



INTERIM REPORT

16-week period ended July 2, 2011

3rd quarter 2011

HIGHLIGHTS

- Fully diluted net earnings per share of \$1.21, up 8.0%
- Net earnings of \$124.9 million, up 4.1%
- Sales of \$3,576.3 million, up 0.4%
- Same store sales up 0.5%
- Declared dividend of \$0.1925 per share, up 13.2%



REPORT TO SHAREHOLDERS

Dear Shareholders,

I am pleased to present our interim report for the third quarter of fiscal 2011, ended July 2, 2011.

Our 2011 third quarter sales reached \$3,576.3 million versus \$3,561.3 million last year, an increase of 0.4%. Same store sales were up 0.5% compared to last year. Sales continued to be impacted by a higher penetration of promotional sales, as well as lower drug pricing following the expiry of important drug patents and the new generic drug legislation in Québec and Ontario. The increase in promotional sales substantially reduced the level of food price inflation in our basket.

We realized net earnings of \$124.9 million in the third quarter of fiscal 2011, an increase of 4.1% over net earnings of \$120.0 million for the same quarter of 2010, and fully diluted net earnings per share of \$1.21, an increase of 8.0% over last year.

Our financial position at the end of the third quarter of 2011 was very solid. We had an unused authorized revolving line of credit in the amount of \$400.0 million, and a debt ratio (long-term debt/total capital) of 28.4%.

On August 9, 2011, the Board of Directors declared a quarterly dividend of \$0.1925 per share, an increase of 13.2% over last year.

The growth of our net earnings and sales in the third quarter demonstrates our teams' excellent capability to execute in a highly competitive environment. We are confident that our customer-focused strategies supported by our effective merchandising, loyalty, investment, and cost control programs will allow us to continue⁽²⁾ our growth.

Eric R. La Flèche
President and Chief Executive Officer

August 10, 2011

⁽¹⁾ See section on "Non-GAAP measurements"

⁽²⁾ See section on "Forward-looking information"

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) sets out the financial position and consolidated results of METRO INC. on July 2, 2011. It should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes in this interim report with the consolidated financial statements for the fiscal year ended September 25, 2010 and related notes and MD&A presented in the Company's 2010 Annual Report. This interim report is based upon information as at July 29, 2011 unless otherwise stated. Additional information, including the Certification of Interim Filings letters for the quarter ended July 2, 2011 signed by the President and Chief Executive Officer and the Senior Vice-President, Chief Financial Officer and Treasurer, is also available on the SEDAR website at: www.sedar.com.

OPERATING RESULTS

We realized net earnings of \$124.9 million in the third quarter of fiscal 2011, an increase of 4.1% over the net earnings of \$120.0 million for the same quarter of 2010, and fully diluted net earnings per share of \$1.21, an increase of 8.0% over last year's fully diluted net earnings per share of \$1.12.

SALES

2011 third quarter sales reached \$3,576.3 million compared to \$3,561.3 million last year, an increase of 0.4%. Sales for the first 40 weeks of 2011 reached \$8,773.9 million, down 0.1% from \$8,783.0 million last year. Same store sales for the third quarter of 2011 were up 0.5%. Over the third quarter and first 40 weeks, sales were impacted by a higher penetration of promotional sales, as well as lower drug pricing following the expiry of important drug patents and the new generic drug legislation in Québec and Ontario. The increase in promotional sales substantially reduced the level of food price inflation in our basket.

EARNINGS BEFORE FINANCIAL COSTS, TAXES, DEPRECIATION AND AMORTIZATION (EBITDA)⁽¹⁾

EBITDA⁽¹⁾ for the third quarter of 2011 was \$248.0 million, up 0.1% from \$247.7 million for the same quarter last year. Third-quarter EBITDA⁽¹⁾ represented 6.9% of sales, compared to 7.0% last year.

EBITDA⁽¹⁾ for the first 40 weeks of 2011 was \$600.7 million or 6.8% of sales compared to \$601.4 million or 6.8% of sales for the same period last year. Excluding banner conversion costs of \$0.9 million before taxes recorded in the 40-week period of 2010, adjusted EBITDA⁽¹⁾ represented 6.9% of sales.

Third-quarter and 40-week gross margins as percentage of sales in 2011 increased from 18.2% in 2010 to 18.4% in 2011.

Our share of earnings from our investment in Alimentation Couche-Tard for the third quarter and the first 40 weeks of 2011 were \$7.1 million and \$27.4 million respectively, compared to \$8.0 million and \$25.3 million for the corresponding periods of fiscal 2010. Excluding our share of earnings from our investment in Alimentation Couche-Tard, our adjusted EBITDA⁽¹⁾ for the third quarter of 2011 was \$240.9 million or 6.7% of sales compared to \$239.7 million or 6.7% of sales for the third quarter of 2010. Adjusted EBITDA⁽¹⁾ for the first 40 weeks of 2011 was \$573.3 million or 6.5% of sales compared to our adjusted EBITDA⁽¹⁾, excluding our share of earnings and banner conversion costs, of \$577.0 million or 6.6% of sales in 2010.

EBITDA⁽¹⁾ adjustments

	16 weeks / Fiscal Year					
	2011			2010		
<i>(Millions of dollars, unless otherwise indicated)</i>	EBITDA	Sales	EBITDA/ Sales (%)	EBITDA	Sales	EBITDA/ Sales (%)
EBITDA	248.0	3,576.3	6.9	247.7	3,561.3	7.0
Banner conversion costs	—	—		—	—	
Adjusted EBITDA	248.0	3,576.3	6.9	247.7	3,561.3	7.0
Share of earnings from our investment in Alimentation Couche-Tard	(7.1)	—		(8.0)	—	
Adjusted EBITDA excluding share of earnings	240.9	3,576.3	6.7	239.7	3,561.3	6.7

⁽¹⁾ See section on "Non-GAAP measurements"

⁽²⁾ See section on "Forward-looking information"



EBITDA⁽¹⁾ adjustments

<i>(Millions of dollars, unless otherwise indicated)</i>	40 weeks / Fiscal Year					
	2011			2010		
	EBITDA	Sales	EBITDA/ Sales (%)	EBITDA	Sales	EBITDA/ Sales (%)
EBITDA	600.7	8,773.9	6.8	601.4	8,783.0	6.8
Banner conversion costs	—	—		0.9	—	
Adjusted EBITDA	600.7	8,773.9	6.8	602.3	8,783.0	6.9
Share of earnings from our investment in Alimentation Couche-Tard	(27.4)	—		(25.3)	—	
Adjusted EBITDA excluding share of earnings	573.3	8,773.9	6.5	577.0	8,783.0	6.6

DEPRECIATION AND AMORTIZATION AND FINANCIAL COSTS

Total amortization expenses for the third quarter and the first 40 weeks of fiscal 2011 amounted to \$60.3 million and \$150.2 million respectively compared to \$62.2 million and \$155.9 million for the corresponding periods last year. Third quarter financial costs totalled \$12.2 million in 2011 versus \$13.9 million last year, while 2011 40-week financial costs totalled \$32.1 million versus \$35.2 million last year. Interest rates for the first 40 weeks of 2011 averaged 4.2% versus 3.9% for the corresponding period last year.

INCOME TAXES

The 2011 third quarter and 40-week period income tax expenses of \$50.6 million and \$118.2 million represented effective tax rates of 28.8% and 28.3% respectively. In 2010, the third quarter and 40-week period income tax expenses of \$51.6 million and \$111.9 million represented effective tax rates of 30.1% and 27.3% respectively. In the first quarter of 2010, we benefited from a \$10.0 million reduction in our net future income tax liabilities and income tax expenses. Excluding this reduction, our effective tax rate for the first 40 weeks of 2010 was 29.7%.

NET EARNINGS

Net earnings for the third quarter of 2011 were \$124.9 million compared to \$120.0 million for the same quarter last year, an increase of 4.1%. Fully diluted net earnings per share rose 8.0% to \$1.21 from \$1.12 last year.

Net earnings for the first 40 weeks of 2011 reached \$300.2 million compared to \$298.4 million last year, an increase of 0.6%. Fully diluted net earnings per share were \$2.89 compared to \$2.77, an increase of 4.3%. Excluding the 2010 first quarter income tax expense decrease of \$10.0 million and pre-tax banner conversion costs of \$0.9 million, adjusted net earnings⁽¹⁾ for the 2010 40-week period were \$289.0 million and adjusted fully diluted net earnings per share⁽¹⁾ were \$2.68. On an adjusted basis⁽¹⁾, net earnings and fully diluted net earnings per share for the first 40 weeks of 2011 were up 3.9% and 7.8% respectively over last year.

Net earnings adjustments

	16 weeks / Fiscal Year					
	2011		2010		Change (%)	
	<i>(Millions of dollars)</i>	Fully diluted EPS <i>(Dollars)</i>	<i>(Millions of dollars)</i>	Fully diluted EPS <i>(Dollars)</i>	Net earnings	Fully diluted EPS
Net earnings	124.9	1.21	120.0	1.12	4.1	8.0
Banner conversion costs after taxes	—	—	—	—		
Decrease in tax expense	—	—	—	—		
Adjusted net earnings ⁽¹⁾	124.9	1.21	120.0	1.12	4.1	8.0

⁽¹⁾ See section on "Non-GAAP measurements"

⁽²⁾ See section on "Forward-looking information"



Net earnings adjustments

	40 weeks / Fiscal Year					
	2011		2010		Change (%)	
	(Millions of dollars)	Fully diluted EPS (Dollars)	(Millions of dollars)	Fully diluted EPS (Dollars)	Net earnings	Fully diluted EPS
Net earnings	300.2	2.89	298.4	2.77	0.6	4.3
Banner conversion costs after taxes	—	—	0.6	—		
Decrease in tax expense	—	—	(10.0)	(0.09)		
Adjusted net earnings ⁽¹⁾	300.2	2.89	289.0	2.68	3.9	7.8

QUARTERLY HIGHLIGHTS

(Millions of dollars, unless otherwise indicated)

	2011	2010	2009	Change (%)
Sales				
Q1 ⁽³⁾	2,631.9	2,645.0	—	(0.5)
Q2 ⁽³⁾	2,565.7	2,576.7	—	(0.4)
Q3 ⁽⁴⁾	3,576.3	3,561.3	—	0.4
Q4 ⁽³⁾	—	2,559.9	2,532.5	1.1
Net earnings				
Q1 ⁽³⁾	92.0	98.1	—	(6.2)
Q2 ⁽³⁾	83.3	80.3	—	3.7
Q3 ⁽⁴⁾	124.9	120.0	—	4.1
Q4 ⁽³⁾	—	93.4	84.4	10.7
Adjusted net earnings⁽¹⁾				
Q1 ⁽³⁾	92.0	88.7	—	3.7
Q2 ⁽³⁾	83.3	80.3	—	3.7
Q3 ⁽⁴⁾	124.9	120.0	—	4.1
Q4 ⁽³⁾	—	93.4	85.9	8.7
Fully diluted net earnings per share (Dollars)				
Q1 ⁽³⁾	0.88	0.91	—	(3.3)
Q2 ⁽³⁾	0.80	0.74	—	8.1
Q3 ⁽⁴⁾	1.21	1.12	—	8.0
Q4 ⁽³⁾	—	0.88	0.77	14.3
Adjusted fully diluted net earnings per share⁽¹⁾				
<i>(Dollars)</i>				
Q1 ⁽³⁾	0.88	0.82	—	7.3
Q2 ⁽³⁾	0.80	0.74	—	8.1
Q3 ⁽⁴⁾	1.21	1.12	—	8.0
Q4 ⁽³⁾	—	0.88	0.78	12.8

⁽³⁾ 12 weeks

⁽⁴⁾ 16 weeks

⁽¹⁾ See section on "Non-GAAP measurements"

⁽²⁾ See section on "Forward-looking information"

First, second and third quarter sales for 2011 reached \$2,631.9 million, \$2,565.7 million and \$3,576.3 million respectively, with the first two quarters down 0.5% and 0.4% respectively and the third one up 0.4% from \$2,645.0 million and \$2,576.7 million and \$3,561.3 million for the corresponding periods last year. Third and second quarter same store sales in 2011 were up 0.5% and 0.2% respectively over those for 2010, while first quarter same store sales were flat. Sales were impacted by a higher penetration of promotional sales, as well as lower drug pricing following the expiry of important drug patents and the new generic drug legislation in Québec and Ontario. The increase in promotional sales substantially reduced the level of food price inflation in our basket.

Fourth quarter sales for 2010 were up 1.1% over those in fiscal 2009. This increase was achieved despite persistent average deflation of about 1% in certain product categories in 2010, whereas in 2009, high food price inflation and the temporary closing of several stores of a competitor due to a labour conflict had a positive impact on our sales for the corresponding quarter.

Net earnings for the first quarter of 2011 were \$92.0 million, down 6.2% from \$98.1 million last year. Fully diluted net earnings per share were \$0.88 compared to \$0.91 in 2010, down 3.3%. However, excluding banner conversion costs of \$0.9 million before taxes and the income tax expense decrease of \$10.0 million recorded in the first quarter of 2010, 2011 first quarter adjusted net earnings⁽¹⁾ and adjusted fully diluted net earnings per share⁽¹⁾ were up 3.7% and 7.3% respectively.

Net earnings for the second and third quarters of 2011 were \$83.3 million and \$124.9 million respectively, up 3.7% and 4.1% respectively from \$80.3 million and \$120.0 million for the corresponding periods last year. Fully diluted net earnings per share for the second and third quarters of 2011 were \$0.80 and \$1.21 respectively, up 8.1% and 8.0% respectively from \$0.74 and \$1.12 for the same quarters last year.

Fourth quarter net earnings and fully diluted net earnings per share in 2010 were up 10.7% and 14.3% over those for 2009. Excluding 2009 fourth quarter banner conversion costs of \$2.3 million before taxes, net earnings and fully diluted net earnings per share for the fourth quarter of 2010 were up 8.7% and 12.8% over adjusted net earnings⁽¹⁾ and adjusted fully diluted net earnings per share⁽¹⁾ for the fourth quarter of 2009.

	2011			2010				2009
	Q1	Q2	Q3	Q1	Q2	Q3	Q4	Q4
<i>(Millions of dollars)</i>								
Net earnings	92.0	83.3	124.9	98.1	80.3	120.0	93.4	84.4
Banner conversion cost after taxes	—	—	—	0.6	—	—	—	1.5
Decrease in tax expense	—	—	—	(10.0)	—	—	—	—
Adjusted net earnings ⁽¹⁾	92.0	83.3	124.9	88.7	80.3	120.0	93.4	85.9

	2011			2010				2009
	Q1	Q2	Q3	Q1	Q2	Q3	Q4	Q4
<i>(Dollars and per share)</i>								
Fully diluted net earnings	0.88	0.80	1.21	0.91	0.74	1.12	0.88	0.77
Banner conversion cost after taxes	—	—	—	—	—	—	—	0.01
Decrease in tax expense	—	—	—	(0.09)	—	—	—	—
Adjusted fully diluted net earnings ⁽¹⁾	0.88	0.80	1.21	0.82	0.74	1.12	0.88	0.78

⁽¹⁾ See section on "Non-GAAP measurements"

⁽²⁾ See section on "Forward-looking information"



CASH POSITION

OPERATING ACTIVITIES

Operating activities generated cash flows of \$170.9 million in the third quarter and \$359.5 million over the first 40 weeks of 2011, compared to \$190.4 million and \$368.5 million respectively in the corresponding periods of fiscal 2010. These variations in generated cash flows are due primarily to variations in non-cash working capital.

INVESTING ACTIVITIES

Investing activities required outflows of \$87.3 million in the third quarter of 2011 and \$173.9 million in the first 40 weeks of 2011 versus \$55.4 million in the third quarter and \$309.6 million in the first 40 weeks of 2010. The variations in third quarter and 40-week outflows between fiscal 2010 and 2011 are due mainly to store acquisitions.

During the first 40 weeks of 2011, the Company and its retailers invested \$155.9 million in our retail network, for a gross expansion of 381,300 square feet and a net expansion of 69,500 square feet or 0.4%. Major renovations and expansions of 17 stores were completed, and seven new stores were opened.

FINANCING ACTIVITIES

Financing activities required outflows of \$72.7 million and \$199.8 million respectively in the third quarter and 40-week period of 2011 versus 2010 third quarter and 40-week outflows of \$86.7 million and \$180.1 million. The principal variations in financing activity outflows between the 2011 periods and 2010 periods are largely attributable to the redemption of shares in 2011 in the amounts of \$56.8 million in the third quarter and \$145.7 million in the first 40 weeks of 2011 versus redemption in the amounts of \$68.1 million and \$124.0 in the corresponding periods of 2010.

FINANCIAL POSITION

We do not anticipate⁽²⁾ any liquidity risk and consider our financial position at the end of the third quarter of fiscal 2011 as very solid. We had an unused authorized revolving line of credit of \$400.0 million. Our long-term debt corresponded to 28.4% of the combined total of long-term debt and shareholders' equity (long-term debt/total capital).

At the end of the third quarter of 2011, the main elements of our long-term debt were as follows:

	Interest Rate	Balance (Millions of dollars)	Maturity
Credit A Facility	Rates fluctuate with changes in bankers' acceptance rates	369.3	August 15, 2012
Series A Notes	4.98% fixed rate	200.0	October 15, 2015
Series B Notes	5.97% fixed rate	400.0	October 15, 2035

At the end of the third quarter, we had foreign exchange forward contracts to hedge against the effect of foreign exchange rate fluctuations on our future foreign-denominated purchases of goods and services. The fair value of these short-term foreign exchange forward contracts was insignificant.

Our main financial ratios were as follows:

	As at July 2, 2011	As at September 25, 2010
Financial structure		
Long-term debt (Millions of dollars)	1,012.7	1,004.3
Shareholders' equity (Millions of dollars)	2,551.2	2,442.8
Long-term debt/total capital (%)	28.4	29.1
	Fiscal 2011 (40 weeks)	Fiscal 2010 (40 weeks)
Results		
EBITDA ⁽¹⁾ /Financial costs (Times)	18.7	17.1

⁽¹⁾ See section on "Non-GAAP measurements"

⁽²⁾ See section on "Forward-looking information"



CAPITAL STOCK, STOCK OPTIONS AND PERFORMANCE SHARE UNITS

	As at July 2, 2011	As at September 25, 2010
Number of Class A Subordinate Shares outstanding <i>(Thousands)</i>	101,571	104,438
Number of Class B Shares outstanding <i>(Thousands)</i>	599	631
Stock options:		
Number outstanding <i>(Thousands)</i>	1,795	1,777
Exercise prices <i>(Dollars)</i>	20.20 to 47.14	20.20 to 44.19
Weighted average exercise price <i>(Dollars)</i>	35.32	32.29
Performance share units:		
Number outstanding <i>(Thousands)</i>	315	309
Weighted average maturity <i>(Months)</i>	19	16

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 8, 2011 and September 7, 2012, up to 6,000,000 of its Class A Subordinate Shares representing approximately 5.9% of its issued and outstanding shares at the close of the Toronto Stock Exchange on August 5, 2011. 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 8, 2010 to July 29, 2011, the Company repurchased 3,746,300 Class A Subordinate shares at an average price of \$45.32 per share for a total of \$169.8 million.

DIVIDENDS

On August 9, 2011, the Company's Board of Directors declared a quarterly dividend of \$0.1925 per Class A Subordinate Share and Class B Share payable September 7, 2011, an increase of 13.2% over the dividend declared for the same quarter last year. On an annualized basis, this dividend represents 20.1% of 2010 net earnings.

SHARE TRADING

The value of METRO shares remained in the \$42.11 to \$49.08 range over the first three quarters of fiscal 2011. During this period, a total of 57.7 million shares traded on the Toronto Stock Exchange. The closing price on Friday, July 29, 2011 was \$47.37, compared with \$45.15 at the end of fiscal 2010.

⁽¹⁾ See section on "Non-GAAP measurements"

⁽²⁾ See section on "Forward-looking information"

NEW ACCOUNTING POLICY RECENTLY PUBLISHED

International Financial Reporting Standards

On February 13, 2008, the Accounting Standards Board confirmed the date of the changeover from Canadian Generally Accepted Accounting Principles (GAAP) to International Financial Reporting Standards (IFRS). Canadian enterprises with public disclosure obligations must adopt IFRS for their interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company's IFRS changeover date will be the first day of fiscal 2012, namely September 25, 2011.

We set up a project structure to achieve the changeover of our consolidated financial statements to IFRS. A multidisciplinary working group analyzes, recommends accounting policy choices and implements each IFRS standard. A steering committee made up of senior executives approves accounting policy choices and makes sure that information technology, internal control, contractual and any other adjustments are made. The external auditors are notified of our choices and consulted on them. The Company's Audit Committee ensures that management fulfills its responsibilities and successfully accomplishes the changeover to IFRS.

We developed a work plan whose phases are outlined in the following tables, with actions, timetable and progress.

Phase 1: Preliminary Study and Diagnostic

Actions	<p>Identification of the IFRS standards that will require changes with regard to measurement in consolidated financial statements and disclosure.</p> <p>Ranking of standards based on their anticipated impact on our consolidated financial statements and the effort their implementation requires.</p>
Timetable	End of our 2008 fiscal year.
Progress	Completed.

Phase 2: Standards Analysis

Actions	<p>Analysis of the differences between GAAP and IFRS.</p> <p>Selection of the accounting policies that the Company will apply on an ongoing basis.</p> <p>Company's selection of IFRS 1, "First-time Adoption of IFRS" exemptions at the date of transition.</p> <p>Identification of the collateral impacts in the following areas:</p> <ul style="list-style-type: none"> • information technology (IT); • internal control over financial reporting (ICFR); • disclosure controls and procedures (DC&P); • contracts; • compensation; • training.
Timetable	We have prepared a detailed timetable that contemplates the bulk of the analysis until the end of our 2010 fiscal year. We prioritized standards based on their ranking in the diagnostic, the time needed to complete the analysis and implementation as well as working group members' availability.
Progress	<p>Analysis of the IFRS standards and interpretations that could have an impact on our Company is completed.</p> <p>The Company's Audit Committee, Steering Committee and key personnel have received ongoing training on the principal differences between GAAP and IFRS, the choices made with regard to accounting policies and IFRS 1 exemptions at the date of transition.</p> <p>Analysis of our contracts and compensation programs established that the impact should not be material.</p>

⁽¹⁾ See section on "Non-GAAP measurements"
⁽²⁾ See section on "Forward-looking information"

Phase 3: Implementation

Actions	<p>Preparation of the opening balance sheet at the date of transition.</p> <p>Compilation of the comparative financial data.</p> <p>Production of the interim consolidated financial statements and associated disclosure.</p> <p>Production of the annual consolidated financial statements and associated disclosure.</p> <p>Implementation of changes regarding collateral impacts.</p>
Timetable	<p>At the end of fiscal 2011, our opening balance sheet, comparative financial data under IFRS and changes regarding collateral impacts will be completed.</p> <p>In fiscal 2012, we will present our interim and annual consolidated financial statements and disclosure in accordance with IFRS.</p>
Progress	<p>We are currently compiling the comparative financial data for fiscal 2011 quarters.</p> <p>We have completed our opening balance sheet.</p> <p>We have prepared a preliminary version of our annual financial statements according to IFRS standards.</p> <p>We have run parallel integrated GAAP and IFRS IT systems from the start of fiscal 2011.</p> <p>As for ICFR and DC&P, we have implemented additional controls with regard to IFRS transition disclosure.</p>

■ **Differences in accounting treatment**

We have noted differences in accounting treatment between some IFRS standards and interpretations and our current accounting policies. We have made choices, as warranted, with regard to these standards, and have assessed the impact of these differences on our consolidated financial statements. The most significant differences are set out in the following table:

Standards	Comparison between IFRS and GAAP	Choice and impact on our financial statements
Borrowing costs	<p>IFRS: We have to capitalize borrowing costs on qualifying assets, i.e. assets that require an extended period of preparation before they are usable or saleable.</p> <p>GAAP: These borrowing costs may be capitalized.</p>	<p>Choice: None.</p> <p>Impact: Generally, we will not capitalize borrowing costs on qualifying assets, as they are deemed to be immaterial.</p>
Fixed and intangible assets and investment properties	<p>IFRS: After initial recognition, we can measure our fixed and intangible assets and investment properties using the cost model or the revaluation model.</p> <p>GAAP: The revaluation model is not allowed.</p>	<p>Choice: We will continue to use the cost model in order to avoid balance sheet variations in the fair value of fixed and intangible assets and investment properties and the corresponding impact on profit and loss (P&L) and comprehensive income statements.</p> <p>Impact: Nil.</p>
Fixed assets	<p>IFRS: We have to amortize our fixed assets based on their components.</p> <p>GAAP: Component identification rules are less stringent.</p>	<p>Choice: We have identified important components where the useful life differs from the rest of the building. Our amortization periods will vary from 20 to 50 years.</p> <p>Impact:</p> <p>Financial position: At the date of transition, fixed assets should be increased by about \$15 million, retained earnings by about \$10 million and deferred taxes by about \$5 million.</p> <p>P&L: Given the above-mentioned changes, the annual amortization expense in subsequent periods should be reduced by about \$1 million.</p>

⁽¹⁾ See section on "Non-GAAP measurements"

⁽²⁾ See section on "Forward-looking information"

<p>Impairment of assets</p>	<p>IFRS: Impairment testing of our assets is conducted at the level of the asset itself, the cash generating unit (CGU) or group of CGUs. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.</p> <p>GAAP: Impairment testing is conducted at the level of the asset itself, a group of assets or a reporting unit.</p>	<p>Choice: Our impairment testing will be conducted at the level of each store (CGU).</p> <p>Impairment testing of warehouses will be conducted at the level of different groups of CGUs.</p> <p>As for goodwill, certain intangible assets with indefinite useful lives and corporate assets not allocated to a single CGU, impairment testing will be conducted at the level of our single operating segment.</p> <p>Impairment testing of investment properties, certain intangible assets with indefinite useful lives and the investment in an associate will be conducted at the level of the asset itself.</p> <p>Impact:</p> <p>Financial position: At the date of transition, impairment losses of about \$85 million should be recognized in retained earnings; fixed and intangible assets and investment properties should be reduced by about \$115 million; and deferred taxes by about \$30 million.</p> <p>P&L: Given the above-mentioned changes, the annual amortization expense in subsequent periods should be reduced by about \$15 million.</p>
<p>Share-based payment</p>	<p>IFRS: When stock option awards vest gradually, each tranche is to be considered as a separate award.</p> <p>GAAP: The gradually vested tranches may be considered as a single award.</p>	<p>Choice: None.</p> <p>Impact:</p> <p>Financial position: At the date of transition, about \$2 million of unamortized tranches should be recorded in retained earnings, and an equal amount should increase the contributed surplus.</p> <p>P&L: No material impact.</p>
<p>Customer loyalty programs</p>	<p>IFRS: For our loyalty program, we have to record deferred revenue at the time of the initial sale. It will be recognized as revenue once points have been redeemed.</p> <p>GAAP: No standard exists, but the Canadian practice is to record a provision for the future redemption of awarded points and reverse it to operating expenses when the points are redeemed.</p>	<p>Choice: None.</p> <p>Impact:</p> <p>P&L: Annual revenue for subsequent periods should be reduced by about \$30 million, and operating expenses reduced by an equal amount, leaving the P&L unchanged.</p>
<p>Employee benefits</p>	<p>IFRS: We have the choice of deferring recognition of actuarial gains and losses using the corridor approach or of immediately recognizing actuarial gains and losses in full in P&L or in comprehensive income.</p> <p>GAAP: We have a similar choice of accounting policy without the possibility of immediate recognition to comprehensive income.</p>	<p>Choice: We will recognize all actuarial gains and losses immediately in comprehensive income, without impacting P&L.</p> <p>Impact:</p> <p>Financial position: See IFRS 1 for impact at the date of transition.</p>

(1) See section on "Non-GAAP measurements"
(2) See section on "Forward-looking information"

Employee benefits
(cont'd)

IFRS: We have to recognize past service cost for vested benefits immediately in P&L.

GAAP: Past service cost has to be amortized in a straight line over the average remaining service period of active participants until the full eligibility date, regardless of vesting.

Choice: None.

Impact:

Financial position: At the date of transition, past service cost of about \$10 million should be recognized in retained earnings and deferred taxes for about \$7 million and \$3 million respectively.

P&L: Given the above-mentioned changes, the annual defined benefit plan expense should be reduced by about \$2 million.

IFRS: In the case of a surplus plan, these assets are recorded as the lesser of the present value determined for accounting purposes or the value of the future economic benefit by way of surplus refunds or contribution holidays. When a plan is underfunded, the carrying amount of the recorded liability has to be at least equal to the value of future contributions needed to cover the funding deficit. Variances regarding the above-described limits are recognized for each period and recorded according to the chosen accounting method for actuarial variances.

GAAP: In the case of a surplus funded plan, the defined benefit asset is recorded as the lesser of the actuarial value determined for accounting purposes or the value of future contribution holidays calculated on a going concern basis. In the case of an underfunded plan, there is no guideline on the liability. Any variances regarding the above-described limits are recognized for each year and recorded in P&L.

Choice: We will recognize limit effects in comprehensive income.

Impact:

Financial position: At the date of transition, defined benefit assets should be reduced by about \$5 million, retained earnings by about \$3 million and deferred taxes by about \$2 million.

IFRS: A multi-employer plan with implicit obligations shall be accounted for as a defined benefit plan. However, when sufficient information is not available, it shall be accounted for as if it were a defined contribution plan. Additional information shall be disclosed in the financial statements. Furthermore, if there is a contractual commitment, it shall be recognized in P&L.

GAAP: A multi-employer plan is generally accounted for as a defined contribution plan because information is usually not available. However, if sufficient information is available, it must be accounted for as a defined benefit plan. The employee future benefits standard doesn't specifically address the accounting treatment of a contractual agreement. However, other GAAP standards cover this type of commitment and the accounting treatment is the same as IFRS.

Choice: None.

Impact: Our multi-employer plans are defined benefit plans; however they will be accounted for as if they were defined contribution plans since sufficient information is not available to accurately determine our obligations. Additional information regarding this situation will be disclosed.

⁽¹⁾ See section on "Non-GAAP measurements"

⁽²⁾ See section on "Forward-looking information"

Investments in associates	IFRS: In applying the equity method, the difference between the associate's reporting date and the investor's cannot be greater than three months. GAAP: No time limit is mentioned.	Choice: None. Impact: None, since the difference between our reporting date and the associate's is always less than three months.
Income taxes	IFRS: Differences between the carrying amount and tax base of intangible assets with indefinite useful lives have to be recorded as deferred tax asset or liability based on applicable tax rates when the asset is to be realized. Since these intangible assets are not amortized, they are deemed to be realized upon their disposal and the capital gains tax rate must be taken into account. GAAP: This position deeming an asset's disposal to be its realization is not stated. The practice is to use the corporate tax rate in accounting for future income taxes.	Choice: None. Impact: Financial position: At the date of transition, deferred tax liability should be reduced by about \$15 million and retained earnings increased by an equal amount.

■ **First-time adoption of IFRS**

IFRS 1 provides exemptions from retrospective application. The following table sets out the choices we have made with regard to these exemptions along with the assessment of their impact on our consolidated financial statements:

Standards	Optional Exemptions	Choice and Impact on Financial Statements
Borrowing costs	This exemption allows us to not capitalize borrowing costs on our qualifying assets before the IFRS transition date.	Choice: We have decided not to avail ourselves of this exemption. Impact: Nil.
Deemed cost	On the IFRS transition date, we can recognize each fixed and intangible asset and investment property at its deemed cost, which shall be its fair value.	Choice: We have decided not to avail ourselves of this exemption. Impact: Nil.
Share-based payment	This exemption would relieve us from applying the standard to equity instruments acquired before the IFRS transition date.	Choice: We have decided not to avail ourselves of this exemption. Impact: Nil.
Employee benefits	The exemption allows us to recognize all actuarial gains and losses at the date of transition to IFRS in retained earnings, regardless of the subsequent accounting treatment chosen.	Choice: We have chosen to avail ourselves of this exemption. Impact: Financial position: At the date of transition, about \$85 million in actuarial losses should be reversed to retained earnings and deferred taxes for about \$65 million and \$20 million respectively. P&L: Given the above-mentioned changes, the annual defined benefit plan expense should be reduced by about \$3 million.
Business combinations	The exemption allows us to not apply the standard to business combinations occurred before the IFRS transition date.	Choice: We have chosen to avail ourselves of this exemption for business combinations entered into before September 26, 2010. Purchase price allocations of companies acquired before September 26, 2010 will not be restated. Impact: Nil.

⁽¹⁾ See section on "Non-GAAP measurements"

⁽²⁾ See section on "Forward-looking information"

■ **Summary of principal probable impacts on financial statements**

(Millions of dollars)	Financial position at date of transition						P&L in subsequent fiscal years			
	Assets			Liabilities			Revenue	Operating expenses	Amortization	P&L before taxes
Differences	Fixed Assets	Investment properties	Intangible assets	Defined benefits	Deferred taxes	Equity				
Fixed assets	15				5	10			(1)	1
Impairment of assets	(95)	(5)	(15)		(30)	(85)			(15)	15
Customer loyalty programs							(30)	(30)		—
Employee benefits				(100)	(25)	(75)		(5)		5
Income taxes					(15)	15				—
	(80)	(5)	(15)	(100)	(65)	(135)	(30)	(35)	(16)	21

■ **Differences in presentation**

We have noted differences in presentation between some IFRS standards and interpretations and our GAAP financial statements and have made choices, as warranted, with regard to these standards, which are set out in the following table:

Standards	Comparison between IFRS and GAAP Choices
Statement of financial position	<p>IFRS: A statement of financial position as at the beginning of the comparative period has to be presented when:</p> <ul style="list-style-type: none"> • an accounting policy is applied retrospectively; • items in financial statements are retrospectively restated or reclassified. <p>GAAP: This third balance sheet column is not required. Choice: None.</p> <hr/> <p>IFRS: Deferred tax assets and liabilities are classified as non-current items. GAAP: The short-term and long-term future income tax assets and liabilities are presented separately. Choice: None.</p> <hr/> <p>IFRS: Current and non-current provisions, investment properties and investments in associates are presented separately. GAAP: This presentation is not required. Choice: None.</p>
Statement of comprehensive income	<p>IFRS: All income and expense items may be presented:</p> <ul style="list-style-type: none"> • in a single statement of comprehensive income; or • in two statements: a separate P&L statement and a second statement beginning with net income and displaying components of other comprehensive income. <p>GAAP: All comprehensive income items may be presented:</p> <ul style="list-style-type: none"> • immediately under total net income; or • in a separate statement beginning with net income. <p>Choice: We will continue to present two separate statements.</p>

⁽¹⁾ See section on "Non-GAAP measurements"

⁽²⁾ See section on "Forward-looking information"

Statement of comprehensive income (cont'd)	<p>IFRS: Expenses are classified based on their nature or their function.</p> <p>GAAP: This classification of expenses is not required.</p> <p>Choice: We will keep the existing P&L statement and will disclose, through a note to the financial statements, expenses by nature.</p>
P&L statement	<p>IFRS: The cost of loyalty program points where we are acting as an agent are to be recorded as a reduction in revenue.</p> <p>GAAP: It is recorded in the cost of sales and operating expenses.</p> <p>Choice: None.</p>
Statement of changes in equity	<p>IFRS: A statement of changes in equity must show reconciliation between the carrying amounts at the beginning and the end of the period for each component of equity.</p> <p>GAAP: Only a statement of retained earnings has to be presented.</p> <p>Choice: None.</p>
Statement of cash flows	<p>IFRS: In the statement of cash flows, interest and dividends may be classified as follows:</p> <ul style="list-style-type: none"> • interest and dividends paid: operating cash flows or financing cash flows; • interest and dividends received: operating cash flows or investing cash flows. <p>GAAP: They may be classified as follows in the cash flow statement:</p> <ul style="list-style-type: none"> • interest paid and received: operating cash flows; • dividends paid: financing cash flows; • dividends received and included in net income: operating cash flows. <p>Choice: We will keep the existing classification of interest and dividends in the statement of cash flows.</p> <hr/> <p>IFRS: Interim reports must present a statement of cash flows for the current financial year-to-date and for the comparable period of the preceding financial year.</p> <p>GAAP: Besides a cash flow statement for the current financial year-to-date and for the comparable period, interim reports must present a cash flow statement for the interim period and one for the comparable period.</p> <p>Choice: None.</p>
Notes to financial statements	<p>IFRS: Reconciliations of the carrying amounts at the beginning and end of the period are presented in the notes to financial statements.</p> <p>GAAP: Reconciliations are limited to certain balance sheet components.</p> <p>Choice: None.</p> <hr/> <p>IFRS: The total amount of key management personnel compensation must be disclosed, by large categories, in the notes to financial statements.</p> <p>GAAP: This information is not required in financial statements.</p> <p>However, Canadian Securities Administrators National Instrument 51-102 demands disclosure of similar information in the proxy circular.</p> <p>Choice: None.</p>

Amendments to IFRS standards by the International Accounting Standards Board, new information or other external factors that may come to our attention throughout the changeover process to IFRS could change our choices and the impact amounts on our consolidated financial statements.

⁽¹⁾ See section on "Non-GAAP measurements"
⁽²⁾ See section on "Forward-looking information"

FORWARD-LOOKING INFORMATION

We have used, throughout this interim report, different statements that could, within the context of regulations issued by the Canadian Securities Administrators, be construed as being forward-looking information. In general, any statement contained herein, which does not constitute a historical fact, may be deemed a forward-looking statement. Expressions such as “continue”, “anticipate”, and other similar expressions are generally indicative of forward-looking statements. The forward-looking statements contained herein are based upon certain assumptions regarding the Canadian food industry, the general economy, our annual budget, as well as our 2011 action plan.

These forward-looking statements do not provide any guarantees as to the future performance of the Company and are subject to potential risks, known and unknown, as well as uncertainties that could cause the outcome to differ significantly. An economic slowdown or recession, or the arrival of a new competitor, are examples described under the “Risk Management” section of the 2010 Annual Report which could have an impact on these statements. We believe these statements to be reasonable and pertinent as at the date of publication of this interim report and represent our expectations. The Company does not intend to update any forward-looking statement contained herein, except as required by applicable law.

NON-GAAP MEASUREMENTS

In addition to the 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 FINANCIAL COSTS, TAXES, DEPRECIATION AND AMORTIZATION (EBITDA)

EBITDA is a measurement of earnings that excludes financial costs, 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.

OUTLOOK

The growth of our net earnings and sales in the third quarter demonstrates our teams' excellent capability to execute in a highly competitive environment. We are confident that our customer-focused strategies supported by our effective merchandising, loyalty, investment, and cost control programs will allow us to continue⁽²⁾ our growth.

Montréal, August 10, 2011

⁽¹⁾ See section on "Non-GAAP measurements"

⁽²⁾ See section on "Forward-looking information"



Consolidated statements of earnings

Periods ended July 2, 2011 and July 3, 2010

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

	16 weeks Fiscal Year		40 weeks Fiscal Year	
	2011	2010	2011	2010
Sales	\$ 3,576.3	\$ 3,561.3	\$ 8,773.9	\$ 8,783.0
Cost of sales and operating expenses <i>(note 8)</i>	(3,335.4)	(3,321.6)	(8,200.6)	(8,206.0)
Share of earnings in a public company subject to significant influence	7.1	8.0	27.4	25.3
Banner conversion costs <i>(note 3)</i>	—	—	—	(0.9)
Earnings before financial costs, taxes, depreciation and amortization	248.0	247.7	600.7	601.4
Depreciation and amortization	(60.3)	(62.2)	(150.2)	(155.9)
Operating income	187.7	185.5	450.5	445.5
Financial costs, net <i>(note 5)</i>	(12.2)	(13.9)	(32.1)	(35.2)
Earnings before income taxes	175.5	171.6	418.4	410.3
Income taxes <i>(note 6)</i>	(50.6)	(51.6)	(118.2)	(111.9)
Net earnings	\$ 124.9	\$ 120.0	\$ 300.2	\$ 298.4
Net earnings per share <i>(Dollars)</i> <i>(note 7)</i>				
Basic	1.21	1.12	2.90	2.78
Fully diluted	1.21	1.12	2.89	2.77

See accompanying notes



Consolidated balance sheets

(Unaudited) (Millions of dollars)

	As at July 2, 2011	As at September 25, 2010
ASSETS		
Current assets		
Cash and cash equivalents	\$ 200.5	\$ 214.7
Accounts receivable	315.6	311.3
Inventories (note 8)	707.2	699.3
Prepaid expenses	25.3	9.7
Income taxes receivable	3.9	1.7
Future income taxes	20.8	12.3
	1,273.3	1,249.0
Investments and other assets	262.3	235.3
Fixed assets	1,313.9	1,319.1
Intangible assets	307.7	315.7
Goodwill	1,648.7	1,603.7
Future income taxes	29.2	26.0
Accrued benefit asset	76.6	72.8
	\$ 4,911.7	\$ 4,821.6
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank loans	\$ 1.1	\$ 1.0
Accounts payable	1,031.7	1,073.3
Income taxes payable	66.7	50.8
Future income taxes	15.5	12.8
Current portion of long-term debt	3.7	4.7
	1,118.7	1,142.6
Long-term debt	1,012.7	1,004.3
Accrued benefit liability	45.2	48.5
Future income taxes	164.0	162.2
Other long-term liabilities	19.9	21.2
	2,360.5	2,378.8
Shareholders' equity		
Capital stock (note 9)	689.6	702.1
Contributed surplus (note 10)	8.0	6.1
Retained earnings	1,853.6	1,734.9
Accumulated other comprehensive income (note 11)	—	(0.3)
	2,551.2	2,442.8
	\$ 4,911.7	\$ 4,821.6

See accompanying notes



Consolidated statements of retained earnings

40-week periods ended July 2, 2011 and July 3, 2010

(Unaudited) (Millions of dollars)

	Fiscal Year	
	2011	2010
Balance – beginning of period	\$ 1,734.9	\$ 1,545.7
Net earnings	300.2	298.4
Dividends	(57.6)	(51.2)
Share redemption premium (note 9)	(123.9)	(103.3)
Balance – end of period	\$ 1,853.6	\$ 1,689.6

See accompanying notes

Consolidated statements of comprehensive income

Periods ended July 2, 2011 and July 3, 2010

(Unaudited) (Millions of dollars)

	16 weeks Fiscal Year		40 weeks Fiscal Year	
	2011	2010	2011	2010
Net earnings	\$ 124.9	\$ 120.0	\$ 300.2	\$ 298.4
Other comprehensive income (note 11)				
Change in fair value of derivative designated as cash flow hedge	—	0.5	0.4	2.0
Corresponding income taxes	—	(0.1)	(0.1)	(0.6)
Comprehensive income	\$ 124.9	\$ 120.4	\$ 300.5	\$ 299.8

See accompanying notes



Consolidated statements of cash flows

Periods ended July 2, 2011 and July 3, 2010

(Unaudited) (Millions of dollars)

	16 weeks Fiscal Year		40 weeks Fiscal Year	
	2011	2010	2011	2010
Operating activities				
Net earnings	\$ 124.9	\$ 120.0	\$ 300.2	\$ 298.4
Non-cash items				
Share of earnings in a public company subject to significant influence	(7.1)	(8.0)	(27.4)	(25.3)
Depreciation and amortization	60.3	62.2	150.2	155.9
Amortization of deferred financing costs	0.1	0.7	0.2	1.6
(Gain) loss on disposal and write-off of fixed assets and intangible assets	(3.7)	1.1	(2.5)	1.3
Interest income on investments	(0.1)	(0.1)	(0.1)	(0.1)
Future income taxes	(8.1)	5.7	(2.2)	6.7
Stock-based compensation cost	2.1	1.9	4.9	4.4
Difference between amounts paid for employee future benefits and current period cost	(2.3)	(3.1)	(7.1)	(4.1)
	166.1	180.4	416.2	438.8
Net change in non-cash working capital items related to operations	4.8	10.0	(56.7)	(70.3)
	170.9	190.4	359.5	368.5
Investing activities				
Business acquisition (note 2)	(48.1)	(0.1)	(68.6)	(152.3)
Net change in investments and other assets	6.7	(2.1)	5.4	(6.5)
Dividends from public company subject to significant influence	1.3	0.8	3.4	2.4
Additions to fixed assets	(44.2)	(44.9)	(103.6)	(133.2)
Proceeds on disposal of fixed assets	2.3	0.1	2.6	4.4
Additions to intangible assets	(5.3)	(9.2)	(13.1)	(24.4)
	(87.3)	(55.4)	(173.9)	(309.6)
Financing activities				
Net change in bank loans	0.3	0.1	0.1	—
Issuance of shares (note 9)	3.8	3.7	6.7	7.9
Redemption of shares (note 9)	(56.8)	(68.1)	(145.7)	(124.0)
Performance share units cash settlement	—	—	(0.4)	(0.5)
Increase in long-term debt	4.9	0.7	7.7	2.8
Repayment of long-term debt	(4.3)	(2.8)	(9.3)	(8.4)
Net change in other long-term liabilities	(0.7)	(2.2)	(1.3)	(6.7)
Dividends paid	(19.9)	(18.1)	(57.6)	(51.2)
	(72.7)	(86.7)	(199.8)	(180.1)
Net change in cash and cash equivalents	10.9	48.3	(14.2)	(121.2)
Cash and cash equivalents – beginning of period	189.6	71.9	214.7	241.4
Cash and cash equivalents – end of period	\$ 200.5	\$ 120.2	\$ 200.5	\$ 120.2
Supplementary information				
Interest paid	20.2	20.5	42.7	42.4
Income taxes paid	39.0	32.6	114.0	83.9

See accompanying notes



Notes to interim consolidated financial statements

Periods ended July 2, 2011 and July 3, 2010

(Unaudited) (Millions of dollars, unless otherwise indicated)

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 25, 2010. 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 2010 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- BUSINESS ACQUISITION

During the 40-week periods ended July 2, 2011, the Company acquired 11 affiliated stores which it already supplied. The total purchase price was \$68.6 in cash.

The acquisition was accounted for using the purchase method. The stores' results have been consolidated as of their respective acquisition dates. The preliminary total purchase price allocation was as follows:

Inventories	\$ 9.7
Fixed assets	8.8
Goodwill	48.6
Future income tax assets	2.0
Integration plan-related liabilities	(0.5)
Total net assets acquired	\$ 68.6
<hr/>	
Cash consideration paid	\$ 68.4
Acquisition costs	0.2
Consideration and acquisition costs	\$ 68.6

Management is currently carrying out a more specific analysis and changes will be made to the allocation of the excess consideration paid over net assets acquired as the information becomes available. Among others, the measurement of the fair value of inventories and fixed assets was not yet completed at the time of the preliminary allocation. As a result, the actual amounts allocated to the identifiable assets acquired and the related operating results may vary according to the amounts initially recorded. Furthermore, the Company has not completed the assessment of possible costs related to the integration of activities potentially giving rise to an adjustment of the liability recorded in the allocation of the purchase price.

The tax treatment of the goodwill will be as eligible capital property with the related tax deductions.

In the first quarter of 2010, the Company acquired 18 affiliated stores which it already supplied. The total purchase price, net of cash acquired, was \$152.3.

3- BANNER CONVERSION COSTS

In the first quarter of 2010, the Company completed the conversion of its 159 stores of its five Ontario banners to the Metro banner begun in the summer of 2008. For fiscal 2010, conversion costs totalled \$0.9.

Notes to interim consolidated financial statements

Periods ended July 2, 2011 and July 3, 2010

(Unaudited) (Millions of dollars, unless otherwise indicated)

4- EMPLOYEE FUTURE BENEFITS

The Company maintains several defined benefit and defined contribution plans which provide most participants with pension and other retirement benefits and other post-employment benefits. The Company's defined contribution plans and defined benefit plans expense was as follows:

	16 weeks Fiscal Year				40 weeks Fiscal Year			
	2011		2010		2011		2010	
	Pension plans	Other plans	Pension plans	Other plans	Pension plans	Other plans	Pension plans	Other plans
Defined contribution plans	\$ 8.7	\$ 0.2	\$ 8.7	\$ 0.1	\$ 20.8	\$ 0.5	\$ 21.2	\$ 0.4
Defined benefit plans								
Current service costs	8.6	0.7	7.1	0.5	20.5	1.8	18.0	1.2
Interest cost	10.6	0.6	10.7	0.6	27.1	1.4	26.9	1.5
Projected return on plan assets	(13.7)	—	(12.9)	—	(34.2)	—	(32.2)	—
Amortization of actuarial losses	0.8	—	0.3	—	1.9	—	0.8	—
Plan amendments	0.3	(0.1)	0.2	(0.1)	0.7	(0.3)	0.4	(0.2)
	6.6	1.2	5.4	1.0	16.0	2.9	13.9	2.5
	\$ 15.3	\$ 1.4	\$ 14.1	\$ 1.1	\$ 36.8	\$ 3.4	\$ 35.1	\$ 2.9

5- FINANCIAL COSTS, NET

	16 weeks Fiscal Year		40 weeks Fiscal Year	
	2011	2010	2011	2010
Short-term interest	\$ 0.4	\$ 0.3	\$ 0.9	\$ 1.2
Long-term interest	13.3	13.4	33.7	33.6
Amortization of deferred financing costs	0.1	0.7	0.2	1.6
Interest income	(1.6)	(0.5)	(2.7)	(1.2)
	\$ 12.2	\$ 13.9	\$ 32.1	\$ 35.2

6- INCOME TAXES

The effective income tax rates were as follows:

(Percentage)	16 weeks Fiscal Year		40 weeks Fiscal Year	
	2011	2010	2011	2010
Combined statutory income tax rate	28.8	30.4	28.8	30.4
Changes				
Impact on future taxes of 4.0% total future decreases in Ontario tax rate (\$10.0 in 2010)	—	—	—	(2.4)
Share of earnings in a public company subject to significant influence	(0.6)	(0.8)	(1.0)	(1.0)
Others	0.6	0.5	0.5	0.3
	28.8	30.1	28.3	27.3



Notes to interim consolidated financial statements

Periods ended July 2, 2011 and July 3, 2010

(Unaudited) (Millions of dollars, unless otherwise indicated)

7- NET 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	
	2011	2010	2011	2010
Weighted average number of shares outstanding – Basic	102.9	106.6	103.5	107.3
Dilutive effect under stock option and performance share units plans	0.4	0.5	0.5	0.5
Weighted average number of shares outstanding – Diluted	103.3	107.1	104.0	107.8

8- INVENTORIES

Inventories were detailed as follows:

	As at July 2, 2011	As at September 25, 2010
Warehouse inventories	\$ 292.4	\$ 296.3
Retail inventories	414.8	403.0
	\$ 707.2	\$ 699.3

The cost of inventories expensed for the 16-week period ended July 2, 2011 totalled \$2,917.6 (2010 – \$2,914.7) and \$7,156.0 for the 40-week period of 2011 (2010 – \$7,180.5).

9- CAPITAL STOCK

OUTSTANDING

	Class A Subordinate Shares		Class B Shares		Total
	Number (Thousands)		Number (Thousands)		
Balance as at September 25, 2010	104,438	\$ 700.8	631	\$ 1.3	\$ 702.1
Shares issued for cash	1	—	—	—	—
Shares redeemed for cash, excluding premium of \$123.9	(3,242)	(21.8)	—	—	(21.8)
Released treasury shares	94	0.6	—	—	0.6
Stock options exercised	248	8.7	—	—	8.7
Conversion of Class B Shares into Class A Subordinate Shares	32	0.1	(32)	(0.1)	—
Balance as at July 2, 2011	101,571	\$ 688.4	599	\$ 1.2	\$ 689.6



Notes to interim consolidated financial statements

Periods ended July 2, 2011 and July 3, 2010

(Unaudited) (Millions of dollars, unless otherwise indicated)

9- CAPITAL STOCK (Cont'd)

STOCK OPTION PLAN

The outstanding options and the changes during the 40-week period ended July 2, 2011 were summarized as follows:

	Number (Thousands)	Weighted average exercise price (Dollars)
Balance as at September 25, 2010	1,777	32.29
Granted	278	47.14
Exercised	(248)	27.11
Cancelled	(12)	30.67
Balance as at July 2, 2011	1,795	35.32

The exercise prices of the outstanding options ranged from \$20.20 to \$47.14 as of July 2, 2011 with expiration dates up to 2018. 473,600 of those options could be exercised at a weighted average exercise price of \$29.49.

Compensation expense for these options amounted to \$0.8 for the 16-week period ended July 2, 2011 (2010 – \$0.8) and to \$1.9 for the 40-week period of 2011 (2010 – \$1.9).

PERFORMANCE SHARE UNIT PLAN

Performance share units (PSUs) outstanding and changes during the 40-week period ended July 2, 2011 were summarized as follows:

	Numbers (Units)
Balance as at September 25, 2010	308,904
Granted	110,756
Settled	(104,153)
Cancelled	(634)
Balance as at July 2, 2011	314,873

The weighted average fair value of the PSUs granted during the 40-week period ended July 2, 2011, where the market value of one Class A Subordinate share of the Company at the grant date, was established at \$42.88 per PSU (2010 – \$39.90). The compensation expense comprising all of these PSUs amounted to \$1.3 for the 16-week period ended July 2, 2011 (2010 – \$1.1) and to \$3.0 for the 40-week period of fiscal 2011 (2010 – \$2.5).

Class A Subordinate Shares of the Company are held in trust for participants until the PSUs vest or are cancelled. The trust, considered a variable interest entity (VIE), is consolidated in the Company's financial statements with the cost of the acquired shares recorded as treasury shares in reduction of capital stock.

As at July 2, 2011, 109,940 shares were held in trust for participants until the PSUs shall have vested or been cancelled (as at September 25, 2010 – 203,548 shares).

10- CONTRIBUTED SURPLUS

Balance as at September 25, 2010	\$ 6.1
Stock-based compensation cost	4.9
Stock options exercised	(2.0)
Released treasury shares	(0.6)
PSUs cash settlement	(0.4)
Balance as at July 2, 2011	\$ 8.0



Notes to interim consolidated financial statements

Periods ended July 2, 2011 and July 3, 2010

(Unaudited) (Millions of dollars, unless otherwise indicated)

11- ACCUMULATED OTHER COMPREHENSIVE INCOME

The derivative designated as a cash flow hedge was the sole component of Accumulated Other Comprehensive Income. The changes during the 40-week periods ended July 2, 2011 and July 3, 2010 were as follows:

	Fiscal Year	
	2011	2010
Balance – beginning of period	\$ (0.3)	\$ (2.0)
Change in fair value of designated derivative net of income taxes of \$0.1 (2010 – \$0.6)	0.3	1.4
Balance – end of period	\$ —	\$ (0.6)

INFORMATION

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