



**Customers First**

**metro**

ANNUAL REPORT 2010

## Company Profile

With over \$11 billion in annual sales and more than 65,000 employees, METRO is a leader in the food and pharmaceutical sectors in Québec and Ontario, where it operates a network of 566 supermarkets under several banners, including Metro, Metro Plus, Super C and Food Basics, as well as 265 drugstores, mainly under the Brunet, The Pharmacy and Drug Basics banners.

## 2010 Highlights

- Record sales of \$11,342.9 million
- Net earnings of \$391.8 million, up 10.6%
- Launched Dunnhumby Canada, which will help us better understand the shopping habits of our customers and transform that knowledge into effective customer-centric strategies
- Launched the *Metro & Moi* loyalty program in Québec to complement the *Air Miles*® program in Ontario
- Acquired and integrated 15 GP food stores in Eastern Québec
- Developed and implemented a Corporate Responsibility roadmap which articulates our commitment to the sustainability of our activities



## Number of Stores

## Total Floor Space\*

FOOD	QUÉBEC	ONTARIO	TOTAL	TOTAL
Supermarkets	Metro 224 Metro Plus	Metro 155	379	12.9
Discount Stores	Super C 71	Food Basics 116	187	6.8
<b>TOTAL</b>	<b>295</b>	<b>271</b>	<b>566</b>	<b>19.7</b>
Drugstores	Brunet 185 Brunet Plus Clini Plus	Pharmacy 80 Drug Basics	265	–

\* Millions of square feet

**metro**

**metro**  
PLUS

**Super C**

**food**  
**Basics**

**DISTAGRO**  
TASTE + SERVICE  
METRO INC. DIVISION

**Brunet**

**Brunet plus**

**pharmacy**

**drug**  
**Basics Pharmacy**

FORWARD LOOKING INFORMATION: For any information on statements in this Annual Report that are of a forward-looking nature, please consult the section on "Forward-looking information" on page 23 in the Management's Discussion and Analysis (MD&A)

# Financial Highlights from 2006 to 2010

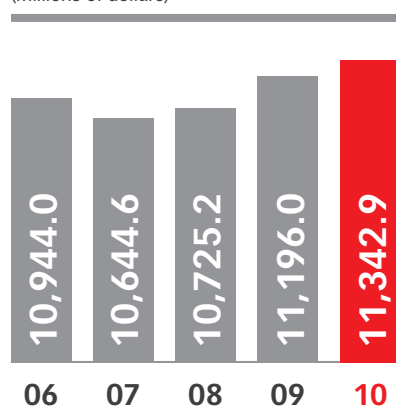
	2010 (52 weeks)	2009 (52 weeks)	2008 (52 weeks)	2007 (52 weeks)	2006 (53 weeks)
<b>OPERATING RESULTS</b> (Millions of dollars)					
Sales	11,342.9	11,196.0	10,725.2	10,644.6	10,944.0
EBITDA <sup>(1) (2)</sup>	787.0	741.6	638.9	626.3	610.4
Operating income	585.8	552.5	462.6	460.6	432.5
Net earnings	391.8	354.4	292.2	277.2	252.9
Cash flows from operating activities	547.8	520.1	450.2	363.3	392.0
<b>FINANCIAL STRUCTURE</b> (Millions of dollars)					
Total assets	4,821.6	4,658.1	4,425.6	4,292.7	4,166.3
Long-term debt	1,004.3	1,004.3	1,005.0	1,028.8	1,104.5
Shareholders' equity	2,442.8	2,264.1	2,068.3	1,940.0	1,730.9
<b>PER SHARE</b> (Dollars)					
Net earnings	3.67	3.21	2.60	2.41	2.21
Fully diluted net earnings	3.65	3.19	2.58	2.38	2.18
Book value	23.25	20.85	18.64	16.88	15.02
Dividend	0.6475	0.5375	0.49	0.45	0.415
<b>FINANCIAL RATIOS</b> (%)					
EBITDA <sup>(1) (2)</sup> /sales	6.9	6.6	6.0	5.9	5.6
Operating income/sales	5.2	4.9	4.3	4.3	4.0
Return on shareholders' equity	16.6	16.4	14.6	15.1	15.6
Long-term debt/total capital	29.1	30.7	32.7	34.7	39.0
<b>SHARE PRICE</b> (Dollars)					
High	47.01	40.00	35.85	41.78	36.00
Low	33.02	27.38	21.00	33.23	28.47
Closing price (At year-end)	45.15	34.73	31.77	35.00	33.60

(1) Earnings before financial costs, taxes, depreciation and amortization

(2) See section on "Non-GAAP measurements" on page 22 in the MD&A

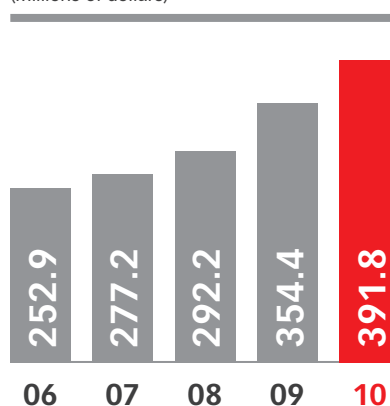
## SALES

(Millions of dollars)



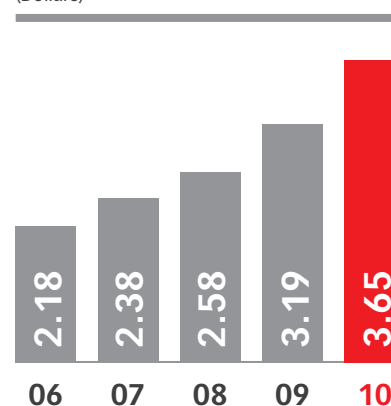
## NET EARNINGS

(Millions of dollars)



## FULLY DILUTED NET EARNINGS PER SHARE

(Dollars)



# Letter to our Shareholders



**Pierre H. Lessard, FCA**  
Executive Chairman of the Board

We are pleased to have this opportunity to report on METRO's activities and achievements in fiscal 2010. The priorities we established in 2009 were successfully addressed, our customer-first initiatives were very well received, and the METRO team delivered record results.

Sales rose 1.3% to \$11,342.9 million. Net earnings reached \$391.8 million, up 10.6% from \$354.4 million in 2009. Fully diluted net earnings per share were \$3.65, up 14.4% from \$3.19 last year. Excluding non-recurring items in 2010 and 2009, adjusted net earnings<sup>(1)</sup> for 2010 were \$382.4 million compared to \$359.0 million for 2009, an increase of 6.5%. Adjusted fully diluted net earnings per share<sup>(1)</sup> were \$3.56 compared to \$3.23, an increase of 10.2%. Return on shareholders' equity was 16.6% and our annualized dividend was \$0.68 per share, an increase of 23.6%. The stock market rewarded our performance as the closing price of our shares at fiscal year-end was \$45.15, compared with \$34.73 last year, an increase of 30.0%.

METRO's strong performance was realized in a challenging economic environment. While our overall volumes increased, the lingering effects of the recession caused consumers to remain cautious. For the first time in our history, price deflation in certain food categories—mostly due to currency fluctuations—persisted through most of the year, and had a negative impact on same-store sales.

We successfully met these challenges by focussing on the needs of our customers, by executing on our business objectives at all levels, by engaging a committed group of employees, and by constantly striving to create shareholder value.

## 2010 OPERATIONAL HIGHLIGHTS

Our customer-focussed strategy is at the foundation of our business plan, and a key element in this strategy is Dunnhumby Canada. This exclusive joint venture provides us with unique tools and expertise

(1) See section on "Non-GAAP measurements" on page 22 in the MD&A

We successfully met these challenges by focussing on the needs of our customers, by executing on our business objectives at all levels, by engaging a committed group of employees, and by constantly striving to create shareholder value.

to better understand the shopping habits of our customers and to transform that knowledge into effective, customer-centric merchandising and marketing strategies.

To leverage these capabilities, we introduced our proprietary *Metro & Moi* loyalty program in Québec, which complements the *Air Miles*<sup>®</sup> reward program offered in our Ontario Metro supermarkets. These programs give us the opportunity to collect specific transaction data and to reward our loyal customers with personalized discount and promotional offers. The *Metro & Moi* loyalty card launch was very successful, and so far we are exceeding our objectives in terms of enrollment, with nearly 900,000 members, card usage, and average transaction size.

We made market-share gains in Québec in fiscal 2010. Our Metro and Super C banners both outperformed the market, and to strengthen our competitive position in Eastern Québec, we completed the integration of the 15 GP food stores acquired early in the fiscal year under the Metro banner.

Since the conversion of our Ontario supermarkets to the Metro banner in 2009, we have maintained our position as the second largest food retailer in the province and are working hard to enhance our customers' shopping experience. The Ontario market remains very challenging, characterized by intense competition in the discount segment and an aggressive promotional environment. To improve our competitiveness, in 2010 we negotiated a new contract with our transport provider in Ontario which will reduce<sup>(1)</sup> our operating expenses. We also successfully negotiated a new four-year agreement with our warehouse employees in Toronto, which will lower<sup>(1)</sup> our costs, provide us with greater operating flexibility and ensure better service to our stores. >



**Eric R. La Flèche**  
President and Chief Executive Officer

(1) See section on "Forward-looking information" on page 23 in the MD&A

- > Over the past year METRO continued to strengthen its drugstore network. In Québec there are currently 125 drugstores under the Brunet and Brunet Plus banners, as well as 60 Clini Plus drugstores. In Ontario, our network consists of 80 drugstores under the Pharmacy and Drug Basics banners. Drug payment reform introduced in Ontario that reduces the price of generic drugs will have<sup>(1)</sup> an impact on our results and we expect<sup>(1)</sup> to see similar legislation in Québec. In response, we have introduced cost-cutting initiatives to lessen the impact on our drugstore results.

Finally, we developed a comprehensive Corporate Responsibility roadmap in fiscal 2010, which articulates our commitment to the sustainability of our activities. The pillars of this roadmap are aligned to our business strategy: Delighted Customers, Respect for the Environment, Strengthened Communities and Empowered Employees. As part of this commitment, in September we put in place a sustainable fisheries policy and ceased selling seven threatened species.

## 2011 PRIORITIES


Looking to the year ahead, we expect<sup>(1)</sup> that the slow economic recovery will continue to have an impact on consumer spending. Nevertheless, we are confident<sup>(1)</sup> in our ability to meet our customers' expectations.

Operating great stores remains our top priority. In fiscal 2011 we intend<sup>(1)</sup> to invest some \$225 million<sup>(1)</sup> in upgrading our network. We will strive<sup>(1)</sup> to expand our loyal customer base and increase their food spending with us by leveraging our *Metro & Moi* and *Air Miles*<sup>®</sup> loyalty programs. We are committed to the constant improvement of our product offering, with a particular emphasis this year on fresh produce in all of our banners. We will also rigorously control<sup>(1)</sup> our costs, develop<sup>(1)</sup> our human resources, and pursue<sup>(1)</sup> growth opportunities through in-house innovation as well as strategic acquisitions. We believe<sup>(1)</sup> that executing on these priorities will continue<sup>(1)</sup> to create value for our customers and shareholders alike.

## ACKNOWLEDGEMENTS

We would like to take this opportunity to thank our customers for their continuing loyalty and our employees and management team for their dedication and solid 2010 results. We also wish to thank the members of our Board of Directors for their guidance. In particular, we would like to acknowledge the many contributions of Bernard Roy, who will be retiring from the Board in January. Mr. Roy became a Director in 1990, served on several Board Committees and was a keen supporter of the many changes the Company has undergone over the last 20 years. His wise counsel will be missed.

In closing, we extend our thanks to you, our shareholders, for your continued confidence in METRO. ■



**Eric R. La Flèche**  
President and Chief Executive Officer



**Pierre H. Lessard, FCA**  
Executive Chairman of the Board

(1) See section on "Forward-looking information" on page 23 in the MD&A

Customer Focus

Strong Execution

Best Team

Shareholder Value



# Review of Operations

METRO's vision is to be the best performing food retailer in Canada.

Our mission is to satisfy our customers every day and earn their long-term loyalty. To achieve these objectives, we have developed a business strategy based on four operational pillars: Customer Focus, Strong Execution, Best Team and Shareholder Value.



# Customer Focus

METRO was founded over 60 years ago by independent grocers who prided themselves on knowing their customers and providing them with superior service. In today's highly competitive marketplace, achieving consistently strong results depends more and more upon growing our loyal customer base and on inspiring those loyal customers to increase their food spending with us. Delivering the right products, at the right time, in the right store and at the right price, is essential.

This is why METRO launched the Dunnhumby Canada joint venture: to join forces with experts in loyalty marketing to better understand our customers' needs and develop customer-focussed strategies.

When our customers use their loyalty card in Metro supermarkets, we collect information from which we gather insights that allow us to constantly improve and update our product assortment, pricing and promotional offers. In addition, we are able to establish one-on-one communication with our customers and tailor our promotional programs to them.

Implementing the best loyalty programs is an integral part of our customer-first commitment. In our Ontario Metro supermarkets we already offered the popular *Air Miles*® loyalty card, and in 2010 we launched *Metro & Moi*, a proprietary loyalty card designed specifically for our Québec Metro supermarkets. With *Metro & Moi* our customers collect 'm' points for every dollar spent and have the opportunity to earn up to 10 times more 'm' points with special bonus offers. Their loyalty is rewarded with cash vouchers redeemable in our Metro supermarkets as well as coupon offers on the products they buy. The program has been met with great enthusiasm by our customers, and has surpassed our targets in terms of enrolment, percentage of sales that our customers have made on the card, and average basket size.

Strong customer focus also means delivering exceptional quality and value with our *Irresistibles* and *Selection* private brands, as well as our *Life Smart Mieux-Être*, *BIO* and *Eco* sub-brands. In 2010, our private-label product portfolio expanded to approximately 4,400 items and sales outpaced our total sales growth. In addition to providing our customers with great value, these sales enhance gross margins and build loyalty to our stores. >







- > Knowing that the fresh produce department is increasingly important to our customers, we have begun working on a range of initiatives, from sourcing and logistics to merchandising and store execution, to ensure that our produce offering meets our customers' high expectations.

We have also stepped up efforts to communicate directly with our shoppers through our redesigned, consumer-friendly website, which offers recipes, news on promotions and events, weekly flyers, and a newsletter. We also conduct online surveys to seek customer feedback and measure customer satisfaction. Finally, we have established a dedicated Facebook page that provides our customers with another way to interact with METRO, and to make us a part of their social network.

In listening closely to our customers and meeting their needs, we are reasserting the values that have made METRO strong from its very beginnings, and that will enable<sup>(1)</sup> continued growth going forward. ■

(1) See section on "Forward-looking information" on page 23 in the MD&A

# Strong Execution

At METRO, our ability to execute has always been one of our strengths. Our corporate culture is results-oriented and rewards operational excellence. This philosophy has provided the foundation for our consistent growth over the past two decades.

The METRO team strives every day to provide its customers with quality products, great value and an in-store experience that will make them want to return. At the same time, we are relentlessly focussed on results, from our rigorous monitoring and control of margins and costs, to our highly-disciplined allocation of capital.

To further enhance the METRO customer experience, in fiscal 2010 the Company and its retailers invested \$278.7 million to modernize and strengthen our retail network. We opened 13 new stores during the year and undertook 35 expansions and renovations. Further, we successfully integrated the GP food stores in Eastern Québec that we acquired early in the fiscal year and converted them to the Metro GP supermarket banner, while keeping their local flavour.

At the end of fiscal 2010, our network consisted of 566 food stores and 265 drugstores. We are the market leader in Québec, where we again made market-share gains, and a strong number two in Ontario.

To strengthen our competitive position in Ontario, we negotiated a new contract with our transport provider which will result<sup>(1)</sup> in significant operational cost savings. In addition, we reached a new four-year collective agreement with our warehouse employees in Toronto which will reduce<sup>(1)</sup> our costs, increase our operating flexibility and provide better service to our stores. Other initiatives in 2010 included extending the mandate of our national procurement group to include not only the grocery sector but also all perishable products. This is helping us to reduce our costs, to ensure first-rate supply, and to implement best-practice exchange and transfer between our divisions.

Our Distagro food-service division operates in an intensely competitive environment as a supplier to restaurants and convenience stores, and we believe<sup>(1)</sup> that we can successfully continue to grow this business.

Our operational expertise, financial strength and demonstrated ability to successfully integrate new stores will help us continue<sup>(1)</sup> growing the Company both organically and through strategic acquisitions that may present themselves. ■

(1) See section on "Forward-looking information" on page 23 in the MD&A





**metro**

OUR FIVE CUSTOMER PROMISES



**GREAT QUALITY FRESH PRODUCTS**



**THE PEOPLE ARE GREAT**



**IT'S EASY TO SHOP**



**CUSTOMERS GET WHAT THEY WANT**



**PRICES ARE GOOD**

# Best Team

Our network provides employment to over 65,000 people across Québec and Ontario. Recruiting, training and retaining the best team in our industry is critical to our success. We strive to create a dynamic culture within the Company where employees feel valued and have opportunities for career advancement.

As such, we provide professional development programs and carry out annual performance reviews to support the career development of our management employees. We are continually upgrading our business and information systems, and training our people to use this technology effectively is essential. Further, we provide a range of training programs for our store managers to enhance their customer service and leadership skills.

Maintaining a high level of morale in the retail industry, where there is considerable turnover and a significant percentage of part-time employees, is always a challenge, but at the same time critical to ensuring a positive in-store experience for our customers. Over the past year we conducted a pilot employee survey in some of our Québec stores to assess employee engagement and build stronger relationships with our people. The results were very positive, and we will be launching similar surveys in our Ontario stores in 2011.

Our affiliated and franchised retailers in Québec are also a key part of the METRO team. They make our programs and merchandising come alive at the store level and this year, their enthusiastic support of the *Metro & Moi* loyalty program has contributed significantly to its early success.

METRO's roots are in family-owned and operated food stores and pharmacies engaged in their communities. We are committed to instilling the same culture throughout our network, and to empowering our people to make a positive difference in the workplace and in the communities we serve. ■





We strive to create a dynamic culture within the Company where employees feel valued and have opportunities for career advancement.

# Shareholder Value

Putting the customer first, executing well every day, attracting and retaining a great team of people, exercising sound financial control, and investing our capital wisely: this is how METRO has, and will continue<sup>(1)</sup> to create long-term value for its shareholders.

In fiscal 2010, adhering to these values helped us to achieve record results. Adjusted fully diluted net earnings per share<sup>(2)</sup> rose to \$3.56, an increase of 10.2% over 2009. Our annualized dividend reached \$0.68 per share, an increase of 23.6% over the prior year, marking 15 years of consecutive growth. Return on shareholders' equity was 16.6%, marking the 17<sup>th</sup> consecutive year in which it has exceeded 14.0%. At fiscal year-end, the price of our shares was \$45.15, an increase of 30.0% compared to the previous year.

To return additional value to our shareholders, in fiscal 2010 METRO repurchased approximately 4 million shares. This brings the total number of shares repurchased since fiscal 2005 to nearly 16 million, for a total amount exceeding \$500 million.

Finally, we concluded fiscal 2010 in a very sound financial position, with a long-term debt to total capital ratio of 29.1%, cash and cash equivalents totalling \$214.7 million, and an unused \$400.0 million revolving line of credit.

We have been prudent with capital, rigorously focused on the bottom line and able to move quickly when market or other economic conditions threatened to erode our margins. As a result, our balance sheet is strong, which provides us with the financial flexibility to continue to invest in our retail network and our systems infrastructure, and also enables us to seek new acquisition opportunities. ■

(1) See section on "Forward-looking information" on page 23 in the MD&A

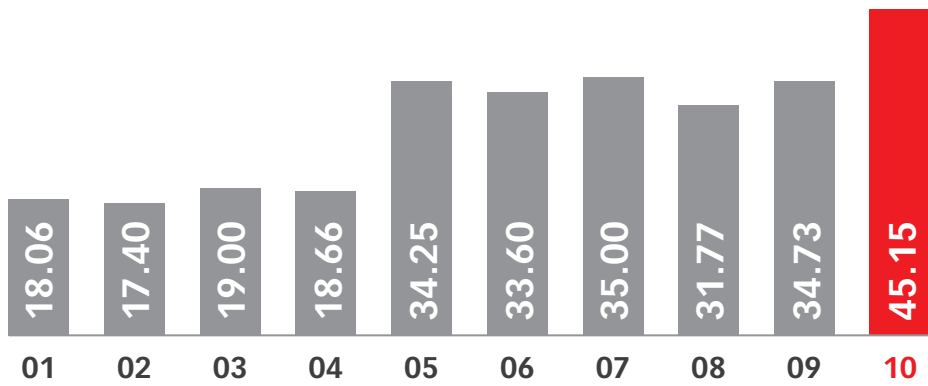
(2) See section on "Non-GAAP measurements" on page 22 in the MD&A





## SHARE PRICE

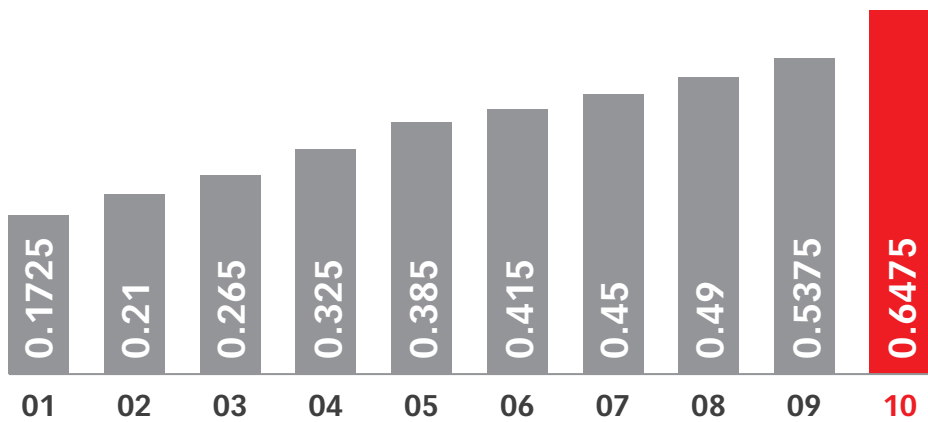
(Dollars, at year-end closing price)



Compound annual growth rate: 10.7%

## DIVIDEND PER SHARE

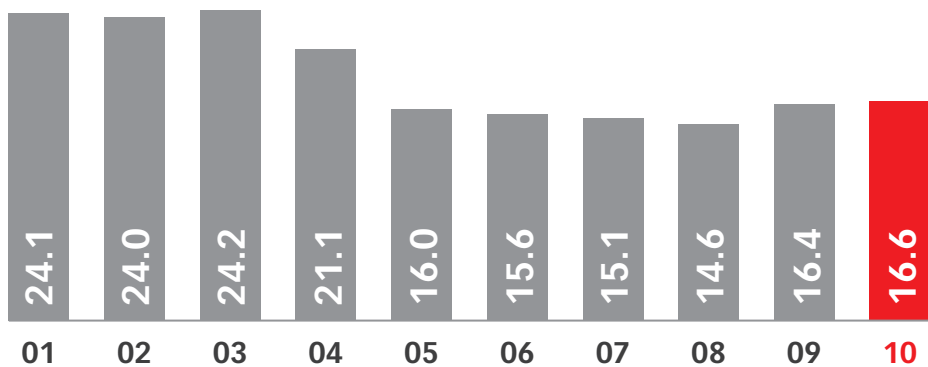
(Dollars)



Compound annual growth rate: 15.8%

## RETURN ON SHAREHOLDERS' EQUITY

(%)



# Corporate Responsibility



In total, METRO donated over \$5 million in cash and products to the Green Apple School program and a variety of charities focussed on health and education.

For more than 60 years, METRO has acted responsibly in its business activities. In 2006, we were the first large food retailer in Canada to introduce reusable shopping bags. That same year we also addressed air pollution and fuel consumption concerns by setting speed limits on all our trucks. In 2007 we developed “Leave it Greener,” an employee communications program designed to promote environmentally responsible behaviour, and in 2009 we created the Green Apple School program, awarding \$1,000 grants to students in Québec and Ontario who develop projects that promote a healthier environment.

On August 11, 2010, we took our environmental policies a step further and formalized a comprehensive Corporate Responsibility roadmap to set forth our commitments regarding the management of our environmental, social and business activities.

We established four pillars aligned to our business strategy:

**Delighted Customers:** This principle directs our efforts in the areas of promoting health and nutrition, responsible and earth-friendly product sourcing, and monitoring food quality and safety;

**Respect for the Environment:** This area of commitment includes initiatives for rethinking our packaging, addressing climate change and managing waste;

**Strengthened Communities:** This priority helps focus the investments we make in our communities and guides us in our efforts to support local suppliers; and

**Empowered Employees:** This commitment targets efforts to develop and maintain safe, healthy and ethical work environments, and to foster employee engagement.

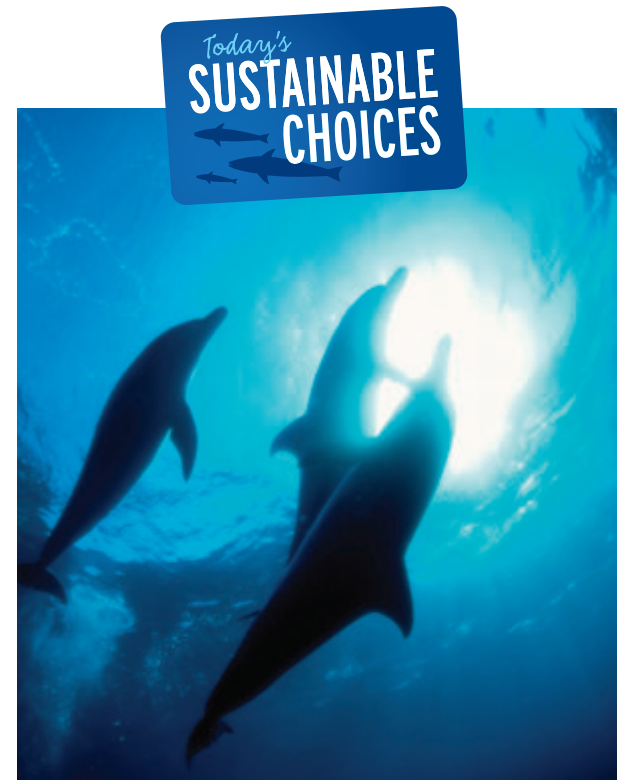


In 2010, as a part of our Corporate Responsibility program, we implemented our sustainable fisheries policy. This policy is based on four core criteria: procurement will be limited to fishing areas and species whose renewal is ensured given their individual stocks and catch rates; fisheries and aquafarms supplying METRO will have to prove that they use sustainable fishing methods; the supply chain—from the fishing area to the consumer—must be documented to allow for informative and transparent labelling; and METRO's decisions will take into account local economic issues. Our first action under this policy was to cease selling seven threatened fish species in our stores.

Further, because our employees are best served by an ethical, safe and healthy work environment, we conducted comprehensive training sessions on health and safety issues in 2010. To emphasize the importance of these issues, we also introduced a zero tolerance policy regarding breaches of professional ethics and health and safety standards. Our safety record continues to show marked improvement year over year.

In addition, we increased our contributions to philanthropic initiatives in 2010. In total, METRO donated over \$5 million in cash and products to the Green Apple School program and a variety of charities focussed on health and education. During the year METRO's customers and employees also donated \$500,000 to Red Cross efforts in earthquake-ravaged Haiti.

We are determined to improve our performance in the area of Corporate Responsibility. This is a long-term commitment and more initiatives will be developed over time. ■



Fisheries and aquafarms supplying METRO will have to prove that they use sustainable fishing methods.

# Directors and Officers

## BOARD OF DIRECTORS

Marc DeSerres <sup>(2) (4)</sup>  
Montréal, Québec

Claude Dussault <sup>(2) (4)</sup>  
Toronto, Ontario

Serge Ferland <sup>(1)</sup>  
Québec City, Québec

Paule Gauthier <sup>(3) (4)</sup>  
Québec City, Québec

Paul Gobeil <sup>(1)</sup>  
Ottawa, Ontario  
Vice-Chairman of the Board

Christian W.E. Haub <sup>(1) (3)</sup>  
Greenwich, Connecticut

Michel Labonté <sup>(2)</sup>  
Montréal, Québec

Eric R. La Flèche <sup>(1)</sup>  
Town of Mount-Royal, Québec  
President and  
Chief Executive Officer

Pierre H. Lessard <sup>(1)</sup>  
Westmount, Québec  
Executive Chairman of the Board

Marie-José Nadeau <sup>(2) (4)</sup>  
Montréal, Québec

Christian M. Paupe <sup>(2)</sup>  
Verdun, Québec

Réal Raymond <sup>(1) (3)</sup>  
Montréal, Québec  
Lead Director

Michael T. Rosicki <sup>(4)</sup>  
Orillia, Ontario

Bernard A. Roy <sup>(1) (3)</sup>  
Montréal, Québec

## MANAGEMENT OF METRO INC.

Eric R. La Flèche  
President and  
Chief Executive Officer

Robert Sawyer  
Executive Vice-President and  
Chief Operating Officer

Christian Bourbonnière  
Senior Vice-President  
Québec Division

Johanne Choinière  
Senior Vice-President  
Ontario Division

Richard Dufresne  
Senior Vice-President  
Chief Financial Officer and Treasurer

Martin Allaire  
Vice-President  
Real Estate & Engineering

Jacques Couture  
Vice-President  
Information Systems

Paul Dénomée  
Vice-President  
Corporate Controller

Marc Giroux  
Vice-President  
Marketing

Alain Picard  
Vice-President  
Human Resources

Simon Rivet  
Vice-President  
General Counsel and Secretary

## QUÉBEC DIVISION

Christian Bourbonnière  
Senior Vice-President

Serge Boulanger  
Vice-President and  
General Manager  
McMahon Distributeur  
pharmaceutique inc.

Ginette Richard  
Vice-President and  
General Manager  
Food Services

## ONTARIO DIVISION

Johanne Choinière  
Senior Vice-President

Richard Beaubien  
Senior Vice-President  
Store Operations

Joe Fusco  
Senior Vice-President  
Merchandising

*(1) Member of the Executive Committee*

*(2) Member of the Audit Committee*

*(3) Member of the Human Resources Committee*

*(4) Member of the Corporate Governance and Nominating Committee*

# Shareholder Information

## Transfer agent and registrar

Computershare  
Investor Services

## Stock listing

Toronto Stock Exchange  
Ticker Symbol: MRU.A

## Auditors

Ernst & Young LLP  
Chartered Accountants

## Head office address

11011 Maurice-Duplessis Blvd.  
Montréal, Québec H1C 1V6

The Annual Information Form may be obtained from the Investor Relations Department:  
Tel.: (514) 643-1055  
E-mail: [finance@metro.ca](mailto:finance@metro.ca)

*Vous pouvez vous procurer la version française de ce rapport auprès du service des relations avec les investisseurs.*

METRO INC.'s corporate information and press releases are available on the Internet at the following address:  
**[www.metro.ca](http://www.metro.ca)**

## Annual meeting

The Annual General Meeting of Shareholders will be held on January 25, 2011 at 11:00 a.m. at:

Centre Mont-Royal  
2200 Mansfield Street  
Montréal, Québec H3A 3R8

## Designed and written

With the assistance of  
MaisonBrison Communications

## Dividends\* 2011 fiscal year

### Declaration Date

- January 24, 2011
- April 19, 2011
- August 9, 2011
- September 19, 2011

### Record Date

- February 11, 2011
- May 16, 2011
- August 24, 2011
- October 26, 2011

### Payment Date

- March 8, 2011
- June 7, 2011
- September 7, 2011
- November 16, 2011

\* Subject to approval by the Board of Directors

**metro.ca**



# **MANAGEMENT'S DISCUSSION AND ANALYSIS AND CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended September 25, 2010**

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The following Management's Discussion and Analysis sets out the financial position and consolidated results of METRO INC. for the fiscal year ended September 25, 2010, and should be read in conjunction with the annual consolidated financial statements and the accompanying notes as at September 25, 2010. This report is based upon information as at December 3, 2010 unless otherwise indicated. Additional information, including the Annual Information Form and Certification Letters for fiscal 2010, is available on the SEDAR website at [www.sedar.com](http://www.sedar.com).

## OVERVIEW

The Company is a leader in the food and pharmaceutical sectors in Québec and Ontario.

The Company, as a retailer and a distributor, operates under different banners in the traditional supermarket and discount segments. For those consumers wanting service, variety, freshness and quality, we operate 379 supermarkets under the Metro and Metro Plus banners. The 187 discount stores operating under the Super C and Food Basics banners offer products at low prices to consumers who are both cost and quality conscious. The majority of these stores are owned by the Company or by variable interest entities (VIEs) and their financial statements are consolidated with those of the Company. Independent owners bound to the Company by leases or affiliation agreements operate a large number of Metro and Metro Plus stores. Supplying these stores contributes to our sales. The Company also acts as a distributor by providing small-surface food stores and convenience stores with banners that reflect their environment and customer base. Supplying these stores, as well as convenience stores owned by oil companies and restaurant chains contributes to the Company's sales.

The Company also acts as franchisor and distributor for 185 franchised Brunet and Clini Plus drugstores, owned by independent pharmacists. Our sales include the service charges received from these franchisees as well as revenues from our role as their supplier. The Company also operates 80 drugstores under the Pharmacy and Drug Basics banners. Their sales are included in the Company's. Supplying non-franchised drugstores and various health centres also contributes to our sales.

## VISION, MISSION AND STRATEGIES

The Company's vision is to be best performing food retailer in Canada.

Our mission is to satisfy our customers every day and earn their long-term loyalty.

The four pillars of our business strategy are customer focus, strong execution, best team and shareholder value.

We put the customer at the heart of every decision. We ask for customer feedback and measure actions taken. In our supermarkets and our discount stores, pricing, promotions, friendly service, and quality products are our priorities.

Strong execution means operating the best stores, a results-driven corporate culture, engaging all employees and monitoring performance so as to react swiftly.

The best team consists of leaders who put the Company's interests first. Employee growth and leadership development opportunities and succession planning ensure its continued strength.

The creation of shareholder value includes sustained growth in earnings per share and significant return on shareholders' equity. Our investments and acquisitions are appropriate and beneficial in the long term.

## PRINCIPAL PERFORMANCE INDICATORS

We evaluate the Company's overall performance using the following principal indicators:

- sales:
  - sales growth;
  - dollar value of the average basket (average customer transaction);
  - average weekly sales per square foot;
  - percentage of sales represented by customers who are loyalty program members;
  - market share;
  - customer satisfaction;
- earnings before financial costs, taxes, depreciation and amortization (EBITDA)<sup>(1)</sup> as a percentage of sales;
- net earnings as a percentage of sales;
- earnings per share growth;
- return on shareholders' equity;

<sup>(1)</sup> See section on "Non-GAAP measurements" on page 22

<sup>(2)</sup> See section on "Forward-looking information" on page 23

- retail network investments:
  - dollar value and nature of store investments;
  - number of stores;
  - average store square footage;
  - network's total square footage.

## PRINCIPAL ACHIEVEMENTS IN FISCAL 2010

Despite persistent deflation in certain product categories and continued consumer caution, we achieved record net earnings in 2010. Of the many projects realized, the principal were the following:

- we acquired 15 GP stores at the start of the fiscal year and completed their integration over the year;
- at the start of the fiscal year, we established an exclusive joint venture, Dunnhumby Canada, with Dunnhumby, an international consulting and marketing firm, recognized worldwide for its know-how in developing business decisions based on analysis of customer data. Over its first year, the joint venture has made a good start on its mission to develop and implement strategies better meet customer needs and build strong loyalty;
- at the end of the fiscal year, we launched our *Metro & Moi* loyalty program in Québec, a counterpart to the *Air Miles*<sup>®</sup> card program in our Ontario stores. The *Metro & Moi* card, offered to Metro supermarkets customers, allows them to accumulate points that can be applied to purchases in Metro supermarkets;
- we introduced our philosophy on corporate responsibility, publishing a roadmap describing our future plans towards sustainable development;
- we again increased our market share in Québec and remain the leader there and second in Ontario;
- we signed a four-year collective agreement with the union covering our five Toronto warehouses;
- we negotiated a new commercial agreement with our carrier in Ontario to reduce our freight costs;
- we made some changes to our organizational structure to strengthen central perishables procurement and supervision of our Québec Metro supermarkets;
- we increased our gross margins by improving store operating costs;
- we improved the profitability of Distagro, our Food Services Division.

## HIGHLIGHTS

<i>(Millions of dollars, unless otherwise indicated)</i>	<b>2010</b> <i>(52 weeks)</i>	2009 <i>(52 weeks)</i>	Change <i>(%)</i>	2008 <i>(52 weeks)</i>	Change <i>(%)</i>
Sales	<b>11,342.9</b>	11,196.0	1.3	10,725.2	4.4
Net earnings	<b>391.8</b>	354.4	10.6	292.2	21.3
Adjusted net earnings <sup>(1)</sup>	<b>382.4</b>	359.0	6.5	280.8	27.8
Fully diluted net earnings per share <i>(Dollars)</i>	<b>3.65</b>	3.19	14.4	2.58	23.6
Adjusted fully diluted net earnings per share <sup>(1)</sup> <i>(Dollars)</i>	<b>3.56</b>	3.23	10.2	2.48	30.2
Return on shareholders' equity <i>(%)</i>	<b>16.6</b>	16.4	–	14.6	–
Dividend rate per share <i>(Dollars)</i>	<b>0.6475</b>	0.5375	20.5	0.49	9.7
Total assets	<b>4,821.6</b>	4,658.1	3.5	4,425.6	5.3
Long-term debt	<b>1,004.3</b>	1,004.3	–	1,005.0	(0.1)

Sales were \$11,342.9 million in 2010, a 1.3% increase compared with 2009. Sales for 2009 increased by 4.4%, to \$11,196.0 million compared to \$10,725.2 million for 2008. The 2010 sales increase was achieved despite persistent deflation in certain product categories and continued consumer caution. In 2009, sales got a boost from high food price inflation and the temporary closing of several stores of a competitor due to a labour conflict.

<sup>(1)</sup> See section on "Non-GAAP measurements" on page 22

<sup>(2)</sup> See section on "Forward-looking information" on page 23



Net earnings for fiscal 2010 reached \$391.8 million, a 10.6% increase compared to fiscal 2009. Net earnings for fiscal 2009 reached \$354.4 million compared to \$292.2 million for fiscal 2008, an increase of 21.3%. Fully diluted net earnings per share increased by 14.4% to \$3.65 in 2010 compared with the previous fiscal year. Fully diluted net earnings per share for 2009 increased by 23.6% to \$3.19 compared to \$2.58 in 2008.

The Company recorded non-recurring items for all three fiscal years. These items consisted of income tax expense decreases of \$10.0 million in 2010, \$2.7 million in 2009 and \$11.4 million in 2008, and pre-tax banner conversion costs of \$0.9 million in 2010 and \$11.0 million in 2009. Excluding all of these items, adjusted net earnings<sup>(1)</sup> for fiscal 2010 were \$382.4 million compared to \$359.0 million in 2009 and \$280.8 million in 2008. Adjusted fully diluted net earnings per share<sup>(1)</sup> for fiscal 2010 were \$3.56 compared to \$3.23 in 2009 and \$2.48 in 2008.

The increases in net earnings and adjusted net earnings<sup>(1)</sup> for 2010 compared to 2009 are due primarily to an increase in our gross margins driven by our improved store operations. The increases in net earnings and adjusted net earnings<sup>(1)</sup> for 2009 compared to 2008 were due to effective merchandising, ongoing efforts to improve execution in Ontario, including gross margins, and to the difficulties encountered during the first two quarters of 2008.

Return on shareholders' equity totalled 16.6% in 2010, 16.4% in 2009 and 14.6% in 2008. Annual dividends totalled \$69.2 million in 2010, \$59.3 million in 2009 and \$55.3 million in 2008, respectively representing 19.5%, 20.3%, and 19.9% of net earnings for the preceding fiscal years. Total assets were \$4,821.6 million in 2010, \$4,658.1 million in 2009 and \$4,425.6 million in 2008. Long-term debt was \$1,004.3 million in 2010 and 2009, and \$1,005.0 million in 2008.

## OUTLOOK

We expect<sup>(2)</sup>, in the next fiscal year, the economic and competitive environments to remain challenging, consumers to remain cautious and food prices to be relatively stable. We are nevertheless confident that we can continue<sup>(2)</sup> to grow with our business strategy, Dunnhumby Canada joint venture, *Metro & Moi* loyalty program as well as the commitment and quality of execution by our teams.

<sup>(1)</sup> See section on "Non-GAAP measurements" on page 22

<sup>(2)</sup> See section on "Forward-looking information" on page 23



**OPERATING RESULTS**

**SALES**

Sales were \$11,342.9 million in 2010 compared to \$11,196.0 million in 2009, an increase of 1.3%.

**EARNINGS BEFORE FINANCIAL COSTS, TAXES, DEPRECIATION AND AMORTIZATION (EBITDA)<sup>(1)</sup>**

EBITDA<sup>(1)</sup> for fiscal 2010 was \$787.0 million or 6.9% of sales compared to \$741.6 million or 6.6% of sales for fiscal 2009. Excluding non-recurring costs of \$0.9 million and \$11.0 million before taxes to convert our Ontario supermarkets to the Metro banner in fiscal 2010 and 2009 respectively, adjusted EBITDA<sup>(1)</sup> represented 6.9% of sales in 2010 and 6.7% in 2009.

Our share of earnings from our investment in Alimentation Couche-Tard for fiscal 2010 was \$40.4 million compared to \$37.4 million last year. Excluding non-recurring items as well as our share of earnings from our investment in Alimentation Couche-Tard, our adjusted EBITDA<sup>(1)</sup> for fiscal 2010 was \$747.5 million or 6.6% of sales versus \$715.2 million or 6.4% of sales for fiscal 2009.

These increases are due mainly to an increase in our gross margins driven by our improved store operations.

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

<i>(Millions of dollars, unless otherwise indicated)</i>	2010			2009		
	EBITDA	Sales	EBITDA/ sales (%)	EBITDA	Sales	EBITDA/ sales (%)
EBITDA	787.0	11,342.9	6.9	741.6	11,196.0	6.6
Banner conversion costs	0.9	—		11.0	—	
Adjusted EBITDA	787.9	11,342.9	6.9	752.6	11,196.0	6.7
Share of earnings from our investment in Alimentation Couche-Tard	(40.4)	—		(37.4)	—	
Adjusted EBITDA excluding share of earnings	747.5	11,342.9	6.6	715.2	11,196.0	6.4

**DEPRECIATION AND AMORTIZATION AND FINANCIAL COSTS**

Total amortization expenses for fiscal 2010 amounted to \$201.2 million, compared with \$189.1 million last year. Financial costs for fiscal 2010 totalled \$44.7 million compared to \$48.0 million in 2009. Interest rates for fiscal 2010 averaged 4.0% compared to 4.4% last year.

**INCOME TAX**

Fiscal 2010 income tax expenses of \$149.3 million represented an effective tax rate of 27.6%, compared to tax expenses of \$150.1 million and an effective tax rate of 29.8% in fiscal 2009. During these two fiscal years, fiscal authorities approved reductions in the income tax rates applicable to business income and investment. These reductions in tax rates reduced our net future income tax liabilities as well as our income tax expenses by \$10.0 million in 2010 and \$2.7 million in 2009. Excluding these reductions, our effective tax rates were 29.4% for fiscal 2010 and 30.3% for fiscal 2009.

<sup>(1)</sup> See section on "Non-GAAP measurements" on page 22

<sup>(2)</sup> See section on "Forward-looking information" on page 23

**NET EARNINGS**

Net earnings for fiscal 2010 reached \$391.8 million versus \$354.4 million last year, up 10.6%. Fully diluted net earnings per share were \$3.65 for 2010 compared to \$3.19 last year, an increase of 14.4%. Excluding the income tax expense decreases of \$10.0 million in 2010 and \$2.7 million in 2009 as well as pre-tax banner conversion costs of \$0.9 million in 2010 and \$11.0 million in 2009, adjusted net earnings<sup>(1)</sup> were \$382.4 million for 2010, up 6.5% from \$359.0 million for fiscal 2009. Adjusted fully diluted net earnings per share<sup>(1)</sup> were \$3.56, up 10.2% from \$3.23 last year.

Net earnings adjustments

	2010		2009		Change (%)	
	(Millions of dollars)	Fully diluted EPS (Dollars)	(Millions of dollars)	Fully diluted EPS (Dollars)	Net earnings	Fully diluted EPS
Net earnings	391.8	3.65	354.4	3.19	10.6	14.4
Banner conversion costs after taxes	0.6	—	7.3	0.06		
Decrease in tax expense	(10.0)	(0.09)	(2.7)	(0.02)		
Adjusted net earnings <sup>(1)</sup>	382.4	3.56	359.0	3.23	6.5	10.2

<sup>(1)</sup> See section on "Non-GAAP measurements" on page 22

<sup>(2)</sup> See section on "Forward-looking information" on page 23

**QUARTERLY HIGHLIGHTS**

(Millions of dollars, unless otherwise indicated)

	2010	2009	Change (%)
<b>Sales</b>			
Q1 <sup>(3)</sup>	2,645.0	2,600.5	1.7
Q2 <sup>(3)</sup>	2,576.7	2,549.7	1.1
Q3 <sup>(4)</sup>	3,561.3	3,513.3	1.4
Q4 <sup>(3)</sup>	2,559.9	2,532.5	1.1
Year	11,342.9	11,196.0	1.3
<b>Net earnings</b>			
Q1 <sup>(3)</sup>	98.1	81.1	21.0
Q2 <sup>(3)</sup>	80.3	76.3	5.2
Q3 <sup>(4)</sup>	120.0	112.6	6.6
Q4 <sup>(3)</sup>	93.4	84.4	10.7
Year	391.8	354.4	10.6
<b>Adjusted net earnings<sup>(1)</sup></b>			
Q1 <sup>(3)</sup>	88.7	84.1	5.5
Q2 <sup>(3)</sup>	80.3	77.2	4.0
Q3 <sup>(4)</sup>	120.0	111.8	7.3
Q4 <sup>(3)</sup>	93.4	85.9	8.7
Year	382.4	359.0	6.5
<b>Fully diluted net earnings per share (Dollars)</b>			
Q1 <sup>(3)</sup>	0.91	0.73	24.7
Q2 <sup>(3)</sup>	0.74	0.68	8.8
Q3 <sup>(4)</sup>	1.12	1.01	10.9
Q4 <sup>(3)</sup>	0.88	0.77	14.3
Year	3.65	3.19	14.4
<b>Adjusted fully diluted net earnings per share<sup>(1)</sup> (Dollars)</b>			
Q1 <sup>(3)</sup>	0.82	0.76	7.9
Q2 <sup>(3)</sup>	0.74	0.68	8.8
Q3 <sup>(4)</sup>	1.12	1.01	10.9
Q4 <sup>(3)</sup>	0.88	0.78	12.8
Year	3.56	3.23	10.2

<sup>(3)</sup> 12 weeks

<sup>(4)</sup> 16 weeks

First, second, third and fourth quarter sales for 2010 were up 1.7%, 1.1%, 1.4% and 1.1% respectively over those in fiscal 2009. These increases were achieved despite persistent deflation in certain product categories in 2010, whereas last year, 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 quarters.

First quarter net earnings and fully diluted net earnings per share for 2010 were up 21.0% and 24.7% respectively over those in fiscal 2009. Excluding banner conversion costs of \$0.9 million and \$4.5 million before taxes recorded respectively in the first quarters of 2010 and 2009, as well as the income tax expense decrease of \$10.0 million in the first quarter of 2010 further to future decreases in the Ontario tax rate, adjusted net earnings<sup>(1)</sup> were up 5.5% and adjusted fully diluted net earnings per share<sup>(1)</sup> were up 7.9%.

<sup>(1)</sup> See section on "Non-GAAP measurements" on page 22

<sup>(2)</sup> See section on "Forward-looking information" on page 23

Second quarter net earnings and fully diluted net earnings per share for 2010 were up 5.2% and 8.8% respectively from those in 2009.

Third quarter net earnings and fully diluted net earnings per share in 2010 were up 6.6% and 10.9% respectively from 2009. Excluding non-recurring items recorded in the third quarter of 2009, namely \$2.9 million before taxes to convert our Ontario supermarkets to the Metro banner as well as an income tax expense decrease of \$2.7 million, net earnings and fully diluted net earnings per share for the third quarter of 2010 were up 7.3% and 10.9%, compared to adjusted net earnings<sup>(1)</sup> and adjusted fully diluted net earnings per share<sup>(1)</sup> for the third quarter of 2009.

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<sup>(1)</sup> and adjusted fully diluted net earnings per share<sup>(1)</sup> for the fourth quarter of 2009.

<i>(Millions of dollars)</i>	2010					2009				
	Q1	Q2	Q3	Q4	Fiscal year	Q1	Q2	Q3	Q4	Fiscal year
Net earnings	<b>98.1</b>	<b>80.3</b>	<b>120.0</b>	<b>93.4</b>	<b>391.8</b>	81.1	76.3	112.6	84.4	354.4
Banner conversion costs after taxes	<b>0.6</b>	—	—	—	<b>0.6</b>	3.0	0.9	1.9	1.5	7.3
Decrease in tax expenses	<b>(10.0)</b>	—	—	—	<b>(10.0)</b>	—	—	(2.7)	—	(2.7)
Adjusted net earnings <sup>(1)</sup>	<b>88.7</b>	<b>80.3</b>	<b>120.0</b>	<b>93.4</b>	<b>382.4</b>	84.1	77.2	111.8	85.9	359.0

<i>(Dollars and per share)</i>	2010					2009				
	Q1	Q2	Q3	Q4	Fiscal year	Q1	Q2	Q3	Q4	Fiscal year
Fully diluted net earnings	<b>0.91</b>	<b>0.74</b>	<b>1.12</b>	<b>0.88</b>	<b>3.65</b>	0.73	0.68	1.01	0.77	3.19
Banner conversion costs after taxes	—	—	—	—	—	0.03	—	0.02	0.01	0.06
Decrease in tax expenses	<b>(0.09)</b>	—	—	—	<b>(0.09)</b>	—	—	(0.02)	—	(0.02)
Adjusted fully diluted net earnings <sup>(1)</sup>	<b>0.82</b>	<b>0.74</b>	<b>1.12</b>	<b>0.88</b>	<b>3.56</b>	0.76	0.68	1.01	0.78	3.23

<sup>(1)</sup> See section on "Non-GAAP measurements" on page 22

<sup>(2)</sup> See section on "Forward-looking information" on page 23

**CASH POSITION**

**OPERATING ACTIVITIES**

Operating activities generated cash flows of \$547.8 million for fiscal 2010, compared to \$520.1 million for fiscal 2009. This increase in 2010 fiscal year cash flows over the 2009 fiscal year is due primarily to increased net earnings and variations in non-cash working capital.

**INVESTING ACTIVITIES**

Investing activities required outflows of \$339.8 million for fiscal 2010 versus \$258.8 million for fiscal 2009. The increase in outflows for fiscal 2010 is due primarily to the acquisition of 18 stores for valuable cash consideration of \$152.3 million (net of cash acquired totalling \$0.3 million).

During fiscal 2010, the Company and its retailers invested \$278.7 million in our retail network, for a net expansion of 364,100 square feet or 1.9%. Major renovations and expansions of 35 stores were completed, and 13 new stores were opened.

**FINANCING ACTIVITIES**

Financing activities required outflows of \$234.7 million for fiscal 2010 versus \$171.6 million for fiscal 2009. The increase of outflows is attributable to a greater number of Class A Subordinate shares being repurchased, higher dividends, and a decrease in issuance of shares in 2010 compared to 2009.

**FINANCIAL POSITION**

Despite the difficult economic environment, we do not anticipate<sup>(2)</sup> any liquidity risk and consider our financial position at the end of fiscal 2010 as very solid. We had an unused authorized revolving line of credit of \$400.0 million. Our long-term debt corresponded to 29.1% of the combined total of long-term debt and shareholders' equity (long-term debt/total capital).

At the end of fiscal 2010, 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 fiscal 2010, one interest rate swap agreement in the notional amount of \$50.0 million was outstanding under our Credit A Facility. This agreement provides for the exchange of variable interest payments for fixed interest payments according to the following terms:

Fixed Rate	Notional Amount (Millions of dollars)	Maturity
4.0425%	50.0	December 16, 2010

Giving effect to this swap agreement, at the end of fiscal 2010, long-term indebtedness comprised \$650.0 million at fixed rates ranging from 4.4925% to 5.97% and \$319.3 million at variable rates which fluctuate with changes in bankers' acceptance rates.

At the end of fiscal 2010, we also had foreign exchange forward contracts to hedge against the effect of foreign exchange rate fluctuations on our future U.S. dollar denominated purchases. The fair value of these short-term foreign exchange forward contracts was insignificant.

<sup>(1)</sup> See section on "Non-GAAP measurements" on page 22

<sup>(2)</sup> See section on "Forward-looking information" on page 23



Our main financial ratios were as follows:

	As at September 25, 2010	As at September 26, 2009
<b>Financial structure</b>		
Long-term debt <i>(Millions of dollars)</i>	<b>1,004.3</b>	1,004.3
Shareholders' equity <i>(Millions of dollars)</i>	<b>2,442.8</b>	2,264.1
Long-term debt/total capital (%)	<b>29.1</b>	30.7
	<b>2010</b>	2009
<b>Results</b>		
EBITDA <sup>(1)</sup> /Financial costs <i>(Times)</i>	<b>17.6</b>	15.5

## CAPITAL STOCK

<i>(Thousands)</i>	Class A Subordinate Shares		Class B Shares	
	2010	2009	2010	2009
Balance – beginning of year	<b>107,830</b>	109,806	<b>718</b>	750
Share issue	<b>10</b>	33	–	–
Share redemption	<b>(3,911)</b>	(3,989)	–	–
Acquisition of treasury shares	–	(115)	–	–
Released treasury shares	<b>54</b>	52	–	–
Stock options exercised	<b>368</b>	2,011	–	–
Share conversion	<b>87</b>	32	<b>(87)</b>	(32)
Balance – end of year	<b>104,438</b>	107,830	<b>631</b>	718
Balance as at December 3, 2010 and December 4, 2009	<b>103,787</b>	107,055	<b>631</b>	642

## STOCK OPTION PLAN

	As at December 3, 2010	As at September 25, 2010	As at September 26, 2009
Stock options <i>(Thousands)</i>	<b>1,763</b>	<b>1,777</b>	1,864
Exercise prices <i>(Dollars)</i>	<b>20.20 to 44.19</b>	<b>20.20 to 44.19</b>	17.23 to 39.17
Weighted average exercise price <i>(Dollars)</i>	<b>32.32</b>	<b>32.29</b>	28.53

## PERFORMANCE SHARE UNIT PLAN

	As at December 3, 2010	As at September 25, 2010	As at September 26, 2009
Performance share units <i>(Thousands)</i>	<b>309</b>	<b>309</b>	268
Weighted average maturity <i>(Months)</i>	<b>14</b>	<b>16</b>	18

<sup>(1)</sup> See section on "Non-GAAP measurements" on page 22

<sup>(2)</sup> See section on "Forward-looking information" on page 23

**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. The Board of Directors authorized the Company to repurchase, in the normal course of business, between September 8, 2010 and September 7, 2011, up to 6,000,000 of its Class A Subordinate Shares representing approximately 5.7% of its issued and outstanding shares at the close of the Toronto Stock Exchange (TSX) on August 6, 2010. Repurchases will be made through the stock exchange at market price, in accordance with its policies and regulations, as well as by other means as may be permitted by TSX and any other securities regulatory authorities, including by private agreements. The Class A Subordinate Shares so repurchased will be cancelled. Under the normal course issuer bid program covering the period from September 8, 2009 to September 7, 2010, the Company repurchased 4,030,600 Class A Subordinate shares at an average price of \$40.42 per share for a total of \$162.9 million. Under the existing program covering the period from September 8, 2010 to September 7, 2011, the Company has repurchased, as of December 3, 2010, 934,300 Class A Subordinate shares at an average price of \$44.92 per share for a total of \$42.0 million.

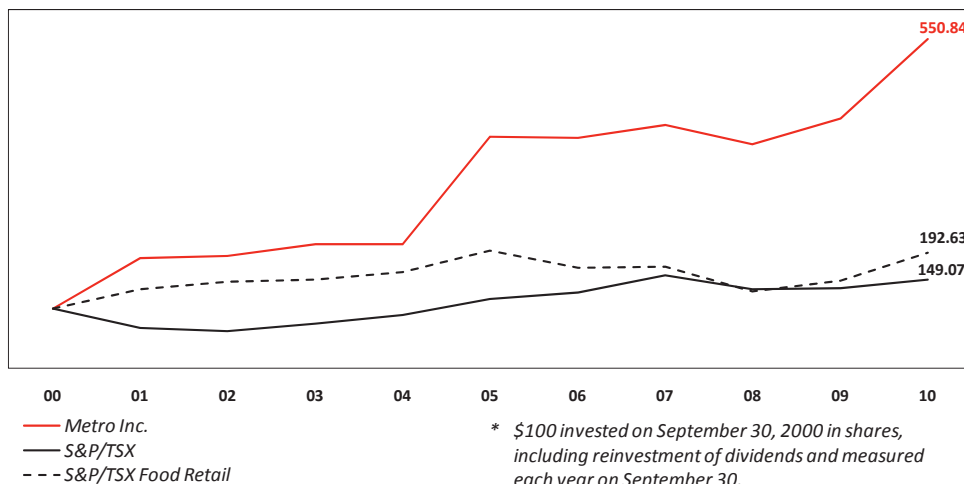
**DIVIDEND POLICY**

The Company's dividend policy is to pay an annual dividend representing approximately 20% of net earnings for the preceding fiscal year before extraordinary items. For the sixteenth consecutive year, the Company paid quarterly dividends to its shareholders. The annual dividend increased by 20.5%, to \$0.6475 per share, compared to \$0.5375 in 2009, for total dividends of \$69.2 million in 2010 compared to \$59.3 million in 2009, an increase of 16.7%. Dividends paid in 2010 represented 19.5% of net earnings for the preceding fiscal year, compared to 20.3% in 2009.

**SHARE TRADING**

The value of METRO shares remained in the \$33.02 to \$47.01 range throughout fiscal 2010 (\$27.38 to \$40.00 in 2009). A total of 72.3 million shares traded on the TSX during this fiscal year (114.9 million in 2009). The closing price on Friday, September 24, 2010 was \$45.15, compared to \$34.73 at the end of fiscal 2009. Since fiscal year-end, the value of METRO shares has remained in the \$43.50 to \$47.47 range. The closing price on December 3, 2010 was \$46.40. METRO shares have maintained sustained growth over the last 10 years, reflecting a performance superior to that of the S&P/TSX index and the Canadian Food Industry sector index.

**COMPARATIVE SHARE PERFORMANCE (10 YEARS)\***



**SOURCES OF FINANCING**

Our operating activities generated cash flows in the amount of \$547.8 million in 2010. These cash flows were sufficient to finance our investing activities, including the acquisition of \$196.0 million in fixed and intangible assets and the acquisition of 18 stores for valuable cash consideration of \$152.3 million.

(1) See section on "Non-GAAP measurements" on page 22  
 (2) See section on "Forward-looking information" on page 23

At 2010 fiscal year-end, our financial position was principally comprised of cash and cash equivalents in the amount of \$214.7 million, an unused revolving line of credit in the amount of \$400.0 million, Credit A Facility in the amount of \$369.3 million, \$200.0 million in notes at a rate of 4.98% maturing in 2015, and \$400.0 million in notes at a rate of 5.97% maturing in 2035.

Despite the current economic crisis, we do not anticipate<sup>(2)</sup> any liquidity risk and consider that our financial position at the end of fiscal 2010 remains very solid.

We believe<sup>(2)</sup> that cash flows from next year's operating activities should be sufficient to finance the Company's investing and financing activities, including investment of approximately \$225 million<sup>(2)</sup> in fixed and intangible assets.

## CONTRACTUAL OBLIGATIONS

Payment commitments by fiscal year (capital and interest)

<i>(Millions of dollars)</i>	Loans	Notes	Capital lease commitments	Service contract commitments	Operating lease commitments	Lease and sublease commitments <sup>(5)</sup>	Total
2011	13.9	33.8	5.1	66.8	163.8	40.3	323.7
2012	381.9	33.8	5.1	48.8	155.5	39.4	664.5
2013	1.0	33.8	5.1	46.6	138.8	36.0	261.3
2014	0.9	33.8	4.6	46.4	122.6	32.6	240.9
2015	0.7	33.8	4.6	44.9	106.9	29.0	219.9
2016 and thereafter	14.6	1,077.8	19.4	256.5	652.6	240.0	2,260.9
	413.0	1,246.8	43.9	510.0	1,340.2	417.3	3,971.2

<sup>(5)</sup> The Company has lease commitments with varying terms through 2031, to lease premises which it sublets to clients, generally under the same conditions.

## RELATED PARTY TRANSACTIONS

During fiscal 2010, sales to companies controlled by a member of the Board of Directors, specifically Serge Ferland, totalled \$26.7 million (\$27.3 million in 2009). These transactions were conducted in the normal course of business and were measured at the exchange amount. As at September 25, 2010, accounts receivable included a balance of \$0.9 million (\$0.9 million as at September 26, 2009) resulting from these transactions.

## FOURTH QUARTER

<i>(Millions of dollars, unless otherwise indicated)</i>	2010	2009	Change (%)
Sales	<b>2,559.9</b>	2,532.5	1.1
EBITDA <sup>(1)</sup>	<b>185.6</b>	175.8	5.6
Adjusted EBITDA <sup>(1)</sup>	<b>185.6</b>	178.1	4.2
Net earnings	<b>93.4</b>	84.4	10.7
Adjusted net earnings <sup>(1)</sup>	<b>93.4</b>	85.9	8.7
Fully diluted net earnings per share <i>(Dollars)</i>	<b>0.88</b>	0.77	14.3
Adjusted fully diluted net earnings per share <sup>(1)</sup> <i>(Dollars)</i>	<b>0.88</b>	0.78	12.8
Cash flows from:			
Operating activities	<b>179.3</b>	230.8	—
Investing activities	<b>(30.2)</b>	(94.8)	—
Financing activities	<b>(54.6)</b>	(58.7)	—

<sup>(1)</sup> See section on "Non-GAAP measurements" on page 22

<sup>(2)</sup> See section on "Forward-looking information" on page 23





## SALES

2010 fourth quarter sales reached \$2,559.9 million compared to \$2,532.5 million last year, an increase of 1.1%.

## EARNINGS BEFORE FINANCIAL COSTS, TAXES, DEPRECIATION AND AMORTIZATION (EBITDA)<sup>(1)</sup>

Fourth quarter EBITDA<sup>(1)</sup> in 2010 was \$185.6 million, up 5.6% from \$175.8 million for the same quarter last year. Fourth quarter EBITDA<sup>(1)</sup> represented 7.3% of sales versus 6.9% last year. Excluding banner conversion costs of \$2.3 million before taxes in 2009, adjusted EBITDA<sup>(1)</sup> for the fourth quarter represented 7.0% of sales.

Our share of earnings from our investment in Alimentation Couche-Tard for the fourth quarter of 2010 was \$15.1 million compared to \$11.7 million for the corresponding period of fiscal 2009. Excluding non-recurring items as well as our share of earnings from our investment in Alimentation Couche-Tard, our adjusted EBITDA<sup>(1)</sup> for the fourth quarter of 2010 was \$170.5 million or 6.7% of sales versus \$166.4 million or 6.6% of sales for the fourth quarter of 2009.

These increases are due mainly to an increase in our gross margins driven by our improved store operations.

### EBITDA<sup>(1)</sup> adjustments

<i>(Millions of dollars, unless otherwise indicated)</i>	4 <sup>th</sup> quarter 2010			4 <sup>th</sup> quarter 2009		
	EBITDA	Sales	EBITDA/ Sales (%)	EBITDA	Sales	EBITDA/ Sales (%)
EBITDA	185.6	2,559.9	7.3	175.8	2,532.5	6.9
Banner conversion costs	—	—		2.3	—	
Adjusted EBITDA	185.6	2,559.9	7.3	178.1	2,532.5	7.0
Share of earnings from our investment in Alimentation Couche-Tard	(15.1)	—		(11.7)	—	
Adjusted EBITDA excluding share of earnings	170.5	2,559.9	6.7	166.4	2,532.5	6.6

## DEPRECIATION AND AMORTIZATION AND FINANCIAL COSTS

The 2010 fourth quarter amortization expenses amounted to \$45.3 million compared to \$46.3 million for the same period last year. Fourth quarter financial costs totalled \$9.5 million versus \$10.1 million last year.

## INCOME TAXES

The 2010 fourth quarter income tax expenses of \$37.4 million represented an effective tax rate of 28.6%. The 2009 fourth quarter tax expenses were \$35.0 million, representing an effective tax rate of 29.3%.

## NET EARNINGS

The 2010 fourth quarter net earnings were \$93.4 million, compared to \$84.4 million for the corresponding quarter last year, an increase of 10.7%. Fully diluted net earnings per share rose 14.3% to \$0.88, up from \$0.77 last year. Excluding banner conversion costs of \$2.3 million before taxes recorded in the fourth quarter of 2009, our 2010 fourth quarter net earnings and fully diluted net earnings per share rose 8.7% and 12.8% respectively.

<sup>(1)</sup> See section on "Non-GAAP measurements" on page 22

<sup>(2)</sup> See section on "Forward-looking information" on page 23

Net earnings adjustment

	4 <sup>th</sup> quarter 2010		4 <sup>th</sup> quarter 2009		Change (%)	
	(Millions of dollars)	Fully diluted EPS (Dollars)	(Millions of dollars)	Fully diluted EPS (Dollars)	Net earnings	Fully diluted EPS
Net earnings	93.4	0.88	84.4	0.77	10.7	14.3
Banner conversion costs after taxes	—	—	1.5	0.01		
Adjusted net earnings <sup>(1)</sup>	93.4	0.88	85.9	0.78	8.7	12.8

**CASH POSITION**

**Operating activities**

Operating activities generated cash flows of \$179.3 million in the fourth quarter of 2010 compared to \$230.8 million for the same period in 2009. This decrease in fourth quarter cash flows compared to the same period in 2009 is due primarily to variations in non-cash working capital.

**Investing activities**

Investing activities required outflows of \$30.2 million in the fourth quarter of 2010 versus \$94.8 million in the fourth quarter of 2009. This decrease in outflows is due primarily to reduced acquisition of fixed assets in 2010.

**Financing activities**

Financing activities required outflows of \$54.6 million in the fourth quarter of 2010 compared to \$58.7 million in the fourth quarter of 2009.

**DERIVATIVE FINANCIAL INSTRUMENTS**

The Company adopted a risk management policy, approved by the Board of Directors in December 2005, setting forth guidelines relating to its use of derivative financial instruments. These guidelines prohibit the use of derivatives for speculative purposes. In 2010, the Company used derivative financial instruments as described in Notes 2 and 25 to the consolidated financial statements.

**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.

<sup>(1)</sup> See section on "Non-GAAP measurements" on page 22

<sup>(2)</sup> See section on "Forward-looking information" on page 23

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>Rank 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>Calculation of the quantitative impact on the consolidated financial statements.</p> <p>Disclosure analysis.</p> <p>Identification of the collateral impacts in the following areas:</p> <ul style="list-style-type: none"> <li>• information technology (IT);</li> <li>• internal control over financial reporting (ICFR);</li> <li>• disclosure controls and procedures (DC&amp;P);</li> <li>• contracts;</li> <li>• compensation;</li> <li>• training.</li> </ul>
Timetable	We have prepared a detailed timetable that contemplates the bulk of the analysis that will be completed by the end of September 2010. 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>At the end of fiscal 2010, analysis of the majority of IFRS standards and interpretations that may have an impact on our Company was completed.</p> <p>As for ICFR and DC&amp;P, analysis of IFRS standards and interpretations shows that the impact will not be material. However, for the year of transition, we will have to implement further controls regarding comparatives and additional information that will be disclosed.</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 will not be material.</p>

<sup>(1)</sup> See section on "Non-GAAP measurements" on page 22

<sup>(2)</sup> See section on "Forward-looking information" on page 23

**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 the associated disclosure.</p> <p>Production of the annual consolidated financial statements and the 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 produce our interim and annual consolidated financial statements and disclosure in accordance with IFRS.</p>
Progress	<p>We have identified and implemented an IT solution that will allow us to run parallel integrated GAAP and IFRS systems from the start of fiscal 2011 for the comparative financial statements.</p> <p>We have also prepared a preliminary version of our annual financial statements according to IFRS standards.</p>

We have noted the differences in accounting treatment and presentation between some IFRS standards and interpretations and our current accounting policies and have made choices, as warranted, with regard to these standards. The most significant differences and our main choices are set out in the following tables:

**Differences in accounting treatment and choices made**

<b>Standards</b>	<b>Comparison between IFRS and GAAP</b>	<b>Preliminary Findings</b>
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>	We will not capitalize borrowing costs on qualifying assets, as they are deemed to be immaterial.
Fixed and intangible assets and investment property	<p>IFRS: After initial recognition, we can measure our fixed and intangible assets and investment property using the cost model or the revaluation model.</p> <p>GAAP: The revaluation model is not allowed.</p>	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 property and the corresponding impact on P&L statements.
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>The roof and HVAC system will be amortized separately from the building.</p> <p>The carrying value of these assets and corresponding depreciation expense will be different, but the impact should not be material.</p>

<sup>(1)</sup> See section on "Non-GAAP measurements" on page 22

<sup>(2)</sup> See section on "Forward-looking information" on page 23

Impairment of assets	<p>IFRS: Impairment testing of our assets is conducted at the level of 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 a group of assets or a reporting unit.</p>	<p>Our impairment testing will be conducted at the level of each store (CGU).</p> <p>Impairment testing of warehouses will be done at the level of a group of CGUs.</p> <p>Impairment testing of corporate assets will be conducted at the level of different groups of CGUs.</p> <p>Impairment testing of goodwill will be conducted at the level of our unique operating segment.</p> <p>Impairment testing results will be different, but their impact should not be material.</p>
Share-based payment	<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>The compensation expense will have to be recognized over the expected term of each vested tranche. It will be different, but the impact should not be material.</p>
Earnings per share	<p>IFRS: We have to independently determine, for the interim period and the year-to-date, the number of potentially dilutive shares to consider in calculating diluted earnings per share.</p> <p>GAAP: The number is independently determined for the interim period, but the year-to-date is a weighted average of the periods.</p>	<p>Diluted earnings per share will be different, but the impact should not be material.</p>
Customer loyalty programs	<p>IFRS: For the loyalty programs, we have to record the cost of points as a reduction in sales.</p> <p>GAAP: No standard exists, but the Canadian practice is to record the cost of points in the cost of sales and operating expenses.</p>	<p>Sales will be different, but the impact should not be material.</p> <p>There will be no impact on net earnings.</p>
Employee Benefits	<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&amp;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> <hr/> <p>IFRS: We have to recognize past service cost for vested benefits immediately in P&amp;L.</p> <p>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.</p>	<p>We will recognize full actuarial gains and losses immediately in comprehensive income, without impacting P&amp;L.</p> <hr/> <p>At the date of transition, we will recognize past service cost for vested benefits in retained earnings. After the changeover, past service cost for vested benefits will be recognized in P&amp;L.</p>

<sup>(1)</sup> See section on "Non-GAAP measurements" on page 22  
<sup>(2)</sup> See section on "Forward-looking information" on page 23

<p>Employee Benefits (cont'd)</p>	<p>IFRS: Recognition of defined benefit assets is limited to the availability of future contribution reductions based on future obligations calculated on an accounting, going concern and solvency basis.</p> <p>GAAP: Recognition of defined benefit assets is limited to the availability of future contribution reductions based on future obligations calculated solely on an accounting basis.</p>	<p>Valuation of future obligations calculated on a going concern and solvency basis should decrease the availability of future contribution reductions and increase our defined benefit obligations. We will recognize differences at the date of transition in retained earnings, and future variations in comprehensive income.</p>
	<p>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 added to the financial statements. Furthermore, if there is a contractual commitment, it shall be recognized in P&amp;L.</p> <p>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.</p>	<p>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.</p> <p>Additional information regarding this situation will have to be disclosed.</p>
<p>Joint ventures</p>	<p>IFRS: We may account for our interests in joint ventures using proportionate consolidation or the equity method.</p> <p>GAAP: We have to account for them using proportionate consolidation.</p>	<p>We will use the equity method.</p> <p>There will be no material impact on the presentation of financial statements and no impact on net earnings.</p>
<p>Provisions</p>	<p>IFRS: We have to account for a provision when we have a present obligation resulting from a past event, it is more likely than not (interpreted as 50% and more) that an outflow of resources will be required to settle the obligation and its amount can be reliably estimated.</p> <p>Moreover, we have to disclose total provisions separately in the statement of financial position (GAAP: balance sheet).</p> <p>GAAP: The criteria are the same with the exception of the high probability (interpreted as approximately 75% and more) that an outflow of resources will be required.</p>	<p>The impact on our provisions should not be material.</p> <p>Some provisions might be presented separately in the statement of financial position.</p>

<sup>(1)</sup> See section on "Non-GAAP measurements" on page 22

<sup>(2)</sup> See section on "Forward-looking information" on page 23

Business combinations	<p>IFRS: The fair value of issued stock is calculated at the date of acquisition.</p> <p>GAAP: It's calculated over a reasonable period before and after the date of the transaction's announcement.</p> <hr/> <p>IFRS: Acquisition-related costs are expensed when incurred.</p> <p>GAAP: They are considered in the purchase price allocation if they represent incremental costs.</p> <hr/> <p>IFRS: The provision for restructuring costs, considered in the purchase price allocation, excludes costs for a restructuring plan determined and developed by the acquirer.</p> <p>GAAP: These restructuring costs can be included in the purchase price allocation if they meet certain conditions.</p>	<p>There will be no impact on our past business combinations, since we chose to take advantage of the exemption from retrospective application (IFRS 1).</p>
Investments in associates	<p>IFRS: In applying the equity method, the difference between the associate's reporting date and the investor's cannot be greater than three months.</p> <p>GAAP: No time limit is mentioned.</p>	<p>It will have no impact on our investment in Alimentation Couche-Tard, since the difference between the two reporting dates is always less than three months.</p>
Income taxes	<p>IFRS: Deferred tax (GAAP: future income tax) is calculated on any temporary difference. However, there are two exemptions where no deferred tax is recognized:</p> <ul style="list-style-type: none"> <li>• initially on goodwill;</li> <li>• on an asset acquired outside a business combination whose carrying amount and tax base differ.</li> </ul> <p>GAAP: Future income tax is calculated on any temporary difference. However, no future income tax is initially recognized for goodwill and for intangible asset acquisition, deductible from the cumulative eligible capital amount at 75% of its book value, as its tax basis is adjusted with the result that it is deemed equal to the carrying amount.</p> <p>Moreover, when an asset is acquired outside a business combination and its tax base differs from its carrying amount, future income tax is recognized on the variance and the cost of the asset is adjusted in consideration.</p>	<p>At the date of transition, we will recognize a deferred tax adjustment for the assets concerned. The impact should not be material.</p> <p>Additional deferred taxes may be recognized for intangible assets that are deductible from the cumulative eligible capital acquired in a business combination through an assets acquisition.</p>
	<p>IFRS: Deferred tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted.</p> <p>GAAP: A tax rate has effect or substantive effect when a majority government bill is tabled for first reading or when a minority government bill is tabled for third reading.</p>	<p>At the date of transition, we will examine current bills, and adjust, if necessary, our deferred taxes.</p>

<sup>(1)</sup> See section on "Non-GAAP measurements" on page 22

<sup>(2)</sup> See section on "Forward-looking information" on page 23

Income taxes (cont'd)	<p>IFRS: Accounting for subsequent changes in deferred tax of a transaction is consistent with the accounting for the transaction itself, i.e. in P&amp;L, equity or other comprehensive income.</p> <p>GAAP: When a subsequent event affects the amount of future income tax initially recognized, the adjustment of the amount must be recognized in P&amp;L.</p>	<p>The impact of a change in rate or regulations will have to be recognized where the initial transaction was recognized.</p>
	<p>IFRS: Deferred tax should be recognized on transactions between entities of a consolidated group, whose profits are not realized, at the tax rate of the corporation acquiring the assets.</p> <p>GAAP: No future income tax is recognized on transactions between entities of a consolidated group whose profits are not realized.</p>	<p>Deferred tax at the rate of the entity acquiring the assets will have to be recognized on intercompany transactions. The impact should not be material.</p>
Leases	<p>IFRS: A lease is classified as a finance lease (GAAP: capital lease) if substantially all risks and rewards incidental to ownership are transferred to the lessee. For example:</p> <ul style="list-style-type: none"> <li>• the lease transfers ownership of the asset to the lessee at the end of the lease term;</li> <li>• there is a bargain purchase option for the lessee at the end of the lease term;</li> <li>• the lease term is for the major part of the economic life of the leased asset;</li> <li>• the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset;</li> <li>• the leased asset is of such a specialized nature that only the lessee can use it.</li> </ul> <p>If the lease does not transfer substantially all risks and rewards, then it is classified as an operating lease.</p> <p>GAAP: As well these criteria, quantitative criteria are also used to determine whether substantially all risks and rewards have been transferred or not.</p>	<p>The majority of our leases will continue to be classified as operating leases and the impact should not be material.</p>

IFRS 1 provides exemptions from retrospective application of some of the above standards, from which we have made the choices set out in the following table:

<b>Optional Exemptions</b>	<b>Preliminary Findings</b>
Borrowing costs	<p>This exemption allows us not to capitalize borrowing costs on our qualifying assets before the IFRS transition date.</p> <p>Given that we will not capitalize these borrowing costs, we will not use the exemption.</p>
Deemed cost	<p>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.</p> <p>We have decided not to avail ourselves of this exemption.</p>

<sup>(1)</sup> See section on "Non-GAAP measurements" on page 22  
<sup>(2)</sup> See section on "Forward-looking information" on page 23



Share-based payment	This exemption would relieve us from applying the standard to equity instruments acquired before the IFRS transition date. We have decided not to avail ourselves of this exemption.
Employee benefits	The exemption allows us to recognize all actuarial gains or losses at the date of transition to IFRS in retained earnings, regardless of the subsequent accounting treatment chosen. We have chosen to take advantage of this exemption.
Business combinations	The exemption allows us to not apply the standard to business combinations occurred before the date of transition to IFRS. We have chosen to take advantage of this exemption for business combinations concluded before September 26, 2010.

**Differences in presentation and choices made**

<b>Standards</b>	<b>Comparison between IFRS and GAAP / choices made as warranted</b>
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"> <li>• an accounting policy is applied retrospectively;</li> <li>• items in financial statements are retrospectively restated or reclassified.</li> </ul> <p>GAAP: This third balance sheet column is not required.</p> <hr/> <p>IFRS: Deferred tax assets (liabilities) are classified as non-current items (GAAP: long-term).</p> <p>GAAP: The short-term and long-term future income tax assets (liabilities) are presented separately.</p>
Statement of comprehensive income	<p>IFRS: All items of income and expense recognized in a period are to be presented:</p> <ul style="list-style-type: none"> <li>• in a single statement of comprehensive income; or</li> <li>• in two statements: a separate income statement and a second statement beginning with net income and displaying components of other comprehensive income.</li> </ul> <p>GAAP: All comprehensive income items may be presented:</p> <ul style="list-style-type: none"> <li>• immediately under total net income; or</li> <li>• in a separate statement beginning with net income.</li> </ul> <p>Choice: We will continue to present two separate statements.</p> <hr/> <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 income statement and will disclose, through a note to the financial statements, expenses by nature or by function.</p>
Statement of changes in equity	<p>IFRS: A statement of changes in equity must show reconciliation between the carrying amount 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>

<sup>(1)</sup> See section on "Non-GAAP measurements" on page 22

<sup>(2)</sup> See section on "Forward-looking information" on page 23

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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"><li>• interest and dividends paid: operating cash flows or financing cash flows;</li><li>• interest and dividends received: operating cash flows or investing cash flows.</li></ul> <p>GAAP: They may be classified as follows in the cash flow statement:</p> <ul style="list-style-type: none"><li>• interest paid and received: operating cash flows;</li><li>• dividends paid: financing cash flows;</li><li>• dividends received and included in net income: operating cash flows.</li></ul> <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 cumulatively 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 cumulatively 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>
Notes to financial statements	<hr/> <p>IFRS: Reconciliations of the carrying amount at the beginning and end of the period for several components of the statement of financial position are presented in the notes to financial statements.</p> <p>GAAP: Reconciliations are limited to certain balance sheet components.</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>

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Amendments to IFRS standards by the International Accounting Standards Board, new information or other external factors that may come to our attention through the changeover process to IFRS could change our preliminary findings.

## **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.

<sup>(1)</sup> See section on "Non-GAAP measurements" on page 22

<sup>(2)</sup> See section on "Forward-looking information" on page 23

## FORWARD-LOOKING INFORMATION

We have used, throughout this Annual 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 in this Report that does not constitute a historical fact may be deemed a forward-looking statement. Expressions such as “will reduce”, “will lower”, “will have”, “expect”, “are confident”, “intend”, “will strive”, “will control”, “will develop”, “will pursue”, “believe”, “will continue”, “will enable”, “will result”, “will be”, “should be”, “anticipate”, “estimate”, and other similar expressions are generally indicative of forward-looking statements. The forward-looking statements contained in this Report 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 this Report that could have an impact on these statements. We believe these statements to be reasonable and pertinent as at the date of publication of this Report and represent our expectations. The Company does not intend to update any forward-looking statement contained herein, except as required by applicable law.

## CONTROLS AND PROCEDURES

The President and Chief Executive Officer, and the Senior Vice-President and Chief Financial Officer of the Company, are responsible for the implementation and maintenance of disclosure controls and procedures (DC&P), and of the internal control over financial reporting (ICFR), as provided for in National Instrument 52-109 regarding the Certification of Disclosure in Issuers’ Annual and Interim Filings. They are assisted in this task by the Disclosure Committee, which is comprised of members of the Company’s senior management.

An evaluation was completed under their supervision in order to measure the effectiveness of DC&P and ICFR. Based on this evaluation, the President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer of the Company concluded that the DC&P and the ICFR were effective as at the end of the fiscal year ended September 25, 2010.

Therefore, the design of the DC&P provides reasonable assurance that material information relating to the Company is made known to it by others, particularly during the period in which the annual filings are being prepared, and that the information required to be disclosed by the Company in its annual filings, interim filings and other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

Furthermore, the design of the ICFR provides reasonable assurance regarding the reliability of the Company’s financial reporting and the preparation of its financial statements for external purposes in accordance with Canadian GAAP.

## SIGNIFICANT ACCOUNTING ESTIMATES

Our Management’s Discussion and Analysis is based upon our consolidated financial statements, prepared in accordance with GAAP, and it is presented in Canadian dollars, our unit of measure. The preparation and presentation of the consolidated financial statements and other financial information contained in this Management’s Discussion and Analysis involves a judicious choice of appropriate accounting principles and methods whose application requires the making of estimates and enlightened judgements. Our estimates are based upon assumptions which we believe to be reasonable, such as those based upon past experience. These estimates constitute the basis for our judgements regarding the carrying amount of assets and liabilities that would not otherwise be readily available through other sources. Use of other methods of estimation might yield different amounts than those presented. Actual results could differ from these estimates.

## INVENTORIES

Inventories are valued at the lower of cost and net realizable value. The cost of warehouse inventories is determined by the average cost method net of certain considerations received from vendors. The cost of retail inventories is valued at the retail price less the gross margin and certain considerations received from vendors. In addition, all costs incurred in bringing the inventories to their present location and condition are included in the cost of warehouse and retail inventories. Determination of gross margins requires, on the part of management, judgements and estimates, which could affect inventory valuation on the balance sheet and also operating results.

<sup>(1)</sup> See section on “Non-GAAP measurements” on page 22

<sup>(2)</sup> See section on “Forward-looking information” on page 23

**FIXED ASSETS AND INTANGIBLE ASSETS WITH DEFINITE LIVES**

Fixed assets and intangible assets with definite lives are recorded at cost. They are depreciated and amortized on a straight-line basis over their useful lives, which represents the period during which we anticipate an asset will contribute to future cash flows for the Company. The use of different assumptions with regard to useful life could result in different carrying amounts for these assets as well as for depreciation and amortization expenses.

**INTANGIBLE ASSETS WITH INDEFINITE LIVES**

Intangible assets with indefinite lives are tested for impairment annually or whenever events or changes in circumstances indicate that the asset might be impaired. When the carrying amount of an intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to the excess. To estimate fair value, we use the royalty-free licence and capitalization of excess earnings before financial costs and income taxes methods. The use of different assumptions and estimates such as the royalty rate and excess earnings before financial costs and income taxes, could result in different fair values and, consequently, different carrying amounts for intangible assets with indefinite lives, which could affect operating results.

**GOODWILL**

Goodwill represents the excess of the purchase price over the fair value of net assets acquired. Goodwill is tested for impairment annually or whenever events or changes in circumstances indicate that it might be impaired. The impairment test first requires a comparison of the fair value of the reporting unit to which goodwill is assigned with its carrying amount. When the carrying amount of a reporting unit exceeds its fair value, the fair value of the reporting unit's goodwill is compared with its carrying amount in order to estimate the impairment loss. To evaluate the fair value of our reporting unit, we use the capitalization of indicated earnings method. The use of different assumptions and estimates, such as the weighted average cost of capital and indicated earnings, could result in different fair values and, consequently, different carrying amounts for goodwill, which could affect operating results.

**IMPAIRMENT OF LONG-LIVED ASSETS**

Long-lived assets, excluding goodwill and intangible assets with indefinite lives, are assessed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized in earnings when the carrying amount of a long-lived asset is greater than the undiscounted future net cash flows expected to result from its use and eventual disposition. The amount of the impairment loss represents the difference between the carrying amount and the discounted value of the future net cash flows generated by the long-lived asset. The use of different assumptions and estimates such as the discount rate and future net cash flows could result in different fair values and, consequently, different carrying amounts for long-lived assets, which could affect operating results.

**EMPLOYEE FUTURE BENEFITS**

We offer several defined benefit and defined contribution plans, which provide pensions, other retirement benefits and postemployment benefits to plan participants. The cost of pensions and other retirement benefits earned by participants is determined from actuarial calculations using the projected benefit method prorated on services. This method is based on management's best-estimate assumptions regarding long-term returns on plan assets, salary escalation, retirement ages of participants and expected health-care costs. The use of different assumptions could result in different carrying amounts for accrued benefits, which could affect the defined benefit plan expense.

**STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS**

A compensation expense is recognized for all stock option awards. We calculate this expense based on the fair value method, using the Black & Scholes model. In order to establish the fair value of stock options, we use assumptions regarding the risk-free interest rate, expected life, expected volatility and expected dividend yield. The use of different assumptions could affect the compensation expense in the consolidated statement of earnings.

**INCOME TAXES**

The Company follows the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are accounted for based on estimated taxes recoverable or payable that would result from the recovery or settlement of the carrying amount of assets and liabilities. Future tax assets and liabilities are measured using substantively enacted tax rates expected to be in effect when the temporary differences are expected to reverse. Determination of income tax expense and future income taxes thus requires the use of estimates, assumptions and judgements, which, if applied differently, could result in different carrying amounts for future income taxes on the balance sheet and, consequently, affect income tax expense in the consolidated statement of earnings.

<sup>(1)</sup> See section on "Non-GAAP measurements" on page 22

<sup>(2)</sup> See section on "Forward-looking information" on page 23

## FINANCIAL INSTRUMENTS

Cash and cash equivalents, interest rate swaps and foreign exchange forward contracts are valued at fair value. Gains/losses resulting from revaluation at each period end are recorded in net earnings in the case of cash and cash equivalents as well as foreign exchange forward contracts, and in comprehensive income in the case of interest rate swaps. The use of different assumptions to estimate fair value, such as expected interest rates and the exchange rate used by a financial institution to negotiate an identical contract at present, could result in different carrying amounts, and, consequently, affect the consolidated statement of earnings or the consolidated comprehensive income statement, as applicable.

## RISK MANAGEMENT

The Board of Directors, Audit Committee and Steering Committee monitor business risks closely. Internal Audit has the mandate to audit all business risks triennially. So each segment is audited every three years to ensure that controls have been put in place to deal with the business risks related to its business area.

In the normal course of business, we are exposed to various risks, which are described below, that could have a material impact on our earnings, financial position and cash flows. In order to counteract the principal risk factors, we have implemented strategies specifically adapted to them.

## MARKET AND COMPETITION

Intensifying competition, the possible arrival of new competitors and changing consumer needs are constant concerns for us.

To cope with competition and maintain our leadership position in the Québec and Ontario markets, we are on the alert for new ways of doing things and new sites. We have an ongoing investment program for all our stores to ensure that our retail network remains one of the most modern in Canada. We have also developed a successful market segmentation strategy. Our grocery banners, the conventional Metro supermarkets and Super C and Food Basics discount banners, target two different market segments. In the pharmaceutical market, we have small and medium-sized pharmacies, including our Brunet, Brunet Plus and Brunet Clinique banners.

One of the fundamental points of our business strategy is to have a customer focus approach. We are responsive to their concerns, expectations and changing tastes and habits. Constantly endeavouring to renew our retail offering, we have added new products to our *Irresistibles* and *Selection* private brand lines as well as prepared meals.

In the fall of 2009, we created an exclusive joint venture with Dunnhumby, an international marketing consulting company. The joint venture's mission is to develop and implement customer strategies to better meet consumer needs and build loyalty. One customer focus approach achievement is the Québec-wide rollout at the end of fiscal 2010 of our *Metro & Moi* loyalty program, allowing customers to collect points that are converted into dollars to reduce their grocery bills.

## ECONOMIC CONDITIONS

An economic slowdown or recession could affect our supermarkets and discount stores, however, they can adapt to such conditions with appropriate merchandising strategies. Since food is a basic need, the food industry is affected less by an economic slowdown or recession.

## FOOD SAFETY

We are exposed to potential liability and costs regarding defective products, food safety, product contamination and handling. Such liability may arise from product manufacturing, packaging and labelling, design, preparation, warehousing, distribution and presentation. Food products represent the greater part of our sales and we could be at risk in the event of a major outbreak of food-borne illness or food poisoning or an increase in public health concerns regarding certain food products.

To counter these risks, we apply very strict food safety procedures and controls throughout the whole distribution chain. All personnel receive continuous training in this area from Metro's L'École des professionnels. Our main meat processing and distribution facilities are HACCP (*Hazard Analysis and Critical Control Point*) accredited, the industry's highest international standard. Our systems also enable us to trace every meat product distributed from any of our main distribution centres to its consumer point of sale.

<sup>(1)</sup> See section on "Non-GAAP measurements" on page 22

<sup>(2)</sup> See section on "Forward-looking information" on page 23

**CORPORATE RESPONSIBILITY**

If our actions do not respect our social, economic and environmental responsibilities, we are exposed to criticism, claims, boycotts and even lawsuits, should we fail to adhere to our legal obligations.

We are aware that our business operations affect society and have increased our efforts regarding corporate responsibility. In 2010, we published our corporate responsibility roadmap that defines our commitments to and intentions around the social, economic and environmental sustainability of our business operations. Our roadmap is available on our Web site at [www.metro.ca](http://www.metro.ca). We expect<sup>(2)</sup> to issue our first corporate responsibility report in 2011.

In addition, the Company adopted a formal environmental policy several years ago that requires it to take necessary measures in order to ensure compliance with applicable legislation and improve its environmental performance on a continuing basis. A committee comprised of management staff ensures implementation of this policy and of programs to reduce the impact of our operations on the environment. Environmental audits are conducted regularly in all of the Company's facilities and corrective action, if required, is quickly taken.

**REGULATIONS**

Changes are regularly brought about to accounting policies, laws, regulations, rules and policies impacting our operations. We monitor these changes closely.

**PRICE OF FUEL, ENERGY AND UTILITIES**

We are a big consumer of utilities, electricity, natural gas and fuel. Increases in the price of these items may affect us.

**LABOUR RELATIONS**

The majority of our store and distribution centre employees are unionized. Collective bargaining may give rise to work stoppages or slowdowns that could hurt us. We negotiate agreements with different maturity dates, conditions that ensure our competitiveness and terms that promote a positive work environment in all our business segments. We have experience some minor labour conflicts over the last few years but expect<sup>(2)</sup> to maintain good labour relations in the future.

**CRISIS MANAGEMENT**

Events outside our control that could seriously affect our operations may arise. We have set up business recovery plans for all our operations. These plans provide for several disaster recovery sites, generators in case of power outages and back-up computers as powerful as the Company's existing computers. A steering committee oversees and regularly reviews all our recovery plans. We have also developed a contingency plan in the event of a pandemic to minimize its impact.

**FINANCIAL INSTRUMENTS**

We are subject to the risk of interest rate fluctuations mainly because we contract loans with variable interest rates. As well, we make some US dollar denominated purchases, exposing ourselves to exchange rate risks. In accordance with our risk management policy, we use derivative financial instruments, namely interest rate swaps and foreign exchange forward contracts to transform our variable interest payments into fixed interest payments and protect ourselves against exchange rate variations for our future purchases in US currency. The policy's guidelines prohibit us from using derivative financial instruments for speculative purposes, but they do not guarantee that we will not sustain losses as a result of our derivative financial instruments.

We hold receivables generated mainly from sales to affiliate customers. To guard against credit losses, we have adopted a credit policy that defines mandatory credit requirements to be maintained and guarantees to be provided. Affiliate customer assets guarantee the majority of our receivables.

We are also exposed to liquidity risk mainly through our long-term debt and creditors. We evaluate our cash position regularly and estimate<sup>(2)</sup> that cash flows generated by our operating activities are sufficient to provide for all outflows required by our financing activities. Our Credit A Facility and our Series A and Series B Notes mature only in 2012, 2015 and 2035 respectively. We also have access to an authorized revolving line of credit of \$400.0 million.

<sup>(1)</sup> See section on "Non-GAAP measurements" on page 22

<sup>(2)</sup> See section on "Forward-looking information" on page 23

**CLAIMS**

In the normal course of business, we are exposed to various claims and proceedings. We limit our exposure by maintaining insurance to cover the risk of claims related to our operations. Seven years ago, *Regroupement des marchands actionnaires Inc.* instituted proceedings against the Company, alleging the right of certain retailer-shareholders to re-convert into Class B Shares, which they had previously converted to Class A Subordinate Shares. We are contesting the validity of this claim and we believe<sup>(2)</sup> that any forthcoming settlement in respect of this claim will not have a material effect on our financial position or our earnings.

**SUPPLIERS**

Negative events could affect a supplier and lead to service breakdowns and store delivery delays. As a remedy for this situation, we deal with several suppliers. So in the event of a supplier's service breakdown, we can turn to another supplier reasonably quickly.

**FRANCHISEES AND AFFILIATES**

Some of our franchisees and affiliates might breach prescribed clauses of franchise or affiliation contracts, such as purchasing policies and marketing plans. Non-compliance with such clauses may have an impact on us. A team of retail operations advisers ensures our operating standards' consistent application in all of our stores.

Montréal, Canada, December 3, 2010

<sup>(1)</sup> See section on "Non-GAAP measurements" on page 22

<sup>(2)</sup> See section on "Forward-looking information" on page 23

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The preparation and presentation of the consolidated financial statements of METRO INC. and the other financial information contained in this Annual Report are the responsibility of management. This responsibility is based on a judicious choice of appropriate accounting principles and methods, the application of which requires making estimates and informed judgements. It also includes ensuring that the financial information in the Annual Report is consistent with the consolidated financial statements. The consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles and were approved by the Board of Directors.

METRO INC. maintains accounting systems and internal controls over the financial reporting process which, in the opinion of management, provide reasonable assurance regarding the accuracy, relevance and reliability of financial information and the well-ordered, efficient management of the Company's affairs.

The Board of Directors fulfills its duty, to oversee management in the performance of its financial reporting responsibilities and to review the consolidated financial statements and Annual Report, principally through its Audit Committee. This Committee is comprised solely of directors who are independent of the Company and is also responsible for making recommendations for the nomination of external auditors. Also, it holds periodic meetings with members of management as well as internal and external auditors, to discuss internal controls, auditing matters and financial reporting issues. The external and internal auditors have access to the Committee without management. The Audit Committee has reviewed the consolidated financial statements and Annual Report of METRO INC. and recommended their approval to the Board of Directors.

The enclosed consolidated financial statements were audited by Ernst & Young LLP, Chartered Accountants, and their report indicates the extent of their audit and their opinion on the consolidated financial statements.



Eric R. La Flèche  
President and Chief Executive Officer

Montréal, Canada, December 10, 2010



Richard Dufresne  
Senior Vice-President,  
Chief Financial Officer and Treasurer



## AUDITOR'S REPORT

To the shareholders of METRO INC.

We have audited the consolidated balance sheets of METRO INC. as at September 25, 2010 and September 26, 2009, and the consolidated statements of earnings, retained earnings, comprehensive income and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 25, 2010 and September 26, 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*Ernst & Young LLP<sup>(1)</sup>*

ERNST & YOUNG LLP<sup>(1)</sup>

Chartered Accountants

Montréal, Canada, November 16, 2010

<sup>(1)</sup> CA auditor permit no. 8697



## Consolidated statements of earnings

Years ended September 25, 2010 and September 26, 2009

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

	2010	2009
<b>Sales</b> (notes 22 and 23)	\$ 11,342.9	\$ 11,196.0
Cost of sales and operating expenses (note 9)	(10,595.4)	(10,480.8)
Share of earnings in a public company subject to significant influence	40.4	37.4
Banner conversion costs (note 4)	(0.9)	(11.0)
<b>Earnings before financial costs, taxes, depreciation and amortization</b>	<b>787.0</b>	<b>741.6</b>
Depreciation and amortization (note 5)	(201.2)	(189.1)
<b>Operating income</b>	<b>585.8</b>	<b>552.5</b>
Financial costs, net (note 6)	(44.7)	(48.0)
<b>Earnings before income taxes</b>	<b>541.1</b>	<b>504.5</b>
Income taxes (note 7)	(149.3)	(150.1)
<b>Net earnings</b>	<b>\$ 391.8</b>	<b>\$ 354.4</b>
<b>Net earnings per share</b> (Dollars) (note 8)		
Basic	3.67	3.21
Fully diluted	3.65	3.19

See accompanying notes

**Consolidated balance sheets**

**As at September 25, 2010 and September 26, 2009**

(Millions of dollars)

	2010	2009
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 214.7	\$ 241.4
Accounts receivable (notes 10 and 22)	311.3	315.8
Inventories (note 9)	699.3	681.3
Prepaid expenses	9.7	8.3
Income taxes receivable	1.7	6.6
Future income taxes (note 7)	12.3	22.6
	<b>1,249.0</b>	<b>1,276.0</b>
Investments and other assets (note 10)	235.3	204.0
Fixed assets (note 11)	1,319.1	1,305.8
Intangible assets (note 12)	315.7	325.4
Goodwill	1,603.7	1,478.6
Future income taxes (note 7)	26.0	2.7
Accrued benefit asset (note 19)	72.8	65.6
	<b>\$ 4,821.6</b>	<b>\$ 4,658.1</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Bank loans (note 13)	\$ 1.0	\$ 0.8
Accounts payable	1,073.3	1,111.2
Income taxes payable	50.8	24.8
Future income taxes (note 7)	12.8	10.7
Current portion of long-term debt (note 14)	4.7	6.4
	<b>1,142.6</b>	<b>1,153.9</b>
Long-term debt (note 14)	1,004.3	1,004.3
Accrued benefit liability (note 19)	48.5	49.0
Future income taxes (note 7)	162.2	155.4
Other long-term liabilities (note 15)	21.2	31.4
	<b>2,378.8</b>	<b>2,394.0</b>
<b>Shareholders' equity</b>		
Capital stock (note 16)	702.1	716.7
Contributed surplus (note 17)	6.1	3.7
Retained earnings	1,734.9	1,545.7
Accumulated other comprehensive income (note 18)	(0.3)	(2.0)
	<b>2,442.8</b>	<b>2,264.1</b>
	<b>\$ 4,821.6</b>	<b>\$ 4,658.1</b>

Commitments and contingencies (notes 20 and 21)

See accompanying notes

On behalf of the Board:



ERIC R. LA FLÈCHE  
Director



MICHEL LABONTÉ  
Director



**Consolidated statements of retained earnings**  
Years ended September 25, 2010 and September 26, 2009  
(Millions of dollars)

	2010	2009
Balance – beginning of year	\$ 1,545.7	\$ 1,366.8
Net earnings	391.8	354.4
Dividends	(69.2)	(59.3)
Share redemption premium (note 16)	(133.4)	(116.2)
Balance – end of year	<u>\$ 1,734.9</u>	<u>\$ 1,545.7</u>

See accompanying notes

**Consolidated statements of comprehensive income**  
Years ended September 25, 2010 and September 26, 2009  
(Millions of dollars)

	2010	2009
Net earnings	\$ 391.8	\$ 354.4
Other comprehensive income (note 18)		
Change in fair value of derivatives designated as cash flow hedges	2.5	(1.4)
Corresponding income taxes	(0.8)	0.4
Comprehensive income	<u>\$ 393.5</u>	<u>\$ 353.4</u>

See accompanying notes



**Consolidated statements of cash flows**  
**Years ended September 25, 2010 and September 26, 2009**  
(Millions of dollars)

	2010	2009
<b>Operating activities</b>		
Net earnings	\$ 391.8	\$ 354.4
Non-cash items		
Share of earnings in a public company subject to significant influence	(40.4)	(37.4)
Depreciation and amortization	201.2	189.1
Amortization of deferred financing costs	1.8	2.0
Loss on disposal and write-off of fixed and intangible assets	1.1	3.0
Gain on disposal of investments	—	(0.1)
Interest income from investments	(0.2)	(0.2)
Future income taxes	27.3	32.1
Stock-based compensation cost	5.8	5.0
Difference between amounts paid for employee future benefits and current period cost	(7.7)	(26.6)
	<b>580.7</b>	521.3
Net change in non-cash working capital items related to operations	<b>(32.9)</b>	(1.2)
	<b>547.8</b>	520.1
<b>Investing activities</b>		
Business acquisition, net of cash acquired totalling \$0.3 (note 3)	(152.3)	—
Net change in investments and other assets	0.4	(4.6)
Dividends from public company subject to significant influence	3.2	2.9
Additions to fixed assets	(165.4)	(235.1)
Proceeds on disposal of fixed assets	4.9	14.8
Additions to intangible assets	(30.6)	(36.8)
	<b>(339.8)</b>	(258.8)
<b>Financing activities</b>		
Net change in bank loans	0.2	(0.1)
Issuance of shares (note 16)	8.6	44.0
Redemption of shares (note 16)	(159.5)	(142.5)
Acquisition of treasury shares (note 16)	—	(4.3)
Performance share units cash settlement (note 17)	(0.5)	(0.5)
Increase in long-term debt	3.1	5.3
Repayment of long-term debt	(10.1)	(10.2)
Net change in other long-term liabilities	(7.3)	(4.0)
Dividends paid	(69.2)	(59.3)
	<b>(234.7)</b>	(171.6)
<b>Net change in cash and cash equivalents</b>	<b>(26.7)</b>	89.7
Cash and cash equivalents – beginning of year	241.4	151.7
Cash and cash equivalents – end of year	<b>\$ 214.7</b>	<b>\$ 241.4</b>
<b>Supplementary information</b>		
Interest paid	44.9	47.0
Income taxes paid	114.0	105.3

See accompanying notes



## Notes to consolidated financial statements

September 25, 2010 and September 26, 2009

(Millions of dollars, unless otherwise indicated)

### 1- DESCRIPTION OF BUSINESS

METRO INC. (the Company) is one of Canada's leading food retailers and distributors. The Company operates a network of supermarkets, discount stores and drugstores. All components of the Company represent a unique reportable segment.

### 2- SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Company, in Canadian dollars, have been prepared by management in accordance with Canadian generally accepted accounting principles (GAAP) which require management to make estimates and assumptions that affect the amounts recorded in the consolidated financial statements and presented in the accompanying notes. Actual results could differ from these estimates. The Company's consolidated financial statements have been properly prepared within the reasonable limits of materiality and in conformity with the accounting policies summarized below:

#### CONSOLIDATION

The consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries and its share of earnings in a joint venture, as well as those of variable interest entities (VIEs) for which the Company is the primary beneficiary. All intercompany transactions and balances were eliminated on consolidation.

#### CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand, bank balances, highly liquid investments (with an initial term of three months or less), outstanding deposits and cheques in transit. They are classified as "Assets held for trading" and are marked-to-market with resulting gains/losses recognized through net earnings at each period end.

#### ACCOUNTS RECEIVABLE

Accounts receivable 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.

#### INVENTORY VALUATION

Inventories are valued at the lower of cost and net realizable value. Warehouse inventories cost is determined by the average cost method net of certain considerations received from vendors. Retail inventories cost is valued at the retail price less the gross margin and certain considerations received from vendors. In addition, all costs incurred in bringing the inventories to their present location and condition are included in the cost of warehouse and retail inventories.

#### INVESTMENTS AND OTHER ASSETS

The investment in a public company subject to significant influence is accounted for using the equity method. 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 method. For the Company, the measured amount generally corresponds to cost.

#### FIXED ASSETS

Fixed assets are recorded at cost. Buildings and equipment are amortized on a straight-line basis over their useful lives. Leasehold improvements are amortized on a straight-line basis over the shorter of their useful lives or the remaining lease term. The amortization method and estimate of useful life are reviewed annually.

Buildings	40 years
Equipment	3 to 20 years
Leasehold improvements	5 to 20 years



## Notes to consolidated financial statements

September 25, 2010 and September 26, 2009

(Millions of dollars, unless otherwise indicated)

### 2- SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### LEASES

The Company accounts for capital leases in instances when it has acquired substantially all the benefits and risks incident to ownership of the leased property. The cost of assets under capital leases represents the present value of minimum lease payments and is amortized on a straight-line basis over the lease term. Assets under capital leases are presented under "Fixed assets" in the consolidated balance sheet.

Leases that do not transfer substantially all the benefits and risks incident to ownership of the property are accounted for as operating leases.

#### INTANGIBLE ASSETS

Intangible assets with definite useful lives are recorded at cost and are amortized on a straight-line basis over their useful lives. The amortization method and estimate of the useful life are reviewed annually.

Leasehold rights	20 to 40 years
Software	3 to 10 years
Improvements and development of retail network loyalty	5 to 20 years
Prescription files	10 years

Intangible assets with indefinite lives, such as banners and private labels and some agreements, are recorded at cost and are not subject to amortization. These assets are tested for impairment annually or more often if events or changes in circumstances indicate that the asset might be impaired. When the impairment test indicates that the carrying amount of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to the excess. The Company uses the royalty-free licensing method and the capitalization of excess earnings before financial costs and income taxes method.

#### GOODWILL

Goodwill represents the excess of the purchase price over the fair value of net assets acquired. Goodwill is tested for impairment annually or more often if events or changes in circumstances indicate that it might be impaired. The impairment test first consists of a comparison of the fair value of the reporting unit to which goodwill is assigned with its carrying amount. When the carrying amount of a reporting unit exceeds its fair value, the fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. Any impairment loss is charged to earnings in the period in which the loss is incurred. The Company uses the indicated earnings method to determine the fair value of its reporting unit.

#### IMPAIRMENT OF LONG-LIVED ASSETS

The fixed assets and intangible assets with definite useful lives are assessed for impairment when events or changes in circumstances indicate that their carrying amount may not be recoverable. When the carrying amount of long-lived assets is greater than the undiscounted future net cash flows expected to be generated by assets' use and potential sale, an impairment loss is recognized in earnings. The amount of the impairment loss represents the difference between the carrying amount and the discounted value of future net cash flows generated by long-lived assets.

#### DEFERRED FINANCING COSTS

Financing costs related to the long term debt are deferred and amortized using the effective interest method over the term of the corresponding loans. When the Company repays one of its loans, the corresponding financing costs are charged to earnings. Deferred financing costs are presented under "Long term debt" in the consolidated balance sheet and the related amortization under "Financial costs, net" in the consolidated statement of earnings.

#### EMPLOYEE FUTURE BENEFITS

The Company accounts for employee future benefit plan assets and obligations and related costs of defined benefit pension plans, and other retirement benefits and other post-employment benefit plans under the following accounting policies:

**Notes to consolidated financial statements****September 25, 2010 and September 26, 2009***(Millions of dollars, unless otherwise indicated)***2- SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

- Accrued benefit obligations and the cost of pension and other retirement benefits earned by participants are determined from actuarial calculations according to the projected benefit method prorated on services. The accrued benefit obligations under the post-employment benefit plans are determined from actuarial calculations according to the accumulated benefit method. The calculations are based on management's best estimate assumptions relating to long term return on the plan assets, salary escalation, retirement age of participants and estimated health-care costs.
- For the purpose of calculating the estimated rate of return on the plan assets, assets are measured at fair value.
- Pension obligations are discounted using current market interest rates.
- Actuarial gains or losses arise from the difference between the actual rate of return on plan assets for a period and the expected rate of return on plan assets for that period, from changes in actuarial assumptions used to determine accrued benefit obligations and from emerging experience different from the selected assumptions.
- The excess of the net actuarial gain or loss over the higher of 10% of accrued benefit obligations or 10% of the fair value of the plan assets is amortized over the average remaining service period of active participants. Past service costs are amortized on a straight-line basis over the average remaining service period of active participants. The average remaining service period of active participants covered by the pension plans is 13 years. The average remaining service period of active participants covered by the other retirement benefit plans is 13 years, whereas it is 5 years under the other post-employment benefit plans.
- Past service costs arising from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of the active participants at the date of amendment until the full eligibility date.

The cost of defined contribution pension plans, which includes multi-employer pension plans, is expensed as contributions are due.

**OTHER FINANCIAL LIABILITIES**

Bank loans, accounts payable, the credit facility, 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 method. For the Company, the measured amount generally corresponds to cost.

**SALES RECOGNITION**

Retail sales made by corporate stores and stores for which the Company is the primary beneficiary are recognized at the time of sale to the customer. Sales to affiliated stores and other customers are recognized when the goods are delivered. The rebates granted by the Company to its retailers are recorded as a reduction in sales.

**RECOGNITION OF CONSIDERATION RECEIVED FROM VENDORS**

In some cases, a cash consideration received from vendors must be considered as an adjustment to the vendor's product pricing and is therefore characterized as a reduction of cost of sales and related inventories when recognized in the consolidated financial statements. Certain exceptions apply if the cash consideration constitutes the reimbursement of incremental costs incurred by the Company to promote the vendor's products or a payment for assets or services delivered to vendors. This other consideration received from vendors is accounted for, according to its nature, under sales or as a reduction of cost of sales and operating expenses.

**LOYALTY PROGRAMS**

The Company has two loyalty programs. The first belongs to a third party and its cost is recorded in the Company's statement of earnings in the cost of sales and operating expenses. The second belongs to the Company. Its cost is calculated based on the loyalty program redemption rate which is evaluated regularly, and recorded in the cost of sales and operating expenses at the time of sale to the customer.

**FOREIGN CURRENCY TRANSLATION**

Monetary items on the balance sheet are translated at the exchange rate in effect at year-end, while non-monetary items are translated at the historical exchange rates. Revenues and expenses are translated at the rates of exchange in effect on the transaction date or at the average exchange rate for the period. Gains or losses resulting from the translation are included in current period earnings.





## Notes to consolidated financial statements

September 25, 2010 and September 26, 2009

(Millions of dollars, unless otherwise indicated)

### 2- SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### INCOME TAXES

The Company follows the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are accounted for based on estimated taxes recoverable or payable that would result from the recovery or settlement of the carrying amount of assets and liabilities. Future tax assets and liabilities are measured using substantively enacted tax rates expected to be in effect when the temporary differences are expected to reverse. Changes in these amounts are included in current period earnings.

#### STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS

The Company recognizes stock-based compensation expenses and other stock-based payments in earnings using the fair value method for all stock options granted. The Black & Scholes model is used to determine the fair value on the award date of stock options. Compensation expense is recognized over the expected term of the award.

#### PERFORMANCE SHARE UNIT PLAN

The Company determines the value of the compensation under the performance share unit (PSU) plan based on the market value of the Company's Class A Subordinate Shares at grant date. Compensation expense is recognized on a straight-line basis over the vesting period. The impact of any changes in the number of PSUs is recorded in the period where the estimate is revised. The grant qualifies as an equity instrument.

#### EARNINGS PER SHARE

Net earnings per share are calculated using the weighted average number of Class A Subordinate Shares and Class B Shares outstanding during the year. Fully diluted net earnings per share are calculated using the treasury stock method, giving effect to the exercise of all dilutive factors.

#### FINANCIAL INSTRUMENTS

In accordance with its risk management strategy, the Company uses derivative financial instruments for hedging purposes. On inception of a hedging relationship, the Company indicates whether or not it will apply hedge accounting to the relationship. The Company formally documents several factors, such as the election to apply hedge accounting, the hedged item, the hedging item, the risks being hedged and the term over which the relationship is expected to be effective, as well as risk management objectives and strategy.

The Company measures the effectiveness of the hedging relationship at its inception to determine whether it will be highly effective over the term of the relationship. In addition, the Company assesses the hedging relationship periodically to ensure that hedge accounting is still appropriate. The Company formally documents the results of its assessments.

The derivative financial instruments used by the Company primarily consist of interest rate swaps under which the Company substitutes variable rate interest payments with fixed rate interest payments. The Company has decided to apply hedge accounting to its interest rate swaps and treat them as cash flow hedges. These swaps are marked-to-market with resulting gains/losses recognized through other comprehensive income at each period end, provided that the hedge is deemed effective.

The company also uses foreign exchange forward contracts to hedge against foreign exchange rate fluctuations in respect of future purchases denominated in U.S. dollars. Given their short-term maturity, the Company elected not to apply hedge accounting to its foreign exchange forward contracts. These derivative financial instruments are classified as "Assets held for trading" and marked-to-market with resulting gains/losses recognized through net earnings at each period end.

#### FISCAL YEAR

The Company's fiscal year ends on the last Saturday of September. The fiscal years ended September 25, 2010 and September 26, 2009 included 52 weeks of operations.



## Notes to consolidated financial statements

September 25, 2010 and September 26, 2009

(Millions of dollars, unless otherwise indicated)

### 3- BUSINESS ACQUISITION

In the first quarter of 2010, the Company acquired 18 affiliated stores which it already supplied. The total purchase price was \$152.2 in cash.

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

Cash	\$	0.3
Inventories		14.9
Other current assets		0.3
Fixed assets		12.1
Trade name		1.3
Goodwill		122.3
Future income tax assets		6.3
Short-term liabilities assumed		(3.6)
Integration and rationalization plan-related liabilities		(1.3)
<b>Total net assets acquired</b>	<b>\$</b>	<b>152.6</b>
<hr/>		
Cash consideration	\$	152.2
Acquisition costs		0.4
<b>Consideration and acquisition costs</b>	<b>\$</b>	<b>152.6</b>

The tax treatment of the goodwill is considered eligible capital property with the related tax deductions.

### 4- 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 (2009 – \$11.0).

### 5- DEPRECIATION AND AMORTIZATION

	2010	2009
Fixed assets	\$ 159.5	\$ 148.9
Intangible assets	41.7	40.2
	<b>\$ 201.2</b>	<b>\$ 189.1</b>

### 6- FINANCIAL COSTS, NET

	2010	2009
Short-term interest	\$ 1.3	\$ 1.7
Long-term interest	43.5	46.1
Amortization of deferred financing costs	1.8	2.0
Interest income	(1.9)	(1.8)
	<b>\$ 44.7</b>	<b>\$ 48.0</b>

**Notes to consolidated financial statements**

September 25, 2010 and September 26, 2009

(Millions of dollars, unless otherwise indicated)

**7- INCOME TAXES**

The main components of the income tax expense were as follows:

	2010	2009
Current	\$ 122.0	\$ 118.0
Future	27.3	32.1
	<b>\$ 149.3</b>	<b>\$ 150.1</b>

The effective income tax rates were as follows:

<i>(Percentage)</i>	2010	2009
Combined statutory income tax rate	30.4	31.3
Changes		
Impact on future taxes of 4.0% total future decreases in Ontario tax rate (\$10.0 in 2010)	(1.8)	—
Impact on future taxes of 4.35% decrease in Québec tax rate on investment income (\$2.7 in 2009)	—	(0.5)
Share of earnings in a public company subject to significant influence	(1.3)	(1.3)
Others	0.3	0.3
	<b>27.6</b>	<b>29.8</b>

Future income taxes reflect the net tax impact of timing differences between the value of assets and liabilities for accounting and tax purposes. The main components of the Company's future tax assets and liabilities were as follows:

	2010	2009
<b>Future income tax assets and liabilities</b>		
Accrued expenses, provisions and other reserves that are tax-deductible only at the time of disbursement	\$ 20.1	\$ (4.6)
Tax losses carry forwards	11.6	24.6
Inventories	(7.7)	(8.7)
Excess of tax value over net book value of assets		
under capital leases	5.8	6.9
Interest rate swaps	0.1	0.9
Employee future benefits	(7.6)	(3.5)
Share of accumulated earnings in a public company subject to significant influence	(27.4)	(22.0)
Excess of net book value over tax value		
Fixed assets	(57.0)	(57.5)
Intangible assets	(58.6)	(62.1)
Goodwill	(16.0)	(14.8)
	<b>\$ (136.7)</b>	<b>\$ (140.8)</b>
Future income tax short-term assets	\$ 12.3	\$ 22.6
Future income tax short-term liabilities	(12.8)	(10.7)
Future income tax long-term assets	26.0	2.7
Future income tax long-term liabilities	(162.2)	(155.4)
	<b>\$ (136.7)</b>	<b>\$ (140.8)</b>



## Notes to consolidated financial statements

September 25, 2010 and September 26, 2009

(Millions of dollars, unless otherwise indicated)

### 8- NET EARNINGS PER SHARE

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

<i>(Millions)</i>	2010	2009
Weighted average number of shares outstanding – Basic	106.9	110.4
Dilutive effect under stock option and PSU plans	0.5	0.7
Weighted average number of shares outstanding – Diluted	107.4	111.1

### 9- INVENTORIES

Inventories were detailed as follows:

	2010	2009
Wholesale inventories	\$ 296.3	\$ 304.0
Retail inventories	403.0	377.3
	\$ 699.3	\$ 681.3

The cost of inventories expensed for fiscal 2010 totalled \$9,272.6 (2009 – \$9,218.0).

### 10- INVESTMENTS AND OTHER ASSETS

	2010	2009
Investment in public company subject to significant influence, including share of earnings until July 18, 2010 (July 19, 2009) (quoted market value: \$491.5 as at September 25, 2010; \$394.9 as at September 26, 2009)	\$ 219.5	\$ 182.3
Loans to certain customers bearing interest at floating rates, repayable in monthly instalments, maturing through 2030	24.7	24.0
Other assets	0.5	1.5
	244.7	207.8
Current portion included in accounts receivable	9.4	3.8
	\$ 235.3	\$ 204.0

### 11- FIXED ASSETS

	2010			2009		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Land	\$ 168.3	\$ —	\$ 168.3	\$ 168.0	\$ —	\$ 168.0
Buildings	437.0	126.6	310.4	421.3	118.3	303.0
Equipment	1,102.4	605.4	497.0	988.1	502.5	485.6
Leasehold improvements	562.6	236.5	326.1	521.9	192.5	329.4
Assets under capital leases	35.5	18.2	17.3	35.5	15.7	19.8
	\$ 2,305.8	\$ 986.7	\$ 1,319.1	\$ 2,134.8	\$ 829.0	\$ 1,305.8



## Notes to consolidated financial statements

September 25, 2010 and September 26, 2009

(Millions of dollars, unless otherwise indicated)

### 12- INTANGIBLE ASSETS

	2010			2009		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
<b>Intangible assets with definite lives</b>						
Leasehold rights	\$ 74.9	\$ 35.8	\$ 39.1	\$ 75.3	\$ 33.5	\$ 41.8
Software	164.0	117.1	46.9	156.1	98.8	57.3
Improvements and development of retail network loyalty	231.6	114.4	117.2	218.0	105.0	113.0
Prescription files	7.4	3.4	4.0	7.4	2.6	4.8
	<b>477.9</b>	<b>270.7</b>	<b>207.2</b>	456.8	239.9	216.9
<b>Intangible assets with indefinite lives</b>						
Banners	53.3	—	53.3	53.3	—	53.3
Private labels and agreements	55.2	—	55.2	55.2	—	55.2
	<b>108.5</b>	<b>—</b>	<b>108.5</b>	108.5	—	108.5
	<b>\$ 586.4</b>	<b>\$ 270.7</b>	<b>\$ 315.7</b>	\$ 565.3	\$ 239.9	\$ 325.4

Net additions of intangible assets excluded from the consolidated statement of cash flows amounted to \$3.5 in 2010 (2009 – \$2.5).

### 13- BANK LOANS

The Company benefits from a \$400.0 revolving line of credit, expiring August 15, 2012, as well as a Credit A Facility amounting to \$369.3 (\$369.3 as at September 26, 2009) as discussed in note 14. The credit facilities bear interest at rates that fluctuate with changes in banker's acceptance rates and are unsecured. As at September 25, 2010 and September 26, 2009, the revolving line of credit was undrawn. The consolidated VIEs have credit margins totalling \$6.6 (\$6.2 as at September 26, 2009) bearing interest at prime, unsecured and maturing on various dates through 2011. As at September 25, 2010, \$1.0 (\$0.8 as at September 26, 2009) had been drawn down under credit margins at an interest rate of 2.90% (2.25% as at September 26, 2009).



## Notes to consolidated financial statements

September 25, 2010 and September 26, 2009

(Millions of dollars, unless otherwise indicated)

### 14- LONG-TERM DEBT

	2010	2009
Credit A Facility, bearing interest at a weighted average rate of 1.04% (2009 – 1.91%) repayable on August 15, 2012 or earlier	\$ 369.3	\$ 369.3
Series A Notes, bearing interest at a fixed nominal rate of 4.98%, maturing on October 15, 2015 and redeemable at the issuer's option at fair value at any time prior to maturity	200.0	200.0
Series B Notes, bearing interest at a fixed nominal rate of 5.97%, maturing on October 15, 2035 and redeemable at the issuer's option at fair value at any time prior to maturity	400.0	400.0
Loans, maturing on various dates through 2019, bearing interest at an average rate of 3.38% (2.9% as at September 26, 2009)	15.8	15.7
Obligations under capital leases, bearing interest at an effective rate of 11.2% (2009 – 11.2%)	28.1	31.7
Deferred financing costs	(4.2)	(6.0)
	1,009.0	1,010.7
Current portion	4.7	6.4
	\$ 1,004.3	\$ 1,004.3

Minimum required payments on long-term debt in the upcoming fiscal years will be as follows:

	Loans	Notes	Obligations under capital leases	Total
2011	\$ 2.4	\$ —	\$ 5.1	\$ 7.5
2012	370.4	—	5.1	375.5
2013	0.6	—	5.1	5.7
2014	0.5	—	4.6	5.1
2015	0.3	—	4.6	4.9
2016 and thereafter	10.9	600.0	19.4	630.3
	\$ 385.1	\$ 600.0	\$ 43.9	\$ 1,029.0

The minimum payments in respect of the obligations under capital leases included interest amounting to \$15.8 on these obligations (2009 – \$18.8).

### 15- OTHER LONG-TERM LIABILITIES

	2010	2009
Lease liabilities	\$ 19.3	\$ 21.2
Interest rate swaps	—	2.9
Other liabilities	1.9	7.3
	\$ 21.2	\$ 31.4

In 2010, the interest rate swap is presented in accounts payable given its short term maturity.



## Notes to consolidated financial statements

September 25, 2010 and September 26, 2009

(Millions of dollars, unless otherwise indicated)

### 16- CAPITAL STOCK

#### AUTHORIZED

Unlimited number of First Preferred Shares, non-voting, without par value, issuable in series.

Unlimited number of Class A Subordinate Shares, bearing one voting right per share, participating, convertible into Class B Shares in the event of a takeover bid involving Class B Shares, without par value.

Unlimited number of Class B Shares, bearing 16 voting rights per share, participating, convertible in the event of disqualification into an equal number of Class A Subordinate Shares on the basis of one Class A Subordinate Share for each Class B Share held, without par value.

#### OUTSTANDING

	Class A Subordinate Shares		Class B Shares		Total
	Number (Thousands)		Number (Thousands)		
Balance as at September 27, 2008	109,806	\$ 696.1	750	\$ 1.5	\$ 697.6
Shares issued for cash	33	1.1	—	—	1.1
Shares redeemed for cash, excluding premium of \$116.2	(3,989)	(26.3)	—	—	(26.3)
Acquisition of treasury shares, excluding premium of \$3.6	(115)	(0.7)	—	—	(0.7)
Released treasury shares	52	0.3	—	—	0.3
Stock options exercised	2,011	44.7	—	—	44.7
Conversion of Class B Shares into Class A Subordinate Shares	32	0.1	(32)	(0.1)	—
Balance as at September 26, 2009	<b>107,830</b>	<b>715.3</b>	<b>718</b>	<b>1.4</b>	<b>716.7</b>
Shares issued for cash	<b>10</b>	<b>0.3</b>	—	—	<b>0.3</b>
Shares redeemed for cash, excluding premium of \$133.4	<b>(3,911)</b>	<b>(26.1)</b>	—	—	<b>(26.1)</b>
Released treasury shares	<b>54</b>	<b>0.3</b>	—	—	<b>0.3</b>
Stock options exercised	<b>368</b>	<b>10.9</b>	—	—	<b>10.9</b>
Conversion of Class B Shares into Class A Subordinate Shares	<b>87</b>	<b>0.1</b>	<b>(87)</b>	<b>(0.1)</b>	—
Balance as at September 25, 2010	<b>104,438</b>	<b>\$ 700.8</b>	<b>631</b>	<b>\$ 1.3</b>	<b>\$ 702.1</b>

**Notes to consolidated financial statements**

**September 25, 2010 and September 26, 2009**

(Millions of dollars, unless otherwise indicated)

**16- CAPITAL STOCK (Cont'd)**

**STOCK OPTION PLAN**

The Company has a stock option plan for certain Company employees providing for the grant of options to purchase up to 10,000,000 Class A Subordinate Shares. The subscription price of each Class A Subordinate Share under an option granted pursuant to the plan is equal to the market price of the shares on the day prior to option grant date and must be paid in full at the time the option is exercised. While the Board of Directors determines other terms and conditions for the exercise of options, no options may have a term of more than five years from the date the option may initially be exercised, in whole or in part, and the total term may in no circumstances exceed ten years from the option grant date. Options may generally be exercised two years after their grant date and vest at the rate of 20% per year.

The outstanding options and the changes during the year were summarized as follows:

	Number (Thousands)	Weighted average exercise price (Dollars)
Balance as at September 27, 2008	3,534	23.63
Granted	343	36.78
Exercised	(2,011)	21.31
Cancelled	(2)	34.86
Balance as at September 26, 2009	<b>1,864</b>	<b>28.53</b>
Granted	<b>283</b>	<b>44.06</b>
Exercised	<b>(368)</b>	<b>22.35</b>
Cancelled	<b>(2)</b>	<b>31.78</b>
Balance as at September 25, 2010	<b>1,777</b>	<b>32.29</b>

The table below summarizes information regarding the stock options outstanding and exercisable as at September 25, 2010:

Range of exercise prices (Dollars)	Outstanding options			Exercisable options	
	Number (Thousands)	Weighted average remaining period (Months)	Weighted average exercise price (Dollars)	Number (Thousands)	Weighted average exercise price (Dollars)
20.20 to 24.73	448	47.0	24.32	135	23.55
26.40 to 35.71	643	39.9	29.35	266	28.35
37.22 to 44.19	686	67.1	40.24	57	37.65
	<b>1,777</b>	<b>52.2</b>	<b>32.29</b>	<b>458</b>	<b>28.10</b>

The weighted average fair value of \$10.39 per option (2009 – \$7.88) for stock options granted during the year was determined at the time of grant using the Black & Scholes model and the following weighted average assumptions: risk-free interest rate of 3.0% (2009 – 2.3%), expected life of six years (2009 – six years), expected volatility of 23% (2009 – 22%) and expected dividend yield of 1.5% (2009 – 1.4%). Compensation expense for these options amounted to \$2.5 for fiscal 2010 (2009 – \$2.3).





## Notes to consolidated financial statements

September 25, 2010 and September 26, 2009

(Millions of dollars, unless otherwise indicated)

### 16- CAPITAL STOCK (Cont'd)

#### PERFORMANCE SHARE UNIT PLAN

The Company has a PSU plan. Under this program, senior executives and other key employees (participants) periodically receive a given number of PSUs which may increase if the Company meets certain financial performance indicators. The PSUs entitle the participant to Class A Subordinate Shares of the Company, or at the latter's discretion, the cash equivalent. PSUs vest at the end of a period of three years.

PSUs outstanding and changes during the year were summarized as follows:

	Number (Units)
Balance as at September 27, 2008	257,986
Granted	97,394
Settled	(64,177)
Cancelled	(23,633)
Balance as at September 26, 2009	<b>267,570</b>
Granted	<b>107,583</b>
Settled	<b>(65,860)</b>
Cancelled	<b>(389)</b>
Balance as at September 25, 2010	<b>308,904</b>

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

The number of treasury shares and changes during the year were summarized as follows:

	Number (Units)
Balance as at September 27, 2008	194,000
Acquisition of treasury shares	115,000
Released treasury shares	(51,745)
Balance as at September 26, 2009	<b>257,255</b>
Released treasury shares	<b>(53,707)</b>
Balance as at September 25, 2010	<b>203,548</b>

The compensation expense comprising all of these PSUs amounted to \$3.3 for fiscal 2010 (2009 – \$2.7).

### 17- CONTRIBUTED SURPLUS

	2010	2009
Balance – beginning of year	\$ 3.7	\$ 4.9
Stock-based compensation cost	5.8	5.0
Stock options exercised	(2.6)	(1.8)
Acquisition of treasury shares	—	(3.6)
Released treasury shares	(0.3)	(0.3)
PSUs cash settlement	(0.5)	(0.5)
Balance – end of year	<b>\$ 6.1</b>	<b>\$ 3.7</b>



## Notes to consolidated financial statements

September 25, 2010 and September 26, 2009

(Millions of dollars, unless otherwise indicated)

### 18- ACCUMULATED OTHER COMPREHENSIVE INCOME

Derivatives designated as cash flow hedges constitute the sole component of Accumulated Other Comprehensive Income. The changes during the year were as follows:

	2010	2009
Balance – beginning of year	\$ (2.0)	\$ (1.0)
Change in fair value of designated derivatives, net of income taxes of \$0.8 (2009 – \$0.4)	1.7	(1.0)
Balance – end of year	\$ (0.3)	\$ (2.0)

### 19- EMPLOYEE FUTURE BENEFITS

The Company maintains several defined benefit and defined contribution plans for eligible employees, which provide most participants with pension and other retirement benefits, and other post-employment benefits which in certain cases are based on the number of years of service or final average salary. The defined benefit pension plans are funded by the Company's contributions, with some plans also funded by participants' contributions. The Company also provides eligible employees and retirees with health care, life insurance and other benefits.

The Company's defined contribution plan and defined benefit plan expense as at measurement dates was as follows:

	2010		2009	
	Pension plans	Other plans	Pension plans	Other plans
<b>Defined contribution plans</b>	<b>\$ 27.7</b>	<b>\$ 0.6</b>	\$ 30.0	\$ 0.6
<b>Defined benefit plans</b>				
Current service costs	23.1	1.9	21.0	1.5
Actuarial loss	46.6	2.9	25.8	0.8
Plan amendments	4.0	—	0.1	—
Interest cost	35.3	2.1	33.6	2.2
Actual return on plan assets	(36.3)	—	(40.1)	—
Change in valuation allowance	(0.9)	—	(0.1)	—
	71.8	6.9	40.3	4.5
Difference between pension cost and cost recognized for the year regarding the undernoted items:				
Actuarial loss	(45.9)	(3.0)	(25.3)	(1.1)
Plan amendments	(2.9)	(0.2)	0.8	(0.3)
Difference between expected return and actual return on plan assets	(5.3)	—	1.3	—
	17.7	3.7	17.1	3.1
	\$ 45.4	\$ 4.3	\$ 47.1	\$ 3.7



## Notes to consolidated financial statements

September 25, 2010 and September 26, 2009

(Millions of dollars, unless otherwise indicated)

### 19- EMPLOYEE FUTURE BENEFITS (Cont'd)

The information on defined benefit plans was summarized as follows:

	2010		2009	
	Pension plans	Other plans	Pension plans	Other plans
<b>Accrued benefit obligations</b>				
Balance - beginning of year	\$ 571.6	\$ 36.5	\$ 513.5	\$ 35.5
Current service costs	23.1	1.9	20.4	1.5
Interest cost	35.3	2.1	33.6	2.2
Participant contributions	3.4	—	3.7	—
Plan amendments	4.0	—	0.1	—
Benefits paid	(27.0)	(2.3)	(25.5)	(3.5)
Actuarial loss	46.6	2.9	25.8	0.8
Balance - end of year	657.0	41.1	571.6	36.5
<b>Plan assets</b>				
Fair value - beginning of year	587.2	—	526.2	—
Actual return on plan assets	36.3	—	40.1	—
Employer contributions	26.8	2.3	43.3	3.5
Participant contributions	3.4	—	3.7	—
Benefits paid	(27.0)	(2.3)	(25.5)	(3.5)
Plan's administration fees	—	—	(0.6)	—
Fair value - end of year	626.7	—	587.2	—
<b>Funded status (deficit)</b>	<b>(30.3)</b>	<b>(41.1)</b>	15.6	(36.5)
Unamortized past service costs	10.8	(0.4)	7.9	(0.6)
Unamortized net actuarial loss	81.0	4.4	29.8	1.4
Valuation allowance	(0.1)	—	(1.0)	—
Accrued benefit asset (liability)	61.4	(37.1)	52.3	(35.7)
Accrued benefit asset	72.8	—	65.6	—
Accrued benefit liability	\$ (11.4)	\$ (37.1)	\$ (13.3)	\$ (35.7)

The pension plans were allocated as follows:

	2010		2009	
	Accrued benefit obligations	Fair value of assets	Accrued benefit obligations	Fair value of assets
Plans with accrued benefit obligations exceeding fair value of assets	486.2	388.3	357.8	292.3
Plans with fair value of assets exceeding accrued benefit obligations	211.9	238.4	250.3	294.9

The defined benefit plans other than pension plans were not funded.

Total cash payments for employee future benefits, consisting of cash contributed by the Company to its funded pension plans and cash payments directly to beneficiaries for its unfunded other benefit plans amounted to \$29.1 in 2010 (2009 – \$46.8).



## Notes to consolidated financial statements

September 25, 2010 and September 26, 2009

(Millions of dollars, unless otherwise indicated)

### 19- EMPLOYEE FUTURE BENEFITS (Cont'd)

The most recent actuarial valuations for funding purposes in respect of the Company's pension plans were prepared on various dates from December 2007 to June 2010. The next valuations will be conducted on dates ranging from December 2010 to June 2012.

Plan assets are held in trust and their weighted average distributions as at the measurement dates, September 25, 2010, and September 26, 2009, were as follows:

Assets classes (Percentage)	2010	2009
Shares	56	56
Bonds	39	40
Others	5	4

The principal actuarial assumptions used by the Company were as follows:

(Percentage)	2010		2009	
	Pension plans	Other plans	Pension plans	Other plans
<b>Accrued benefit obligations</b>				
Discount rate	5.25	5.25	6.0	6.0
Rate of compensation increase	3.0	3.0	3.5	3.5
<b>Cost of benefits</b>				
Discount rate	6.0	6.0	6.4	6.4
Projected long-term return on plan assets	7.25	—	7.5	—
Rate of compensation increase	3.5	3.5	3.75	3.75

For valuation purposes, the assumed health care cost trend rates per participant was set at 8.6% in 2010 (2009 – 9.3%). Under the assumption used, this rate should gradually decline to 4.5% in 2018 and remain at that level thereafter. A 1% increase or decrease in the assumed health care cost trend rates would have the following effects:

(Millions of dollars)	1% increase	1% decrease
Effect on current service cost and interest cost	0.2	(0.2)
Effect on accrued benefit obligations	2.0	(1.8)

### 20- COMMITMENTS

#### OBLIGATIONS UNDER LEASES AND SERVICE AGREEMENTS

The Company has operating lease commitments, with varying terms through 2033, to lease premises and equipment used for business purposes. The balance of minimum lease payments amounted to \$1,340.2 as at September 25, 2010 (\$1,299.5 as at September 26, 2009). The minimum lease payments over the upcoming fiscal years will be as follows: 2011 - \$163.8; 2012 - \$155.5; 2013 - \$138.8; 2014 - \$122.6; 2015 - \$106.9; and 2016 and thereafter - \$652.6.

In addition, the Company has committed to leases for premises with varying terms through 2031, that it sublets to clients, generally under the same terms and conditions. The balance of minimum lease payments under these leases amounted to \$417.3 as at September 25, 2010 (\$446.8 as at September 26, 2009) and the average annual payments for the next five years will be \$35.5.

**Notes to consolidated financial statements****September 25, 2010 and September 26, 2009***(Millions of dollars, unless otherwise indicated)***20- COMMITMENTS (Cont'd)**

The Company also has commitments under service contracts staggered over various periods through 2021. These commitments amounted to \$510.0 as at September 25, 2010 (\$610.2 as at September 26, 2009). The commitments mature as follows over the upcoming fiscal years: 2011 - \$66.8; 2012 - \$48.8; 2013 - \$46.6; 2014 - \$46.4; 2015 - \$44.9; and 2016 and thereafter - \$256.5.

**21- CONTINGENCIES****GUARANTEES**

For certain customers with established business relationships, the Company is contingently liable as guarantor in connection with lease agreements with varying terms through 2019 for which the average annual minimum lease payments for the next five years will be \$0.4 (2009 – \$0.5). The maximum contingent liability under these guarantees as at September 25, 2010 was \$3.4 (\$4.1 as at September 26, 2009). In addition, the Company has guaranteed loans granted to certain customers by financial institutions, with varying terms through 2022. The balance of these loans amounted to \$12.9 as at September 25, 2010 (\$12.3 as at September 26, 2009). No liability has been recorded in respect of these guarantees for the years ended September 25, 2010 and September 26, 2009.

**CLAIMS**

In the normal course of business, various proceedings and claims are instituted against the Company. The Company contests the validity of these claims and proceedings and management believes that any forthcoming settlement in respect of these claims will not have a material effect on the Company's financial position or on consolidated earnings.

**22- RELATED PARTY TRANSACTIONS**

During fiscal 2010, sales to companies controlled by a member of the Board of Directors totalled \$26.7 (2009 – \$27.3). These transactions were in the normal course of business and were measured at the exchange amount. As at September 25, 2010, accounts receivable included a balance of \$0.9 (\$0.9 as at September 26, 2009) resulting from these transactions.

**23- PRODUCTS SUBJECT TO PRICE REGULATION**

The Company sells certain products subject to price regulation:

**DRUGS**

In Québec, the Minister of Health and Social Services establishes, by regulation, the list of drugs whose cost is covered by the basic prescription drug insurance plan and regulates the selling price of such drugs. The list of drugs is established pursuant to the *Act respecting prescription drug insurance*. A profit margin, under the government-determined ceiling, may be added to the set price pursuant to the *Regulation respecting the conditions on which manufacturers and wholesalers of medications shall be recognized*.

In Ontario, the Ministry of Health and Long-Term Care establishes, by regulation, the list of drugs whose cost is covered by the *Ontario Drug Benefit Act* and regulates the selling price of such drugs.

**MILK**

Milk prices are regulated by the *Act respecting the marketing of agricultural, food and fish products* and the *Règlement sur les prix du lait aux consommateurs*. The Régie des marchés agricoles et alimentaires du Québec sets milk prices by determining the minimum and maximum prices based on the three regions comprising the Province of Québec.

**Notes to consolidated financial statements****September 25, 2010 and September 26, 2009***(Millions of dollars, unless otherwise indicated)***23- PRODUCTS SUBJECT TO PRICE REGULATION (Cont'd)****BEER**

Beer prices are regulated by the *Act respecting liquor permits* and the *Regulation respecting promotion, advertising and educational programs relating to alcoholic beverages*. The Régie des alcools, des courses et des jeux du Québec sets beer prices based on the percentage of alcohol content.

**WINE**

Wine prices are regulated by the *Act respecting the Société des alcools du Québec* and the *Regulation respecting the terms of sale of alcoholic beverages by holders of a grocery permit*. The retail price of permitted alcoholic beverages may not be less than the retail price set by the Société des alcools du Québec.

The product price lists mentioned above are periodically updated. Sales of products subject to price regulation totalled \$1,028.5 in 2010 (2009 – \$1,014.6). Sales recognition is the same whether the price is regulated or not.

**24- MANAGEMENT OF CAPITAL**

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

- Striving for a percentage of long-term debt to total combined long-term debt and shareholders' equity (long-term debt/total capital ratio) of less than 50%.
- Maintaining an investment grade credit rating for its term notes.
- 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 PSU plans for key employees and officers. In addition, the Company's stock redemption plan is one of the tools it uses to achieve its objectives.

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

The Company's fiscal 2010 annual results regarding its capital management objectives were as follows:

- a long-term debt/total capital ratio of 29.1% (30.7% as at September 26, 2009);
- a BBB credit rating confirmed by S&P and DBRS during 2010 fiscal year (same rating during fiscal 2009);
- a dividend representing 19.5% of net earnings for the previous fiscal year (2009 – 20.3%).

The capital management objectives remain the same as for the previous fiscal year.

**25- FINANCIAL INSTRUMENTS****FAIR VALUE**

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

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

The fair value of interest rate swaps is measured using a generally accepted valuation technique, that is, the discounted value of the difference between the value of the swap based on variable interest rates (estimated using the yield curve for anticipated interest rates) and the value of the swap based on the swap's fixed interest rate. The Company's credit risk is also taken into consideration in determining fair value.

**Notes to consolidated financial statements**

**September 25, 2010 and September 26, 2009**

*(Millions of dollars, unless otherwise indicated)*

**25- FINANCIAL INSTRUMENTS (Cont'd)**

The fair value of foreign exchange forward contracts is measured using a generally accepted valuation technique, that is, the discounted value of the difference between the contract's value at maturity based on the foreign exchange rate set out in the contract and the contract's value at maturity based on the foreign exchange rate that the financial institution would use if it were to renegotiate the same contract at today's date under the same conditions. The financial institution's credit risk is also taken into consideration in determining fair value.

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

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

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

	As at September 25, 2010		As at September 26, 2009	
	Book value	Fair value	Book value	Fair value
<b>Investments and other assets</b>				
Loans and receivables				
Loans to certain customers	24.7	24.7	24.0	24.0
<b>Other long-term liabilities</b>				
Derivatives designated as cash flow hedges				
Interest rate swaps	0.4	0.4	2.9	2.9
<b>Long-term debt</b>				
Other financial liabilities				
Credit A Facility	\$ 369.3	\$ 369.3	\$ 369.3	\$ 369.3
Series A Notes	200.0	218.2	200.0	210.0
Series B Notes	400.0	412.7	400.0	367.0
Loans	15.8	15.8	15.7	15.7
Obligations under capital leases	28.1	35.7	31.7	39.5
	<b>\$ 1,013.2</b>	<b>\$ 1,051.7</b>	<b>\$ 1,016.7</b>	<b>\$ 1,001.5</b>

The foreign exchange forward contracts, classified as "Assets held for trading", are not shown in the above table, as they are insignificant in value.

**FAIR VALUE HIERARCHY**

Fair value measurements recognized in the balance sheet must be categorized in accordance with the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

For the interest rate swaps and foreign exchange forward contracts, the Company categorized the fair value measurements in Level 2, as they are primarily derived from observable market inputs, that is, interest rates and foreign exchange rates.

**Notes to consolidated financial statements**

**September 25, 2010 and September 26, 2009**

*(Millions of dollars, unless otherwise indicated)*

**25- FINANCIAL INSTRUMENTS (Cont'd)**

**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 that it grants, as well as loans payable that it contracts at variable interest rates.

In accordance with its risk management policy, the Company uses derivative financial instruments, consisting of interest rate swaps, to lock in a portion of its borrowing cost and reduce its interest rate risk, swapping its Credit A Facility 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 September 25, 2010 presented the following information:

	Fixed rate <i>(Percentage)</i>	Average exchange rate <i>(Percentage)</i>	Notional amount	Maturity	Fair value	
					2010	2009
Interest rate swap	4.0425	0.5531	50.0	December 16, 2010	(0.4)	(2.4)

A fluctuation in interest rates would have an impact on the Company's net earnings and other comprehensive income items. A 0.5% interest rate change would have the following effects:

	2010		2009	
	0.5% increase	0.5% decrease	0.5% increase	0.5% decrease
Impact on net earnings	(1.1)	1.1	(0.5)	0.5
Impact on other comprehensive income	—	—	0.3	(0.3)

**CREDIT RISK**

**LOANS AND RECEIVABLES / GUARANTEES**

The Company sells products to consumers and merchants in Canada. When it sells products, it gives merchants credit. In addition, to help certain merchants finance business acquisitions, the Company grants them long-term loans or guarantees loans obtained by them from 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 be met and the required guarantees. As at September 25, 2010 and September 26, 2009, 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 hypothecs on the Company stock and/or second hypothecs on their inventories, movable property, intangible assets and receivables.

In recent years, the Company has not suffered any material losses related to credit risk.

As at September 25, 2010 and September 26, 2009, without taking into account the guarantees held, the maximum credit risk exposure for loans and receivables was equal to their carrying amount. As at September 25, 2010, the maximum potential liability under guarantees provided amounted to \$12.9 (\$12.3 as at September 26, 2009) and no liability had been recognized as at that date.



**Notes to consolidated financial statements**

**September 25, 2010 and September 26, 2009**

*(Millions of dollars, unless otherwise indicated)*

**25- FINANCIAL INSTRUMENTS (Cont'd)**

**DERIVATIVES DESIGNATED AS CASH FLOW HEDGES / ASSETS HELD FOR TRADING**

With regard to its derivative financial instruments designated as cash flow hedges, consisting of the interest rate swaps, as well as its assets held for trading, consisting of foreign exchange forward contracts, the Company is subject to credit risk when these swaps result in receivables from financial institutions. In accordance with its risk management policy, the Company entered into these agreements with major Canadian financial institutions to reduce its credit risk.

As at September 25, 2010 and September 26, 2009, the Company was not exposed to credit risk in respect of its interest rate swaps, as they resulted in amounts payable. As at September 25, 2010 and September 26, 2009, the maximum exposure to credit risk for the foreign exchange forward contracts was equal to their carrying amount.

**LIQUIDITY RISK**

The Company is exposed to liquidity risk primarily as a result of its long-term debt and trade accounts payable.

The Company regularly assesses its cash position and feels that its cash flows from operating activities are sufficient to fully cover its cash requirements as regards its financing activities. Its Credit A Facility, and Series A and Series B Notes do not mature until 2012, 2015 and 2035, respectively. In addition, the Company has access to a \$400.0 unused authorized revolving line of credit.

	Undiscounted cash flows (capital and interest)				
	Accounts payable	Loans	Notes	Capital lease commitments	Total
Maturing under 1 year	\$ 1,073.3	\$ 13.9	\$ 33.8	\$ 5.1	\$ 1,126.1
Maturing in 1 to 10 years	—	386.3	454.8	38.8	879.9
Maturing in 11 to 20 years	—	2.3	238.8	—	241.1
Maturing over 20 years	—	10.5	519.4	—	529.9
	<u>\$ 1,073.3</u>	<u>\$ 413.0</u>	<u>\$ 1,246.8</u>	<u>\$ 43.9</u>	<u>\$ 2,777.0</u>

**FOREIGN EXCHANGE RISK**

Given that some of its purchases are denominated in U.S. dollars, the Company is exposed to foreign exchange risk.

In accordance with its risk management policy, the Company uses derivative financial instruments, consisting of foreign exchange forward contracts, to hedge against the effect of foreign exchange rate fluctuations on its future U.S. dollar denominated purchases.

As at September 25, 2010 and September 26, 2009, the fair value of foreign exchange forward contracts was insignificant.

**26- COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform with the presentation adopted in the current year.





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