. LA FLÈCHE
President and Chief Executive Officer
August 6, 2008

⁽¹⁾ 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 July 5, 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 July 25, 2008 unless otherwise stated. Additional information, including the Certification of Interim Filings letters for the quarter ended July 5, 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.

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. The forward-looking statements formulated in this Management's Discussion and Analysis are based on a certain number of assumptions regarding the economy, the market, and the Company's operations and financial position. One of these assumptions is that current trends in these areas will persist into the future. These assumptions are reasonable and applicable at this MD&A's date of issue only and represent our expectations at said time. 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.



Results of Operations

We realized net earnings of \$92.6 million in the third quarter of 2008, up 3.7% from \$89.3 million in the same quarter last year, and fully diluted net earnings per share of \$0.82, up 6.5% from \$0.77 last year. In the third quarter of 2007, we had A&P Canada acquisition-related integration and rationalization costs before taxes of \$5.4 million and a \$1.8 million decrease in our tax expense. Excluding these non-recurring items, 2008 third quarter net earnings and fully diluted net earnings per share were up 1.6% and 5.1% respectively compared to the 2007 third quarter adjusted net earnings⁽¹⁾ and adjusted fully diluted net earnings per share⁽¹⁾.

SALES : Third quarter sales reached \$3,370.0 million, up 0.9% compared to \$3,341.0 million last year. Excluding decreased sales of tobacco products, 2008 third quarter sales were up 1.5%. Third quarter same-store sales increased by 0.5%.

Sales for the first 40 weeks of 2008 reached \$8,249.2 million, up 0.5% compared to sales of \$8,212.2 million for the corresponding period of fiscal 2007. Excluding decreased sales of tobacco products, sales increased by 1.0%.

EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION (EBITDA)⁽¹⁾ : Earnings before interest, taxes, depreciation and amortization⁽¹⁾ for the third quarter of 2008 were \$207.0 million, up 5.7% from \$195.9 million for the same quarter last year. Third quarter EBITDA⁽¹⁾ represented 6.1% of sales versus 5.9% last year. Excluding A&P Canada acquisition-related integration and rationalization costs of \$5.4 million in 2007, adjusted EBITDA⁽¹⁾ for the third quarter of 2007 represented 6.0% of sales.

Our third quarter equity earnings from our investment in Alimentation Couche-Tard were \$1.7 million in 2008 compared to \$3.9 million in 2007. Alimentation Couche-Tard's 2008 fourth quarter results were affected by lower motor fuel gross margins in the U.S., higher electronic payment mode expenses and an economic slowdown in the U.S. South.

Excluding non-recurring items as well as equity earnings from our investment in Alimentation Couche-Tard, our adjusted 2008 third quarter EBITDA⁽¹⁾ was \$205.3 million or 6.1% of sales versus \$197.4 million or 5.9% of sales for the corresponding quarter of the previous fiscal year.

In the third quarter of 2008, we resolved the issues associated with our information systems in Ontario and our Québec operations continued to perform well, allowing a return to EBITDA⁽¹⁾ growth.

EBITDA⁽¹⁾ for the first 40 weeks of 2008 was \$479.3 million or 5.8% of sales compared to \$490.6 million or 6.0% of sales for the same period last year.

Excluding A&P acquisition-related integration and rationalization costs of \$16.4 million, adjusted EBITDA⁽¹⁾ for the 2007 40-week period was 6.2% of sales.

⁽¹⁾ See section "Non-GAAP Measurements".



Equity earnings from our investment in Alimentation Couche-Tard were \$12.6 million for the 40-week period in 2008 compared to \$17.7 million in 2007. Excluding non-recurring items as well as equity earnings from our investment in Alimentation Couche-Tard, EBITDA⁽¹⁾ for the first 40 weeks of 2008 was \$466.7 million or 5.7% of sales versus \$489.3 million or 6.0% of sales for the corresponding period last year.

The decrease in EBITDA⁽¹⁾ excluding equity earnings from our investment in Alimentation Couche-Tard for the 40-week period is due to our results for the first two quarters. Excluding equity earnings from our investment in Alimentation Couche-Tard, EBITDA⁽¹⁾ for the first two quarters as a percentage of sales were lower than the corresponding quarters in 2007. A more intense competitive environment in Ontario as well as the learning and training curves associated with our new Ontario information systems and a new Food Services warehouse in Québec affected our gross margins and costs.

EBITDA Adjustments⁽¹⁾

(Millions of dollars,

unless otherwise indicated)

| | 16 weeks / Fiscal Year | | | | | |
|---|------------------------|---------|--------------------|--------|---------|--------------------|
| | 2008 | | | 2007 | | |
| | EBITDA | Sales | EBITDA / Sales (%) | EBITDA | Sales | EBITDA / Sales (%) |
| EBITDA | 207.0 | 3,370.0 | 6.1 | 195.9 | 3,341.0 | 5.9 |
| Integration and rationalization costs | — | — | — | 5.4 | — | — |
| Adjusted EBITDA | 207.0 | 3,370.0 | 6.1 | 201.3 | 3,341.0 | 6.0 |
| Share of earnings from our investment in Alimentation Couche-Tard | (1.7) | — | — | (3.9) | — | — |
| Adjusted EBITDA excluding share of earnings | 205.3 | 3,370.0 | 6.1 | 197.4 | 3,341.0 | 5.9 |

| | 40 weeks / Fiscal Year | | | | | |
|---|------------------------|---------|--------------------|--------|---------|--------------------|
| | 2008 | | | 2007 | | |
| | EBITDA | Sales | EBITDA / Sales (%) | EBITDA | Sales | EBITDA / Sales (%) |
| EBITDA | 479.3 | 8,249.2 | 5.8 | 490.6 | 8,212.2 | 6.0 |
| Integration and rationalization costs | — | — | — | 16.4 | — | — |
| Adjusted EBITDA | 479.3 | 8,249.2 | 5.8 | 507.0 | 8,212.2 | 6.2 |
| Share of earnings from our investment in Alimentation Couche-Tard | (12.6) | — | — | (17.7) | — | — |
| Adjusted EBITDA excluding share of earnings | 466.7 | 8,249.2 | 5.7 | 489.3 | 8,212.2 | 6.0 |

⁽¹⁾ See section "Non-GAAP Measurements".



INTEREST, DEPRECIATION AND AMORTIZATION : Total depreciation and amortization expenses for the third quarter and first 40 weeks of fiscal 2008 amounted to \$55.2 million and \$134.9 million respectively, compared with \$51.1 million and \$126.0 million for the same periods last year. The 2008 third quarter interest expenses totalled \$17.5 million versus \$19.2 million last year, while interest expenses for the 40-week period totalled \$46.0 million versus \$47.6 million last year. Interest rates for the first 40 weeks of 2008 averaged 5.3% versus 5.4% for the corresponding period last year.

INCOME TAXES : The 2008 third quarter and 40-week period income tax expenses of \$41.7 million and \$79.9 million represent effective tax rates of 31.0% and 26.8% respectively. In 2007, the third quarter and 40-week period income tax expenses were \$39.2 million and \$99.1 million respectively and represented effective tax rates of 31.2% and 31.3% respectively. 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.

In the third quarter of 2007, an approval milestone was met with regard to the federal budget providing, among other things, for a decrease of 0.5% in the large business tax rate effective January 1, 2011. This decrease in the federal tax rate reduced our future tax liabilities by \$1.8 million as well as our third quarter income tax expense by the same amount. Excluding these decreases in our 2008 and 2007 tax expenses, the effective tax rates for the 2008 40-week period, the third quarter of 2007, and the first 40 weeks of 2007 were 30.6%, 32.7% and 31.9% respectively.

NET EARNINGS : The 2008 third quarter net earnings were \$92.6 million compared to \$89.3 million for the corresponding quarter of fiscal 2007, an increase of 3.7%. Fully diluted net earnings per share rose 6.5% to \$0.82 from \$0.77 last year. In the third quarter of 2007, we had A&P Canada acquisition-related integration and rationalization costs of \$5.4 million before taxes and a \$1.8 million decrease in our income tax expense. Excluding these non-recurring items, adjusted net earnings⁽¹⁾ for the third quarter of 2007 were \$91.1 million, and the adjusted fully diluted net earnings per share⁽¹⁾ were \$0.78. Compared to the adjusted net earnings⁽¹⁾ and adjusted fully diluted net earnings per share⁽¹⁾ for the third quarter of 2007, 2008 third quarter net earnings and fully diluted net earnings per share were up 1.6% and 5.1% respectively.

Net earnings for the first 40 weeks of 2008 reached \$220.4 million versus \$219.0 million last year, up 0.6%. Excluding A&P Canada acquisition-related integration and rationalization costs of \$16.4 million before taxes in 2007 as well as income tax expense decreases of \$11.4 million in 2008 and \$1.8 million in 2007, adjusted net earnings⁽¹⁾ for the 2008 40-week period were \$209.0 million, down 8.4% from the \$228.2 million for the corresponding period of 2007. Adjusted fully diluted net earnings per share⁽¹⁾ were \$1.84, down 6.1% from \$1.96 last year.

⁽¹⁾ See section "Non-GAAP Measurements".



Net Earnings Adjustments

(Millions of dollars,
unless otherwise indicated)

| | 16 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 | 92.6 | 0.82 | 89.3 | 0.77 | 3.7 | 6.5 |
| Integration and rationalization costs after taxes | — | — | 3.6 | 0.03 | | |
| Decrease in tax expense | — | — | (1.8) | (0.02) | | |
| Adjusted net earnings ⁽¹⁾ | 92.6 | 0.82 | 91.1 | 0.78 | 1.6 | 5.1 |

| | 40 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 | 220.4 | 1.94 | 219.0 | 1.88 | 0.6 | 3.2 |
| Integration and rationalization costs after taxes | — | — | 11.0 | 0.10 | | |
| Decrease in tax expense | (11.4) | (0.10) | (1.8) | (0.02) | | |
| Adjusted net earnings ⁽¹⁾ | 209.0 | 1.84 | 228.2 | 1.96 | (8.4) | (6.1) |

⁽¹⁾ See section "Non-GAAP Measurements".



Quarterly Highlights

(Millions of dollars, unless otherwise indicated)

| | 2008 (52 weeks) | 2007 (52 weeks) | 2006 (53 weeks) | Change (%) |
|--|--------------------|--------------------|--------------------|---------------|
| Sales | | | | |
| Q3 | 3,370.0 | 3,341.0 | — | 0.9 |
| 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) |
| Net earnings | | | | |
| Q3 | 92.6 | 89.3 | — | 3.7 |
| Q2 | 58.1 | 61.8 | — | (6.0) |
| Q1 | 69.7 | 67.9 | — | 2.7 |
| Q4 | — | 57.6 | 78.9 | (27.0) |
| Adjusted net earnings⁽¹⁾ | | | | |
| Q3 | 92.6 | 91.1 | — | 1.6 |
| Q2 | 58.1 | 65.5 | — | (11.3) |
| Q1 | 58.3 | 71.6 | — | (18.6) |
| Q4 | — | 66.8 | 71.0 | (5.9) |
| Fully diluted net earnings per share (Dollars) | | | | |
| Q3 | 0.82 | 0.77 | — | 6.5 |
| Q2 | 0.51 | 0.53 | — | (3.8) |
| Q1 | 0.61 | 0.58 | — | 5.2 |
| Q4 | — | 0.49 | 0.68 | (27.9) |
| Adjusted fully diluted net earnings per share⁽¹⁾ | | | | |
| (Dollars) | | | | |
| Q3 | 0.82 | 0.78 | — | 5.1 |
| Q2 | 0.51 | 0.56 | — | (8.9) |
| Q1 | 0.51 | 0.62 | — | (17.7) |
| Q4 | — | 0.57 | 0.61 | (6.6) |

Sales for the first three quarters of 2008 versus those for 2007 were affected by strong competition in Ontario. Excluding decreased sales of tobacco products, 2008 first quarter sales were up 0.3%, second quarter sales were up 1.2%, and third quarter sales were up 1.5%.

Sales in the fourth quarter of 2007 versus those for the corresponding quarter 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 53rd week in 2006. Excluding these items, 2007 fourth quarter sales were up 0.7% over 2006.

⁽¹⁾ 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⁽¹⁾ and adjusted fully diluted net earnings per share⁽¹⁾ of 2008 were down 18.6% and 17.7% respectively.

Second quarter net earnings and fully diluted net earnings per share were down 6.0% 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 were down 11.3% and 8.9% respectively compared to the adjusted net earnings⁽¹⁾ and adjusted fully diluted net earnings per share⁽¹⁾ for the second quarter of 2007.

The drop in profitability in the first two quarters of 2008 compared with the same quarters of 2007 stems from a more intensely competitive environment in Ontario and the issues associated with our new Ontario information systems and Québec Food Services warehouse.

Third quarter net earnings and fully diluted net earnings per share were up 3.7% and 6.5% respectively from 2007. Excluding A&P acquisition-related integration and rationalization costs before taxes of \$5.4 million and income tax expense reduction of \$1.8 million resulting from reduction in tax rates applicable to large corporation announced by federal government in the third quarter of 2007, net earnings and fully diluted net earnings per share for the third quarter of 2008 were up 1.6% and 5.1% respectively compared to the adjusted net earnings⁽¹⁾ and adjusted fully diluted net earnings per share⁽¹⁾ for the third quarter of 2007. The successful resolution of the issues associated with our new information systems in Ontario and the good performance of our Quebec operations contributed to this earnings growth.

Fourth quarter net earnings and fully diluted net earnings per share in 2007 and 2006 were impacted by, among other things, A&P acquisition-related integration and rationalization costs, 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 and the impact of the 53rd week in 2006, adjusted net earnings⁽¹⁾ and adjusted fully diluted net earnings per share⁽¹⁾ for the fourth quarter of 2007 were up 3.4% and 3.6% respectively over those for the corresponding period of 2006.

⁽¹⁾ See section "Non-GAAP Measurements".



| <i>(Millions of dollars)</i> | 2008 | | | 2007 | | | 2006 | |
|--|--------|------|------|------|------|-------|------|-------|
| | Q1 | Q2 | Q3 | Q1 | Q2 | Q3 | Q4 | Q4 |
| Net earnings | 69.7 | 58.1 | 92.6 | 67.9 | 61.8 | 89.3 | 57.6 | 78.9 |
| Integration and rationalization costs after taxes | — | — | — | 3.7 | 3.7 | 3.6 | 9.2 | 2.1 |
| Gain on disposal of investment after taxes | — | — | — | — | — | — | — | (8.6) |
| Decrease in tax expense | (11.4) | — | — | — | — | (1.8) | — | (1.4) |
| Adjusted net earnings ⁽¹⁾ 53 rd week | 58.3 | 58.1 | 92.6 | 71.6 | 65.5 | 91.1 | 66.8 | 71.0 |
| | — | — | — | — | — | — | — | (6.4) |
| Adjusted net earnings ⁽¹⁾ excluding 53 rd week | 58.3 | 58.1 | 92.6 | 71.6 | 65.5 | 91.1 | 66.8 | 64.6 |

| <i>(Dollars per share)</i> | 2008 | | | 2007 | | | 2006 | |
|--|--------|------|------|------|------|--------|------|--------|
| | Q1 | Q2 | Q3 | Q1 | Q2 | Q3 | Q4 | Q4 |
| Fully diluted net earnings | 0.61 | 0.51 | 0.82 | 0.58 | 0.53 | 0.77 | 0.49 | 0.68 |
| Integration and rationalization costs after taxes | — | — | — | 0.04 | 0.03 | 0.03 | 0.08 | 0.02 |
| Gain on disposal of investment after taxes | — | — | — | — | — | — | — | (0.07) |
| Decrease in tax expense | (0.10) | — | — | — | — | (0.02) | — | (0.02) |
| Adjusted fully diluted net earnings ⁽¹⁾ 53 rd week | 0.51 | 0.51 | 0.82 | 0.62 | 0.56 | 0.78 | 0.57 | 0.61 |
| | — | — | — | — | — | — | — | (0.06) |
| Adjusted fully diluted net earnings ⁽¹⁾ excluding 53 rd week | 0.51 | 0.51 | 0.82 | 0.62 | 0.56 | 0.78 | 0.57 | 0.55 |

⁽¹⁾ See section "Non-GAAP Measurements".



Cash Position

OPERATING ACTIVITIES : Operating activities generated cash flows of \$134.4 million in the third quarter and \$264.7 million over the first 40 weeks of 2008, compared to \$152.5 million and \$318.5 million respectively in the corresponding periods of fiscal 2007. The decrease in third quarter cash flows in 2008 compared to 2007 is due mainly to a net change in non-cash items. The decrease in 40-week period cash flows compared to those for 2007 is due mainly to a change in future income taxes and a net change in non-cash items.

INVESTING ACTIVITIES : Investing activities required outflows of \$39.6 million in the third quarter and \$115.9 million in the first 40 weeks of 2008 versus \$67.3 million in the third quarter of 2007 and \$188.3 million in the first 40 weeks of 2007. These decreases are due primarily to reduced acquisition of fixed assets.

During the first 40 weeks of 2008, the Company and the retailers invested \$164.8 million in our retail network, for a gross expansion of 292,000 square feet or 1.6%, and a net expansion of 163,000 square feet or 0.9%. Major renovations and expansions of 20 stores were completed, and 7 new stores were opened.

FINANCING ACTIVITIES : Financing activities required outflows of \$35.9 million and \$124.6 million in the third quarter and 40-week period of 2008 versus 2007 third quarter and 40-week outflows of \$20.1 million and \$48.9 million. The increase in outflows between the 2008 periods and the 2007 periods is attributable mainly to the redemption of Class A Subordinate Shares in the amounts of \$29.0 million and \$80.3 million in the third quarter and 40-week period of 2008, versus redemption in the amount of \$0.5 million for the third quarter and 40-week period of 2007.



Financial Position

Our financial position at the end of the third quarter of 2008 was very solid. We had an unused approved \$400.0 million line of credit. Our long-term debt corresponded to 33.8% of the combined total of long-term debt and shareholders' equity (long-term debt/total capital).

In the third 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 \$150.0 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 \$750.0 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.



FINANCIAL RATIOS :

| | As at July 5, 2008 | As at September 29, 2007 |
|--|---------------------------|-----------------------------|
| Financial structure | | |
| Long-term debt (<i>Millions of \$</i>) | 1,038.3 | 1,038.9 |
| Shareholders' equity (<i>Millions of \$</i>) | 2,034.4 | 1,932.3 |
| Long-term debt/total capital (%) | 33.8 | 35.0 |
| | Fiscal 2008 (40 weeks) | Fiscal 2007 (40 weeks) |
| Results | | |
| EBITDA ⁽¹⁾ /Interest (<i>Times</i>) | 10.4 | 10.3 |

CAPITAL STOCK, STOCK
OPTIONS AND PERFORMANCE
SHARE UNITS :

| | As at July 5, 2008 | As at September 29, 2007 |
|--|-----------------------|-----------------------------|
| Number of Class A Subordinate Shares outstanding (<i>Thousands</i>) | | |
| | 110,876 | 113,683 |
| Number of Class B Shares outstanding (<i>Thousands</i>) | | |
| | 750 | 804 |
| Stock options: | | |
| Number outstanding (<i>Thousands</i>) | 3,787 | 3,738 |
| Exercise price | \$15.50 to \$39.17 | \$11.80 to \$39.17 |
| Weighted average exercise price | \$23.19 | \$22.40 |
| Number of performance share units: | | |
| Number outstanding (<i>Thousands</i>) | 210 | 124 |
| Weighted average maturity | 20 months | 22 months |

⁽¹⁾ See section "Non-GAAP Measurements".



NORMAL COURSE ISSUER BID PROGRAM : The Company decided to renew the issuer bid program as 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. Subject to regulatory approval, the Board of Directors authorized the Company to repurchase, in the normal course of business, between September 5, 2008 and September 4, 2009, up to 6,000,000 of its Class A Subordinate Shares representing approximately 5.4% of its issued and outstanding shares at the close of the Toronto Stock Exchange on August 6, 2008. Repurchases will be made through the stock exchange at market price and in accordance with its policies and regulations. The Class A Subordinate Shares so repurchased will be cancelled. Under the existing normal course issuer bid program covering the period from September 5, 2007 to July 30, 2008, the Company repurchased 4,000,000 Class A Subordinate Shares at an average price of \$26.55 per share for a total of \$106.2 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, exercising the option granted the Company by A&P US.

DIVIDENDS : On August 6, 2008, the Company's Board of Directors declared a quarterly dividend of \$0.125 per Class A Subordinate Share and Class B Share payable September 3, 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 three quarters of fiscal 2008. During this period, a total of 65.1 million shares were traded on the Toronto Stock Exchange. The closing price on Friday, July 25, 2008 was \$26.78, 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 externally 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.

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 our 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 do not foresee that this new section's adoption in our 2009 first quarter will have a significant impact on our results, financial position or cash flows.

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. 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 Canadian generally accepted accounting principles (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

With the issues associated with our new Ontario information systems now resolved, we are announcing one of the final phases of our A&P Canada acquisition-related integration and rationalization plan, the consolidation of our Ontario supermarket banners. Starting next September and over the following 15 months, we will convert our five Ontario supermarket banners – A&P, Dominion, Loeb, Ultra Food & Drug and The Barn Markets – to the Metro banner.

The 158 converted Ontario supermarkets will join the Québec Metro stores, creating a national banner comprising 376 supermarkets. We will be investing \$200 million to remodel and refresh our stores and upgrade our offering in this conversion, including approximately \$25 million in related costs, most of which were considered in the A&P Canada integration plan. Today, we are also unveiling a new METRO logo that will be used for our stores in both provinces and that becomes METRO INC.'s new signature.

Montréal, August 6, 2008



Consolidated Statements of Earnings

| Periods ended July 5, 2008 and July 7, 2007 <i>(Unaudited) (Millions of dollars, except for earnings per share)</i> | 16 weeks Fiscal Year | | 40 weeks Fiscal Year | |
|---|-------------------------|------------|-------------------------|------------|
| | 2008 | 2007 | 2008 | 2007 |
| Sales | \$ 3,370.0 | \$ 3,341.0 | \$ 8,249.2 | \$ 8,212.2 |
| Cost of sales and operating expenses | 3,164.7 | 3,143.6 | 7,782.5 | 7,722.9 |
| Share of earnings in a public company subject to significant influence | (1.7) | (3.9) | (12.6) | (17.7) |
| Integration and rationalization costs <i>(note 3)</i> | — | 5.4 | — | 16.4 |
| Earnings before interest, taxes, depreciation and amortization | 207.0 | 195.9 | 479.3 | 490.6 |
| Depreciation and amortization | 55.2 | 51.1 | 134.9 | 126.0 |
| Operating income | 151.8 | 144.8 | 344.4 | 364.6 |
| Interest, net | | | | |
| Short term | — | (0.7) | 0.1 | (2.0) |
| Long term | 17.5 | 19.9 | 45.9 | 49.6 |
| | 17.5 | 19.2 | 46.0 | 47.6 |
| Earnings before income taxes | 134.3 | 125.6 | 298.4 | 317.0 |
| Income taxes <i>(note 5)</i> | 41.7 | 39.2 | 79.9 | 99.1 |
| Earnings before minority interest | 92.6 | 86.4 | 218.5 | 217.9 |
| Minority interest | — | (2.9) | (1.9) | (1.1) |
| Net earnings | \$ 92.6 | \$ 89.3 | \$ 220.4 | \$ 219.0 |
| Earnings per share <i>(note 6)</i> | | | | |
| Basic | \$ 0.82 | \$ 0.77 | \$ 1.95 | \$ 1.90 |
| Fully diluted | \$ 0.82 | \$ 0.77 | \$ 1.94 | \$ 1.88 |

See accompanying notes



Consolidated Balance Sheets

(Unaudited) (Millions of dollars)

| | As at July 5, 2008 | As at September 29, 2007 |
|--|--------------------------|--------------------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 124.7 | \$ 100.5 |
| Accounts receivable | 320.2 | 327.8 |
| Inventories | 578.9 | 588.2 |
| Prepaid expenses | 22.5 | 12.1 |
| Future income taxes | 19.1 | 26.1 |
| | 1,065.4 | 1,054.7 |
| Investments and other assets | 162.6 | 151.0 |
| Fixed assets | 1,182.2 | 1,202.8 |
| Intangible assets | 340.3 | 342.1 |
| Goodwill | 1,491.0 | 1,490.1 |
| Accrued benefit assets | 33.2 | 33.2 |
| | \$ 4,274.7 | \$ 4,273.9 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities | | |
| Bank loans | \$ 0.6 | \$ 0.1 |
| Accounts payable | 981.9 | 1,043.6 |
| Income taxes payable | 3.0 | 20.3 |
| Current portion of long-term debt | 3.9 | 5.1 |
| | 989.4 | 1,069.1 |
| Long-term debt | 1,038.3 | 1,038.9 |
| Accrued benefit obligations | 55.8 | 54.9 |
| Future income taxes | 126.4 | 139.0 |
| Other long-term liabilities | 27.5 | 33.7 |
| Minority interest | 2.9 | 6.0 |
| | 2,240.3 | 2,341.6 |
| Shareholders' equity | | |
| Capital stock (note 7) | 698.8 | 714.8 |
| Contributed surplus | 3.9 | 2.0 |
| Retained earnings | 1,332.5 | 1,214.3 |
| Accumulated other comprehensive income (notes 2 and 8) | (0.8) | 1.2 |
| | 2,034.4 | 1,932.3 |
| | \$ 4,274.7 | \$ 4,273.9 |

See accompanying notes



Consolidated Statements of Cash Flows

| Periods ended July 5, 2008 and July 7, 2007 (Unaudited) (Millions of dollars) | 16 weeks Fiscal Year | | 40 weeks Fiscal Year | |
|---|-------------------------|----------|-------------------------|----------|
| | 2008 | 2007 | 2008 | 2007 |
| Operating activities | | | | |
| Net earnings | \$ 92.6 | \$ 89.3 | \$ 220.4 | \$ 219.0 |
| Non-cash items | | | | |
| Integration and rationalization costs (note 3) | — | (1.7) | — | 2.5 |
| Share of earnings in a public company subject to significant influence | (1.7) | (3.9) | (12.6) | (17.7) |
| Depreciation and amortization | 55.2 | 51.1 | 134.9 | 126.0 |
| Amortization of deferred financing costs | 0.6 | 0.6 | 1.6 | 1.6 |
| (Gain) Loss on disposal and write-off of fixed and intangible assets | (0.4) | 2.5 | (1.6) | 2.8 |
| Gain on disposal of investments | — | — | (0.6) | — |
| Future income taxes | 3.4 | 5.2 | (4.6) | 11.7 |
| Stock-based compensation cost | 1.2 | 1.6 | 2.7 | 2.8 |
| Difference between amounts paid for employee future benefits and current period cost | 5.1 | (1.5) | 0.9 | (1.9) |
| Minority interest | — | (2.9) | (1.9) | (1.1) |
| | 156.0 | 140.3 | 339.2 | 345.7 |
| Net change in non-cash working capital related to operations | (21.6) | 12.2 | (74.5) | (27.2) |
| | 134.4 | 152.5 | 264.7 | 318.5 |
| Investing activities | | | | |
| Net change in investments and other assets | (7.0) | 2.7 | (6.0) | 1.6 |
| Dividends of a public company subject to significant influence | 0.7 | — | 2.2 | 1.2 |
| Acquisition of fixed assets | (35.3) | (64.3) | (99.2) | (169.4) |
| Disposal of fixed assets | 9.4 | 6.0 | 15.8 | 8.5 |
| Acquisition of intangible assets | (7.4) | (11.7) | (28.7) | (30.2) |
| | (39.6) | (67.3) | (115.9) | (188.3) |
| Financing activities | | | | |
| Net change in bank loans | 0.4 | 0.1 | 0.5 | 0.2 |
| Issuance of shares (note 7) | 1.7 | 1.3 | 3.6 | 11.0 |
| Redemption of shares (note 7) | (29.0) | (0.5) | (80.3) | (0.5) |
| Acquisition of treasury shares (note 7) | — | (0.7) | (0.9) | (3.2) |
| Increase of long-term debt | 0.5 | 1.0 | 1.6 | 2.8 |
| Repayment of long-term debt | (1.7) | (3.4) | (4.7) | (8.2) |
| Net change in other long-term liabilities | 7.5 | (4.4) | (1.8) | (12.2) |
| Dividends paid | (14.1) | (13.3) | (41.4) | (38.6) |
| Distribution to minority interest | (1.2) | (0.2) | (1.2) | (0.2) |
| | (35.9) | (20.1) | (124.6) | (48.9) |
| Net change in cash and cash equivalents | 58.9 | 65.1 | 24.2 | 81.3 |
| Cash and cash equivalents – beginning of period | 65.8 | 181.9 | 100.5 | 165.7 |
| Cash and cash equivalents – end of period | \$ 124.7 | \$ 247.0 | \$ 124.7 | \$ 247.0 |
| Other information | | | | |
| Interest paid | \$ 22.0 | \$ 27.1 | \$ 50.0 | \$ 57.6 |
| Income taxes paid | \$ 38.8 | \$ 31.7 | \$ 101.8 | \$ 103.1 |

See accompanying notes



Consolidated Statements of Retained Earnings

| 40-week periods ended July 5, 2008 and July 7, 2007 (Unaudited) (Millions of dollars) | Fiscal Year | |
|---|-------------------|-------------------|
| | 2008 | 2007 |
| Balance – beginning of period | \$ 1,214.3 | \$ 1,013.2 |
| Net earnings | 220.4 | 219.0 |
| Dividends | (41.4) | (38.6) |
| Share redemption premiums | (60.8) | (0.4) |
| Balance – end of period | \$ 1,332.5 | \$ 1,193.2 |

See accompanying notes

Consolidated Statements of Comprehensive Income

| Periods ended July 5, 2008 and July 7, 2007 (Unaudited) (Millions of dollars) (notes 2 and 8) | 16 weeks Fiscal Year | | 40 weeks Fiscal Year | |
|---|-------------------------|----------------|-------------------------|-----------------|
| | 2008 | 2007 | 2008 | 2007 |
| Net earnings | \$ 92.6 | \$ 89.3 | \$ 220.4 | \$ 219.0 |
| Other comprehensive income | | | | |
| Change in fair value of derivatives designated as cash flow hedges | 0.6 | 3.1 | (3.0) | 3.0 |
| Corresponding income taxes | (0.2) | (1.0) | 1.0 | (1.0) |
| Comprehensive income | \$ 93.0 | \$ 91.4 | \$ 218.4 | \$ 221.0 |

See accompanying notes



Notes to Interim Consolidated Financial Statements

Periods ended July 5, 2008 and July 7, 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 July 5, 2008 and July 7, 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 July 5, 2008 and July 7, 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 does not foresee that this new section's adoption in its 2009 first quarter will have a material effect on its results, financial position or cash flows.

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 July 5, 2008 and July 7, 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 July 7, 2007, integration and rationalization plan costs were as follows:

By Nature of Project

| | Fiscal year 2007 | |
|---------------------------------------|---------------------|----------|
| | 16 weeks | 40 weeks |
| Stores | \$ — | \$ 2.2 |
| Integration of operations | 0.5 | 5.0 |
| Implementation of information systems | 4.9 | 9.2 |
| | \$ 5.4 | \$ 16.4 |

By Nature of Costs

| | Fiscal year 2007 | |
|--|---------------------|----------|
| | 16 weeks | 40 weeks |
| Retention bonuses, termination benefits and others | \$ 0.1 | \$ 4.3 |
| Training and IT implementation | 4.9 | 9.2 |
| Vacant premises | — | 2.3 |
| | \$ 5.0 | \$ 15.8 |
| Assets write-off | 0.4 | 0.6 |
| | \$ 5.4 | \$ 16.4 |



Notes to Interim Consolidated Financial Statements

Periods ended July 5, 2008 and July 7, 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:

| | 16 weeks Fiscal Year | | | | 40 weeks Fiscal Year | | | |
|--|-------------------------|----------------|------------------|----------------|-------------------------|----------------|------------------|----------------|
| | 2008 | | 2007 | | 2008 | | 2007 | |
| | Pension plans | Other plans | Pension plans | Other plans | Pension plans | Other plans | Pension plans | Other plans |
| Defined contribution plans | \$ 7.9 | \$ 0.2 | \$ 8.4 | \$ 0.1 | \$ 19.9 | \$ 0.4 | \$ 20.0 | \$ 0.2 |
| Defined benefit plans | | | | | | | | |
| Current service cost | 7.9 | 0.4 | 7.4 | 0.4 | 18.4 | 1.1 | 18.8 | 0.9 |
| Interest cost | 9.4 | 0.6 | 8.5 | 0.4 | 23.5 | 1.5 | 21.1 | 1.0 |
| Projected return on plan assets | (13.1) | — | (11.6) | — | (32.6) | — | (29.2) | — |
| Amortization of actuarial losses and past service cost | 0.8 | — | 0.7 | — | 1.5 | — | 1.3 | — |
| | 5.0 | 1.0 | 5.0 | 0.8 | 10.8 | 2.6 | 12.0 | 1.9 |
| | \$ 12.9 | \$ 1.2 | \$ 13.4 | \$ 0.9 | \$ 30.7 | \$ 3.0 | \$ 32.0 | \$ 2.1 |



Notes to Interim Consolidated Financial Statements

Periods ended July 5, 2008 and July 7, 2007

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

5 : Income Taxes

The effective income tax rates were as follows:

| | 16 weeks Fiscal Year | | 40 weeks Fiscal Year | |
|--|-------------------------|-------|-------------------------|-------|
| | 2008 | 2007 | 2008 | 2007 |
| Combined statutory income tax rate | 31.1% | 32.8% | 31.2% | 32.4% |
| Changes | | | | |
| Impact of federal tax rate decrease of 3.5%, spread until 2012, on future taxes (\$11.4 in 2008) | — | (1.5) | (3.8) | (0.6) |
| Share of earnings in a public company subject to significant influence | (0.2) | (0.5) | (0.7) | (0.8) |
| Other | 0.1 | 0.4 | 0.1 | 0.3 |
| | 31.0% | 31.2% | 26.8% | 31.3% |

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) | 16 weeks Fiscal Year | | 40 weeks Fiscal Year | |
|--|-------------------------|-------|-------------------------|-------|
| | 2008 | 2007 | 2008 | 2007 |
| Weighted average number of shares outstanding – Basic | 112.3 | 115.3 | 113.0 | 115.1 |
| Dilutive effect under stock option plan and performance share units | 0.6 | 1.5 | 0.8 | 1.6 |
| Weighted average number of shares outstanding – Diluted | 112.9 | 116.8 | 113.8 | 116.7 |



Notes to Interim Consolidated Financial Statements

Periods ended July 5, 2008 and July 7, 2007

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

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 | 281 | 3.6 | — | — | 3.6 |
| Transfer from contributed surplus – options exercised | — | 0.1 | — | — | 0.1 |
| Shares redeemed for cash, excluding premium of \$60.8 | (3,102) | (19.5) | — | — | (19.5) |
| Conversion of shares | 54 | 0.1 | (54) | (0.1) | — |
| Acquisition of treasury shares | (40) | (0.2) | — | — | (0.2) |
| Balance as at July 5, 2008 | 110,876 | \$ 697.3 | 750 | \$ 1.5 | \$ 698.8 |

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.

STOCK OPTION PLAN : As at July 5, 2008, 3,786,890 stock options were outstanding at exercise prices varying from \$15.50 to \$39.17, with expiry dates up to 2015. Of these stock options, 2,604,270 could be exercised for a weighted average exercise price of \$21.41.

Granted stock options were as follows:

| | 16 weeks Fiscal Year | | 40 weeks Fiscal Year | |
|---|-------------------------|----------|-------------------------|----------|
| | 2008 | 2007 | 2008 | 2007 |
| Granted stock options during the period | 377,200 | 131,100 | 431,000 | 135,600 |
| Weighted average exercise price | \$ 24.73 | \$ 37.81 | \$ 25.15 | \$ 37.74 |
| Weighted average fair value | \$ 5.83 | \$ 10.46 | \$ 6.04 | \$ 10.48 |

During the 40-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 3.3% (2007 – 4.2%), expected six-year term (2007 – six-year term), anticipated volatility of 22.4% (2007 – 25.2%) and an anticipated 1.4% dividend yield (2007 – 1.5%).

The compensation expense for these stock options amounted to \$0.7 for the third quarter of 2008 (2007 – \$1.0) and to \$1.4 for the 40-week period of 2008 (2007 – \$1.7).



Notes to Interim Consolidated Financial Statements

Periods ended July 5, 2008 and July 7, 2007

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

PERFORMANCE SHARE UNIT PLAN : As at July 5, 2008, 209,880 performance share units (PSUs) were outstanding. During the 40-week period of 2008, 114,091 PSUs were granted (2007 – 81,211) and 28,030 PSUs were cancelled (2007 – nil). In the third quarter, 5,650 PSUs were granted (2007 – 1,377) and 21,118 PSUs were cancelled (2007 – nil).

At the end of the third quarter, 194,000 shares were held in trust for participants until the PSUs shall have vested or been cancelled (2007 – 154,000). During this quarter, none of these shares have been acquired (2007 – 18,500).

A compensation expense of \$1.3 pertaining to PSUs was recorded in the 40-week period of 2008 (2007 – \$1.1), \$0.5 of which was recorded in the third quarter (2007 – \$0.6).

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 40-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 \$(1.0) in 2008, \$1.0 in 2007) | (2.0) | 2.0 |
| Balance – end of period | \$ (0.8) | \$ 2.4 |

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. The trustees were notified that the beneficiaries who brought suit would like to waive the claim against the trustees, which would put end to the case.

10 : Related Party Transaction

In the third quarter, the Company purchased for exchange amount a supermarket in which a member of the Board of Directors, Ms. Maryse Labonté, held an interest. In view of this transaction, Ms. Labonté resigned on June 2, 2008.



Notes to Interim Consolidated Financial Statements

Periods ended July 5, 2008 and July 7, 2007

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

11 : 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 third quarter results regarding its capital management objectives were as follows:

- a long-term debt/total capital ratio of 33.8% (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 14.1% over the last 12 months (16.7% for the 12 previous months);
- a decrease in fully diluted net earnings per share of 5.1% over the last 12 months (29.3% increase for the 12 previous months);
- an annualized dividend representing 20.1% of net earnings for the previous fiscal year (20.5% in 2007).

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 1.9% 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.



Notes to Interim Consolidated Financial Statements

Periods ended July 5, 2008 and July 7, 2007

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

12 : 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 July 5, 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 | \$(0.1) | \$ 0.7 |
| Interest rate swap contract | 3.9820% | \$ 50.0 | December 16, 2009 | \$(0.5) | \$ 1.2 |
| Interest rate swap contract | 4.0425% | \$ 50.0 | December 16, 2010 | \$(0.6) | \$ 1.7 |



Notes to Interim Consolidated Financial Statements

Periods ended July 5, 2008 and July 7, 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:

| | 16 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 | \$ 0.7 | \$ (0.7) | \$ 1.2 | \$ (1.2) |

| | 40 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 | \$ (0.7) | \$ 0.7 | \$ (0.7) | \$ 0.7 |
| Impact on other comprehensive income items due to changes in fair value of derivatives designated as cash flow hedges | \$ 0.7 | \$ (0.7) | \$ 1.2 | \$ (1.2) |



Notes to Interim Consolidated Financial Statements

Periods ended July 5, 2008 and July 7, 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 July 5, 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 \$8.1 (\$23.7 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 July 5, 2008, the maximum credit risk exposure for derivatives designated as cash-flow hedges corresponded to their carrying amount.

INFORMATION

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