metro

A Fresh Perspective on Customer Needs

Annual Report 2011

Retail Network

FOOD	QUEBEC		ONTARIO		TOTAL
Supermarkets	Metro Metro Plus	216	Metro	154	370
Discount Stores	Super C	79	Food Basics	115	194
TOTAL		**295**		**269**	**564**
Drugstores	Brunet Brunet Plus Brunet Clinique Clini Plus	179	Pharmacy Drug Basics	78	257

2011 Highlights

- Adjusted net earnings [(1)] of $400.6 million, up 4.8%
- Adjusted fully diluted net earnings per share [(1)] of $3.87, up 8.7%
- Over one million members joined *metro&moi* customer loyalty program in Quebec in its first year, with more than $26 million paid in cash rewards
- Beginning of our fresh produce initiative roll-out across the network
- Increased market share in Quebec for a third consecutive year

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 Quebec and Ontario, where it operates a network of 564 supermarkets under several banners, including Metro, Metro Plus, Super C and Food Basics, as well as 257 pharmacies, mainly under the Brunet, Pharmacy and Drug Basics banners.

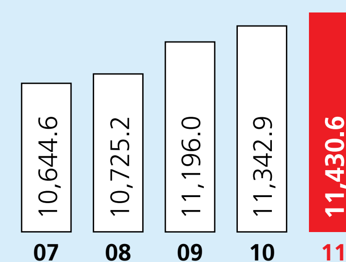
Forward looking information: For any information on statements in this Annual Report that are of a forward-looking nature, please consult the section on "Forward-looking information" on page 23 in the Management's Discussion and Analysis (MD&A)

Financial Highlights

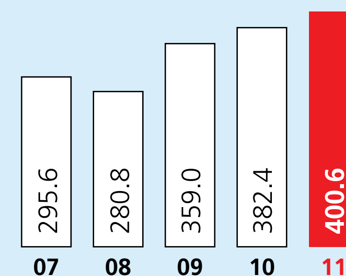
	2011 (52 weeks)	2010 (52 weeks)	2009 (52 weeks)	2008 (52 weeks)	2007 (52 weeks)
OPERATING RESULTS (Millions of dollars)					
Sales	**11,430.6**	11,342.9	11,196.0	10,725.2	10,644.6
EBITDA[(1) (2)]	**773.4**	787.0	741.6	638.9	626.3
Operating income	**578.2**	585.8	552.5	462.6	460.6
Net earnings	**386.3**	391.8	354.4	292.2	277.2
Adjusted net earnings[(1)]	**400.6**	382.4	359.0	280.8	295.6
Cash flows from operating activities	**543.2**	547.8	520.1	450.2	363.3
FINANCIAL STRUCTURE (Millions of dollars)					
Total assets	**4,958.8**	4,796.9	4,658.1	4,425.6	4,292.7
Long-term debt	**1,025.5**	1,004.3	1,004.3	1,005.0	1,028.8
Shareholders' equity	**2,568.0**	2,442.8	2,264.1	2,068.3	1,940.0
PER SHARE (Dollars)					
Net earnings	**3.75**	3.67	3.21	2.60	2.41
Fully diluted net earnings	**3.73**	3.65	3.19	2.58	2.38
Adjusted fully diluted net earnings[(1)]	**3.87**	3.56	3.23	2.48	2.54
Book value	**25.40**	23.25	20.85	18.64	16.88
Dividend	**0.7475**	0.6475	0.5375	0.49	0.45
FINANCIAL RATIOS (%)					
EBITDA[(1) (2)]/sales	**6.8**	6.9	6.6	6.0	5.9
Operating income/sales	**5.1**	5.2	4.9	4.3	4.3
Return on shareholders' equity	**15.4**	16.6	16.4	14.6	15.1
Long-term debt/total capital	**28.5**	29.1	30.7	32.7	34.7
SHARE PRICE (Dollars)					
High	**49.55**	47.01	40.00	35.85	41.78
Low	**42.11**	33.02	27.38	21.00	33.23
Closing price (At year-end)	**44.69**	45.15	34.73	31.77	35.00

(1) See section on "Non-GAAP measurements" on page 23 in the MD&A
(2) Earnings before financial cost, taxes, depreciation and amortization

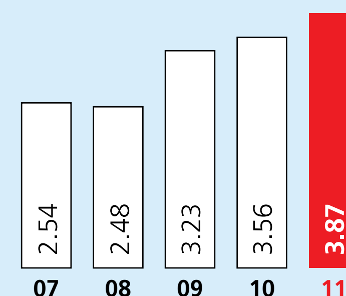
SALES (Millions of dollars)



ADJUSTED NET EARNINGS[(1)] (Millions of dollars)



ADJUSTED FULLY DILUTED NET EARNINGS PER SHARE[(1)] (Dollars)



Letter to Our Shar

Pierre H. Lessard, FCA
Executive Chairman of the Board

Again in 2011, we set ambitious financial and operational objectives for METRO, and we are pleased to report that these were largely achieved. We continue to make progress on our customer-first strategy as the initiatives launched over the last three years are producing good results.

Our sales increased by 0.8% to $11,430.6 million. Net income was $386.3 million compared to $391.8 million last year. Excluding non-recurring charges of $20.2 million before taxes related to the closure of our Montreal meat processing plant and of a grocery warehouse in Toronto, adjusted net earnings(1) for 2011 were $400.6 million, up 4.8%, and adjusted fully diluted net earnings per share (1) were $3.87, up 8.7%. Return on shareholders' equity was 15.4%, and the annual dividend was $0.7475 per share, up 15.4%.

The economic environment continued to be challenging. Consumers remained cautious, and with high personal debt levels, they are more value-conscious than ever. Promotional activity was aggressive in all our markets and competition in the discount food sector grew more intense. We experienced deflation in our food basket during the first half of the year and saw a return to moderate inflation towards the end of the year. Lower drug pricing, following the new generic drug legislation in Quebec and Ontario and the expiry of certain drug patents, also had an impact on pharmacy revenues.

Despite these circumstances, we were able to grow our sales and achieve our profit objectives. We believe our success is driven by our core values: an unrelenting commitment to customer satisfaction, strong execution throughout the organization, effective merchandising, ongoing investments in our network and disciplined cost control.

Initiatives & Achievements

In 2011, we concentrated our efforts on a number of key priorities focussing on providing a better shopping experience for our customers and building value for our shareholders.

Our *metro&moi* loyalty program in Quebec, launched towards the end of 2010, now has over one million members, and has surpassed our targets in terms of enrolment, card usage and increases in basket size. Customer surveys indicate very high satisfaction with the program and its success contributed to our market share increasing in Quebec for the third consecutive year.

Rewarding our customers is only one facet of our loyalty programs, *metro&moi* in Quebec and *Air Miles*® in Ontario. Leveraging the

(1) See section on "Non-GAAP Measurements" on page 23 in the MD&A

eholders

transaction data we collect is how we strive to differentiate ourselves. Our Dunnhumby Canada joint venture provides us with the tools and analysis we need to better understand our customers' preferences and shopping habits. With this knowledge, our merchandisers are working closely with our vendor partners to tailor our product assortments and create promotional offers, merchandising programs and marketing strategies that are better targeted and more relevant to our customers.

While our loyalty programs are important, providing a great shopping experience remains our first priority. In 2011, we launched a major fresh produce initiative that is being introduced in our stores in Quebec and Ontario. This program is a company-wide initiative that involves all aspects of our operations, from sourcing and supply chain to employee training and in-store presentation standards. We are delighted that our customers have responded very favourably to the changes and improvements we have made to date, and we anticipate completing the fresh produce roll-out in substantially all of our stores over the coming year.

To further enhance the customer experience, in 2011 we invested, with our retailers, $214 million in our store network. We opened eight new stores and completed 17 major renovation and expansion projects.

In our Brunet pharmacies, we launched the exclusive *MaSanté* program in order to further personalize the services we offer our customers. *MaSanté* is the first of its kind in Canada: a unique health management system that provides Brunet customers with secure online access to their personal health records and a range of services to help them better manage their health.

Subsequent to year-end, we entered into a partnership with Marché Adonis and its distributor, Phoenicia Products. Adonis is a successful Montreal-based ethnic food retailer, specializing in fresh and Mediterranean foods, that has built an enviable reputation for product quality and selection over the last 30 years. We intend to help Adonis accelerate its store development program and the partnership will help us grow and improve the ethnic food offering in all our stores. As we reach a broader customer base, we are confident that this partnership will create[(1)] value for our shareholders.

Finally, last spring, the Quebec Superior Court ruled in the Company's favour in a long-standing litigation with *Le Regroupement des marchands actionnaires inc.* Following this judgement, we recently reached an agreement with representatives of the Metro shareholder-retailers and received favourable informal indications from a majority of them about the conversion of their multiple-voting Class B Shares to single vote Class A Subordinate Shares. Subject to ratification by the Company's shareholders, the Class B Shares will be converted

Eric R. La Flèche
President and Chief Executive Officer

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

into Class A Subordinate Shares that would then be redesignated as common shares, leaving the Company with a single class of voting and participating shares. We strongly encourage you to vote in favour of this proposal at the next Annual General Meeting and we look forward to continued successful business relations with all our Metro retailers[1].

2012 Challenges and Objectives

Many of the same challenges we have faced over the past few years will continue to be present in 2012: economic uncertainty, cautious consumer spending, increasing discount competition and high promotional activity.

Our strategy remains unchanged. METRO is focussed on food and we will continue to pursue our customer-first strategy supported by our multiple store formats, differentiated fresh offering and loyalty programs. At every level of the organization we strive to build closer relationships with our customers, to achieve greater efficiencies in our operations, to be disciplined in our capital allocation and to seek growth by expanding our customer base and identifying acquisition opportunities. We believe[2] this is how we can continue to grow our business and deliver value to our customers and our shareholders.

Acknowledgements

We made substantial progress in 2011, and for this we wish to thank our employees and management teams for their hard work and dedication. We would also like to thank our Board of Directors for their guidance and support. We extend a warm welcome to John Tory, who joined the Board in January. Christian Paupe has decided not to stand for re-election and we thank him for his contribution over the last years. In closing, we thank you, our fellow shareholders, for your continued commitment to METRO.

Eric R. La Flèche
President and
Chief Executive Officer

Pierre H. Lessard, FCA
Executive Chairman
of the Board

(1) For further details, please refer to the "Proposed Reorganisation of Share Capital" section in the Management Proxy Circular

(2) See section on "Forward-Looking Information" on page 23 in the MD&A

A Deeper Customer Engagement

Forging closer relationships with our customers is the foundation of our business strategy. Customer engagement means that we listen to our customers and strive to deliver the quality, value, freshness and variety they expect.

Knowing our customers better was the principal reason we established our joint venture with Dunnhumby in 2009. The transaction data we collect when customers use their loyalty cards and that Dunnhumby Canada analyses gives us a detailed understanding of their shopping habits and preferences. With this information, we can create targeted merchandising offers and tailor our product assortment for specific stores and communities, building customer loyalty by improving their shopping experience. In addition, the information can be used by our suppliers to generate promotional opportunities, such as product launches.

Earning our Customers' Loyalty

Our business is built one loyal customer at a time, and the loyalty programs we offer are designed to let those customers know how much we value their patronage.

In Quebec, the proprietary *metro&moi* loyalty card program has exceeded our original targets. Introduced in the latter part of 2010, the program has to date enrolled over one million members, and we have distributed over $26 million in cash rewards to our loyal customers. The percentage of sales scanned on the card, as well as the average basket size of *metro&moi* members, continue to grow.

In Ontario, Metro supermarkets offer the popular *Air Miles®* reward program. As is the case with *metro&moi*, the data we collect with each transaction provides us with the insight to refine the rewards we offer. In September of 2011, we became an *Air Miles® My Planet* sponsor in Ontario. This unique new program enables our customers to earn bonus *Air Miles®* for buying selected environmentally friendly products at Metro and they can redeem their reward miles for over 100 environmentally friendly rewards.

Earning our customers' long-term loyalty is at the heart of our corporate mission. We are convinced that our loyalty card programs, combined with our Dunnhumby Canada joint venture, improve the way we serve our customers, and are effective tools to continue[(1)] to grow our sales and differentiate the Metro shopping experience.

Private Label Offerings

Our private labels are an essential component of our merchandising mix as they provide excellent quality at a lower price, and directly address evolving consumer tastes and preferences. Our portfolio includes more than 4,000 products, many of them now targeting the health-conscious consumer. Our brands and sub-brands include:

- *Selection:* products comparable to national brands, at lower prices
- *Selection Eco:* effective and affordable green household cleaning products
- *Irresistibles:* premium quality products at competitive prices
- *Irresistibles Life Smart:* our low-fat, low-calorie, low-sodium line of products
- *Irresistibles Bio:* our growing line of nutritious organic products
- *Irresistibles Gluten Free:* Metro is currently the only Canadian grocery chain with a private label line of gluten-free products

Sales of our private label products continue to grow at a rate greater than our total overall sales, and penetration now exceeds 20% of grocery product sales.

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

Marché Adonis Partnership

The partnership we entered into with Marché Adonis and its import/distribution division, Phoenicia Products, at the beginning of fiscal 2012 signals our commitment to better meet the needs of our customers and increase our market share in the fast growing ethnic foods category. Marché Adonis is a leader in Quebec in the Mediterranean food market, and has acquired a reputation over the years for high quality and superior selection of fresh products and prepared meals. With the help of Phoenicia, we will also have the opportunity to broaden our ethnic offering in our Metro, Super C and Food Basics stores.

MaSanté Health Management System

The *MaSanté* program introduced into our Brunet pharmacies in Quebec is the result of research conducted in 2010 to identify what our customers expected of their pharmacists. This unique health management system makes it easy for consumers to consult their personal records online, receive medication reminders on their smart phones, consult health information and medication fact sheets, and monitor health parameters, including weight, glycemia and blood pressure.

Anticipating and responding to the needs of our customers is central to our continuing growth. And building closer relationships with our customers helps us to better understand what these needs are. This is why every element in our business strategy starts with the customer in mind.

Team Engagement

Our long-term track record of achieving superior financial performance is the result of a strong results-oriented culture. METRO's customer-first mission can only be successfully achieved with a strong and dedicated team. Across Ontario and Quebec we employ over 65,000 full and part-time employees, and each plays a role in delivering the high quality shopping experience that will earn us the loyalty of our customers.

In 2010 and 2011, we introduced an in-store initiative in which we made five basic promises to our customers. These promises assure our customers that we will strive to deliver: quality and freshness in our products, expert and welcoming in-store personnel, a positive and satisfying shopping experience, a selection of products that will enable them to find exactly what they want, and competitive prices.

To back up this pledge, we introduced a formal, in-store program in 2011 to constantly monitor and quantify how well we are able to deliver on these promises. By regularly monitoring how well we meet our five customer promises, we can rapidly identify areas for improvement and help our employees maintain their focus and commitment to service. Any issues we may have are addressed and specific training is offered in areas where we need to improve our performance.

Great quality fresh products

The people are great

It's easy to shop

Customers get what they want

Prices are good

Enlisting Employee Support

Enlisting the support of our employees in this program, and providing the means by which our objectives can be achieved, engages our employees at a deeper and more meaningful level, and ultimately helps METRO build stronger relationships with our customers. We conduct employee engagement surveys in our stores and results show higher than average scores compared to other large retail organizations.

Building Expertise

Hiring and retaining skilled employees at every level in the organization becomes more critical as our industry grows increasingly competitive. Expertise isn't always easy to come by, but our customers, whether at the meat & fish counters in our supermarkets or in our pharmacies, require and expect nothing less. To respond to this, we continue to offer professional development programs for our management employees and a variety of training programs for our store and department managers.

Rewarding Achievement

We are increasing our efforts to recognize and reward the engagement of our colleagues throughout the Metro store network. In 2011, this included establishing a series of prizes in a number of categories and recognizing our retailers and their teams at a gala event.

Promoting Operational Excellence

Bringing our customers the quality and value they expect in all of our stores requires an unrelenting focus on superior execution. We are constantly seeking ways to be more efficient at store level as well as in our distribution centres and offices. Over time, incremental improvements in all parts of our business can add up to a substantial difference.

Focus on Freshness

As we said in last year's Annual Report, customers are increasingly choosing where they shop for food based on the quality and selection of fresh produce that a store offers. As a result, in 2011 we launched a major company-wide initiative to significantly improve the fresh fruit and vegetable departments in all of our stores.

The project encompasses all facets of our operations, from sourcing and supply chain to store execution and product display. The initiative is now being rolled out in our Ontario and Quebec stores, and we are pleased that our customers are enthusiastic about the improvements they've seen. In surveys we've conducted, customers comment on the improved quality and presentation of our fresh produce, and are happy with the increased variety, including an improved organic selection. The quality and assortment of fresh produce we bring to our supermarkets will remain a top priority.

Improving our Store Network

Keeping our network of stores up-to-date, bright and appealing is also a priority. In 2011, METRO and its retailers invested $214 million in store upgrades and retail network enhancements, which included eight new stores and 17 major renovation and expansion projects. These investments added 427,900 square feet of gross area and 72,900 square feet of net area, increasing our total retail footprint by 0.4%.

Our new Metro, Super C and Food Basics stores are designed to make our customers' shopping experience easier and more pleasurable. The new Metro stores put the accent on fresh foods, with attractive displays and counter services that take full advantage of the expertise of our store personnel and also a broad selection of international and organic products.

Supply Chain Efficiency

In order to realize further cost efficiencies, we consolidated our grocery warehouse operations in Toronto by closing a satellite facility. We also closed our meat processing plant in Montreal that was not core to our business and required significant investments. Finally, we signed a service agreement with Vantage Foods, an established, case-ready fresh meat solutions provider. Vantage will service our Food Basics stores from a new state-of-the-art facility in Belleville, Ontario. This agreement will provide us with greater flexibility and lower costs.

Retaining our focus on our customers, on superior execution, on store investments and on disciplined cost control is our best recipe for maintaining our competitive strength in the markets we serve.

Building Value for Our Shareholders

In a challenging and competitive economic environment, METRO again delivered strong financial performance. Revenues for the year reached $11.4 billion. Adjusted fully diluted net earnings per share(1) rose to $3.87, an increase of 8.7% over 2010. Our return on shareholders' equity was 15.4% and our annual dividend reached $0.7475 per share, an increase of 15.4%. In an extremely volatile stock market, our share price was $44.69 at fiscal year-end, after reaching a record high of $49.55 on July 15.

As part of our ongoing program to return value to our shareholders, METRO repurchased 4.1 million shares in fiscal 2011. This brings the total number of shares repurchased since fiscal 2005 to nearly 19 million, for a total amount exceeding $675 million.

At year-end our financial position was very solid. Our long-term debt to total capital ratio was 28.5%; cash and cash equivalents totalled $255.5 million.

Subsequent to year-end, we put in place a new $600 million five-year revolving credit facility. This facility replaces our unused $400 million revolving line of credit and provides us with the liquidity we require to repay our $369.3 million term loan when it comes due in August 2012.

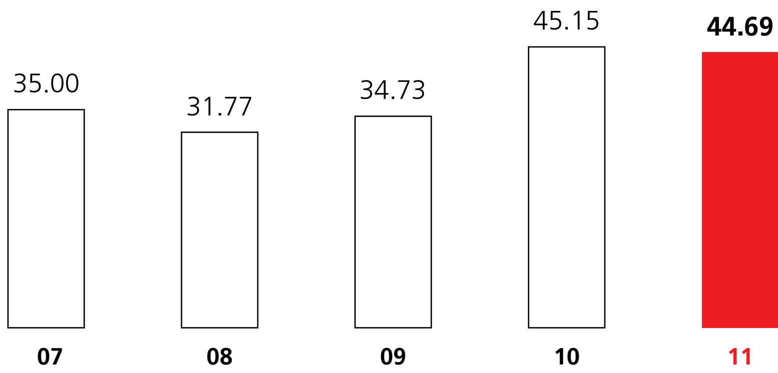
Long-Term Growth

METRO's commitment to customer satisfaction, results-driven culture and ability to execute on its business strategies has served it well over the long term.

In uncertain economic times, we maintain our BBB credit ratings. For the last 18 years, return on shareholders' equity has consistently exceeded 14%, and over the last 16 years there has been consistent dividend growth. Each and every day we direct our efforts throughout the organization towards building on these strong results.

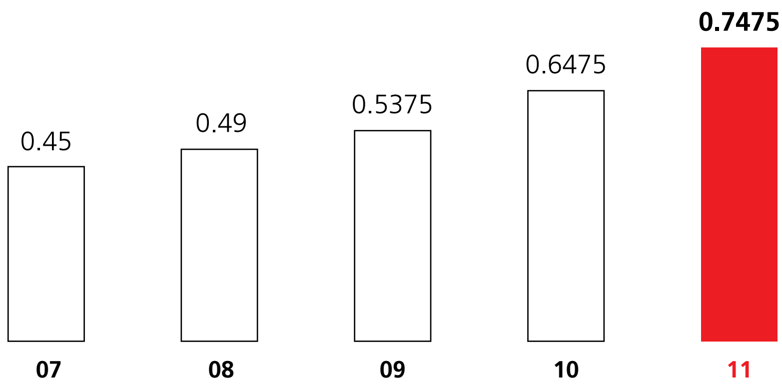
(1) See section on "Non-GAAP Measurements" on page 23 in the MD&A

SHARE PRICE (Dollars, at year-end closing price)



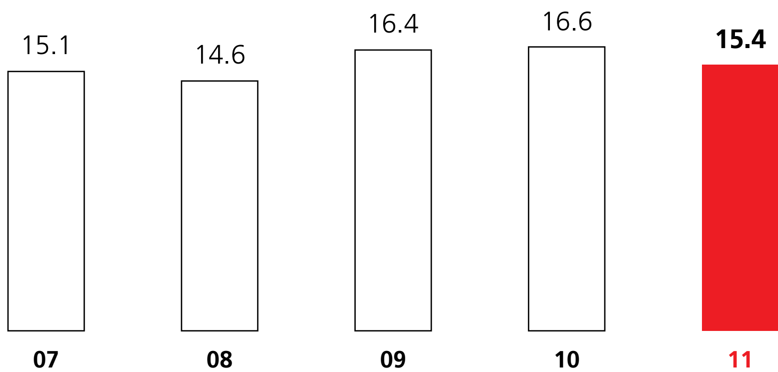
Compound annual growth rate: 6.3%

DIVIDEND PER SHARE (Dollars)



Compound annual growth rate: 13.5%

RETURN ON SHAREHOLDERS' EQUITY (%)



Our Community Engagement

INVESTING IN OUR COMMUNITIES

At METRO, we recognize that a successful business plays an integral role in a healthy and thriving community. We are committed to having a positive impact on our communities.

Education

Metro Green Apple School Program – Launched in September 2009, the program encourages thousands of elementary and secondary school students to employ "green" thinking in their schools and communities. Since then, we have donated a total of $4 million in scholarships to schools across Quebec and Ontario.

Higher Education – METRO has helped to support programs at **Université Laval** for several years, and recently committed to a contribution of one million $ to the university's **Projet Santé**, which promotes an innovative inter-professional approach to advanced health training that addresses the needs of patients and their families.

In Partnership with our Employees

METRO and its employees in Quebec contribute over half a million $ each year to **United Way**, which supports a vast network of community and social services. In Ontario, METRO's employees contribute to our **Full Plate** Program, which supports four food access charities, including United Way, Second Harvest, the Ontario Association of Food Banks and Breakfast Clubs of Canada. Approximately $310,000 was donated in 2011, providing thousands of families across Ontario with access to food.

In Partnership with our Customers

In 2011, METRO in Ontario donated $314,000 to **Toonies for Tummies**, a Grocery Foundation initiative that helps feed needy children. In Quebec, METRO partnered with **L'oeuvre Léger** for its **Feed a Child** campaign for the sixth consecutive year. Thanks to the generosity of METRO's customers, close to $200,000 was raised to fund community groups who work for families in need, street youth, and the elderly.

Super C donated $130,000 on behalf of its customers to the **MIRA** campaign, which helps disabled individuals lead their lives independently by providing dogs bred and trained to respond to their adaptation and rehabilitation needs.

Along with METRO's corporate philanthropic initiatives, our approximately 225 affiliated retailers in Quebec and Ontario provide their own contributions to the well-being of their respective communities by supporting local or regional activities.

METRO supports **Opération Enfant Soleil**, contributing over $72,000 to its telethon by donating $0.50 from every purchase of Simply Kids diapers from June 1st, 2010 to June 1st, 2011.

In concert with the **Red Cross**, in early 2011 wide-ranging fundraising efforts were made with customers and employees to help victims of the flooding that occurred in several areas across the province of Quebec. A total of nearly $206,000 was raised.

In Partnership with our Suppliers

In 2011, METRO, along with its suppliers, contributed to the financial success of many events held by different charitable organizations, namely the **Fondation Tel-jeunes** Lobster Lunch, the annual benefit gala of **Cystic Fibrosis Quebec**, the annual **Scleroderma Quebec** benefit evening and the **Moisson Montreal** Holiday food collection.

Furthermore, **Gala des Chefs METRO**, has donated over $500,000 over the past 10 years to various organizations, including **Sainte-Justine Hospital** and the **Quebec Breast Cancer Foundation**.

SUPPORTING LOCAL SUPPLIERS

For many years, METRO has supported local food producers and farmers by making their products broadly available. Doing so helps local farmers and distributors, and also helps to ensure that our customers are able to enjoy the freshest foods available. METRO is committed to promoting the freshness and great taste of Quebec and Ontario products, and will choose local products whenever supply is reliable, quality is equal or superior to competing products, and when costs are competitive.

Community engagement is part of our corporate responsibility approach. METRO will issue its first report on its progress in this area during fiscal 2012.

Directors and Officers

Board of Directors

Marc DeSerres (2) (4)
Montreal, Quebec

Claude Dussault (3) (4)
Quebec City, Quebec

Serge Ferland (1)
Quebec City, Quebec

Paule Gauthier (3) (4)
Quebec City, Quebec

Paul Gobeil (1) (4)
Ottawa, Ontario
Vice-Chairman of the Board

Christian W.E. Haub (1) (3)
Greenwich, Connecticut

Michel Labonté (2)
Montreal, Quebec

Eric R. La Flèche (1)
Town of Mount-Royal, Quebec
President and
Chief Executive Officer

Pierre H. Lessard (1)
Westmount, Quebec
Executive Chairman of the Board

Marie-José Nadeau (2) (3)
Montreal, Quebec

Christian M. Paupe (2)
Montreal, Quebec

Réal Raymond (1) (3)
Montreal, Quebec
Lead Director

Michael T. Rosicki (4)
Orillia, Ontario

John H. Tory (2)
Toronto, Ontario

Management of METRO INC.

Eric R. La Flèche
President and
Chief Executive Officer

Robert Sawyer
Executive Vice-President and
Chief Operating Officer

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

Martin Allaire
Vice-President
Real Estate & Engineering

Jacques Couture
Vice-President
Information Systems

Paul Dénommée
Vice-President
Corporate Controller

Marc Giroux
Vice-President
Marketing

Alain Picard
Vice-President
Human Resources

Simon Rivet
Vice-President
General Counsel and Secretary

Quebec 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.
Montreal, Quebec H1C 1V6

The Annual Information Form may be obtained from the Investor Relations Department:
Tel.: (514) 643-1055
E-mail: 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

Annual meeting
The Annual General Meeting of Shareholders will be held on January 31, 2012 at 11:00 a.m. at:

Centre Mont-Royal
2200 Mansfield Street
Montreal, Quebec H3A 3R8

Designed and written
With the assistance of
MaisonBrison Communications

Dividends* 2012 fiscal year

Declaration Date	Record Date	Payment Date
■ January 30, 2012	■ February 13, 2012	■ March 9, 2012
■ April 17, 2012	■ May 17, 2012	■ June 8, 2012
■ August 8, 2012	■ August 27, 2012	■ September 13, 2012
■ September 25, 2012	■ November 1, 2012	■ November 21, 2012

* Subject to approval by the Board of Directors

metro.ca

MANAGEMENT'S DISCUSSION AND ANALYSIS AND CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 24, 2011

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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 24, 2011, and should be read in conjunction with the annual consolidated financial statements and the accompanying notes as at September 24, 2011. This report is based upon information as at December 2, 2011 unless otherwise indicated. Additional information, including the Annual Information Form and Certification Letters for fiscal 2011, is available on the SEDAR website at www.sedar.com.

OVERVIEW

The Company is a leader in the food and pharmaceutical sectors in Quebec 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 370 supermarkets under the Metro and Metro Plus banners. The 194 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 179 franchised Brunet Plus, Brunet, Brunet Clinique, and Clini Plus drugstores, owned by independent pharmacists. The Company also operates 78 drugstores under 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 the 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. 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[2].

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)[1] as a percentage of sales;
- net earnings as a percentage of sales;
- earnings per share growth;
- return on shareholders' equity;

[1] *See section on "Non-GAAP measurements" on page 23*
[2] *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 2011

Despite an extremely competitive market, food price deflation in the first half of the year, modest inflation of our food basket in the second half of the year, and lower drug pricing, we achieved a sales increases of 0.8% and an adjusted net earnings[(1)] increase of 4.8% in 2011. These results were achieved thanks to the excellent work of our teams and the execution of several projects, of which the principal were the following:

- we exceeded the goals for our *metro&moi* loyalty program, launched a year ago in Quebec, signing up over a million members and awarding over $26 million in cash rewards applicable towards purchases in Metro supermarkets. The program, which is very popular with customers, contributed to the rise in average basket value and the increase, for the third consecutive year, in our Quebec market share;
- after two years' operations, we've gained through Dunnhumby Canada a better understanding of customer preferences and behaviours. We've used this information to offer our customers better targeted weekly promotions and, through quarterly mailings, personalized promotions that contributed also to our increased sales;
- to enhance customer satisfaction with our produce, we completely revamped our product variety, supply chain, store counters and displays, and management practices. Several supermarkets and discount stores, both in Quebec and in Ontario, have already been overhauled with very satisfying results, and we will finish overhauling most of our stores by next fiscal year's end;
- in keeping with our business strategy which rests on four pillars including customer focus, we implemented a store management program to ensure an efficient, enjoyable shopping experience for all our customers who will find courteous, welcoming staff, and fresh, competitively priced quality products. We developed an extensive training program that will be given to all employees in our stores over the coming months;
- we revamped the visual identity of our *Selection* corporate brand products to enhance their visibility on store shelves, to rejuvenate and renew their image, to better emphasize their great value, and highlight their attributes. Several *Selection* products already have new packaging and all of the brand's products will by June 2013;
- we continued our retail network investment program, investing, along with our merchants, $214.0 million in eight new stores as well as in major expansions and renovations of 17 stores;
- we closed our meat processing plant in Montreal and a grocery warehouse in Toronto to improve operational efficiency. Closure costs were $20.2 million before taxes;
- we signed a service agreement with Vantage Foods, an established, case-ready fresh meat solutions provider. Vantage will supply our Food Basics stores. This agreement will provide us with greater flexibility and lower costs;
- for Brunet pharmacy customers, we launched *MaSanté*, an exclusive online service that allows customers to check their files at any time, renew their prescriptions, find health information, receive smartphone e-mail reminders to take their medicine, and to better manage their health and that of their family. Over 18,000 customers have already signed up and the number keeps growing;
- at the end of fiscal 2011 there were 24 pharmacies under the Brunet Plus banner, launched in 2009 for stores larger than Brunet pharmacies and with a wider product offering. At the end of fiscal 2011, there were 10 pharmacies under the Brunet Clinique banner, launched in 2010 and reserved for pharmacists offering usually only professional services. There were 100 pharmacies under the Brunet banner.

SUBSEQUENT EVENTS

BUSINESS ACQUISITIONS

In the first quarter of fiscal 2012, we acquired a 55% interest in Marché Adonis, a retailer in the Montreal area with four existing stores and a fifth one that will open in December 2011, as well as Phoenicia Products, an importer and wholesaler with a distribution centre in Montreal and another one in the Greater Toronto Area. These businesses specialize in perishable and ethnic food products which are seeing strong growth.

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

NEW CREDIT FACILITY

On November 4, 2011, we obtained a new $600.0 million five-year revolving credit facility and cancelled the $400.0 million revolving line of credit maturing on August 15, 2012. We plan[2] to use part of the new credit facility to pay back the $369.3 million Credit A Facility when it matures on August 15, 2012.

CAPITAL REORGANIZATION

In the spring of 2011, the Superior Court of Quebec ruled in the Company's favour in the dispute with *Le Regroupement des marchands actionnaires inc.* claiming that certain shareholder-retailers, who had converted their Class B Shares into Class A Subordinate Shares, should be able to convert these Class A Subordinate Shares back into Class B Shares. Following this judgement, we recently reached an agreement with representatives of these Metro shareholder-retailers, and received favourable informal indications from a majority of them about the reorganization of share capital of the Company which consists of converting their Class B shares carrying 16 votes per share into Class A Subordinate Shares carrying one vote per share. In January 2012, this reorganization of capital will be submitted for approval at the Annual General Meeting of Shareholders.*

* *For further details, please refer to the "Proposed Reorganisation of Share Capital" section in the Management Proxy Circular.*

HIGHLIGHTS

(Millions of dollars, unless otherwise indicated)	**2011 (52 weeks)**	2010 (52 weeks)	Change *(%)*	2009 (52 weeks)	Change *(%)*
Sales	**11,430.6**	11,342.9	0.8	11,196.0	1.3
Net earnings	**386.3**	391.8	(1.4)	354.4	10.6
Adjusted net earnings[1]	**400.6**	382.4	4.8	359.0	6.5
Fully diluted net earnings per share *(Dollars)*	**3.73**	3.65	2.2	3.19	14.4
Adjusted fully diluted net earnings per share[1] *(Dollars)*	**3.87**	3.56	8.7	3.23	10.2
Return on shareholders' equity *(%)*	**15.4**	16.6	—	16.4	—
Dividend rate per share *(Dollars)*	**0.7475**	0.6475	15.4	0.5375	20.5
Total assets	**4,958.8**	4,796.9	3.4	4,658.1	3.0
Long-term financial liabilities	**1,034.3**	1,009.0	2.5	1,010.7	(0.2)

Company sales were $11,430.6 million in 2011, a 0.8% increase compared with 2010. Sales for 2010 were $11,342.9 million, up 1.3% from $11,196.0 million in 2009. The 2011 sales were affected by lower drug pricing following the expiry of important drug patents and new generic drug legislation in Quebec and Ontario, food price deflation in the first half of the year owing mainly to a high penetration of promotional sales, and modest inflation of our food basket in the second half of the year. The 2010 sales increase was achieved despite persistent deflation in certain product categories and continued consumer caution.

Net earnings for fiscal 2011 reached $386.3 million, down 1.4% from the previous fiscal year. Net earnings for fiscal 2010 were $391.8 million compared to $354.4 million for fiscal 2009, an increase of 10.6%. Fully diluted net earnings per share increased by 2.2% to $3.73 in 2011 compared with the previous fiscal year. Fully diluted net earnings per share for 2010 increased by 14.4% to $3.65 compared to $3.19 in 2009.

The Company recorded non-recurring items for all three fiscal years. These items consisted of closure costs of $20.2 million before taxes in 2011 for the closure of our meat processing plant in Montreal and a grocery warehouse in Toronto, income tax expense decreases of $10.0 million in 2010 and $2.7 million in 2009, 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[1] for fiscal 2011 were $400.6 million compared with $382.4 million in fiscal 2010 and $359.0 million in 2009. Adjusted fully diluted net earnings per share[1] for fiscal 2011 were $3.87, up 8.7% from $3.56 in 2010 and 10.2% from $3.23 in 2009.

The increase in adjusted net earnings[1] for 2011 compared to 2010 is due primarily to sales growth and cost control. The increases in net earnings and adjusted net earnings[1] for 2010 compared to 2009 were largely due to increased gross margins driven by improved store operations.

[1] *See section on "Non-GAAP measurements" on page 23*
[2] *See section on "Forward-looking information" on page 23*

Return on shareholders' equity totalled 15.4% in 2011, 16.6% in 2010 and 16.4% in 2009. Annual dividends totalled $77.1 million in 2011, $69.2 million in 2010 and $59.3 million in 2009, respectively representing 19.7%, 19.5% and 20.3% of net earnings for the preceding fiscal years. Total assets were $4,958.8 million in 2011, $4,796.9 million in 2010 and $4,658.1 million in 2009. Long-term financial liabilities were $1,034.3 million in 2011, $1,009.0 million in 2010 and $1,010.7 million in 2009.

OUTLOOK

We are confident that our customer-focussed strategies and our merchandising and cost control programs as well as our partnership with Marché Adonis and Phoenicia Products will allow[2] us to maintain our growth in the coming year.

[1] *See section on "Non-GAAP measurements" on page 23*
[2] *See section on "Forward-looking information" on page 23*

OPERATING RESULTS

SALES

Sales reached $11,430.6 million in 2011, up 0.8% from $11,342.9 million last year. Fiscal 2011 sales were affected by lower drug pricing following the expiry of important drug patents and new generic drug legislation in Quebec and Ontario, food price deflation in the first half of the year owing mainly to a high penetration of promotional sales, and modest inflation of our food basket in the second half of the year.

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

EBITDA[1] for fiscal 2011 was $773.4 million versus $787.0 million last year. Excluding closure costs of $20.2 million before taxes recorded in fiscal 2011 and banner conversion costs of $0.9 million before taxes recorded in 2010, adjusted EBITDA[1] for each of these fiscal years represented 6.9% of sales.

In the fourth quarter of 2011, we closed our meat processing plant in Montreal and a grocery warehouse in Toronto to improve operational efficiency. Closure costs were $20.2 million before taxes. Our 2011 fiscal year gross margin was 18.3% of sales, the same as for fiscal 2010.

Our share of earnings from our investment in Alimentation Couche-Tard for the 2011 fiscal year was $42.6 million versus $40.4 million for fiscal 2010. Excluding non-recurring items as well as our share of earnings from our investment in Alimentation Couche-Tard, our adjusted EBITDA[1] for the 2011 fiscal year was $751.0 million or 6.6% of sales versus $747.5 million or 6.6% of sales for fiscal 2010.

EBITDA[1] adjustments

	2011			2010		
(Millions of dollars, unless otherwise indicated)	**EBITDA**	**Sales**	**EBITDA/ Sales *(%)***	EBITDA	Sales	EBITDA/ Sales *(%)*
EBITDA	**773.4**	**11,430.6**	**6.8**	787.0	11,342.9	6.9
Banner conversion costs	**—**	**—**		0.9	—	
Closure costs	**20.2**	**—**		—	—	
Adjusted EBITDA	**793.6**	**11,430.6**	**6.9**	787.9	11,342.9	6.9
Share of earnings from our investment in Alimentation Couche-Tard	**(42.6)**	**—**		(40.4)	—	
Adjusted EBITDA excluding share of earnings	**751.0**	**11,430.6**	**6.6**	747.5	11,342.9	6.6

DEPRECIATION AND AMORTIZATION AND FINANCIAL COSTS

Total depreciation and amortization expenses for fiscal 2011 amounted to $195.2 million compared with $201.2 million for fiscal 2010. Fiscal 2011 financial costs totalled $41.5 million versus $44.7 million last year. Interest rates for fiscal 2011 averaged 4.2% versus 4.0% last year.

INCOME TAX

Fiscal 2011 income tax expenses of $150.4 million represented an effective tax rate of 28.0%. Fiscal 2010 income tax expenses of $149.3 million represented an effective tax rate of 27.6%. In the first quarter of 2010, we benefited from a $10.0 million reduction in our future income tax liabilities and income tax expense. Excluding this reduction, our effective tax rate for 2010 was 29.4%.

NET EARNINGS

Net earnings for fiscal 2011 reached $386.3 million versus $391.8 million last year. Excluding closure costs of $20.2 million before taxes recorded in fiscal 2011 and banner conversion costs of $0.9 million before taxes recorded in 2010 as well as the income tax expense decrease of $10.0 million in 2010, adjusted net earnings[1] for fiscal 2011 were $400.6 million, up 4.8% from the $382.4 million for fiscal 2010. Adjusted fully diluted net earnings per share[1] were $3.87 up 8.7% from $3.56 last year.

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

Net earnings adjustments

	2011		2010		Change (%)	
	(Millions of dollars)	Fully diluted EPS *(Dollars)*	*(Millions of dollars)*	Fully diluted EPS *(Dollars)*	Net earnings	Fully diluted EPS
Net earnings	**386.3**	**3.73**	391.8	3.65	(1.4)	2.2
Closure costs after taxes	**14.3**	**0.14**	—	—		
Banner conversion costs after taxes	**—**	**—**	0.6	—		
Decrease in tax expense	**—**	**—**	(10.0)	(0.09)		
Adjusted net earnings[1]	**400.6**	**3.87**	382.4	3.56	4.8	8.7

QUARTERLY HIGHLIGHTS

(Millions of dollars, unless otherwise indicated)	2011	2010	Change *(%)*
Sales			
Q1[3]	**2,631.9**	2,645.0	(0.5)
Q2[3]	**2,565.7**	2,576.7	(0.4)
Q3[4]	**3,576.3**	3,561.3	0.4
Q4[3]	**2,656.7**	2,559.9	3.8
Year	**11,430.6**	11,342.9	0.8
Net earnings			
Q1[3]	**92.0**	98.1	(6.2)
Q2[3]	**83.3**	80.3	3.7
Q3[4]	**124.9**	120.0	4.1
Q4[3]	**86.1**	93.4	(7.8)
Year	**386.3**	391.8	(1.4)
Adjusted net earnings[1]			
Q1[3]	**92.0**	88.7	3.7
Q2[3]	**83.3**	80.3	3.7
Q3[4]	**124.9**	120.0	4.1
Q4[3]	**100.4**	93.4	7.5
Year	**400.6**	382.4	4.8
Fully diluted net earnings per share *(Dollars)*			
Q1[3]	**0.88**	0.91	(3.3)
Q2[3]	**0.80**	0.74	8.1
Q3[4]	**1.21**	1.12	8.0
Q4[3]	**0.84**	0.88	(4.5)
Year	**3.73**	3.65	2.2
Adjusted fully diluted net earnings per share[1] *(Dollars)*			
Q1[3]	**0.88**	0.82	7.3
Q2[3]	**0.80**	0.74	8.1
Q3[4]	**1.21**	1.12	8.0
Q4[3]	**0.98**	0.88	11.4
Year	**3.87**	3.56	8.7

(3) 12 weeks
(4) 16 weeks

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

First and second quarter sales for 2011 reached $2,631.9 million and $2,565.7 million respectively, down 0.5% and 0.4% respectively from $2,645.0 million and $2,576.7 million for the corresponding periods last year. First quarter same store sales in 2011 were flat, while second quarter same store sales were up 0.2% over those for 2010. Sales were impacted by our food basket's deflation in the first half of fiscal 2011 due mainly to increased competition and a higher penetration of promotional sales, as well as lower drug pricing following the expiry of important drug patents and the new generic drug legislation in Quebec and Ontario.

Third quarter sales for 2011 reached $3,576.3 million, up 0.4% from $3,561.3 million for the same period last year. Same store sales were up 0.5%. Sales continued to be impacted by a higher penetration of promotional sales and lower drug pricing. Our food basket saw modest inflation in the third quarter of 2011.

Fourth quarter sales for 2011 reached $2,656.7 million, up 3.8% from $2,559.9 million last year while same store sales were up 3.2%. This fourth quarter sales growth is the result of our teams' strong execution in a highly promotional environment and reflects our food basket's modest inflation which was lower however than Statistics Canada's inflation index. The impact of lower drug pricing was less significant in the fourth quarter than in the first three quarters.

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

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

Net earnings for the fourth quarter of 2011 were $86.1 million versus $93.4 million for the corresponding quarter of 2010. Fully diluted net earnings per share were $0.84 versus $0.88 last year. Excluding closure costs of $20.2 million before taxes recorded in the fourth quarter of 2011, adjusted net earnings[(1)] and adjusted fully diluted net earnings per share[(1)] were up 7.5% and 11.4% respectively over those for the fourth quarter of 2010.

	2011					2010				
(Millions of dollars)	**Q1**	**Q2**	**Q3**	**Q4**	**Fiscal**	Q1	Q2	Q3	Q4	Fiscal
Net earnings	**92.0**	**83.3**	**124.9**	**86.1**	**386.3**	98.1	80.3	120.0	93.4	391.8
Banner conversion costs after taxes	**—**	**—**	**—**	**—**	**—**	0.6	—	—	—	0.6
Closure costs after taxes	**—**	**—**	**—**	**14.3**	**14.3**	—	—	—	—	—
Decrease in tax expense	**—**	**—**	**—**	**—**	**—**	(10.0)	—	—	—	(10.0)
Adjusted net earnings[(1)]	**92.0**	**83.3**	**124.9**	**100.4**	**400.6**	88.7	80.3	120.0	93.4	382.4

	2011					2010				
(Dollars and per share)	**Q1**	**Q2**	**Q3**	**Q4**	**Fiscal**	Q1	Q2	Q3	Q4	Fiscal
Fully diluted net earnings	**0.88**	**0.80**	**1.21**	**0.84**	**3.73**	0.91	0.74	1.12	0.88	3.65
Closure costs after taxes	**—**	**—**	**—**	**0.14**	**0.14**	—	—	—	—	—
Decrease in tax expense	**—**	**—**	**—**	**—**	**—**	(0.09)	—	—	—	(0.09)
Adjusted fully diluted net earnings[(1)]	**0.88**	**0.80**	**1.21**	**0.98**	**3.87**	0.82	0.74	1.12	0.88	3.56

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

CASH POSITION

OPERATING ACTIVITIES

Operating activities generated cash flows of $543.2 million in fiscal 2011 compared to $547.8 million in fiscal 2010. This change in generated cash flows is due primarily to variations in non-cash working capital.

INVESTING ACTIVITIES

Investing activities required outflows of $227.0 million in fiscal 2011 versus $339.8 million in fiscal 2010. The change between 2011 and 2010 fiscal year outflows is due mainly to business acquisitions and fixed asset and intangible asset expenditures.

During fiscal 2011, the Company and its retailers invested $214.0 million in our retail network for a gross expansion of 427,900 square feet and a net expansion of 79,200 square feet or 0.4%. Major renovations and expansions of 17 stores were completed, and eight new stores were opened.

FINANCING ACTIVITIES

Financing activities required outflows of $275.4 million in fiscal 2011 versus 2010 fiscal year outflows of $234.7 million. The variation in financing activity outflows between 2011 and 2010 is due mainly to the redemption of shares in the amount of $188.3 million in 2011 versus redemption in the amount of $159.5 million in 2010.

FINANCIAL POSITION

We do not anticipate[2] any liquidity risk and consider our financial position at the end of fiscal 2011 as very solid. We had an unused authorized revolving line of credit of $400.0 million (see Subsequent Events section). Our long-term debt corresponded to 28.5% of the combined total of long-term debt and shareholders' equity (long-term debt/total capital).

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

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

On August 15, 2012, we plan[2] to reimburse the $369.3 million Credit A Facility notably using proceeds from our new long-term credit facility obtained November 4, 2011, as indicated in the Subsequent Events section.

At the end of fiscal 2011, we had foreign exchange forward contracts to hedge against the effect of foreign exchange rate fluctuations on our future foreign-denominated purchases of goods and services. The fair value of these short-term foreign exchange forward contracts was not material.

Our main financial ratios were as follows:

	As at September 24, 2011	As at September 25, 2010
Financial structure		
Long-term debt *(Millions of dollars)*	**1,025.5**	1,004.3
Shareholders' equity *(Millions of dollars)*	**2,568.0**	2,442.8
Long-term debt/total capital *(%)*	**28.5**	29.1
	2011	2010
Results		
EBITDA[1]/Financial costs *(Times)*	**18.6**	17.6

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

CAPITAL STOCK

	Class A Subordinate Shares		Class B Shares	
(Thousands)	**2011**	2010	**2011**	2010
Balance – beginning of year	**104,438**	107,830	**631**	718
Share issue	**1**	10	**—**	—
Share redemption	**(4,147)**	(3,911)	**—**	—
Acquisition of treasury shares	**(190)**	—	**—**	—
Released treasury shares	**94**	54	**—**	—
Stock options exercised	**257**	368	**—**	—
Share conversion	**54**	87	**(54)**	(87)
Balance – end of year	**100,507**	104,438	**577**	631
Balance as at December 2, 2011 and December 3, 2010	**100,155**	103,787	**577**	631

STOCK OPTION PLAN

	As at December 2, 2011	**As at September 24, 2011**	As at September 25, 2010
Stock options *(Thousands)*	**1,689**	**1,776**	1,777
Exercise prices *(Dollars)*	**24.73 to 47.14**	**20.20 to 47.14**	20.20 to 44.19
Weighted average exercise price *(Dollars)*	**35.75**	**35.38**	32.29

PERFORMANCE SHARE UNIT PLAN

	As at December 2, 2011	**As at September 24, 2011**	As at September 25, 2010
Performance share units *(Thousands)*	**310**	**310**	309
Weighted average maturity *(Months)*	**15**	**17**	16

NORMAL COURSE ISSUER BID PROGRAM

The Company decided to renew the issuer bid program as an additional option for using excess funds. Thus, we will be able to decide, in the shareholders' best interest, to reimburse debt or to repurchase Company shares. The Board of Directors authorized the Company to repurchase, in the normal course of business, between September 8, 2011 and September 7, 2012, up to 6,000,000 of its Class A Subordinate Shares representing approximately 5.9% of its issued and outstanding shares at the close of the Toronto Stock Exchange on August 5, 2011. Repurchases are made through the stock exchange at market price and in accordance with its policies and regulations. The Class A Subordinate Shares so repurchased are cancelled. Under the normal course issuer bid program covering the period from September 8, 2010 to September 7, 2011, the Company repurchased 4,187,000 Class A Subordinate shares at an average price of $45.41 for a total of $190.1 million. Under the program covering the period from September 8, 2011 to September 7, 2012, the Company has repurchased, as of December 2, 2011, 465,700 Class A Subordinate shares at an average price of $46.81 for a total of $21.8 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 seventeenth consecutive year, the Company paid quarterly dividends to its shareholders. The annual dividend increased by 15.4%, to $0.7475 per share, compared to $0.6475 in 2010, for total dividends of $77.1 million in 2011 compared to $69.2 million in 2010, an increase of 11.4%. Dividends paid in 2011 represented 19.7% of net earnings for the preceding fiscal year, compared to 19.5% in 2010.

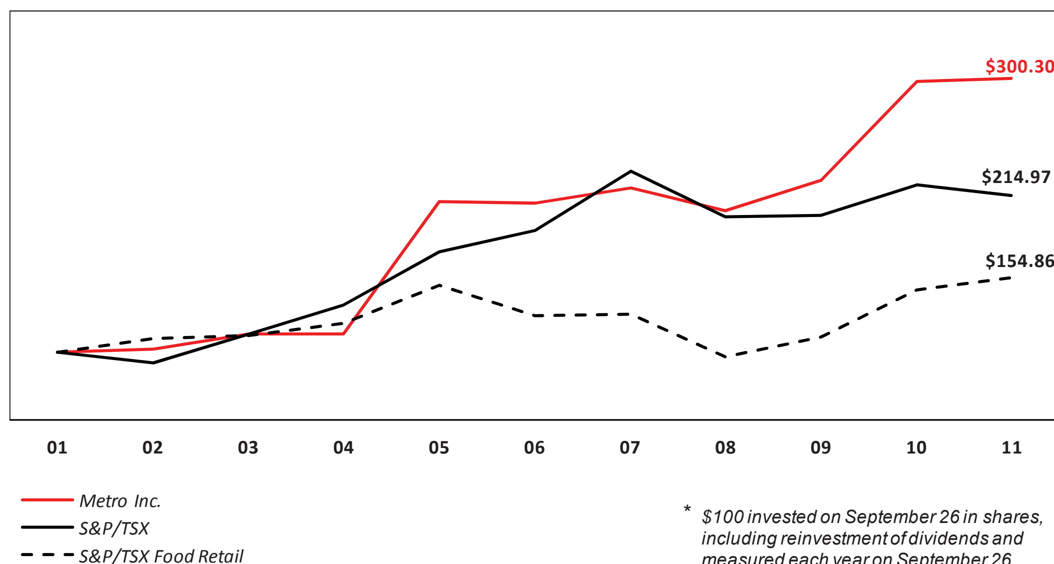
(1) *See section on "Non-GAAP measurements" on page 23*
(2) *See section on "Forward-looking information" on page 23*

metro

SHARE TRADING

The value of METRO shares remained in the $42.11 to $49.55 range throughout fiscal 2011 ($33.02 to $47.01 in 2010). A total of 73.3 million shares traded on the TSX during this fiscal year (72.3 million in 2010). The closing price on Friday, September 23, 2011 was $44.69, compared to $45.15 at the end of fiscal 2010. Since fiscal year-end, the value of METRO shares has remained in the $43.76 to $52.98 range. The closing price on December 2, 2011 was $52.28. 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)*



* *$100 invested on September 26 in shares, including reinvestment of dividends and measured each year on September 26.*

SOURCES OF FINANCING

Our operating activities generated cash flows in the amount of $543.2 million in 2011. These cash flows were sufficient to finance our investing activities, including the acquisition of $168.0 million in fixed and intangible assets and the acquisition of 11 stores for valuable cash consideration of $74.5 million.

At 2011 fiscal year-end, our financial position was principally comprised of cash and cash equivalents in the amount of $255.5 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.

On November 4, 2011, we obtained a new $600.0 million five-year revolving credit facility and cancelled the $400.0 million revolving line of credit maturing on August 15, 2012. We plan to use part of the new credit facility to pay back the $369.3 million Credit A Facility when it matures on August 15, 2012.

We believe(2) 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 $235 million(2) in fixed and intangible assets.

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

CONTRACTUAL OBLIGATIONS

Payment commitments by fiscal year (capital and interest)

(Millions of dollars)	Facility and loans	Notes	Capital lease commitments	Service contract commitments	Operating lease commitments	Lease and sublease commitments[5]	Total
2012	6.3	33.8	7.4	62.7	168.4	36.8	315.4
2013	2.2	33.8	7.5	61.4	158.4	34.4	297.7
2014	1.6	33.8	6.3	61.8	141.4	31.5	276.4
2015	0.9	33.8	6.2	62.3	125.0	28.1	256.3
2016	0.7	223.9	6.0	49.3	110.5	26.0	416.4
2017 and thereafter	394.5	853.9	41.3	166.7	695.5	190.5	2,342.4
	406.2	1,213.0	74.7	464.2	1,399.2	347.3	3,904.6

(5) 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 2011, sales to companies controlled by a member of the Board of Directors totalled $27.4 million (2010 – $26.7 million). These transactions were in the normal course of business and were measured at the exchange amount. As at September 24, 2011, accounts receivable included a balance of $0.8 million ($0.9 million as at September 25, 2010) resulting from these transactions.

FOURTH QUARTER

(Millions of dollars, unless otherwise indicated)	**2011**	2010	Change *(%)*
Sales	**2,656.7**	2,559.9	3.8
EBITDA[1]	**172.7**	185.6	(7.0)
Adjusted EBITDA[1]	**192.9**	185.6	3.9
Net earnings	**86.1**	93.4	(7.8)
Adjusted net earnings[1]	**100.4**	93.4	7.5
Fully diluted net earnings per share *(Dollars)*	**0.84**	0.88	(4.5)
Adjusted fully diluted net earnings per share[1] *(Dollars)*	**0.98**	0.88	11.4
Cash flows from:			
Operating activities	**183.7**	179.3	—
Investing activities	**(53.1)**	(30.2)	—
Financing activities	**(75.6)**	(54.6)	—

SALES

2011 fourth quarter sales reached $2,656.7 million compared to $2,559.9 million last year, an increase of 3.8%, while same store sales were up 3.2%. This fourth quarter sales growth is the result of our teams' strong execution in a highly promotional environment and reflects our food basket's modest inflation which was lower however than Statistics Canada's inflation index. The impact of lower drug pricing was less significant in the fourth quarter than in the first three quarters.

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

Fourth quarter EBITDA[1] in 2011 reached $172.7 million, versus $185.6 million for the same quarter last year. Excluding closure costs of $20.2 million recorded in 2011, adjusted fourth quarter EBITDA[1] represented 7.3% of sales.

In the fourth quarter of 2011, we closed our meat processing plant in Montreal and a grocery warehouse in Toronto to improve operational efficiency. Closure costs were $20.2 million before taxes. Our 2011 fourth quarter gross margin was 17.9% of sales compared with 18.3% for the corresponding quarter of 2010.

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

Our share of earnings from our investment in Alimentation Couche-Tard for the fourth quarter of 2011 was $15.2 million versus $15.1 million for the corresponding period of fiscal 2010. Excluding non-recurring items as well as our share of earnings from our investment in Alimentation Couche-Tard, our adjusted EBITDA[1] for the fourth quarter of 2011 was $177.7 million or 6.7% of sales versus $170.5 million or 6.7% of sales for the fourth quarter of 2010.

EBITDA[1] adjustments

	4th quarter 2011			4th quarter 2010		
(Millions of dollars, unless otherwise indicated)	**EBITDA**	**Sales**	**EBITDA/ Sales *(%)***	EBITDA	Sales	EBITDA/ Sales *(%)*
EBITDA	**172.7**	**2,656.7**	**6.5**	185.6	2,559.9	7.3
Closure costs	**20.2**	**—**		—	—	
Adjusted EBITDA	**192.9**	**2,656.7**	**7.3**	185.6	2,559.9	7.3
Share of earnings from our investment in Alimentation Couche-Tard	**(15.2)**	**—**		(15.1)	—	
Adjusted EBITDA excluding share of earnings	**177.7**	**2,656.7**	**6.7**	170.5	2,559.9	6.7

DEPRECIATION AND AMORTIZATION AND FINANCIAL COSTS

Depreciation and amortization expenses for the fourth quarter of 2011 amounted to $45.0 million compared to $45.3 million for the corresponding quarter last year. Fourth quarter financial costs totalled $9.4 million in 2011 versus $9.5 million last year.

INCOME TAXES

The 2011 fourth quarter income tax expense of $32.2 million represented an effective tax rate of 27.2%. In 2010, the fourth quarter income tax expense of $37.4 million represented an effective tax rate of 28.6%.

NET EARNINGS

The 2011 fourth quarter net earnings were $86.1 million compared to $93.4 million for the corresponding quarter last year. Fully diluted net earnings per share were $0.84 versus $0.88 last year. Excluding non-recurring closure costs of $20.2 million before taxes recorded in the fourth quarter of 2011, our adjusted net earnings[1] were $100.4 million, a 7.5% increase over fiscal 2010, and our adjusted fully diluted net earnings per share[1] were $0.98, up 11.4%.

Net earnings adjustment

	4th quarter 2011		4th quarter 2010		Change *(%)*	
	(Millions of dollars)	**Fully diluted EPS *(Dollars)***	*(Millions of dollars)*	Fully diluted EPS *(Dollars)*	Net earnings	Fully diluted EPS
Net earnings	**86.1**	**0.84**	93.4	0.88	(7.8)	(4.5)
Closure costs after taxes	**14.3**	**0.14**	—	—		
Adjusted net earnings[1]	**100.4**	**0.98**	93.4	0.88	7.5	11.4

CASH POSITION

Operating activities

Operating activities generated cash flows of $183.7 million in the fourth quarter of 2011 compared to $179.3 million for the corresponding period of fiscal 2010. This variation in generated cash flows is due primarily to variations in non-cash working capital.

Investing activities

Investing activities required outflows of $53.1 million in the fourth quarter of 2011 versus $30.2 million in the fourth quarter of 2010. The variation between 2011 and 2010 fourth quarter outflows is due mainly to business acquisitions and fixed asset and intangible asset expenditures.

[1] *See section on "Non-GAAP measurements" on page 23*
[2] *See section on "Forward-looking information" on page 23*

Financing activities

Financing activities required outflows of $75.6 million in the 2011 fourth quarter versus $54.6 million in the fourth quarter of 2010. The variation in fourth quarter financing activity outflows between 2011 and 2010 is largely attributable to the redemption of shares in 2011 in the amounts of $42.6 million versus redemption in the amounts of $35.5 million in 2010.

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 2011, 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 was the first day of fiscal 2012, namely September 25, 2011.

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

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

Phase 1: Preliminary Study and Diagnostic

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

Phase 2: Standards Analysis

Actions	Analysis of the differences between GAAP and IFRS. Selection of the accounting policies that the Company will apply on an ongoing basis. Company's selection of IFRS 1, "First-time Adoption of IFRS" exemptions at the date of transition. Identification of the collateral impacts in the following areas: • information technology (IT); • internal control over financial reporting (ICFR); • disclosure controls and procedures (DC&P); • contracts; • compensation; • training.

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

Timetable	We have prepared a detailed timetable that contemplates the bulk of the analysis until the end of our 2010 fiscal year. We prioritized standards based on their ranking in the diagnostic, the time needed to complete the analysis and implementation as well as working group members' availability.
Progress	Analysis of the IFRS standards and interpretations that could have an impact on our Company is completed. 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. Analysis of our contracts and compensation programs established that the impact should not be material.

Phase 3: Implementation

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

Differences in accounting treatment

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

Standards	Comparison between IFRS and GAAP	Choice and impact on our financial statements
Borrowing costs	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. GAAP: These borrowing costs may be capitalized.	Choice: None. Impact: Generally, we will not capitalize borrowing costs on qualifying assets, as they are deemed to be immaterial.
Fixed and intangible assets and investment properties	IFRS: After initial recognition, we can measure our fixed and intangible assets and investment properties using the cost model or the revaluation model. GAAP: The revaluation model is not allowed.	Choice: We will continue to use the cost model in order to avoid balance sheet variations in the fair value of fixed and intangible assets and investment properties and the corresponding impact on profit and loss (P&L) and comprehensive income statements. Impact: Nil.

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

Fixed assets	IFRS: We have to amortize our fixed assets based on their components. GAAP: Component identification rules are less stringent.	Choice: We have identified important components where the useful life differs from the rest of the building. Our amortization periods will vary from 20 to 50 years. Impact: • Financial position at the date of transition Fixed assets should be increased by about $16.0 million, retained earnings by about $11.8 million and deferred taxes by about $4.2 million. • Financial position at the end of fiscal 2011 Fixed assets should be increased by about $16.8 million, retained earnings by about $12.4 million and deferred taxes by about $4.4 million. • P&L for fiscal 2011 The amortization expense should be reduced by about $1.2 million and operating expense should be increased by about $0.4 million.
Impairment of assets	IFRS: Impairment testing of our assets is conducted at the level of the asset itself, the cash generating unit (CGU) or group of CGUs. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. GAAP: Impairment testing is conducted at the level of the asset itself, a group of assets or a reporting unit.	Choice: Our impairment testing will be conducted at the level of each store (CGU). Impairment testing of warehouses will be conducted at the level of different groups of CGUs. As for goodwill, certain intangible assets with indefinite useful lives and corporate assets not allocated to a single CGU, impairment testing will be conducted at the level of our single operating segment. Impairment testing of investment properties, certain intangible assets with indefinite useful lives and the investment in an associate will be conducted at the level of the asset itself. Impact: • Financial position at the date of transition Impairment losses of about $75.8 million should be recognized in retained earnings, fixed and intangible assets and investment properties should be reduced by about $101.7 million, and deferred taxes by about $25.9 million. • Financial position at the end of fiscal 2011 Fixed and intangible assets and investment properties should be reduced by about $96.2 million, retained earnings by about $71.7 million and deferred taxes by about $24.5 million. • P&L for fiscal 2011 Impairment losses of about $14.7 million and impairment loss reversals of about $5.5 million should be recognized as operating expenses and the amortization expense should be reduced by about $14.7 million.

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

<table>
<tr>
<td>Share-based payment</td>
<td>IFRS: When stock option awards vest gradually, each tranche is to be considered as a separate award.

GAAP: The gradually vested tranches may be considered as a single award.</td>
<td>Choice: None.

Impact:

• Financial position at the date of transition

About $2.1 million of unamortized tranches should be recorded in retained earnings, and an equal amount should increase the contributed surplus.

• Financial position at the end of fiscal 2011

Contributed surplus should be increased by about $2.1 million and retained earnings decreased by the same amount.

• P&L for fiscal 2011

Stock-based compensation cost should not vary.</td>
</tr>
<tr>
<td>Customer loyalty programs</td>
<td>IFRS: For our loyalty program, we have to record deferred revenue at the time of the initial sale. It will be recognized as revenue once points have been redeemed.

GAAP: No standard exists, but the Canadian practice is to record a provision for the future redemption of awarded points and reverse it to operating expenses when the points are redeemed.</td>
<td>Choice: None.

Impact:

• P&L for fiscal 2011

Revenue should be reduced by about $34.3 million, and operating expenses reduced by an equal amount, leaving the P&L unchanged.</td>
</tr>
<tr>
<td rowspan="2">Employee benefits</td>
<td>IFRS: We have the choice of deferring recognition of actuarial gains and losses using the corridor approach or of immediately recognizing actuarial gains and losses in full in P&L or in comprehensive income.

GAAP: We have a similar choice of accounting policy without the possibility of immediate recognition to comprehensive income.</td>
<td>Choice: We will recognize all actuarial gains and losses immediately in comprehensive income.

Impact:

• Financial position at the date of transition

See IFRS 1.

• Financial position at the end of fiscal 2011

Defined benefit assets, retained earnings and deferred taxes should be reduced by about $148.2 million, $110.1 million and $38.1 million respectively.

• Comprehensive income for fiscal 2011

Actuarial losses of about $49.8 million, after taxes of $17.1 million, should be recognized in comprehensive income.

• P&L for fiscal 2011

The defined benefit plan expense should be reduced by about $4.1 million.</td>
</tr>
<tr>
<td>IFRS: We have to recognize past service cost for vested benefits immediately in P&L.

GAAP: Past service cost has to be amortized in a straight line over the average remaining service period of active participants until the full eligibility date, regardless of vesting.</td>
<td>Choice: None.

Impact:

• Financial position at the date of transition

Past service cost of about $10.5 million should be recognized in retained earnings and deferred taxes for about $7.8 million and $2.7 million respectively.

• Financial position at the end of fiscal 2011

Defined benefit assets, retained earnings and deferred taxes should be reduced by about $10.7 million, $8.0 million and $2.7 million respectively.</td>
</tr>
</table>

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

Employee benefits (cont'd)		• P&L for fiscal 2011 The defined benefit plan expense should be increased by about $0.2 million.
	IFRS: In the case of a surplus plan, defined benefit assets are recorded as the lesser of the present value determined for accounting purposes or the value of the future economic benefit by way of surplus refunds or contribution holidays. When a plan is underfunded, the carrying amount of the recorded liability has to be at least equal to the value of future contributions needed to cover the funding deficit. Variances regarding the above-described limits are recognized for each period and recorded according to the chosen accounting method for actuarial variances. GAAP: In the case of a surplus funded plan, the defined benefit asset is recorded as the lesser of the actuarial value determined for accounting purposes or the value of future contribution holidays calculated on a going concern basis. In the case of an underfunded plan, there is no guideline on the liability. Any variances regarding the above-described limits are recorded in P&L each year.	Choice: We will recognize limit effects in comprehensive income. Impact: • Financial position at the date of transition Defined benefit assets should be reduced by about $5.1 million, retained earnings by about $3.6 million and deferred taxes by about $1.5 million. • Financial position at the end of fiscal 2011 Defined benefit assets, retained earnings and deferred taxes should be reduced by about $7.2 million, $5.2 million and $2.0 million respectively. • Comprehensive income for fiscal 2011 The effect of the limit will result in a loss of about $1.5 million, after taxes of $0.5 million, and should be recognized in comprehensive income. • P&L for fiscal 2011 The defined benefit plan expense should be increased by about $0.1 million.
	IFRS: A multi-employer plan with implicit obligations shall be accounted for as a defined benefit plan. However, when sufficient information is not available, it shall be accounted for as if it were a defined contribution plan. Additional information shall be disclosed in the financial statements. Furthermore, if there is a contractual commitment, it shall be recognized in P&L. GAAP: A multi-employer plan is generally accounted for as a defined contribution plan because information is usually not available. However, if sufficient information is available, it must be accounted for as a defined benefit plan. The employee future benefits standard doesn't specifically address the accounting treatment of a contractual agreement. However, other GAAP standards cover this type of commitment and the accounting treatment is the same as IFRS.	Choice: None. Impact: Our multi-employer plans are defined benefit plans; however they will be accounted for as if they were defined contribution plans since sufficient information is not available to accurately determine our obligations. Additional information regarding this situation will be disclosed.

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

Investments in associates	IFRS: In applying the equity method, the difference between the associate's reporting date and the investor's cannot be greater than three months. GAAP: No time limit is mentioned.	Choice: None. Impact: None, since the difference between our reporting date and the associate's is always less than three months.
	The public associate in which we have an interest issued its first financial statements prepared according to IFRS and recorded certain adjustments with respect to the conversion of its financial statements from GAAP to IFRS.	Impact: • Financial position at the date of transition Investment in the associate, retained earnings and deferred taxes should be increased by about $1.5 million, $1.3 million and $0.2 million respectively. • Financial position at the end of fiscal 2011 Investment in the associate, retained earnings and deferred taxes should be increased by about $1.3 million, $1.1 million and $0.2 million respectively. • P&L and comprehensive income for fiscal 2011 The share of the associate's P&L should be reduced by about $0.3 million and the share of the associate's comprehensive income should be increased by about $0.1 million.
Income taxes	IFRS: Differences between the carrying amount and tax base of intangible assets with indefinite useful lives have to be recorded as deferred tax asset or liability based on applicable tax rates when the asset is to be realized. Since these intangible assets are not amortized, they are deemed to be realized upon their disposal and the capital gains tax rate must be taken into account. GAAP: This position deeming an asset's disposal to be its realization is not stated. The practice is to use the corporate tax rate in accounting for future income taxes.	Choice: None. Impact: • Financial position at the date of transition Deferred tax liability should be reduced by about $13.1 million and retained earnings increased by an equal amount.
Business combinations	IFRS: Business combination-related costs are expensed when incurred. Only restructuring costs for the acquired business that would have been incurred even if there had been no business combination may be included in the purchase price allocation. GAAP: Business combination-related costs are considered in purchase price allocation. Restructuring costs for the acquired business may be included in the purchase price allocation.	Choice: None Impact: • Financial position at date of transition See IFRS 1. • Financial position at the end of fiscal 2011 Goodwill, investments and other assets, retained earnings as well as deferred taxes should be reduced by about $0.8 million, $0.3 million, $0.9 million and $0.2 million respectively. • P&L for fiscal 2011 Acquisition costs and integration plan-related costs of about $1.1 million for business combinations that occurred during the fiscal year should be recognized as operating expenses.

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

First-time adoption of IFRS

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

Standards	Optional Exemptions	Choice and Impact on Financial Statements
Borrowing costs	This exemption allows us to not capitalize borrowing costs on our qualifying assets before the IFRS transition date.	Choice: We have decided not to avail ourselves of this exemption. Impact: Nil.
Deemed cost	On the IFRS transition date, we can recognize each fixed and intangible asset and investment property at its deemed cost, which shall be its fair value.	Choice: We have decided not to avail ourselves of this exemption. Impact: Nil.
Share-based payment	This exemption would relieve us from applying the standard to equity instruments acquired before the IFRS transition date.	Choice: We have decided not to avail ourselves of this exemption. Impact: Nil.
Employee benefits	The exemption allows us to recognize all actuarial gains and losses at the date of transition to IFRS in retained earnings, regardless of the subsequent accounting treatment chosen.	Choice: We have chosen to avail ourselves of this exemption. Impact: • Financial position at date of transition About $85.4 million in actuarial losses should be reversed to retained earnings and deferred taxes for about $63.3 million and $22.1 million respectively.
Business combinations	The exemption allows us to not apply the standard to business combinations occurred before the IFRS transition date.	Choice: We have chosen to avail ourselves of this exemption for business combinations entered into before September 26, 2010. Purchase price allocations of companies acquired before September 26, 2010 will not be restated. Impact: Nil.

Summary of principal probable impacts on financial statements

At the date of transition

(Millions of dollars)	Financial position as at September 26, 2010						
	Assets					Liabilities	
Differences	Investments and other assets	Fixed assets	Intangible assets	Investment properties	Defined benefits	Deferred taxes	Equity
Fixed assets		16.0				4.2	11.8
Impairment of assets		(85.7)	(11.6)	(4.4)		(25.9)	(75.8)
Employee benefits					(101.0)	(26.3)	(74.7)
Associates	1.5					0.2	1.3
Income taxes						(13.1)	13.1
	1.5	(69.7)	(11.6)	(4.4)	(101.0)	(60.9)	(124.3)

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

Fiscal 2011

(Millions of dollars)

	Financial position as at September 24, 2011							
	Assets						Liabilities	
Differences	Investments and other assets	Fixed assets	Intangible assets	Investment properties	Goodwill	Defined benefits	Deferred taxes	Equity
Fixed assets		16.8					4.4	12.4
Impairment of assets		(80.5)	(11.2)	(4.5)			(24.5)	(71.7)
Employee benefits						(166.1)	(42.8)	(123.3)
Associates	1.3						0.2	1.1
Business combinations	(0.3)				(0.8)		(0.2)	(0.9)
	1.0	(63.7)	(11.2)	(4.5)	(0.8)	(166.1)	(62.9)	(182.4)

(Millions of dollars)

	P&L						
					P&L		
Differences	Revenue	Operating expenses	Share of an associate	Amortization	before taxes	after taxes	Comprehensive income after taxes
Fixed assets		0.4		(1.2)	0.8	0.6	
Impairment of assets		9.2		(14.7)	5.5	4.1	
Customer loyalty programs	(34.3)	(34.3)			—	—	
Employee benefits		(3.8)			3.8	2.7	(51.3)
Associates			(0.3)		(0.3)	(0.3)	0.1
Business combinations		1.1			(1.1)	(0.9)	
	(34.3)	(27.4)	(0.3)	(15.9)	8.7	6.2	(51.2)

■ Differences in presentation

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

Standards	**Comparison between IFRS and GAAP** **Choices**
Statement of financial position	IFRS: A statement of financial position as at the beginning of the comparative period has to be presented when: • an accounting policy is applied retrospectively; • items in financial statements are retrospectively restated or reclassified. GAAP: This third balance sheet column is not required. Choice: None.
	IFRS: Deferred tax assets and liabilities are classified as non-current items. GAAP: The short-term and long-term future income tax assets and liabilities are presented separately. Choice: None.
	IFRS: Current and non-current provisions, investment properties and investments in associates are presented separately. GAAP: This presentation is not required. Choice: None.
	IFRS: Financial liabilities that will be settled in the twelve months after the balance sheet date must be presented in current items, even if a refinancing agreement occurs after the balance sheet date but before the financial statements are issued. GAAP: They must be presented in non-current items. Choice: None.

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

Statement of comprehensive income	IFRS: All income and expense items may be presented as follow: • in a single statement of comprehensive income; or • in two statements: a separate P&L statement and a second statement beginning with net income and displaying components of other comprehensive income. GAAP: All comprehensive income items may be presented as follow: • immediately under total net income; or • in a separate statement beginning with net income. Choice: We will continue to present two separate statements.
	IFRS: Expenses are classified based on their nature or their function. GAAP: This classification of expenses is not required. Choice: We will keep the existing P&L statement and will disclose, through a note to the financial statements, expenses by nature.
P&L statement	IFRS: The cost of loyalty program points where we are acting as an agent are to be recorded as a reduction in revenue. GAAP: It is recorded in the cost of sales and operating expenses. Choice: None.
Statement of changes in equity	IFRS: A statement of changes in equity must show reconciliation between the carrying amounts at the beginning and the end of the period for each component of equity. GAAP: Only a statement of retained earnings has to be presented. Choice: None.
Statement of cash flows	IFRS: In the statement of cash flows, interest and dividends may be classified as follows: • interest and dividends paid: operating cash flows or financing cash flows; • interest and dividends received: operating cash flows or investing cash flows. GAAP: They may be classified as follows in the cash flow statement: • interest paid and received: operating cash flows; • dividends paid: financing cash flows; • dividends received and included in net income: operating cash flows. Choice: We will keep the existing classification of interest and dividends in the statement of cash flows.
	IFRS: Interim reports must present a statement of cash flows for the current financial year-to-date and for the comparable period of the preceding financial year. GAAP: Besides a cash flow statement for the current financial year-to-date and for the comparable period, interim reports must present a cash flow statement for the interim period and one for the comparable period. Choice: None.
Notes to financial statements	IFRS: Reconciliations of the carrying amounts at the beginning and end of the period are generally presented in the notes to financial statements. GAAP: Reconciliations are limited to certain balance sheet components. Choice: None.

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

Notes to financial statements (Cont'd)	IFRS: The total amount of key management personnel compensation must be disclosed, by large categories, in the notes to financial statements. GAAP: This information is not required in financial statements. However, Canadian Securities Administrators National Instrument 51-102 demands disclosure of similar information in the proxy circular. Choice: None.

New information or other external factors that may come to our attention before the end of the first quarter of fiscal 2012 could change our choices and the impact amounts on our consolidated financial statements.

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.

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 "plan", "allow", "anticipate", "believe", "expect", "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 2012 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 relevant 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, Chief Financial Officer and Treasurer 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.

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

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, Chief Financial Officer and Treasurer of the Company concluded that the DC&P and the ICFR were effective as at the end of the fiscal year ended September 24, 2011.

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 policies 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.

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 P&L 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.

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

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.

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 renegotiate 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. Hence, each segment is audited every three years to ensure that controls have been implemented 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.

[1] *See section on "Non-GAAP measurements" on page 23*
[2] *See section on "Forward-looking information" on page 23*

To cope with competition and maintain our leadership position in the Quebec 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 large, medium, and small-sized pharmacies under Brunet Plus, Brunet, Brunet Clinique, Clini Plus, Pharmacy, and Drug Basics 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.

As well, we own 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 Quebec-wide rollout 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 less affected 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 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 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.

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. We expect[2] to issue our first corporate responsibility report during fiscal 2012.

In addition, we 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.

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

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 experienced some minor labour conflicts over the last few years but expect[2] 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 foreign-denominated purchases, exposing ourselves to exchange rate risks. According to our risk management policy, we may use derivative financial instruments, such as interest rate swaps and foreign exchange forward contracts. 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[2] that cash flows generated by our operating activities are sufficient to provide for all outflows required by our financing activities. Our Series A and Series B Notes mature only in 2015 and 2035 respectively. On November 4, 2011, we obtained a new $600.0 million five-year revolving credit facility and cancelled the $400.0 million revolving line of credit maturing on August 15, 2012. We plan[2] to use part of the new credit facility to pay back the $369.3 million Credit A Facility when it matures on August 15, 2012.

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.

On January 21, 2003, the Regroupement des marchands actionnaires inc. (the "Regroupement") filed a motion before the Quebec Superior Court the principal aim of which was to obtain recognition of the Class B shareholding requirement for every merchant operating a food store under the Metro banner. In a judgment handed down on May 17, 2011, the Quebec Superior Court dismissed the Regroupement's proceedings and the Regroupement did not appeal this ruling.

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. 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.

Montreal, Canada, December 2, 2011

[1] *See section on "Non-GAAP measurements" on page 23*
[2] *See section on "Forward-looking information" on page 23*

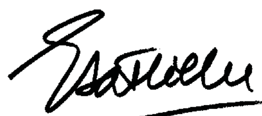
MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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 policies, 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

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

Montreal, Canada, December 9, 2011

INDEPENDENT AUDITORS' REPORT

To the shareholders of METRO INC.

We have audited the accompanying consolidated financial statements of METRO INC., which comprise the consolidated balance sheets as at September 24, 2011 and September 25, 2010, and the consolidated statements of earnings, retained earnings, comprehensive income and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

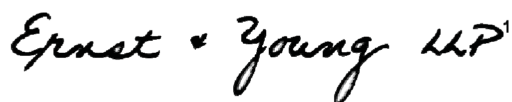
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of METRO INC. as at September 24, 2011 and September 25, 2010 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[(1)]
Chartered accountants
Montreal, Canada
November 15, 2011

[(1)] *CA auditor permit no. 20404*

Consolidated statements of earnings

Years ended September 24, 2011 and September 25, 2010

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

	2011	2010
Sales *(notes 22 and 23)*	**$ 11,430.6**	$ 11,342.9
Cost of sales and operating expenses *(note 9)*	**(10,679.6)**	(10,595.4)
Share of earnings in a public company subject to significant influence	**42.6**	40.4
Closure expenses and other costs *(note 4)*	**(20.2)**	(0.9)
Earnings before financial costs, taxes, depreciation and amortization	**773.4**	787.0
Depreciation and amortization *(note 5)*	**(195.2)**	(201.2)
Operating income	**578.2**	585.8
Financial costs, net *(note 6)*	**(41.5)**	(44.7)
Earnings before income taxes	**536.7**	541.1
Income taxes *(note 7)*	**(150.4)**	(149.3)
Net earnings	**$ 386.3**	$ 391.8
Net earnings per share *(Dollars) (note 8)*		
Basic	**3.75**	3.67
Fully diluted	**3.73**	3.65

See accompanying notes

Consolidated balance sheets

As at September 24, 2011 and September 25, 2010

(Millions of dollars)

	2011	2010
ASSETS		
Current assets		
Cash and cash equivalents	$ 255.5	$ 214.7
Accounts receivable *(notes 10 and 22)*	306.9	311.3
Inventories *(note 9)*	728.3	699.3
Prepaid expenses	11.7	9.7
Income taxes receivable	2.2	1.7
Future income taxes *(note 7)*	19.2	12.3
	1,323.8	1,249.0
Investments and other assets *(note 10)*	274.7	235.3
Fixed assets *(note 11)*	1,321.3	1,319.1
Intangible assets *(note 12)*	308.5	315.7
Goodwill	1,649.9	1,603.7
Future income taxes *(note 7)*	1.2	1.3
Accrued benefit asset *(note 19)*	79.4	72.8
	$ 4,958.8	$ 4,796.9
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank loans *(note 13)*	$ 0.3	$ 1.0
Accounts payable	1,078.4	1,073.3
Income taxes payable	46.2	50.8
Future income taxes *(note 7)*	11.2	12.8
Current portion of long-term debt *(note 14)*	8.8	4.7
	1,144.9	1,142.6
Long-term debt *(note 14)*	1,025.5	1,004.3
Accrued benefit liability *(note 19)*	44.0	48.5
Future income taxes *(note 7)*	158.5	137.5
Other long-term liabilities *(note 15)*	17.9	21.2
	2,390.8	2,354.1
Shareholders' equity		
Capital stock *(note 16)*	682.6	702.1
Contributed surplus *(note 17)*	1.7	6.1
Retained earnings	1,883.7	1,734.9
Accumulated other comprehensive income *(note 18)*	—	(0.3)
	2,568.0	2,442.8
	$ 4,958.8	$ 4,796.9

Commitments and contingencies *(notes 20 and 21)*
Subsequent events *(note 26)*

See accompanying notes

On behalf of the Board:

ERIC R. LA FLÈCHE
Director

MICHEL LABONTÉ
Director

Consolidated statements of retained earnings

Years ended September 24, 2011 and September 25, 2010
(Millions of dollars)

	2011	2010
Balance – beginning of year	**$ 1,734.9**	$ 1,545.7
Net earnings	**386.3**	391.8
Dividends	**(77.1)**	(69.2)
Share redemption premium *(note 16)*	**(160.4)**	(133.4)
Balance – end of year	**$ 1,883.7**	$ 1,734.9

See accompanying notes

Consolidated statements of comprehensive income

Years ended September 24, 2011 and September 25, 2010
(Millions of dollars)

	2011	2010
Net earnings	**$ 386.3**	$ 391.8
Other comprehensive income *(note 18)*		
Change in fair value of derivative designated as cash flow hedge	**0.4**	2.5
Corresponding income taxes	**(0.1)**	(0.8)
Comprehensive income	**$ 386.6**	$ 393.5

See accompanying notes

Consolidated statements of cash flows
Years ended September 24, 2011 and September 25, 2010
(Millions of dollars)

	2011	2010
Operating activities		
Net earnings	**$ 386.3**	$ 391.8
Non-cash items		
Share of earnings in a public company subject to significant influence	**(42.6)**	(40.4)
Closure expenses and other costs *(note 4)*	**8.9**	—
Depreciation and amortization	**195.2**	201.2
Amortization of deferred financing costs	**0.4**	1.8
Loss on disposal and write-off of fixed and intangible assets	**9.7**	1.1
Interest income from investments	**(0.1)**	(0.2)
Future income taxes	**14.6**	27.3
Stock-based compensation cost	**6.3**	5.8
Difference between amounts paid for employee future benefits and current period cost	**(11.1)**	(7.7)
	567.6	580.7
Net change in non-cash working capital items related to operations	**(24.4)**	(32.9)
	543.2	547.8
Investing activities		
Business acquisitions, net of cash acquired totalling $0.3 in 2010 *(note 3)*	**(74.5)**	(152.3)
Net change in investments and other assets	**5.4**	0.4
Dividends from public company subject to significant influence	**4.7**	3.2
Additions to fixed assets	**(148.1)**	(165.4)
Proceeds on disposal of fixed assets	**5.4**	4.9
Additions to intangible assets	**(19.9)**	(30.6)
	(227.0)	(339.8)
Financing activities		
Net change in bank loans	**(0.7)**	0.2
Issuance of shares *(note 16)*	**7.0**	8.6
Redemption of shares *(note 16)*	**(188.3)**	(159.5)
Acquisition of treasury shares *(note 16)*	**(8.9)**	—
Performance share units cash settlement *(note 17)*	**(0.4)**	(0.5)
Increase in long-term debt	**8.4**	3.1
Repayment of long-term debt	**(12.1)**	(10.1)
Net change in other long-term liabilities	**(3.3)**	(7.3)
Dividends paid	**(77.1)**	(69.2)
	(275.4)	(234.7)
Net change in cash and cash equivalents	**40.8**	(26.7)
Cash and cash equivalents – beginning of year	**214.7**	241.4
Cash and cash equivalents – end of year	**$ 255.5**	$ 214.7
Supplementary information		
Interest paid	**45.1**	44.9
Income taxes paid	**149.3**	114.0

See accompanying notes

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.

Assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. They are not amortized.

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

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 30 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:

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 11 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, at the time of sale to the customer, 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.

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 on a straight-line basis 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.

DERIVATIVE 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 foreign-denominated purchases of goods and services. 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 or liabilities 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 24, 2011 and September 25, 2010 included 52 weeks of operations.

3- BUSINESS ACQUISITIONS

During fiscal 2011, the Company acquired 11 affiliated stores which it already supplied. The total purchase price was $74.2 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:

Inventories	$ 10.2
Fixed assets	12.7
Goodwill	49.7
Future income tax assets	2.4
Integration plan-related liabilities	(0.5)
Total net assets acquired	$ 74.5

Cash consideration	$ 74.2
Acquisition costs	0.3
Consideration and acquisition costs	$ 74.5

During fiscal 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)
Total net assets acquired	$ 152.6

Cash consideration	$ 152.2
Acquisition costs	0.4
Consideration and acquisition costs	$ 152.6

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

4- CLOSURE EXPENSES AND OTHER COSTS

During fiscal 2011, non-recurring closure expenses of $20.2 before taxes, consisted of dismantling expenses, write-off of assets and others, were incurred for the closure of a meat processing plant in Montreal and a grocery warehouse in Toronto. As at September 24, 2011, a balance of $8.9 remained to be paid and is presented under "Accounts payable" in the consolidated balance sheet.

During fiscal 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. Conversion costs totalled $0.9 in 2010.

5- DEPRECIATION AND AMORTIZATION

	2011	2010
Fixed assets	**$ 159.5**	$ 159.5
Intangible assets	**35.7**	41.7
	$ 195.2	$ 201.2

6- FINANCIAL COSTS, NET

	2011	2010
Short-term interest	**$ 1.1**	$ 1.3
Long-term interest	**43.5**	43.5
Amortization of deferred financing costs	**0.4**	1.8
Interest income	**(3.5)**	(1.9)
	$ 41.5	$ 44.7

7- INCOME TAXES

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

	2011	2010
Current	**$ 135.8**	$ 122.0
Future	**14.6**	27.3
	$ 150.4	$ 149.3

The effective income tax rates were as follows:

(Percentage)	**2011**	2010
Combined statutory income tax rate	**28.8**	30.4
Changes		
Impact on future taxes of 4.0% total future decreases in Ontario tax rate ($10.0 in 2010)	**—**	(1.8)
Share of earnings in a public company subject to significant influence	**(1.3)**	(1.3)
Others	**0.5**	0.3
	28.0	27.6

7- INCOME TAXES (Cont'd)

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:

	2011	2010
Future income tax assets and liabilities		
Accrued expenses, provisions and other reserves that are tax-deductible only at the time of disbursement	**$ (3.6)**	$ (4.5)
Tax losses carry forwards	**1.5**	11.6
Inventories	**(6.3)**	(7.7)
Excess of tax value over net book value of assets under capital leases	**5.5**	5.8
Interest rate swaps	**—**	0.1
Employee future benefits	**(10.8)**	(7.6)
Share of accumulated earnings in a public company subject to significant influence	**(30.7)**	(27.4)
Excess of net book value over tax value		
Fixed assets	**(28.0)**	(32.4)
Intangible assets	**(57.9)**	(58.6)
Goodwill	**(19.0)**	(16.0)
	$ (149.3)	$ (136.7)
Future income tax short-term assets	**$ 19.2**	$ 12.3
Future income tax short-term liabilities	**(11.2)**	(12.8)
Future income tax long-term assets	**1.2**	1.3
Future income tax long-term liabilities	**(158.5)**	(137.5)
	$ (149.3)	$ (136.7)

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:

(Millions)	**2011**	2010
Weighted average number of shares outstanding – Basic	**103.1**	106.9
Dilutive effect under stock option and PSU plans	**0.5**	0.5
Weighted average number of shares outstanding – Diluted	**103.6**	107.4

9- INVENTORIES

Inventories were detailed as follows:

	2011	2010
Wholesale inventories	**$ 299.6**	$ 296.3
Retail inventories	**428.7**	403.0
	$ 728.3	$ 699.3

The cost of inventories expensed for fiscal 2011 totalled $9,338.0 (2010 – $9,272.6).

Notes to consolidated financial statements

September 24, 2011 and September 25, 2010

(Millions of dollars, unless otherwise indicated)

10- INVESTMENTS AND OTHER ASSETS

	2011	2010
Investment in public company subject to significant influence, including share of earnings until July 17, 2011 (July 18, 2010) (quoted market value: $598.7 as at September 24, 2011; $491.5 as at September 25, 2010)	**$ 257.4**	$ 219.5
Loans to certain customers bearing interest at floating rates, repayable in monthly instalments, maturing through 2030	**16.5**	24.7
Assets held for sale	**6.6**	—
Other assets	**4.2**	0.5
	284.7	244.7
Current portion included in accounts receivable	**10.0**	9.4
	$ 274.7	$ 235.3

At the end of fiscal 2011, the Company was committed to an asset sale plan that should be completed in the next few months. These assets were measured at fair value less costs to sell. A loss of $6.3 was recorded in cost of sales and operating expenses and in closure expenses and other costs.

11- FIXED ASSETS

	2011			2010		
	Cost	**Accumulated amortization**	**Net book value**	Cost	Accumulated amortization	Net book value
Land	**$ 190.3**	**$ —**	**$ 190.3**	$ 168.3	$ —	$ 168.3
Buildings	**458.2**	**134.9**	**323.3**	437.0	126.6	310.4
Equipment	**1,128.3**	**666.3**	**462.0**	1,102.4	605.4	497.0
Leasehold improvements	**596.9**	**287.8**	**309.1**	562.6	236.5	326.1
Assets under capital leases	**55.6**	**19.0**	**36.6**	35.5	18.2	17.3
	$2,429.3	**$ 1,108.0**	**$1,321.3**	$2,305.8	$ 986.7	$1,319.1

12- INTANGIBLE ASSETS

	2011			2010		
	Cost	**Accumulated amortization**	**Net book value**	Cost	Accumulated amortization	Net book value
Intangible assets with definite lives						
Leasehold rights	**$ 74.9**	**$ 38.5**	**$ 36.4**	$ 74.9	$ 35.8	$ 39.1
Software	**170.8**	**130.8**	**40.0**	164.0	117.1	46.9
Improvements and development of retail network loyalty	**215.3**	**95.0**	**120.3**	231.6	114.4	117.2
Prescription files	**7.4**	**4.1**	**3.3**	7.4	3.4	4.0
	468.4	**268.4**	**200.0**	477.9	270.7	207.2
Intangible assets with indefinite lives						
Banners	**53.3**	**—**	**53.3**	53.3	—	53.3
Private labels and agreements	**55.2**	**—**	**55.2**	55.2	—	55.2
	108.5	**—**	**108.5**	108.5	—	108.5
	$ 576.9	**$ 268.4**	**$ 308.5**	$ 586.4	$ 270.7	$ 315.7

Net additions of intangible assets excluded from the consolidated statement of cash flows amounted to $11.0 in 2011 (2010 – $3.5).

13- BANK LOANS

The Company benefits from a $400.0 revolving line of credit, expiring August 15, 2012 (note 26 – Subsequent Events), as well as a Credit A Facility amounting to $369.3 ($369.3 as at September 25, 2010) 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 24, 2011 and September 25, 2010, the revolving line of credit was undrawn. The consolidated VIEs have credit margins totalling $6.3 ($6.6 as at September 25, 2010) bearing interest at prime, unsecured and maturing on various dates through 2012. As at September 24, 2011, $0.3 ($1.0 as at September 25, 2010) had been drawn down under credit margins at an interest rate of 3.0% (2.9% as at September 25, 2010).

14- LONG-TERM DEBT

	2011	2010
Credit A Facility, bearing interest at a weighted average rate of 1.79% (2010 – 1.04%) 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 2031, bearing interest at an average rate of 3.71% (3.38% as at September 25, 2010)	**21.7**	15.8
Obligations under capital leases, bearing interest at an effective rate of 8.6% (2010 – 11.2%)	**47.1**	28.1
Deferred financing costs	**(3.8)**	(4.2)
	1,034.3	1,009.0
Current portion	**8.8**	4.7
	$ 1,025.5	$ 1,004.3

On August 15, 2012, the Company intends to reimburse its $369.3 Credit A Facility notably using proceeds from its new long-term credit facility obtained on November 4, 2011 (note 26 – Subsequent Events).

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

	Facility and loans	Notes	Obligations under capital leases	Total
2012	$ 5.7	$ —	$ 7.4	$ 13.1
2013	1.7	—	7.5	9.2
2014	1.1	—	6.3	7.4
2015	0.6	—	6.2	6.8
2016	0.4	200.0	6.0	206.4
2017 and thereafter	381.5	400.0	41.3	822.8
	$ 391.0	$ 600.0	$ 74.7	$ 1,065.7

The minimum payments in respect of the obligations under capital leases included interest amounting to $27.6 on these obligations (2010 – $15.8).

15- OTHER LONG-TERM LIABILITIES

	2011	2010
Lease liabilities	**$ 17.1**	$ 19.3
Other liabilities	**0.8**	1.9
	$ 17.9	$ 21.2

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 26, 2009	107,830	$ 715.3	718	$ 1.4	$ 716.7
Shares issued for cash	10	0.3	—	—	0.3
Shares redeemed for cash, excluding premium of $133.4	(3,911)	(26.1)	—	—	(26.1)
Released treasury shares	54	0.3	—	—	0.3
Stock options exercised	368	10.9	—	—	10.9
Conversion of Class B Shares into Class A Subordinate Shares	87	0.1	(87)	(0.1)	—
Balance as at September 25, 2010	**104,438**	**700.8**	**631**	**1.3**	**702.1**
Shares issued for cash	**1**	**—**	**—**	**—**	**—**
Shares redeemed for cash, excluding premium of $160.4	**(4,147)**	**(27.9)**	**—**	**—**	**(27.9)**
Acquisition of treasury shares, excluding premium of $7.6	**(190)**	**(1.3)**	**—**	**—**	**(1.3)**
Released treasury shares	**94**	**0.6**	**—**	**—**	**0.6**
Stock options exercised	**257**	**9.1**	**—**	**—**	**9.1**
Conversion of Class B Shares into Class A Subordinate Shares	**54**	**0.1**	**(54)**	**(0.1)**	**—**
Balance as at September 24, 2011	**100,507**	**$ 681.4**	**577**	**$ 1.2**	**$ 682.6**

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. As at September 24, 2011, a balance of 3,530,552 options was to be granted (3,787,752 as at September 25, 2010). 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 26, 2009	1,864	28.53
Granted	283	44.06
Exercised	(368)	22.35
Cancelled	(2)	31.78
Balance as at September 25, 2010	**1,777**	**32.29**
Granted	**290**	**47.06**
Exercised	**(257)**	**27.30**
Cancelled	**(34)**	**34.67**
Balance as at September 24, 2011	**1,776**	**35.38**

The table below summarizes information regarding the stock options outstanding and exercisable as at September 24, 2011:

	Outstanding options			Exercisable options	
Range of exercise prices *(Dollars)*	Number *(Thousands)*	Weighted average remaining period *(Months)*	Weighted average exercise price *(Dollars)*	Number *(Thousands)*	Weighted average exercise price *(Dollars)*
20.20 to 26.40	409	41.8	24.90	152	24.77
27.25 to 37.22	460	30.3	30.51	269	29.40
37.50 to 43.64	404	51.3	38.53	100	37.68
44.19 to 47.14	503	73.8	45.83	—	—
	1,776	50.1	35.38	521	29.65

The weighted average fair value of $9.58 per option (2010 – $10.39) 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 2.7% (2010 – 3.0%), expected life of 5.4 years (2010 – 6.0 years), expected volatility of 21.6% (2010 – 23.0%) and expected dividend yield of 1.6% (2010 – 1.5%).

Compensation expense for these options amounted to $2.5 for fiscal 2011 (2010 – $2.5).

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 26, 2009	267,570
Granted	107,583
Settled	(65,860)
Cancelled	(389)
Balance as at September 25, 2010	**308,904**
Granted	**110,756**
Settled	**(104,153)**
Cancelled	**(5,778)**
Balance as at September 24, 2011	**309,729**

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 26, 2009	257,255
Released treasury shares	(53,707)
Balance as at September 25, 2010	**203,548**
Acquisition of treasury shares	**190,000**
Released treasury shares	**(93,608)**
Balance as at September 24, 2011	**299,940**

The weighted average fair value of $42.88 per PSU (2010 – $39.90) for PSUs granted during the year was the stock market valuation of a Class A Subordinate share of the Company at grant date.

The compensation expense comprising all of these PSUs amounted to $3.8 for fiscal 2011 (2010 – $3.3).

17- CONTRIBUTED SURPLUS

	2011	2010
Balance – beginning of year	**$ 6.1**	$ 3.7
Stock-based compensation cost	**6.3**	5.8
Stock options exercised	**(2.1)**	(2.6)
Acquisition of treasury shares	**(7.6)**	—
Released treasury shares	**(0.6)**	(0.3)
PSUs cash settlement	**(0.4)**	(0.5)
Balance – end of year	**$ 1.7**	$ 6.1

18- ACCUMULATED OTHER COMPREHENSIVE INCOME

The derivative designated as a cash flow hedge was the sole component of Accumulated Other Comprehensive Income. The changes during the year were as follows:

	2011	2010
Balance – beginning of year	**$ (0.3)**	$ (2.0)
Change in fair value of designated derivative, net of income taxes of $0.1 (2010 – $0.8)	**0.3**	1.7
Balance – end of year	**$ —**	$ (0.3)

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:

	2011		2010	
	Pension plans	**Other plans**	Pension plans	Other plans
Defined contribution plans	**$ 24.2**	**$ 0.5**	$ 27.7	$ 0.6
Defined benefit plans				
Current service costs	**27.0**	**1.9**	23.1	1.9
Actuarial loss (gain)	**20.9**	**(6.6)**	46.6	2.9
Plan amendments	**1.2**	**—**	4.0	—
Interest cost	**35.2**	**2.1**	35.3	2.1
Actual return on plan assets	**4.8**	**—**	(36.3)	—
Change in valuation allowance	**(0.1)**	**—**	(0.9)	—
	89.0	**(2.6)**	71.8	6.9
Difference between pension cost and cost recognized for the year regarding the undernoted items:				
Actuarial gain (loss)	**(18.6)**	**6.9**	(45.9)	(3.0)
Plan amendments	**(0.1)**	**(0.3)**	(2.9)	(0.2)
Difference between expected return and actual return on plan assets	**(49.5)**	**—**	(5.3)	—
	20.8	**4.0**	17.7	3.7
	$ 45.0	**$ 4.5**	$ 45.4	$ 4.3

19- EMPLOYEE FUTURE BENEFITS (Cont'd)

The information on defined benefit plans was summarized as follows:

	2011		2010	
	Pension plans	**Other plans**	Pension plans	Other plans
Accrued benefit obligations				
Balance - beginning of year	**$ 657.0**	**$ 41.1**	$ 571.6	$ 36.5
Current service costs	**27.0**	**1.9**	23.1	1.9
Interest cost	**35.2**	**2.1**	35.3	2.1
Participant contributions	**4.0**	**—**	3.4	—
Plan amendments	**1.2**	**—**	4.0	—
Benefits paid	**(27.6)**	**(2.4)**	(27.0)	(2.3)
Actuarial loss (gain)	**20.9**	**(6.6)**	46.6	2.9
Balance - end of year	**717.7**	**36.1**	657.0	41.1
Plan assets				
Fair value - beginning of year	**626.7**	**—**	587.2	—
Actual return on plan assets	**(4.8)**	**—**	36.3	—
Employer contributions	**33.5**	**2.4**	26.8	2.3
Participant contributions	**4.0**	**—**	3.4	—
Benefits paid	**(27.6)**	**(2.4)**	(27.0)	(2.3)
Fair value - end of year	**631.8**	**—**	626.7	—
Funded status (deficit)	**(85.9)**	**(36.1)**	(30.3)	(41.1)
Unamortized past service costs	**10.9**	**(0.1)**	10.8	(0.4)
Unamortized net actuarial loss (gain)	**149.1**	**(2.5)**	81.0	4.4
Valuation allowance	**—**	**—**	(0.1)	—
Accrued benefit asset (liability)	**74.1**	**(38.7)**	61.4	(37.1)
Accrued benefit asset	**79.4**	**—**	72.8	—
Accrued benefit liability	**$ (5.3)**	**$ (38.7)**	$ (11.4)	$ (37.1)

The pension plans were allocated as follows:

	2011		2010	
	Accrued benefit obligations	**Fair value of assets**	Accrued benefit obligations	Fair value of assets
Plans with accrued benefit obligations exceeding fair value of assets	**701.6**	**572.2**	486.2	388.3
Plans with fair value of assets exceeding accrued benefit obligations	**52.2**	**59.6**	211.9	238.4

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 $35.9 in 2011 (2010 – $29.1).

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 2008 to June 2011. The next valuations will be conducted on dates ranging from December 2011 to June 2014.

Plan assets are held in trust and their weighted average distributions as at the measurement dates, September 24, 2011 and September 25, 2010, were as follows:

Assets classes *(Percentage)*	**2011**	2010
Shares	**54**	56
Bonds	**42**	39
Others	**4**	5

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

	2011		2010	
(Percentage)	**Pension plans**	**Other plans**	Pension plans	Other plans
Accrued benefit obligations				
Discount rate	**5.0**	**5.0**	5.25	5.25
Rate of compensation increase	**3.0**	**3.0**	3.0	3.0
Cost of benefits				
Discount rate	**5.25**	**5.25**	6.0	6.0
Projected long-term return on plan assets	**7.25**	**—**	7.25	—
Rate of compensation increase	**3.0**	**3.0**	3.5	3.5

For valuation purposes, the assumed health care cost trend rates per participant was set at 8.4% in 2011 (2010 – 8.6%). Under the assumption used, this rate should gradually decline to 4.4% 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	2.4	(1.8)

20- COMMITMENTS

OBLIGATIONS UNDER LEASES AND SERVICE AGREEMENTS

The Company has operating lease commitments, with varying terms through 2036, to lease premises and equipment used for business purposes. The balance of minimum lease payments amounted to $1,399.2 as at September 24, 2011 ($1,340.2 as at September 25, 2010). The minimum lease payments over the upcoming fiscal years will be as follows: 2012 - $168.4; 2013 - $158.4; 2014 - $141.4; 2015 - $125.0; 2016 - $110.5; and 2017 and thereafter - $695.5.

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 $347.3 as at September 24, 2011 ($417.3 as at September 25, 2010) and the average annual payments for the next five years will be $31.4.

20- COMMITMENTS (Cont'd)

The Company also has commitments under service contracts, essentially for transportation and information technology, staggered over various periods through 2021. These commitments amounted to $464.2 as at September 24, 2011 ($510.0 as at September 25, 2010). The commitments mature as follows over the upcoming fiscal years: 2012 - $62.7; 2013 - $61.4; 2014 - $61.8; 2015 - $62.3; 2016 - $49.3; and 2017 and thereafter - $166.7.

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 2020 for which the average annual minimum lease payments for the next five years will be $0.4 (2010 – $0.4). The maximum contingent liability under these guarantees as at September 24, 2011 was $3.0 ($3.4 as at September 25, 2010). 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 $17.9 as at September 24, 2011 ($12.9 as at September 25, 2010). No liability has been recorded in respect of these guarantees for the years ended September 24, 2011 and September 25, 2010.

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 2011, sales to companies controlled by a member of the Board of Directors totalled $27.4 (2010 – $26.7). These transactions were in the normal course of business and were measured at the exchange amount. As at September 24, 2011, accounts receivable included a balance of $0.8 ($0.9 as at September 25, 2010) resulting from these transactions.

23- PRODUCTS SUBJECT TO PRICE REGULATION

The Company sells certain products subject to price regulation:

DRUGS

In Quebec, 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 Quebec.

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 $996.7 in 2011 (2010 – $1,028.5). 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 2011 annual results regarding its capital management objectives were as follows:

- a long-term debt/total capital ratio of 28.5% (29.1% as at September 25, 2010);
- a BBB credit rating confirmed by S&P and DBRS during 2011 fiscal year (same rating during fiscal 2010);
- a dividend representing 19.7% of net earnings for the previous fiscal year (2010 – 19.5%).

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.

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 24, 2011		As at September 25, 2010	
	Book value	**Fair value**	Book value	Fair value
Investments and other assets				
Loans and receivables				
Loans to certain customers	**16.5**	**16.5**	24.7	24.7
Accounts payable				
Derivative designated as cash flow hedge				
Interest rate swap	**—**	**—**	0.4	0.4
Long-term debt				
Other financial liabilities				
Credit A Facility	**$ 369.3**	**$ 369.3**	$ 369.3	$ 369.3
Series A Notes	**200.0**	**218.0**	200.0	218.2
Series B Notes	**400.0**	**419.3**	400.0	412.7
Loans	**21.7**	**21.7**	15.8	15.8
Obligations under capital leases	**47.1**	**56.3**	28.1	35.7
	$ 1,038.1	**$ 1,084.6**	$ 1,013.2	$ 1,051.7

The foreign exchange forward contracts, classified as "Assets or liabilities 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 swap 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.

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. As at September 24, 2011, there were no outstanding interest rate swap contracts.

A fluctuation in interest rates would have an impact on the Company's net earnings. For the interest rate swap of $50.0 that matured on December, 16, 2010, a 0.5% increase in interest rates would have reduced net earnings by $1.1 while a 0.5% decrease would have raised them by $1.1.

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 24, 2011 and September 25, 2010, 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 24, 2011 and September 25, 2010, 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 24, 2011, the maximum potential liability under guarantees provided amounted to $17.9 ($12.9 as at September 25, 2010) and no liability had been recognized as at that date.

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 24, 2011, the maximum exposure to credit risk for the foreign exchange forward contracts was equal to their carrying amount. As at September 25, 2010, the Company was not exposed to credit risk in respect of its interest rate swap and foreign exchange forward contracts, as they resulted in amounts payable.

25- FINANCIAL INSTRUMENTS (Cont'd)

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 which matures in 2012 will be replaced by a new revolving credit facility maturing in 2017 (note 26 – Subsequent Events) and Series A and Series B Notes do not mature until 2015 and 2035, respectively. In addition, the Company has access to a $400.0 unused authorized revolving line of credit (note 26 – Subsequent Events).

	Undiscounted cash flows (capital and interest)				
	Accounts payable	Facility and loans	Notes	Capital lease commitments	Total
Maturing under 1 year	$ 1,078.4	$ 6.3	$ 33.8	$ 7.4	$ 1,125.9
Maturing in 1 to 10 years	—	387.6	444.8	56.0	888.4
Maturing in 11 to 20 years	—	2.4	238.8	9.9	251.1
Maturing over 20 years	—	9.9	495.6	1.4	506.9
	$ 1,078.4	$ 406.2	$ 1,213.0	$ 74.7	$ 2,772.3

FOREIGN EXCHANGE RISK

Given that some of its purchases are denominated in foreign currencies, 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 foreign-denominated purchases of goods and services.

As at September 24, 2011 and September 25, 2010, the fair value of foreign exchange forward contracts was insignificant.

26- SUBSEQUENT EVENTS

BUSINESS ACQUISITIONS

On October 23, 2011, the Company acquired a 55% interest in Marché Adonis, a retailer in the Montreal area with four existing stores and a fifth one that will open in December 2011, as well as Phoenicia Products, an importer and wholesaler with a distribution centre in Montreal and another in the Greater Toronto Area. These businesses specialize in perishable and ethnic food products which are seeing strong growth.

NEW CREDIT FACILITY

On November 4, 2011, the Company obtained a new $600.0 five-year revolving credit facility and cancelled the $400.0 revolving line of credit maturing on August 15, 2012. The Company plans to use part of the new credit facility to pay back the $369.3 Credit A Facility when it matures on August 15, 2012.

27- COMPARATIVE FIGURES

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

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