



# Taste the freshness

2012  
Annual Report

**metro**

# Company profile

With annual sales of \$12 billion and over 65,000 employees, METRO is a leader in the food and pharmaceutical sectors in Québec and Ontario, where it operates a network of 564 food stores under several banners including Metro, Metro Plus, Super C, Food Basics and Adonis, as well as 260 drugstores mainly under the Brunet, Pharmacy and Drug Basics banners.

SUPERMARKETS

DISCOUNT STORES

## 2012 Highlights

- Adjusted net earnings<sup>(1)</sup> of \$470.6 million, up 15.6%
- Adjusted fully diluted net earnings per share<sup>(1)</sup> of \$4.65, up 18.3%
- Return on equity of 19.8%; exceeding 14% for the 19<sup>th</sup> consecutive year
- Dividend per share increase of 12.0%, the 18<sup>th</sup> consecutive year of dividend growth
- Closing share price of \$58.40, up 30.7%

**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 35 in the Management's Discussion and Analysis (MD&A).

### DRUGSTORES

## Retail Network

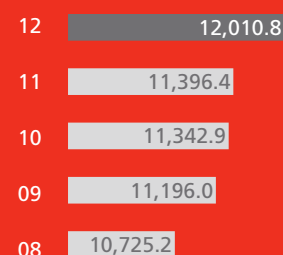
	SUPERMARKETS	DISCOUNT STORES	TOTAL	DRUGSTORES
QUÉBEC	218 METRO METRO PLUS ADONIS	82 SUPER C	300	186 BRUNET BRUNET PLUS BRUNET CLINIQUE CLINI PLUS
ONTARIO	150 METRO	114 FOOD BASICS	264	74 PHARMACY DRUG BASICS
TOTAL	368	196	564	260

	2012 IFRS 53 WEEKS	2011 IFRS 52 WEEKS	2010 GAAP 52 WEEKS	2009 GAAP 52 WEEKS	2008 GAAP 52 WEEKS
<b>OPERATING RESULTS</b> (MILLIONS OF DOLLARS)					
Sales	12,010.8	11,396.4	11,342.9	11,196.0	10,725.2
EBITDA <sup>(1)(2)</sup>	894.3	766.3	787.0	741.6	638.9
Operating income	710.4	587.0	585.8	552.5	462.6
Net earnings	489.3	392.7	391.8	354.4	292.2
Adjusted net earnings <sup>(1)</sup>	470.6	407.2	382.4	359.0	280.8
Cash flows from operating activities	546.1	542.4	547.8	520.1	450.2
<b>FINANCIAL STRUCTURE</b> (MILLIONS OF DOLLARS)					
Total assets	5,150.4	4,827.1	4,796.9	4,658.1	4,425.6
Non-current debt	973.9	656.2	1,004.3	1,004.3	1,005.0
Equity	2,545.1	2,399.3	2,442.8	2,264.1	2,068.3
<b>PER SHARE</b> (DOLLARS)					
Net earnings	4.87	3.81	3.67	3.21	2.60
Fully diluted net earnings	4.84	3.79	3.65	3.19	2.58
Adjusted fully diluted net earnings <sup>(1)</sup>	4.65	3.93	3.56	3.23	2.48
Book value	26.19	23.74	23.25	20.85	18.64
Dividend	0.8375	0.7475	0.6475	0.5375	0.49
<b>FINANCIAL RATIOS</b> (%)					
EBITDA <sup>(1)(2)</sup> /Sales	7.4	6.7	6.9	6.6	6.0
Operating income/Sales	5.9	5.2	5.2	4.9	4.3
Return on equity	19.8	16.6	16.6	16.4	14.6
Non-current debt/Total capital	27.7	29.9	29.1	30.7	32.7
<b>SHARE PRICE</b> (DOLLARS)					
High	59.68	49.55	47.01	40.00	35.85
Low	43.76	42.11	33.02	27.38	21.00
Closing price (AT YEAR-END)	58.40	44.69	45.15	34.73	31.77

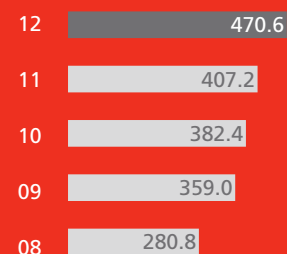
(1) See section on "IFRS and non-IFRS measurements" on page 35 in the MD&A

(2) Earnings before financial cost, taxes, depreciation and amortization

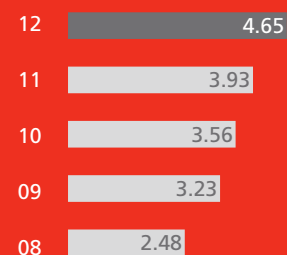
## SALES (MILLIONS OF DOLLARS)



## ADJUSTED NET EARNINGS<sup>(1)</sup> (MILLIONS OF DOLLARS)



## ADJUSTED FULLY DILUTED NET EARNINGS PER SHARE<sup>(1)</sup> (DOLLARS)



## Letter to our shareholders

We are pleased to present our achievements and results for the 2012 fiscal year. We surpassed the objectives that we had set for ourselves and our financial performance reached new heights.

Our sales reached \$12,010.8 million, compared to \$11,396.4 million in 2011, up 5.4%. The 2012 fiscal year had 53 weeks and excluding the extra week, sales increased by 3.4%. Adonis stores and distributor Phoenicia contributed \$236.6 million, and same store sales were up 1.2% for the year.

Net earnings for fiscal 2012 reached \$489.3 million, up 24.6% from \$392.7 million last year. Fully diluted net earnings per share were \$4.84 compared to \$3.79 last year, an increase of 27.7%. Excluding the non-recurring items recorded in 2012 and in 2011, our adjusted net earnings<sup>(1)</sup> were \$470.6 million in 2012, compared to \$407.2 million in 2011, up 15.6%, and our adjusted fully diluted net earnings per share<sup>(1)</sup> were \$4.65 compared to \$3.93, up 18.3%.

Return on equity was 19.8% in fiscal 2012, exceeding 14% for the 19<sup>th</sup> consecutive year. The annual dividend per share increased by 12.0%, the 18<sup>th</sup> consecutive year of dividend growth. We repurchased more than 4 million shares in 2012, approximately the same number as in 2011. Our share price at the end of fiscal 2012 was \$58.40, compared to \$44.69 in 2011, up 30.7%. The METRO share has increased over the past 15, 10 and 5 fiscal years by 613.9%, 235.6% and 66.9% respectively, a higher return than the S&P/TSX Index and the Canadian Food Retail Index. Our financial situation is very healthy with a total non-current debt to capital ratio of 27.7% at the end of fiscal 2012 and a BBB credit rating.

This strong financial performance was achieved in a challenging economic environment. Despite very little food inflation and intensifying competition in the discount segment, our teams once again executed very well and delivered another year of solid growth.

(1) See section on "IFRS and non-IFRS Measurements" on page 35 in the MD&A.



**PIERRE H. LESSARD**  
Executive Chairman of the Board





**ERIC R. LA FLÈCHE**  
President and Chief Executive Officer

## 2012 ACHIEVEMENTS

Remaining faithful to our mission of satisfying our customers every day to earn their long-term loyalty, we worked on several projects by putting our customers at the centre of our actions in order to improve their shopping experience.

We continued our *Produce Initiative*, launched last year, aimed at improving our fruit and vegetable offering at store level. We have invested over \$40 million in training and new equipment and displays in more than half of our stores. Our customers responded very favourably, which is reflected in our increased sales in this key department.

We also provided training to our employees throughout the Corporation to achieve our *Five Customer Promises* program. The program is a commitment to our customers that they will find great quality fresh products, professional and welcoming employees, a pleasant and efficient shopping experience, and the products that they want, all at competitive prices. Over 27,000 employees received training in Ontario and 12,500 in Québec. We track our performance on those promises via customer surveys and the best performing stores are recognized.

Thanks to our *metro&moi* loyalty program in Québec, and the *Air Miles*® card in Ontario, we distinguish ourselves by rewarding our loyal customers with personalized offers. Sales to our loyal customers are up and we will continue on this path in the coming year<sup>(2)</sup>.

(2) See section on "Forward-Looking Information" on page 35 in the MD&A.

We invested \$281.8 million with our retailers in the store network and \$25 million in our distribution centres with the start of construction of a new 240,000 square foot produce and dairy warehouse in Laval, for which a total of \$50 million<sup>(1)</sup> will be invested.

On October 23, 2011, we acquired 55% of Adonis stores and distributor Phoenicia. This strategic partnership with the founders expands our store offer with a differentiated format in order to better meet the changing needs of consumers. This partnership will help us improve the offer of ethnic products in our existing stores.

We continued to develop our network of pharmacies by adding one Brunet Plus pharmacy and by opening 11 Brunet Clinique pharmacies, including two in our Super C discount stores, and by acquiring the prescription files of seven Zellers pharmacies located in Ontario. In just its second year the popularity of our *MaSanté* program continues to grow with our customers.

We also published our first Corporate Responsibility Report which is available on our website at [www.metro.ca](http://www.metro.ca).

#### **OBJECTIVES AND PRIORITIES FOR 2013<sup>(1)</sup>**

The new fiscal year presents several challenges. Economic growth in Québec and in Ontario is fragile, food inflation remains minimal and household debt is high. Consumers will remain cautious, always searching for the best value. Competition will be very active as new discount stores will open in our markets.



**PIERRE H. LESSARD, FCPA, FCA**  
Executive Chairman of the Board

We believe that we can continue to grow by executing our proven strategy based on customer focus, strong execution, best team, and creating value for our shareholders.

Our teams will work tirelessly to improve the offer in our Metro supermarkets, particularly fresh, organic and ready-to-eat products, in order to provide a unique and pleasant shopping experience. Our loyalty programs will evolve to provide even more personalized rewards to our loyal customers, and digital channels and social media will be an integral part of our personalization strategy. Our discount stores will continue to offer very competitive prices and differentiate themselves with a superior fresh offer while maintaining a low-cost structure.

Finally, as we have consistently done over the years, we will continue to invest in our retail network and our distribution centres, and we plan to open new Adonis stores in Québec and in Ontario in 2013.

#### **ACKNOWLEDGEMENTS**

We would like to thank our colleagues for their contribution and, particularly, for achieving very strong results. Their dedication and superior ability to execute is a great source of pride for us. We would also like to thank the members of the Board of Directors for their sound advice and support. Finally, we would like to thank you, our shareholders, for your continued trust.



**ERIC R. LA FLÈCHE**  
President and Chief Executive Officer

(1) See section on "Forward-Looking Information" on page 35 in the MD&A.

# Review of operations

Our goal is to be the best performing food retailer in Canada and our mission is to satisfy our customers every day to earn their long-term loyalty. To achieve that objective, our strategy is based on four pillars; namely focussing on the customer, the best execution, the best team and creating value for our shareholders.

To set ourselves apart and continue to grow in the current environment, our strategy is to concentrate on food distribution and:

- Operate various types of food stores to better serve different customer needs, such as Metro and Metro Plus supermarkets, Super C discount stores in Québec and Food Basics discount stores in Ontario as well as our new Adonis stores.
- Offer superior quality fresh products in all of our stores.
- Increase the number of loyal customers and their purchases thanks to our loyalty programs.

## PROJECTS AND PRIORITIES

In 2012, we worked on the projects and priorities outlined on the following pages.

### GOAL

## TO BE THE BEST PERFORMING FOOD RETAILER IN CANADA

### MISSION

*To satisfy our customers every day  
and earn their long-term loyalty*

### PILLARS

**CUSTOMER  
FOCUS**

**STRONG  
EXECUTION**

**BEST  
TEAM**

**SHAREHOLDER  
VALUE**

## CORPORATE RESPONSIBILITY





### PRODUCE INITIATIVE

We continued with our *Produce Initiative*, launched last year, aimed at improving our fruit and vegetable offering at store level. All aspects related to produce were improved, from choosing suppliers to presentation standards, along with the supply chain and employee training. Thus far we have invested over \$40 million in more than half of our Metro and Metro Plus supermarkets, as well as in our Super C and Food Basics discount stores, to install new counters and displays in order to increase the variety and freshness of our produce. Over 50 new varieties of fruits and vegetables have been added and our employees received training to improve our offer.

We are very pleased with the favourable response from our customers which is reflected in our increased sales in this key department. We will continue to implement the *Produce Initiative* in our other stores throughout the coming year.







*Every quarter, employees of the highest performing stores are recognized*

**FIVE CUSTOMER PROMISES PROGRAM**

Our *Five Customer Promises* program is a commitment to our customers in order to meet and exceed their expectations. This commitment is made up of the following five promises.



- 1 GREAT QUALITY FRESH PRODUCTS
- 2 THE PEOPLE ARE GREAT
- 3 IT'S EASY TO SHOP
- 4 CUSTOMERS GET WHAT THEY WANT
- 5 PRICES ARE GOOD

To ensure the success of the program and its uniform application across our entire network of stores, a vast training program was provided to our employees. Over 27,000 employees received training in Ontario and over 12,500 employees in Québec have already been trained and the rest will follow in 2013. In order to measure the achievement of our objectives, we conduct surveys asking for our customers' opinion and, along with other measures, we compare the results on a store by store basis and share them with our employees. Every quarter, employees of the highest performing stores are recognized and receive rewards. Customer satisfaction has improved and should grow thanks to all of our teams rallying around the five promises.

*We expanded our lines of  
Irresistibles Life Smart, Irresistibles Organic  
and Irresistibles Gluten Free products*



#### **PRIVATE LABELS**

The vast majority of Canadian consumers feel that private label products offer good value and, in today's challenging economy, these products are essential. It was with that in mind that we reviewed our entire portfolio of private labels in 2012, consisting of over 4,500 products.

We launched a new image for our *Selection* product line in order to improve their at-shelf visibility and value perception. By the end of the fiscal year, over 1,200 products had already changed their packaging and, based on the favourable response from our customers, in 2013 we plan to complete the transition of the other 1,600 *Selection* brand products. We also developed some 200 *Selection Great Savings* products, a low price category clearly identified with a yellow band. The packaging design of

our 1,000 *Irresistibles* products was also updated to highlight their superior quality. We also expanded our lines of *Irresistibles Life Smart*, *Irresistibles Organic* and *Irresistibles Gluten Free* products.

Along with these food products we also offer close to 300 *Selection* brand pharmaceutical and beauty products. In the early fall of 2012, we launched *Hémisphère* and *Les vins du Marché* exclusive wines, available in Québec in Metro and Metro Plus supermarkets as well as in Super C discount stores.





#### ACQUISITION OF ADONIS STORES AND OF DISTRIBUTOR PHOENICIA

Conscious of the evolving tastes of consumers, we are pleased to have partnered with the founders of the Adonis stores and distributor Phoenicia by acquiring, on October 23, 2011, a 55% interest in these two businesses. The five stores, including a 50,000 square foot store that opened in December 2011 in a Montréal suburb, are known for their Mediterranean and Middle-Eastern products. Their offer of fresh products and prepared dishes is very popular. The marinated meats, French and Oriental pastries and pita bread baked on the premises are unique and clearly differentiated from the competition. We are counting on this partnership to improve our offer of ethnic products in our Metro and Metro Plus supermarkets and in our Super C and Food Basics discount stores. Private label Cedar and Phoenicia products are already available in our stores and in the medium term we plan to add certain fresh Adonis products. Given the success of these stores, we are confident that opening new stores will be profitable<sup>(1)</sup>.

*A strategic partnership*



(1) See section on "Forward-Looking Information" on page 35 in the MD&A.



In October 2012, the Adonis store in Laval was relocated to a 50,000 square foot building and customers were delighted. We also announced the opening in the summer of 2013, of a sixth Adonis store in downtown Montréal. We are currently working on opening, in the spring of 2013, the first Adonis store in the Toronto area and we are planning for other stores in Ontario in the coming years.

\$50 million worth of rewards on *metro&moi* and through *Air Miles*® points to our customers.

In order to develop an even closer relationship with our most loyal customers, we send them additional personalized offers that provide them even more savings. With over 1,250,000 members of the *metro&moi* program in Québec and the popularity of the *Air Miles*® card in Ontario, we



**LOYALTY PROGRAMS**

Launched at the end of the 2010 fiscal year, we have now completed two full years with our *metro&moi* loyalty card, available in our Metro and Metro Plus supermarkets in Québec. Our Ontario Metro stores are part of the the *Air Miles*® coalition loyalty program.

believe that these programs improve the customer experience in our Metro stores through greater personalization.

Thanks to these loyalty cards and with the help of our partner Dunnhumby Canada, we are able to analyze the purchasing habits of our customers and offer them personalized promotions. Along with rewards that can be exchanged for in-store purchases of products, every three months our customers receive personalized offers with bonus points on their favourite products. Over the course of the year we awarded approximately



## LOGISTICS AND PRODUCTIVITY

We developed a computer application in order to better manage store replenishment of fresh products. This initiative produced significant savings with reduced shrink and improved labour productivity. The application was implemented for the main categories of fresh products and will be extended to other fresh products over the course of the coming year.

## INVESTMENTS IN OUR RETAIL NETWORK AND DISTRIBUTION CENTRES

In 2012, we continued to invest in our retail network with investments totalling \$281.8 million, for a gross increase of 383,200 square feet and a net increase of 34,400 square feet or 0.2%. We opened seven new stores and carried out major expansion and remodels in 19 stores, and we closed 11 stores. We invested in our distribution centres by adding freezer space in our main Toronto centre, and by starting construction of a new produce and dairy products warehouse in Laval which represents a total investment of \$50 million.



*A new \$50 million produce and dairy warehouse in Laval*

**Brunet**  
Votre santé, c'est tout ce qui compte

**MaSanté**  
est toujours à l'heure.  
*is always on time.*

Reminder  
Take your medication today at 6:00 PM

MaSanté est un outil incroyable qui vous permet de créer un rappel de prise de médicaments en tout temps, où que vous soyez.  
MaSanté is an incredible tool that allows you to create a medication reminder anytime, from anywhere.

Cet outil unique vous permet:  
This unique tool allows you to:

- d'accéder à votre dossier personnel  
access your personal file
- de faire vos renouvellements  
refill your prescriptions
- de suivre votre santé de près  
stay on top of your health
- de prendre soin de toute votre famille  
take care of your entire family

Adhérez dès maintenant en succursale ou renseignez-vous sur [Brunet.ca](http://Brunet.ca)  
Register in store today or learn more at [Brunet.ca](http://Brunet.ca)

## WWW.METRO.CA

In 2012 we have undertaken a complete review of our [www.metro.ca](http://www.metro.ca) website. Already very popular, we want to renew our site by making it more user-friendly. Over the coming months, our customers will be able to receive personalized offers according to their preferences and plan their weekly meals and purchases.

## DRUGSTORE NETWORK

We continued to develop our network of drugstores by adding one Brunet Plus pharmacy and by opening 11 Brunet Clinique pharmacies, including two inside our Super C discount stores, as well as by acquiring the prescription files of seven Zellers pharmacies located in Ontario. We are in just the second year of our *MaSanté* program and its popularity continues to grow with more members. Patients can easily access their personal file online, receive electronic medication reminders on their smart phones, read helpful tips concerning medication and check key data with respect to their health such as weight, blood sugar and blood pressure.

# Corporate responsibility

As a leader in the area of food and pharmaceutical distribution in Canada, METRO wishes to contribute to the implementation of better practices that will pave the way toward commercial activities that are in harmony with today's society. That's why METRO decided, in 2010, to increase its efforts with respect to environmental, social and economic issues. At that time, we adopted a corporate responsibility approach in order to better structure our programs and our actions and link them to our corporate strategy. That decision led us to question some of our management, supply and distribution policies in our administrative offices, as well as in our warehouses and our stores. As a result, we created several committees (including sustainable fisheries, optimization of packaging, energy, local purchasing) in charge of finding better ways of going about our business.

Corporate responsibility is the foundation of our business strategy. Our approach is built around four pillars that enable us to properly target our intentions and our actions that affect our relationships with the environment, our customers, the communities in which we operate and our employees.

In April of 2012, METRO published its first Corporate Responsibility Report detailing the various initiatives that were put forth in 2010 and 2011. Here are the highlights of the report.

Promoting health and nutrition

Food quality and safety

Responsible product offerings

Sourcing responsibly

Investing in our communities

Supporting local suppliers



Rethinking packaging

Addressing climate change

Managing waste

Creating ethical, safe and healthy work environments

Professional development and rewarding performance

Employee engagement and organizational effectiveness



## RESPECT FOR THE ENVIRONMENT

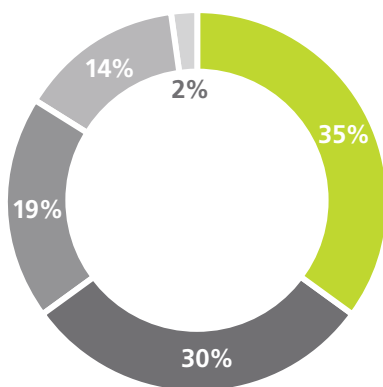
**METRO places great importance on protecting the environment. We are committed to making responsible choices in order to minimize our carbon footprint.**

- Set a goal to reduce our overall energy consumption by 10% by 2016 using 2010 as our baseline.
- Set a goal to reduce waste destined for landfills by 25% by 2016 using 2010 as our baseline.
- Reduced by 75% the distribution of plastic bags since 2008.
- Implemented initiatives to reduce packaging through which we achieved the following results.
  - 30% reduction in the weight of certain packaging used for our private brand frozen entrées.
  - 25% reduction in the packaging weight of our private brand meal bars.
- Recycled in 2010 over 70,000 metric tonnes of material involving our overall operations in Québec and Ontario.



### LOOKING FORWARD

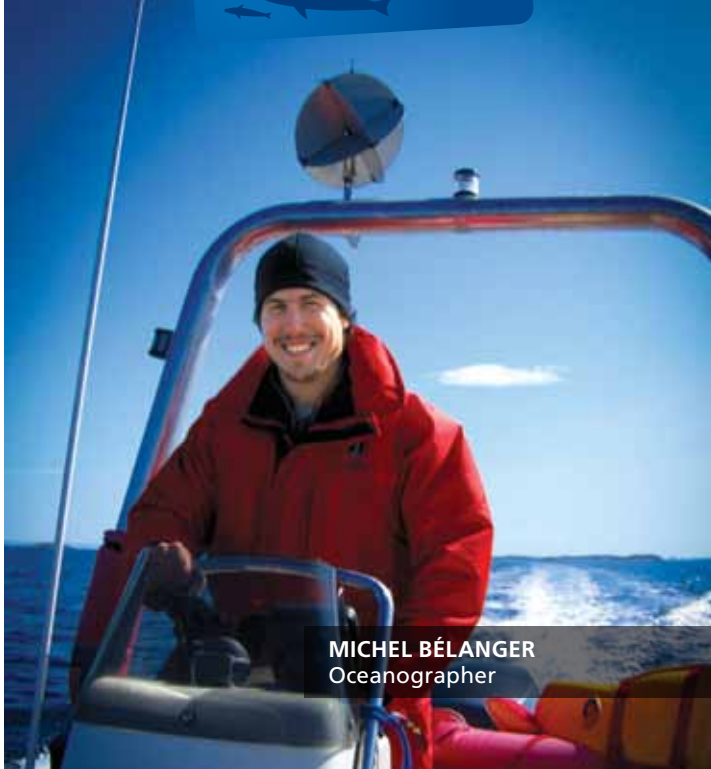
- We will continue our efforts to reduce the distribution of plastic bags.
- We plan to implement our internal packaging policy to respect our commitments.
- Our energy saving initiatives are expected to help us achieve our objective of reducing our energy consumption.
- Our various initiatives will allow the cutting of 250,000 km from the paths travelled to carry our products through the optimization of our transport practices.
- The programs in place as well as those to come are expected to help us achieve our goal of reducing our waste.
- We will complete the inventory of our waste and recyclables to better measure our waste diversion performance.



### SOURCE OF CARBON EMISSIONS

- Energy from buildings
- Landfill
- Refrigeration
- Transportation carriers
- Transportation (METRO)

Today's  
**SUSTAINABLE  
CHOICES**



**MICHEL BÉLANGER**  
Oceanographer



## DELIGHTED CUSTOMERS

Our customer-centric approach is at the very foundation of our business and the key element of our corporate responsibility strategy. During 2010 and 2011, we conducted the following initiatives.

- Introduced more than 20 *Irresistibles* Gluten Free products.
- Introduced over 100 reduced sodium content *Selection* and *Irresistibles* products.
- Expanded our *Life Smart Irresistibles* line to 170 healthful products.
- Developed a plan toward sourcing sustainable palm oil over the next five years.
- Defined responsible procurement principles to provide guidance to our suppliers with respect to, among other things, business ethics, human rights, and the environment.
- Implemented a Sustainable Fisheries Policy and ceased selling seven threatened fish species.
- Reviewed more than 185 suppliers' practices to ensure compliance with the *Global Food Safety Initiative*.

## LOOKING FORWARD

- We will continue to expand our *Life Smart* product line, making it even easier for our customers to make healthier food choices.
- We will further expand our line of *Eco-Selection* products, which are Eco Logo certified, readily biodegradable, non-toxic and contain no artificial fragrances.
- We are expanding our Sustainable Fisheries Policy to include our private label grocery products.

## STRENGTHENED COMMUNITIES

Strengthening communities by investing in social programs and supporting local suppliers is an integral part of our business philosophy aimed at creating shared value.

- Contributed \$5.6 million worth of cash, goods and services to the community in 2010-2011.
- Developed a Community Investment Program to which METRO will donate annually an amount equal to 1% of our average net earnings over the last three years.
- Expanded our efforts to showcase Québec and Ontario products in our stores.

### LOOKING FORWARD

- Thanks to our new community investment program, we will carry out various initiatives; the *Metro Green Apple School* program being one of them.
- We will strive to define METRO's meaningful commitments to encourage local sourcing.







## EMPOWERED EMPLOYEES

METRO employs directly and indirectly in its network more than 65,000 people across Québec and Ontario. Recruiting, training and retaining the best team is crucial to our success.

- Implemented our training and mobilization program with respect to our *Five Customer Promises* for all of our Québec and Ontario store employees.
- Reduced our accident frequency rate by 24.5% since 2009.
- Participation of more than 4,000 employees in our annual mobilization survey.

### LOOKING FORWARD

- We will continue to upgrade our activities and equipment in our stores and in our establishments, in order to reduce the risk related to machine safety and to reduce the number of injuries.
- We will establish competency and proficiency levels for various job categories.
- As part of our *Five Customer Promises* program, store employees will receive additional customer service training.
- We will continue to carry out our employee survey to better meet their expectations.

Reduced our accident  
frequency rate by

**24.5%**

since

**2009**

# MD&A and Consolidated Financial Statements

FOR THE YEAR ENDED  
SEPTEMBER 29, 2012

**metro**

**TABLE OF CONTENTS**

	<b>Page</b>
Overview .....	19
Goal, mission and strategies .....	19
Key performance indicators .....	20
Key achievements in fiscal 2012 .....	20
Event after the reporting period .....	21
Highlights .....	21
Outlook .....	22
Operating results .....	23
Quarterly highlights .....	25
Cash position .....	27
Financial position .....	27
Sources of financing .....	30
Contractual obligations .....	30
Related party transactions .....	30
Fourth quarter .....	30
Derivative financial instruments .....	33
New accounting policies .....	33
IFRS and non-IFRS measurements .....	35
Forward-looking information .....	35
Controls and procedures .....	35
Significant judgements and estimates .....	36
Risk management .....	37
Management's responsibility for financial reporting .....	40
Independent auditors' report .....	41
Annual consolidated financial statements .....	43

The following Management's Discussion and Analysis sets out the financial position and consolidated results of METRO INC. for the fiscal year ended September 29, 2012, and should be read in conjunction with the annual consolidated financial statements and the accompanying notes as at September 29, 2012. This report is based upon information as at November 30, 2012 unless otherwise indicated. Additional information, including the Annual Information Form and Certification Letters for fiscal 2012, is available on the SEDAR website at [www.sedar.com](http://www.sedar.com).



## OVERVIEW

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

The Corporation, 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 363 supermarkets under the Metro and Metro Plus banners. The Adonis banner, which currently has five stores, is specialized in fresh produce and Mediterranean and Middle-Eastern products. The 196 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 Corporation or by special purpose entities and their financial statements are consolidated with those of the Corporation. Independent owners bound to the Corporation by leases or affiliation agreements operate a large number of Metro and Metro Plus stores. Supplying these stores contributes to our sales. The Corporation 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 Corporation's sales.

The Corporation also acts as franchisor and distributor for 186 franchised Brunet Plus, Brunet, Brunet Clinique, and Clini Plus drugstores, owned by independent pharmacists. The Corporation also operates 74 drugstores under Pharmacy and Drug Basics banners. Their sales are included in the Corporation's. Supplying non-franchised drugstores and various health centres also contributes to our sales.

## GOAL, MISSION AND STRATEGIES

The Corporation's goal 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 Corporation'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 net earnings per share and significant return on equity. Our investments and acquisitions are appropriate and beneficial in the long term.

<sup>(1)</sup> See section on "IFRS and Non-IFRS Measurements"

<sup>(2)</sup> See section on "Forward-looking Information"

## KEY PERFORMANCE INDICATORS

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

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

## KEY ACHIEVEMENTS IN FISCAL 2012

Despite a challenging economic environment, very little food inflation and intensifying competition in the discount segment, we recorded a 5.4% increase in sales and a 18.3% increase in our adjusted fully diluted net earnings per share<sup>(1)</sup> in 2012. The 2012 fiscal year was 53 weeks long, one more than in fiscal 2011. That extra week had an impact of \$228.2 million on our sales and \$0.11 on our net earnings per share. These results were achieved thanks to the work of our teams, carrying out their business plans very well and implementing several projects, including the following main ones:

- we continued with our *Produce Initiative*, launched last year, aimed at improving our fruit and vegetable offering at store level. All aspects related to produce were improved, from choosing suppliers to presentation standards, along with the supply chain and employee training. Over half of our stores are equipped with new counters and displays and over 50 new varieties of fruits and vegetables have been added;
- our *Five Customer Promises* program is a commitment that we make to our customers in order to better meet their expectations. To ensure the success of the program and its uniform application across our entire network of stores, a vast training program was provided to our employees. Training has been completed in Ontario where over 27,000 employees received it. In Québec, over 12,500 employees have already received training and the rest will be in 2013;
- over the course of the year, we adopted a new image for our *Selection* product line in order to improve their at-shelf visibility and value perception of very good value. By the end of the fiscal year, one-third of the products had already changed their packaging. We also started selling new product lines, including *Selection Great Savings* and *Hémisphère* and *Les vins du Marché* exclusive wines. We also reviewed the packaging of our *Irresistibles* products in order to highlight their superior quality and expanded our lines of *Irresistibles Life Smart*, *Irresistibles Organic* and *Irresistibles Gluten Free* products;
- early in the fiscal year, we acquired 55% of the net assets of Adonis stores and distributor Phoenicia. Aware of the evolving tastes of consumers, we are counting on this acquisition to improve our offer of Mediterranean and Middle-Eastern products in our supermarkets and discount stores. Private label *Cedar* and *Phoenicia* products are already available in our stores;
- in order to develop an even closer relationship with our most loyal customers, we are sending them additional personalized promotions which provide them with additional savings. In 2012, we awarded approximately \$50 million worth of rewards on *metro&moi* and through *Air Miles*® points to our customers;
- we developed a computer application in order to better manage store replenishment of fresh products. This initiative produced significant savings with reduced shrink and improved labor productivity. The application was implemented for the main categories of fresh products and will be expanded to other fresh products over the course of the coming year;

<sup>(1)</sup> See section on "IFRS and Non-IFRS Measurements"

<sup>(2)</sup> See section on "Forward-looking Information"

- we continued to invest in our store network, along with our retailers, with investments totalling \$281.8 million. We opened seven new stores and carried out major renovations and expansions in 19 stores;
- we continued to develop our drugstore network by adding one Brunet Plus pharmacy and by opening 11 Brunet Clinique pharmacies, including two inside our Super C discount stores, as well as having acquired the prescription files of seven Zellers pharmacies located in Ontario;
- we invested in our distribution centres with the expansion of freezer space in our main Toronto centre, for an amount of \$10 million, and the start of construction of a new produce and dairy warehouse in Laval, for a total investment of \$50 million over two years;
- we have undertaken a complete review of our www.metro.ca website in order to make it more user-friendly. Over the coming months, our customers will be able to receive personalized offers according to their preferences and plan their weekly meals and purchases;
- we published our first Corporate Responsibility Report which is available on our website: www.metro.ca.

## EVENT AFTER THE REPORTING PERIOD

On October 22, 2012, we announced a conditional agreement to dispose of our food service operation, the Distagro division, which supplies restaurant and gas station chains. The disposal for a consideration of approximately \$15 million<sup>(2)</sup> excluding working capital and a net gain after taxes of approximately \$7 million<sup>(2)</sup> should take place in the next few weeks.

The transaction will be recorded in our financial statements as a discontinued operation and the Corporation's consolidated income statements for current and prior periods will be restated. Related Distagro sales and expenditures will be recorded as a net loss on a discontinued operation under a separate income statement section.

## HIGHLIGHTS

	<b>2012</b>	2011	Variation	2010
	<i>(53 weeks)</i>	<i>(52 weeks)</i>	%	<i>(52 weeks)</i>
<i>(Millions of dollars, unless otherwise indicated)</i>	<b>(IFRS)</b>	<b>(IFRS)</b>		<b>(GAAP)</b>
Sales	<b>12,010.8</b>	11,396.4	5.4	11,342.9
Net earnings	<b>489.3</b>	392.7	24.6	391.8
Adjusted net earnings <sup>(1)</sup>	<b>470.6</b>	407.2	15.6	382.4
Fully diluted net earnings per share <i>(Dollars)</i>	<b>4.84</b>	3.79	27.7	3.65
Adjusted fully diluted net earnings per share <sup>(1)</sup> <i>(Dollars)</i>	<b>4.65</b>	3.93	18.3	3.56
Return on equity (%)	<b>19.8</b>	16.6	—	16.6
Dividend per share <i>(Dollars)</i>	<b>0.8375</b>	0.7475	12.0	0.6475
Total assets	<b>5,150.4</b>	4,827.1	6.7	4,796.9
Non-current financial liability	<b>986.0</b>	1,034.3	(4.7)	1,009.0

*Not having the same accounting standards, variations between 2011 and 2010 are not presented.*

Corporation sales were \$12,010.8 million in 2012, up 5.4% compared to \$11,396.4 million in 2011. Fiscal 2010 sales were \$11,342.9 million. Fiscal 2012 was 53 weeks long, one week longer than fiscal 2011. Excluding this extra week, fiscal 2012 sales were up 3.4%. Adonis stores and distributor Phoenicia's sales contributed \$236.6 million to 2012 sales. Fiscal 2012 sales were affected by modest inflation that was lower than the Consumer Price Index reported by Statistics Canada. Fiscal 2011 sales were affected by lower drug pricing following the expiry of important drug patents and new generic drug legislation in Québec 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.

<sup>(1)</sup> See section on "IFRS and Non-IFRS Measurements"

<sup>(2)</sup> See section on "Forward-looking Information"

Net earnings for fiscal 2012 reached \$489.3 million, up 24.6% from the previous fiscal year. Net earnings for fiscal 2011 were \$392.7 million, and \$391.8 million in fiscal 2010. Fully diluted net earnings per share increased 27.7% to \$4.84 in 2012 compared with the previous fiscal year. The impact of fiscal 2012's 53<sup>rd</sup> week on fully diluted net earnings per share was \$0.11. Fully diluted net earnings per share for 2011 were \$3.79 and \$3.65 in 2010.

We recorded non-recurring items for all three fiscal years. These items consisted of the Alimentation Couche-Tard dilution gain of \$25.0 million before taxes and a non-recurring income tax expense of \$3.0 million in 2012, closure costs of \$20.5 million before taxes in 2011 for the closure of our meat processing plant in Montréal and a grocery warehouse in Toronto, as well as an income tax expense decrease of \$10.0 million and pre-tax banner conversion costs of \$0.9 million in 2010. Excluding all of these items, adjusted net earnings<sup>(1)</sup> for fiscal 2012 were \$470.6 million, \$407.2 million in 2011 and \$382.4 million in 2010. Adjusted fully diluted net earnings per share<sup>(1)</sup> for fiscal 2012 were \$4.65, up 18.3% from \$3.93 in 2011. Adjusted fully diluted net earnings per share<sup>(1)</sup> for fiscal 2010 were \$3.56.

Excluding the impact of the 53<sup>rd</sup> week as well as the acquisition of Adonis stores and distributor Phoenicia, the increase in net earnings for 2012 compared to 2011 is due to our teams' excellent execution, effective cost control, and sustained investment in our network.

Return on equity totalled 19.8% in 2012, 16.6 % in 2011 and 2010. Dividends per share were \$0.8375 in 2012, \$0.7475 in 2011 and \$0.6475 in 2010 representing \$82.9 million, \$77.1 million and \$69.2 million respectively. Total assets were \$5,150.4 million in 2012, \$4,827.1 million in 2011 and \$4,796.9 million in 2010. Non-current financial liabilities were \$986.0 million in 2012, \$1,034.3 million in 2011 and \$1,009.0 million in 2010.

## **OUTLOOK**

While we expect competitive activity will remain strong in 2013, we will continue<sup>(2)</sup> to bank on our strategy underpinned by four pillars: customer focus, strong execution, best team and shareholder value creation to maintain our growth.

<sup>(1)</sup> See section on "IFRS and Non-IFRS Measurements"

<sup>(2)</sup> See section on "Forward-looking Information"



## OPERATING RESULTS

### SALES

Sales reached \$12,010.8 million in 2012, up 5.4% from \$11,396.4 million last year. The 2012 fiscal year was 53 weeks long, one week longer than fiscal 2011. Excluding this extra week, fiscal 2012 sales were up 3.4%. Adonis stores and distributor Phoenicia contributed \$236.6 million to the Corporation's 2012 sales. Same store sales were up 1.2% for fiscal 2012 compared to 2011. We experienced modest inflation in 2012, but lower than the Consumer Price Index reported by Statistics Canada.

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

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

	Fiscal Year						Change %
	2012 (53 weeks)			2011 (52 weeks)			
	EBITDA	Sales	EBITDA/ Sales (%)	EBITDA	Sales	EBITDA/ Sales (%)	EBITDA
<i>(Millions of dollars, unless otherwise indicated)</i>							
EBITDA	894.3	12,010.8	7.4	766.3	11,396.4	6.7	16.7
Closure costs	—	—	—	20.5	—	—	—
Couche-Tard dilution gain	(25.0)	—	—	—	—	—	—
Adjusted EBITDA	869.3	12,010.8	7.2	786.8	11,396.4	6.9	10.5
Share of earnings in Couche-Tard	(47.6)	—	—	(42.4)	—	—	—
Adjusted EBITDA excluding share of earnings	821.7	12,010.8	6.8	744.4	11,396.4	6.5	10.4

EBITDA<sup>(1)</sup> for fiscal 2012 was \$894.3 million, up 16.7% from \$766.3 million for fiscal 2011.

In fiscal 2012, we recorded a non-recurring gain of \$25.0 million before taxes; in fiscal 2011, a non-recurring loss of \$20.5 million before taxes.

In August 2012, Alimentation Couche-Tard issued 7.3 million shares for net proceeds of approximately \$330 million to finance part of its acquisition of Statoil Fuel & Retail ASA. As the Corporation did not participate in this share issue, our interest in Alimentation Couche-Tard decreased from 11.6% to 11.1%. This dilution and our share in Alimentation Couche-Tard's increased value as a result of the share issue amount to a deemed disposition and deemed proceeds of disposition of part of our investment for a net pre-tax gain of \$25.0 million.

In the fourth quarter of 2011, we closed our meat processing plant in Montréal and a grocery warehouse in Toronto to improve operational efficiency. Closure costs were \$20.5 million before taxes.

Excluding these non-recurring items, adjusted EBITDA<sup>(1)</sup> for fiscal 2012 was \$869.3 million, up 10.5% from \$786.8 million in 2011.

Our share of earnings in Alimentation Couche-Tard, excluding the dilution gain of \$25.0 million before taxes, was \$47.6 million for fiscal 2012, versus \$42.4 million for fiscal 2011. In its last two quarterly reports, Alimentation Couche-Tard stated that non-recurring items were included in those quarters and that excluding them reduced the adjusted net earnings<sup>(1)</sup> for its fourth quarter ended April 29, 2012 by \$US 15.4 million and increased its adjusted net earnings<sup>(1)</sup> for the first quarter ended July 22, 2012 by \$US 70.1 million.

Excluding the non-recurring items and our share of earnings in Alimentation Couche-Tard, the adjusted EBITDA<sup>(1)</sup> for fiscal 2012 was \$821.7 million or 6.8% of sales. Adjusted EBITDA<sup>(1)</sup> for last year was \$744.4 million or 6.5% of sales. Adjusted EBITDA<sup>(1)</sup>, excluding our share of earnings in Alimentation Couche-Tard, for fiscal 2012 was up 10.4% over fiscal 2011.

<sup>(1)</sup> See section on "IFRS and Non-IFRS Measurements"

<sup>(2)</sup> See section on "Forward-looking Information"

The increase in EBITDA<sup>(1)</sup> for fiscal 2012 compared to 2011 is also attributable to the results for the 53<sup>rd</sup> week of 2012 when several fixed costs were no longer in effect. The impact of the 53<sup>rd</sup> week on EBITDA<sup>(1)</sup> was \$16.0 million.

Gross margin for fiscal 2012 was 18.4% compared to 18.1% for fiscal 2011. Our merchandising strategies, reduced in-store losses, and Adonis stores contributed to this increase.

**DEPRECIATION AND AMORTIZATION AND NET FINANCIAL COSTS**

Total depreciation and amortization expense for fiscal 2012 amounted to \$183.9 million compared to \$179.3 million for last year. Fiscal 2012 net financial costs totalled \$46.4 million versus \$41.5 million last year. Interest rates averaged 4.2% for fiscal 2012 and 2011.

**INCOME TAXES**

Fiscal 2012 income tax expense of \$174.7 million represented an effective tax rate of 26.3%. Fiscal 2011 income tax expense of \$152.8 million represented an effective tax rate of 28.0%. On June 20, 2012, the Ontario Legislative Assembly adopted the budget tabled on March 27, 2012, thereby deferring the scheduled reductions in corporate tax rates of 0.5% on July 1, 2012 and of 1.0% on July 1, 2013 until an expected balanced budget in 2017-2018 is attained. With these reductions in tax rates being suspended and deferred conditionally, we cancelled in the third quarter of 2012, \$3.0 million of deferred taxes in our statement of financial position for tax savings recorded in prior periods related to these reductions in tax rates, and recorded an equivalent non-recurring income tax expense. Excluding this non-recurring tax expense, our effective tax rate for fiscal 2012 was 25.8%.

The tax rates for the 2012 periods were lower than those for the corresponding periods last year due to two federal corporate tax rate reductions of 1.5% each effective January 1, 2011 and 2012, as well as a 0.5% reduction in Ontario's effective July 1, 2011.

**NET EARNINGS**

Net earnings for fiscal 2012 reached \$489.3 million, up 24.6% from \$392.7 million last year. Fully diluted net earnings per share were \$4.84 compared to \$3.79 last year, an increase of 27.7%. Excluding the non-recurring tax expense of \$3.0 million and the Alimentation Couche-Tard dilution gain of \$25.0 million before taxes recorded in 2012 as well as the closure costs of \$20.5 million before taxes in 2011, our adjusted net earnings<sup>(1)</sup> were \$470.6 million and our adjusted fully diluted net earnings per share<sup>(1)</sup> were \$4.65, increases of 15.6% and 18.3% respectively. The impact of the 53<sup>rd</sup> week on fully diluted net earnings per share was \$0.11.

**Net earnings adjustments**

	Fiscal Year		2011		Change	
	2012 (53 weeks)		2011 (52 weeks)		(%)	
	(Millions of dollars)	Fully diluted EPS (Dollars)	(Millions of dollars)	Fully diluted EPS (Dollars)	Net earnings	Fully diluted EPS
Net earnings	489.3	4.84	392.7	3.79	24.6	27.7
Closure costs after taxes	—	—	14.5	0.14		
Couche-Tard dilution gain after taxes	(21.7)	(0.22)	—	—		
Non-recurring tax expense	3.0	0.03	—	—		
Adjusted net earnings <sup>(1)</sup>	470.6	4.65	407.2	3.93	15.6	18.3

<sup>(1)</sup> See section on "IFRS and Non-IFRS Measurements"

<sup>(2)</sup> See section on "Forward-looking Information"

## QUARTERLY HIGHLIGHTS

<i>(Millions of dollars, unless otherwise indicated)</i>	<b>2012</b> <i>(53 weeks)</i>	2011 <i>(52 weeks)</i>	Change %
<b>Sales</b>			
Q1 <sup>(3)</sup>	<b>2,711.7</b>	2,622.5	3.4
Q2 <sup>(3)</sup>	<b>2,651.9</b>	2,557.5	3.7
Q3 <sup>(4)</sup>	<b>3,703.5</b>	3,566.9	3.8
Q4 <sup>(5)</sup>	<b>2,943.7</b>	2,649.5	11.1
Fiscal	<b>12,010.8</b>	11,396.4	5.4
<b>Net earnings</b>			
Q1 <sup>(3)</sup>	<b>103.7</b>	95.5	8.6
Q2 <sup>(3)</sup>	<b>96.1</b>	85.7	12.1
Q3 <sup>(4)</sup>	<b>144.4</b>	127.1	13.6
Q4 <sup>(5)</sup>	<b>145.1</b>	84.4	71.9
Fiscal	<b>489.3</b>	392.7	24.6
<b>Adjusted net earnings<sup>(1)</sup></b>			
Q1 <sup>(3)</sup>	<b>103.7</b>	95.5	8.6
Q2 <sup>(3)</sup>	<b>96.1</b>	85.7	12.1
Q3 <sup>(4)</sup>	<b>147.4</b>	127.1	16.0
Q4 <sup>(5)</sup>	<b>123.4</b>	98.9	24.8
Fiscal	<b>470.6</b>	407.2	15.6
<b>Fully diluted net earnings per share (Dollars)</b>			
Q1 <sup>(3)</sup>	<b>1.01</b>	0.91	11.0
Q2 <sup>(3)</sup>	<b>0.94</b>	0.82	14.6
Q3 <sup>(4)</sup>	<b>1.43</b>	1.23	16.3
Q4 <sup>(5)</sup>	<b>1.46</b>	0.83	75.9
Fiscal	<b>4.84</b>	3.79	27.7
<b>Adjusted fully diluted net earnings per share<sup>(1)</sup> (Dollars)</b>			
Q1 <sup>(3)</sup>	<b>1.01</b>	0.91	11.0
Q2 <sup>(3)</sup>	<b>0.94</b>	0.82	14.6
Q3 <sup>(4)</sup>	<b>1.46</b>	1.23	18.7
Q4 <sup>(5)</sup>	<b>1.24</b>	0.97	27.8
Fiscal	<b>4.65</b>	3.93	18.3

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

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

<sup>(5)</sup> 2012 - 13 weeks, 2011 - 12 weeks

First, second and third quarter sales for 2012 reached \$2,711.7 million, \$2,651.9 million and \$3,703.5 million respectively, up 3.4%, 3.7% and 3.8% from \$2,622.5 million, \$2,557.5 million and \$3,566.9 million for the corresponding periods last year. Adonis stores and distributor Phoenicia sales contributed \$33.0 million to the Corporation's sales for eight weeks in the first quarter, \$59.0 million for the second quarter and \$81.3 million for the third quarter of 2012. Same store sales were up 1.7% over those for 2011 in the first quarter, 1.0% in the second quarter and 1.0% in the third quarter of 2012. We experienced moderate inflation in our food basket in the first quarter which was, however, lower than in the previous quarter and lower than levels reported by Statistics Canada. We experienced modest impact from inflation in the second quarter of 2012 albeit lower than in the previous quarter. During the third quarter of 2012, we experienced very modest inflation which was lower than in the first two quarters.

<sup>(1)</sup> See section on "IFRS and Non-IFRS Measurements"

<sup>(2)</sup> See section on "Forward-looking Information"

Fourth quarter sales for 2012 reached \$2,943.7 million, up 11.1% from \$2,649.5 million last year. Excluding the 53<sup>rd</sup> week of fiscal 2012, the sales increase for the fourth quarter was 2.5%. Adonis stores and distributor Phoenicia contributed \$63.3 million to 2012 fourth quarter sales. During the fourth quarter of 2012, we experienced very modest inflation similar to the previous quarter.

Net earnings for the first and second quarters of 2012 were \$103.7 million and \$96.1 million compared to \$95.5 million and \$85.7 million for the corresponding quarters last year, increases of 8.6% and 12.1%. Fully diluted net earnings per share rose 11.0% and 14.6% to \$1.01 and \$0.94 from \$0.91 and \$0.82 last year.

Net earnings for the third quarter of 2012 were \$144.4 million, up 13.6% from \$127.1 million for the corresponding quarter of 2011. Fully diluted net earnings per share for the third quarter of 2012 were \$1.43, up 16.3% from \$1.23 for the same quarter of 2011. Excluding the non-recurring tax expense of \$3.0 million, our adjusted net earnings<sup>(1)</sup> were \$147.4 million and our adjusted fully diluted net earnings per share<sup>(1)</sup> were \$1.46, up 16.0% and 18.7% respectively.

Net earnings for the fourth quarter of 2012 were \$145.1 million versus \$84.4 million for the corresponding quarter of 2011, an increase of 71.9%. Fully diluted net earnings per share were \$1.46 versus \$0.83 last year, an increase of 75.9%. Excluding the Alimentation Couche-Tard dilution gain of \$25.0 million before taxes recorded in the fourth quarter of 2012 as well as the closure costs of \$20.5 million before taxes in the corresponding quarter of 2011, our adjusted net earnings<sup>(1)</sup> for the fourth quarter of 2012 were \$123.4 million and our adjusted fully diluted net earnings per share<sup>(1)</sup> were \$1.24, for increases of 24.8% and 27.8% respectively. The significant increase in net earnings for the fourth quarter of 2012 is also attributable to the results for the 53<sup>rd</sup> week of 2012 when several fixed costs were no longer in effect. The impact of the 53<sup>rd</sup> week on fully diluted net earnings per share was \$0.11.

<i>(Millions of dollars)</i>	2012					2011				
	Q1	Q2	Q3	Q4	Fiscal	Q1	Q2	Q3	Q4	Fiscal
Net earnings	103.7	96.1	144.4	145.1	489.3	95.5	85.7	127.1	84.4	392.7
Closure costs after taxes	—	—	—	—	—	—	—	—	14.5	14.5
Couche-Tard dilution gain after taxes	—	—	—	(21.7)	(21.7)	—	—	—	—	—
Non-recurring tax expense	—	—	3.0	—	3.0	—	—	—	—	—
Adjusted net earnings <sup>(1)</sup>	103.7	96.1	147.4	123.4	470.6	95.5	85.7	127.1	98.9	407.2

<i>(Dollars and per share)</i>	2012					2011				
	Q1	Q2	Q3	Q4	Fiscal	Q1	Q2	Q3	Q4	Fiscal
Fully diluted net earnings	1.01	0.94	1.43	1.46	4.84	0.91	0.82	1.23	0.83	3.79
Closure costs after taxes	—	—	—	—	—	—	—	—	0.14	0.14
Couche-Tard dilution gain after taxes	—	—	—	(0.22)	(0.22)	—	—	—	—	—
Non-recurring tax expense	—	—	0.03	—	0.03	—	—	—	—	—
Adjusted fully diluted net earnings <sup>(1)</sup>	1.01	0.94	1.46	1.24	4.65	0.91	0.82	1.23	0.97	3.93

<sup>(1)</sup> See section on "IFRS and Non-IFRS Measurements"

<sup>(2)</sup> See section on "Forward-looking Information"



## CASH POSITION

### OPERATING ACTIVITIES

Operating activities generated cash flows of \$546.1 million in fiscal 2012 compared to \$542.4 million in fiscal 2011.

### INVESTING ACTIVITIES

Investing activities required outflows of \$357.0 million in fiscal 2012 versus \$226.7 million in fiscal 2011. The increase in funds used during fiscal 2012 compared to fiscal 2011 is due primarily to greater business acquisitions in 2012 compared to 2011, attributable to the acquisition of Adonis stores and distributor Phoenicia for a cash consideration of \$146.8 million (net of cash acquired totalling \$3.0 million) as well as increased acquisitions of \$80.8 million of fixed and intangible assets.

During fiscal 2012, the Corporation and its retailers invested \$281.8 million in our retail network, for a gross expansion of 383,200 square feet and a net expansion of 34,400 square feet or 0.2%. Major renovations and expansions of 19 stores were completed, seven new stores were opened and 11 stores were closed.

### FINANCING ACTIVITIES

Financing activities required outflows of \$371.3 million in fiscal 2012 versus 2011 fiscal year outflows of \$274.9 million. The increase in funds used during fiscal 2012 compared to fiscal 2011 is due primarily to a \$26.7 million increase in the redemption of shares and a \$60.1 million increase in net debt repayment.

## FINANCIAL POSITION

We do not anticipate<sup>(2)</sup> any liquidity risk and consider our financial position at the end of fiscal 2012 as very solid. We had an unused authorized revolving credit facility of \$284.6 million.

At the end of fiscal 2012, the main elements of our non-current debt were as follows:

	Interest Rate	Balance (Millions of dollars)	Maturity
Revolving Credit Facility	Rates fluctuate with changes in bankers' acceptance rates	315.4	November 3, 2016
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 October 12, 2012, the revolving credit facility's maturity date was extended to November 3, 2017.

At the end of fiscal 2012, 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.

Our main financial ratios were as follows:

	As at September 29, 2012	As at September 24, 2011
Financial structure		
Non-current debt (Millions of dollars)	973.9	656.2
Equity (Millions of dollars)	2,545.1	2,399.3
Non-current debt/total capital (%)	27.7	29.9
	Fiscal Year	
	2012	2011
Results		
EBITDA <sup>(1)</sup> /Financial costs (Times)	19.3	18.5

<sup>(1)</sup> See section on "IFRS and Non-IFRS Measurements"

<sup>(2)</sup> See section on "Forward-looking Information"

For the purposes of calculating the percentage of non-current debt/total capital as at September 24, 2011, we have to add to the non-current debt the Credit A facility of \$369.3 million which was reclassified as current in the statement of financial position since it was maturing on August 15, 2012. This Credit facility is considered as non-current debt since it was reimbursed, at its maturity, by an equivalent sum from the revolving credit facility of \$600.0 million which matures in 2017.

**CAPITAL STOCK**

Following the Annual General Meeting of Shareholders held on January 31, 2012, our share capital has been changed as follows:

- each issued and outstanding Class B Share carrying 16 votes per share has been converted into one single vote Class A Subordinate Share;
- the Class B Shares, along with the rights, privileges, restrictions and conditions attached thereto, have been eliminated;
- the Class A Subordinate Shares have been redesignated as “Common Shares” and shall constitute the Corporation's sole class of equity shares carrying one vote per share;
- First Preferred Shares have been redesignated as “Preferred Shares”.

For ease of reading, we have restated all prior periods disclosed to reflect the share capital reorganization of January 31, 2012 as if it had always existed. Therefore, only the Common Shares are disclosed. This restatement is possible since Class B Shares and Class A Subordinate Shares were participating shares. The differences between these classes of shares were primarily voting rights, the exclusivity of Class B Shares held by Metro Merchants, and that Class B Shares were not listed on the Toronto Stock Exchange.

<i>(Thousands)</i>	Common Shares	
	2012	2011
Balance – beginning of year	101,084	105,069
Share issue	2	1
Share redemption	(4,213)	(4,147)
Acquisition of treasury shares	(50)	(190)
Released treasury shares	92	94
Stock options exercised	271	257
Balance – end of year	97,186	101,084
Balance as at November 30, 2012 and December 2, 2011	96,195	100,732

**STOCK OPTIONS PLAN**

	As at November 30, 2012	As at September 29, 2012	As at September 24, 2011
Stock options <i>(Thousands)</i>	1,645	1,683	1,776
Exercise prices <i>(Dollars)</i>	24.73 to 58.41	24.73 to 58.41	20.20 to 47.14
Weighted average exercise price <i>(Dollars)</i>	39.55	39.27	35.38

**PERFORMANCE SHARE UNIT PLAN**

	As at November 30, 2012	As at September 29, 2012	As at September 24, 2011
Performance share units <i>(Thousands)</i>	284	284	310
Weighted average maturity <i>(Months)</i>	14	16	17

<sup>(1)</sup> See section on "IFRS and Non-IFRS Measurements"

<sup>(2)</sup> See section on "Forward-looking Information"

**NORMAL COURSE ISSUER BID PROGRAM**

The Corporation 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 Corporation shares. The Board of Directors authorized the Corporation to repurchase, in the normal course of business, between September 10, 2012 and September 9, 2013, up to 6,000,000 of its Common Shares representing approximately 6.2% of its issued and outstanding shares at the close of the Toronto Stock Exchange on August 31, 2012. Repurchases are made through the stock exchange at market price and in accordance with its policies and regulations, and in any other manner allowed by the stock exchange and by any other securities regulatory agency, including private transactions. Common Shares so repurchased will be cancelled. Under the normal course issuer bid program covering the period from September 8, 2011 to September 7, 2012, the Corporation repurchased 4,239,800 Common Shares at an average price of \$50.99 for a total of \$216.2 million. Under the program covering the period from September 10, 2012 to September 9, 2013, the Corporation has repurchased, as of November 30, 2012, 1,003,800 Common Shares at an average price of \$58.56 for a total of \$58.8 million.

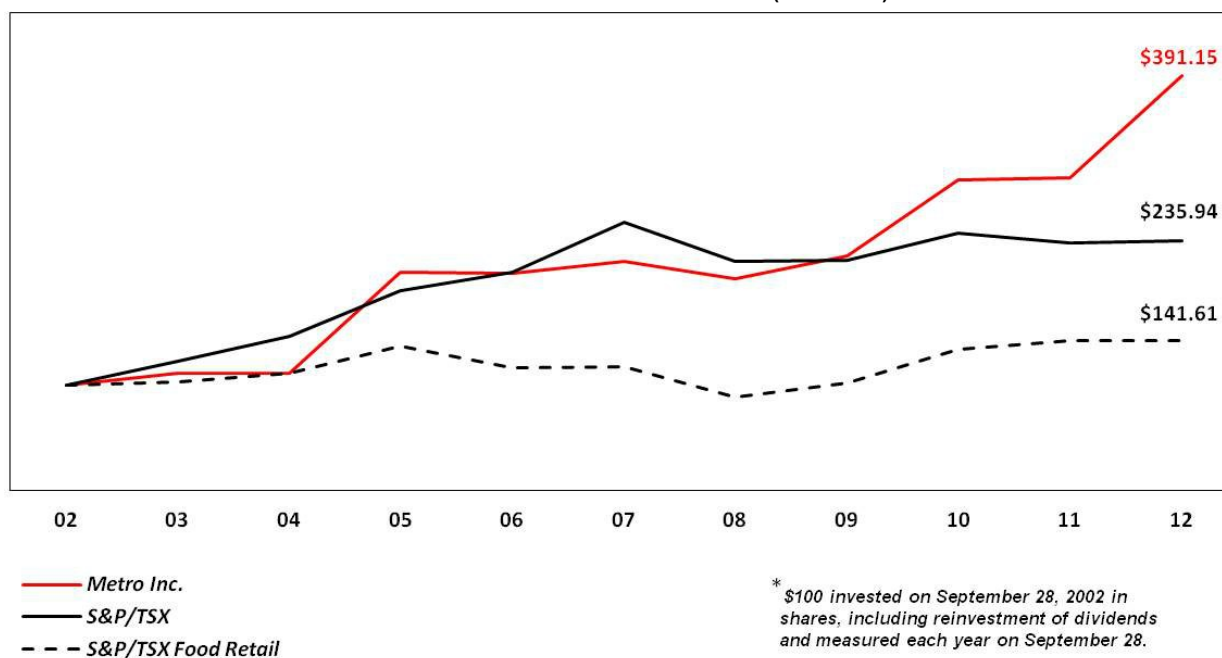
**DIVIDEND POLICY**

The Corporation's dividend policy is to pay an annual dividend representing approximately 20% of net earnings of the preceding fiscal year before extraordinary items. For the eighteenth consecutive year, the Corporation paid quarterly dividends to its shareholders. The annual dividend increased by 12.0%, to \$0.8375 per share compared to \$0.7475 in 2011, for total dividends of \$82.9 million in 2012 compared to \$77.1 million in 2011, an increase of 12.0%. Dividends paid in 2012 represented 21.1% of net earnings of the preceding fiscal year compared to 19.7% in 2011.

**SHARE TRADING**

The value of METRO shares remained in the \$43.76 to \$59.68 range throughout fiscal 2012 (\$42.11 to \$49.55 in 2011). A total of 70.0 million shares traded on the TSX during this fiscal year (73.3 million in 2011). The closing price on Friday, September 28, 2012 was \$58.40, compared to \$44.69 at the end of fiscal 2011. Since fiscal year-end, the value of METRO shares has remained in the \$56.52 to \$61.49 range. The closing price on November 30, 2012 was \$61.16. 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)\***



(1) See section on "IFRS and Non-IFRS Measurements"

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

## SOURCES OF FINANCING

Our operating activities generated cash flows in the amount of \$546.1 million in 2012. These cash flows were sufficient to finance our investing activities, including the acquisition of \$248.8 million in fixed and intangible assets and the acquisition of Adonis and Phoenicia for valuable cash consideration of \$146.8 million.

At 2012 fiscal year-end, our financial position mainly consisted of cash and cash equivalents in the amount of \$73.3 million, Series A Notes in the amount of \$200.0 million maturing in 2015, a revolving credit facility of \$600.0 million maturing in 2017, of which an amount of \$284.6 million is unused, and Series B Notes in the amount of \$400.0 million maturing in 2035.

We believe that cash flows from next year's operating activities should be sufficient to finance the Corporation's investing and financing activities, including investment of approximately \$285.0 million<sup>(2)</sup> in fixed and intangible assets.

## CONTRACTUAL OBLIGATIONS

Payment commitments by fiscal year (capital and interest)

<i>(Millions of dollars)</i>	Facility and loans	Notes	Finance lease commitments	Service contract commitments	Operating lease commitments	Lease and sublease commitments <sup>(6)</sup>	Total
2013	18.2	33.8	7.5	67.2	175.4	40.4	342.5
2014	12.6	33.8	6.3	67.0	162.0	37.7	319.4
2015	11.2	33.8	6.2	67.6	145.3	34.6	298.7
2016	10.9	223.9	6.0	54.7	131.1	33.1	459.7
2017	329.2	24.0	5.8	54.6	116.6	31.0	561.2
2018 and thereafter	20.2	829.9	35.5	131.2	633.7	233.2	1,883.7
	402.3	1,179.2	67.3	442.3	1,364.1	410.0	3,865.2

<sup>(6)</sup> The Corporation has lease commitments with varying terms through 2035, to lease premises which it sublets to clients, generally under the same conditions.

## RELATED PARTY TRANSACTIONS

During fiscal 2012, we supplied supermarkets held by a member of the Board of Directors and paid fees to Dunnhumby Canada, a jointly controlled entity, for analysis of our customer sales data. These transactions were carried out in the normal course of business and recorded at exchange value. They are itemized in note 28 to the consolidated financial statements.

## FOURTH QUARTER

<i>(Millions of dollars, except for net earnings per share/EPS)</i>	<b>2012</b> <i>(13 weeks)</i>	2011 <i>(12 weeks)</i>	Variation %
Sales	<b>2,943.7</b>	2,649.5	11.1
EBITDA <sup>(1)</sup>	<b>246.3</b>	166.8	47.7
Adjusted EBITDA <sup>(1)</sup> excluding share of earnings from our investment in Couche-Tard	<b>209.2</b>	172.0	21.6
Net earnings	<b>145.1</b>	84.4	71.9
Adjusted net earnings <sup>(1)</sup>	<b>123.4</b>	98.9	24.8
Fully diluted EPS	<b>1.46</b>	0.83	75.9
Adjusted fully diluted EPS <sup>(1)</sup>	<b>1.24</b>	0.97	27.8
Cash flows from:			
Operating activities	<b>126.8</b>	183.3	—
Investing activities	<b>(69.2)</b>	(53.0)	—
Financing activities	<b>(82.7)</b>	(75.3)	—

<sup>(1)</sup> See section on "IFRS and Non-IFRS Measurements"

<sup>(2)</sup> See section on "Forward-looking Information"



## SALES

Sales in the fourth quarter of fiscal 2012 reached \$2,943.7 million, up 11.1% compared to sales of \$2,649.5 million for last year. The 2012 fourth quarter was 13 weeks long, with one more week than last year. Excluding this extra week, fourth quarter sales were up 2.5%. Adonis stores and distributor Phoenicia contributed \$63.3 million to the Corporation's fourth quarter sales. Same store sales were up 1.1% for the fourth quarter of 2012 compared to the corresponding period in 2011. We experienced very modest inflation in the fourth quarter of 2012, but lower than the Consumer Price Index reported by Statistics Canada.

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

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

	Fiscal Year						Change %
	2012 (13 weeks)			2011 (12 weeks)			
	EBITDA	Sales	EBITDA/ Sales (%)	EBITDA	Sales	EBITDA/ Sales (%)	EBITDA
<i>(Millions of dollars, unless otherwise indicated)</i>							
EBITDA	246.3	2,943.7	8.4	166.8	2,649.5	6.3	47.7
Closure costs	—	—	—	20.5	—	—	—
Couche-Tard dilution gain	(25.0)	—	—	—	—	—	—
Adjusted EBITDA	221.3	2,943.7	7.5	187.3	2,649.5	7.1	18.2
Share of earnings in Couche-Tard	(12.1)	—	—	(15.3)	—	—	—
Adjusted EBITDA excluding share of earnings	209.2	2,943.7	7.1	172.0	2,649.5	6.5	21.6

EBITDA<sup>(1)</sup> for the fourth quarter of 2012 was \$246.3 million, up 47.7% from \$166.8 million for the same quarter last year.

In the fourth quarter of 2012, we recorded a non-recurring gain of \$25.0 million before taxes; in the fourth quarter of 2011, a non-recurring loss of \$20.5 million before taxes.

In August 2012, Alimentation Couche-Tard issued 7.3 million shares for net proceeds of approximately \$330 million to finance part of its acquisition of Statoil Fuel & Retail ASA. As the Corporation did not participate in this share issue, our interest in Alimentation Couche-Tard decreased from 11.6% to 11.1%. This dilution and our share in Alimentation Couche-Tard's increased value as a result of the share issue amount to a deemed disposition and deemed proceeds of disposition of part of our investment for a net pre-tax gain of \$25.0 million.

In the fourth quarter of 2011, we closed our meat processing plant in Montréal and a grocery warehouse in Toronto to improve operational efficiency. Closure costs were \$20.5 million before taxes.

Excluding these non-recurring items, adjusted EBITDA<sup>(1)</sup> for the fourth quarter of 2012 was \$221.3 million, up 18.2% compared to \$187.3 million for the corresponding period of 2011.

Our share of earnings in Alimentation Couche-Tard, excluding the dilution gain of \$25.0 million before taxes, was \$12.1 million for the fourth quarter of fiscal 2012, versus \$15.3 million for the same period of fiscal 2011. In its last quarterly report, Alimentation Couche-Tard stated that non-recurring items were included in that quarter and that excluding them had increased the adjusted net earnings<sup>(1)</sup> for its first quarter ended July 22, 2012 by \$US 70.1 million.

Excluding the non-recurring items and our share of earnings in Alimentation Couche-Tard, our adjusted EBITDA<sup>(1)</sup> for the fourth quarter of fiscal 2012 was \$209.2 million, or 7.1% of sales versus \$172.0 million or 6.5% of sales for the fourth quarter of fiscal 2011. Adjusted EBITDA<sup>(1)</sup>, excluding our share of earnings in Alimentation Couche-Tard, for the fourth quarter of fiscal 2012 was up 21.6% over that for 2011.

The significant increase in EBITDA<sup>(1)</sup> for the fourth quarter of 2012 compared to the same quarter of 2011 is also attributable to the results for the 53<sup>rd</sup> week of 2012 when several fixed costs were no longer in effect. The impact of the 53<sup>rd</sup> week on EBITDA<sup>(1)</sup> was \$16.0 million.

<sup>(1)</sup> See section on "IFRS and Non-IFRS Measurements"

<sup>(2)</sup> See section on "Forward-looking Information"

Gross margin for the fourth quarter of fiscal 2012 was 18.5%, up from 17.7% for the corresponding period of 2011. Our merchandising strategies, reduced in-store losses, and Adonis stores contributed to this increase. As well, in the fourth quarter of 2011, approximately \$10 million in salaries recorded as an expense in the first three quarters were reclassified as a cost of goods sold. Excluding this reclassification, gross margin in the fourth quarter of 2011 was 18.1%.

**DEPRECIATION AND AMORTIZATION AND NET FINANCIAL COSTS**

Depreciation and amortization expense for the fourth quarter of 2012 amounted to \$41.8 million compared to \$41.5 million for the corresponding period last year. Fourth quarter net financial costs totalled \$11.7 million in 2012 versus \$9.4 million last year.

**INCOME TAXES**

The 2012 fourth quarter income tax expense of \$47.7 million represented an effective tax rate of 24.7%. The 2011 fourth quarter income tax expense of \$31.5 million represented an effective tax rate of 27.2%.

The tax rate for the fourth quarter of 2012 was lower than that for the corresponding period of 2011 due to two federal corporate tax rate reductions of 1.5% each, effective January 1, 2011 and 2012, as well as a 0.5% reduction in Ontario's, effective July 1, 2011.

**NET EARNINGS**

Net earnings for the fourth quarter of 2012 were \$145.1 million, an increase of 71.9% over net earnings of \$84.4 million for the same quarter of 2011. Fully diluted net earnings per share rose 75.9% to \$1.46 from \$0.83 last year. Excluding the Alimentation Couche-Tard dilution gain of \$25.0 million before taxes recorded in the fourth quarter of 2012 as well as the closure costs of \$20.5 million before taxes in the corresponding quarter of 2011, our adjusted net earnings<sup>(1)</sup> for the fourth quarter of 2012 were \$123.4 million and our adjusted fully diluted net earnings per share<sup>(1)</sup> were \$1.24, for increases of 24.8% and 27.8% respectively.

The significant increase in net earnings and fully diluted net earnings per share for the fourth quarter of 2012 over the same quarter of 2011 is also attributable to the results for the 53<sup>rd</sup> week of 2012 when several fixed costs were no longer in effect. The impact of the 53<sup>rd</sup> week on the fully diluted net earnings per share was \$0.11.

**Net earnings adjustments**

	Fiscal Year				Change	
	2012 (13 weeks)		2011 (12 weeks)		(%)	
	(Millions of dollars)	Fully diluted EPS (Dollars)	(Millions of dollars)	Fully diluted EPS (Dollars)	Net earnings	Fully diluted EPS
Net earnings	145.1	1.46	84.4	0.83	71.9	75.9
Closure costs after taxes	—	—	14.5	0.14		
Couche-Tard dilution gain after taxes	(21.7)	(0.22)	—	—		
Non-recurring tax expense	—	—	—	—		
Adjusted net earnings <sup>(1)</sup>	123.4	1.24	98.9	0.97	24.8	27.8

**CASH POSITION**

**Operating activities**

Operating activities generated cash flows of \$126.8 million in the fourth quarter of 2012 compared to \$183.3 million in the corresponding period of fiscal 2011. This decrease is due primarily to net changes in non-cash working capital items that required greater outflows in the fourth quarter of 2012 than in the same period last year.

<sup>(1)</sup> See section on "IFRS and Non-IFRS Measurements"

<sup>(2)</sup> See section on "Forward-looking Information"

**Investing activities**

Investing activities required outflows of \$69.2 million in the fourth quarter of 2012 versus \$53.0 million in the corresponding period of 2011. The increase in funds used in the fourth quarter of 2012 compared to that of 2011 is mainly due primarily to greater fixed asset acquisitions and disposals of net \$19.3 million in 2012 and greater business acquisitions of \$5.8 million in 2011.

**Financing activities**

Financing activities required outflows of \$82.7 million in the fourth quarter of 2012 versus 2011 fourth quarter outflows of \$75.3 million. The increase in funds used in the fourth quarter of 2012 over that of 2011 is due to a \$57.5 million increase in net debt repayment and a \$40.1 million decrease in the redemption of shares.

**DERIVATIVE FINANCIAL INSTRUMENTS**

The Corporation 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. During fiscal 2012, the Corporation used derivative financial instruments as described in notes 3 and 30 to the consolidated financial statements.

**NEW ACCOUNTING POLICIES****RECENTLY ISSUED****Classification and measurement of financial assets and financial liabilities**

In November 2009, the International Accounting Standards Board (IASB) published IFRS 9 "Financial Instruments". This new standard simplifies the classification and measurement of financial assets set out in IAS 39 "Financial Instruments: Recognition and Measurement". Financial assets are to be measured at amortized cost or fair value. They are to be measured at amortized cost if the two following conditions are met:

- a) the assets are held within a business model whose objective is to collect contractual cash flows; and
- b) the contractual cash flows are solely payments of principal and interest on the outstanding principal.

All other financial assets are to be measured at fair value through net earnings. The entity may, if certain conditions are met, elect to use the fair value option instead of measurement at amortized cost. As well, the entity may choose upon initial recognition to measure non-trading equity investments at fair value through comprehensive income. Such a choice is irrevocable.

In October 2010, the IASB issued revisions to IFRS 9, adding the requirements for classification and measurement of financial liabilities contained in IAS 39 and further points. For financial liabilities measured at fair value through net earnings using the fair value option, the amount of change in a liability's fair value attributable to changes in its credit risk is recognized directly in other comprehensive income.

In December 2011, the IASB deferred the mandatory effective date of IFRS 9 to fiscal years beginning on or after January 1, 2015. Early adoption is permitted under certain conditions. An entity is not required to restate comparative financial periods for its first-time application of IFRS 9, but must comply with the new disclosure requirements.

**Offsetting financial assets and financial liabilities**

In December 2011, the IASB issued amendments to IAS 32 "Financial Instruments: Presentation" clarifying the requirements for offsetting financial assets and financial liabilities. These amendments shall be applied to annual periods beginning on or after January 1, 2014.

The IASB also issued amendments to IFRS 7 "Financial Instruments: Disclosures" improving disclosure on offsetting of financial assets and financial liabilities. These amendments shall be applied to annual and interim periods beginning on or after January 1, 2013.

<sup>(1)</sup> See section on "IFRS and Non-IFRS Measurements"

<sup>(2)</sup> See section on "Forward-looking Information"

**Consolidated Financial Statements**

In May 2011, the IASB published IFRS 10 “Consolidated Financial Statements” which is a replacement of SIC-12 “Consolidation – Special Purpose Entities”, and certain parts of IAS 27 “Consolidated and Separate Financial Statements”. IFRS 10 uses control as the single basis for consolidation, irrespective of the nature of the investee, employing the following factors to identify control:

- a) power over the investee;
- b) exposure or rights to variable returns from involvement with the investee;
- c) the ability to use power over the investee to affect the amount of the investor’s returns.

IFRS 10 shall be applied to fiscal years beginning on or after January 1, 2013. Early adoption is permitted under certain conditions.

**Joint Arrangements**

In May 2011, the IASB published IFRS 11 “Joint Arrangements” which supersedes IAS 31 “Interests in Joint Ventures” and SIC-13 “Jointly Controlled Entities – Non-Monetary Contributions by Venturers”. IFRS 11 requires that joint ventures be accounted for using the equity method of accounting and eliminates the need for proportionate consolidation. This new standard shall be applied to fiscal years beginning on or after January 1, 2013. Early adoption is permitted under certain conditions.

**Disclosure of Interests in Other Entities**

In May 2011, the IASB published IFRS 12 “Disclosure of Interests in Other Entities” which requires that an entity disclose information on the nature of and risks associated with its interests in other entities (i.e. subsidiaries, joint arrangements, associates or unconsolidated structured entities) and the effects of those interests on its financial statements. IFRS 12 shall be applied to fiscal years beginning on or after January 1, 2013. Early adoption is permitted under certain conditions. Entities may, without early adoption of IFRS 12, choose to incorporate only some of the required disclosures in their financial statements.

**Fair Value Measurement**

In May 2011, the IASB published IFRS 13 “Fair Value Measurement” to establish a single framework for fair value measurement of financial and non-financial items. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also requires disclosure of certain information on fair value measurements. IFRS 13 shall be applied to fiscal years beginning on or after January 1, 2013. Early adoption is permitted.

**Employee Benefits**

In June 2011, the IASB issued amendments to IAS 19 “Employee Benefits”. Changes in defined benefit obligations and plan assets are to be recognized in comprehensive income when they occur, thus eliminating the corridor approach and accelerating recognition of past service cost. Net interest is to be recognized in net earnings and calculated using the discount rate by reference to market yields at the end of the reporting period on high quality corporate bonds. The actual return on plan assets minus net interest is to be recognized in other comprehensive income. These amendments shall be applied to fiscal years beginning on or after January 1, 2013. Early adoption is permitted.

**Presentation of Financial Statements**

In June 2011, the IASB issued amendments to IAS 1 “Presentation of Financial Statements”. Items of other comprehensive income and the corresponding tax expense are required to be grouped into those that will and will not subsequently be reclassified through net earnings. These amendments shall be applied to fiscal years beginning on or after July 1, 2012. Early adoption is permitted.

At present, the Corporation is assessing the impact of the above-mentioned amendments on its earnings, financial position and cash flows.

<sup>(1)</sup> See section on “IFRS and Non-IFRS Measurements”

<sup>(2)</sup> See section on “Forward-looking Information”



## **IFRS AND NON-IFRS MEASUREMENTS**

In addition to the IFRS earnings measurements provided, we have included certain IFRS and non-IFRS earnings measurements. These measurements are presented for information purposes only. They do not have a standardized meaning prescribed by IFRS 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. It is an additional IFRS measurement and it is presented separately in the consolidated statements of income. 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. They are non-IFRS measurements. 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 Corporation'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 "continue", "anticipate", "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 2013 action plan.

These forward-looking statements do not provide any guarantees as to the future performance of the Corporation 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 annual 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 Corporation 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 Corporation, 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 Corporation's senior management.

An evaluation was completed under their supervision in order to measure the effectiveness of DC&P and ICFR. Based on this evaluation, the President and Chief Executive Officer and the Senior Vice-President, Chief Financial Officer and Treasurer of the Corporation concluded that the DC&P and the ICFR were effective as at the end of the fiscal year ended September 29, 2012.

Therefore, the design of the DC&P provides reasonable assurance that material information relating to the Corporation 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 Corporation 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 Corporation's financial reporting and the preparation of its financial statements for external purposes in accordance with IFRS.

<sup>(1)</sup> See section on "IFRS and Non-IFRS Measurements"

<sup>(2)</sup> See section on "Forward-looking Information"

## SIGNIFICANT JUDGEMENTS AND ESTIMATES

Our Management's Discussion and Analysis is based upon our consolidated financial statements, prepared in accordance with IFRS, and it is presented in Canadian dollars, our unit of measure. The preparation of the consolidated financial statements and other financial information contained in this Management's Discussion and Analysis requires management to make judgements, estimates and assumptions that affect the recognition and valuation of assets, liabilities, sales, other income and expenses. These estimates and assumptions are based on historical experience and other factors deemed relevant and reasonable and are reviewed at every closing date. The use of different estimates could produce different amounts in the consolidated financial statements. Actual results may differ from these estimates.

### JUDGEMENTS

In applying the Corporation's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognized in the consolidated financial statements:

#### Leases

In determining if leases are to be accounted for as operating leases or finance leases, management must judge whether or not substantially all risks and rewards incidental to ownership have been transferred, based on its analysis of the terms and conditions of each lease and evaluation of various criteria, such as the option to purchase the asset at a preferential price, the lease term as compared to the economic life of the asset, and the present value of the minimum lease payments as compared to the fair value of the leased asset.

#### Consolidation of special purpose entities

The Corporation has no voting rights in certain food stores. However, it assumes the majority of their risks and benefits from the majority of their advantages. For these reasons, the Corporation consolidates these food stores in its financial statements.

The Corporation has no voting rights in the trust created for PSU plan participants. However, under the trust agreement, it instructs the trustee as to the sale and purchase of Corporation shares and payments to beneficiaries, gives the trustee money to buy Corporation shares, assumes the majority of the risks, benefits from the majority of the advantages, and ensures that the trust holds a sufficient number of shares to meet its obligations to the beneficiaries. Management, having concluded that the Corporation controls the trust, consolidates the entity in its financial statements.

The Corporation also has an agreement with a distributor, whose majority of risks it assumes and whose majority of advantages it benefits from. For these reasons, the Corporation consolidates this distributor in its financial statements.

### ESTIMATES

The assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the value of assets and liabilities within the next period, are discussed below:

#### Impairment of assets

In testing for impairment of intangible assets with indefinite useful lives and goodwill, value in use and fair value less costs to sell are estimated using the discounted future cash flows model, and the capitalized excess earnings before financial costs and taxes (EBIT) and royalty-free licence methods. These methods are based on various assumptions, such as the future cash flows estimate, excess EBIT, royalty rate, discount rate, earnings multiple and growth rate. The key assumptions are disclosed in notes 16 and 17 to the consolidated financial statements.

#### Share-based payment

A compensation expense, corresponding to the fair value of the stock options at their grant date, is recognized in net earnings for all stock option awards. The fair value is calculated using the Black-Scholes model. The key assumptions are disclosed in note 22 to the consolidated financial statements.

<sup>(1)</sup> See section on "IFRS and Non-IFRS Measurements"

<sup>(2)</sup> See section on "Forward-looking Information"

**Deferred taxes**

Deferred tax assets are recognized for tax loss carry forwards to the extent that it is probable that future taxable profits will be available against which the losses can be utilized. Management uses its judgement in determining these deferred assets, considering assumptions, i.e. the utilization period for losses carried forward and the level of future taxable profits in accordance with tax planning strategies. Non-discounted estimates of future taxable profits are made in establishing budgets and strategic plans for each tax jurisdiction and reviewed each quarter.

**Pension plans and other plans**

Defined pension plans, ancillary retirements and other long-term benefits obligations and costs associated to these obligations are determined from actuarial calculations according to the projected credit unit method. These calculations are based on management's best assumptions relating to expected long-term return on plan assets, salary escalation, retirement age of participants and expected health care costs. The key assumptions are disclosed in note 25 to the consolidated financial statements.

**Non-controlling interests**

The non-controlling interest-related liability is calculated in relation to the buyout price which is mainly based on the future earnings of Adonis and Phoenicia beginning at a predetermined date. Given the uncertainty associated with the estimation of these future earnings, the Corporation used, at the end of the current fiscal year, its most probable estimate.

**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.

To cope with competition and maintain our leadership position in the Québec and Ontario markets, we are on the alert for new ways of doing things and new sites. We have an ongoing investment program for all our stores to ensure that our retail network remains one of the most modern in Canada.

We have also developed a successful market segmentation strategy. Our grocery banners: the conventional Metro supermarkets, Super C and Food Basics discount banners, and Adonis ethnic food stores, target three different market segments. In the pharmaceutical market, we have large, medium, and small pharmacies under the Brunet Plus, Brunet, Brunet Clinique, Clini Plus, Pharmacy, and Drug Basics banners.

On October 23, 2011, we acquired 55% of the net assets of Adonis and Phoenicia. Well aware of the evolving tastes of consumers, we trust that this acquisition will improve the Mediterranean and Middle-Eastern product offering in our supermarkets and discount stores.

With the *metro&moi* loyalty program in our Metro and Metro Plus supermarkets and our partner Dunnhumby Canada, we are able to know the buying habits of loyal customers, offer them personalized promotions and increase their purchases at our stores.

We are also carrying on with our *Produce Initiative* to offer customers a wide variety of premium quality fresh fruits and vegetables.

<sup>(1)</sup> See section on "IFRS and Non-IFRS Measurements"

<sup>(2)</sup> See section on "Forward-looking Information"

## **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. Employees receive continuous training in this area from Metro's *L'École des professionnels*. Our main meat distribution facilities are *Hazard Analysis and Critical Control Point (HACCP)* 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 environmental, social and economic 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 environmental, social and economic sustainability of our business operations. In 2012, we published our first Corporate Responsibility Report which was developed based on a prioritization process that considered both internal and external issues and trends impacting our sector and business. The report's development was guided by the requirements set out in the *Global Reporting Initiative (GRI) G3.1 Guidelines*. Our Corporate Responsibility Roadmap and Report are available on our web site [www.metro.ca](http://www.metro.ca).

## **REGULATIONS**

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

## **PRICE OF FUEL, ENERGY AND UTILITIES**

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

## **LABOUR RELATIONS**

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

## **CRISIS MANAGEMENT**

Events outside our control that could seriously affect our operations may arise. We have set up business recovery plans for all our operations. These plans provide for several disaster recovery sites, generators in case of power outages and back-up computers as powerful as the Corporation'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.

<sup>(1)</sup> See section on "IFRS and Non-IFRS Measurements"

<sup>(2)</sup> See section on "Forward-looking Information"

**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 non-current debt and creditors. We evaluate our cash position regularly and estimate<sup>(2)</sup> that cash flows generated by our operating activities are sufficient to provide for all outflows required by our financing activities. Our Series A Notes, our revolving credit facility and our Series B Notes mature only in 2015, 2017 and 2035, respectively. We also have an unused authorized balance of \$284.6 million on our revolving credit facility.

**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.

**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 these stores.

Montréal, Canada, November 30, 2012

<sup>(1)</sup> See section on "IFRS and Non-IFRS Measurements"

<sup>(2)</sup> See section on "Forward-looking Information"



## **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 International Financial Reporting Standards 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 Corporation's affairs.

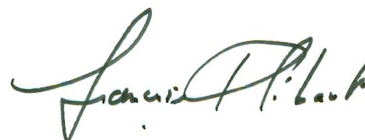
The Board of Directors fulfills its duty to oversee management in the performance of its financial reporting responsibilities and to review the consolidated financial statements and Annual Report, principally through its Audit Committee. This Committee is comprised solely of directors who are independent of the Corporation 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 Professional 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

November 13, 2012



François Thibault  
Senior Vice-President,  
Chief Financial Officer and Treasurer

**INDEPENDENT AUDITORS' REPORT**

To the shareholders of **METRO INC.**

We have audited the accompanying consolidated financial statements of METRO INC., which comprise the consolidated statements of financial position as at September 29, 2012, September 24, 2011 and September 26, 2010, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended September 29, 2012 and September 24, 2011, 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 International Financial Reporting Standards, 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 29, 2012, September 24, 2011 and September 26, 2010 and its financial performance and its cash flows for the years ended September 29, 2012 and September 24, 2011 in accordance with International Financial Reporting Standards.



Montréal, Canada  
November 13, 2012

Chartered Professional Accountants

<sup>1</sup> CPA auditor, CA, public accountancy permit no. A120803



**metro**

Annual Consolidated Financial Statements

**METRO INC.**

September 29, 2012

**Table of contents**

	Page
Consolidated statements of income .....	45
Consolidated statements of comprehensive income .....	46
Consolidated statements of financial position .....	47
Consolidated statements of changes in equity .....	48
Consolidated statements of cash flows .....	49
Notes to consolidated financial statements .....	50
1- Description of business .....	50
2- Explanations on the transition to IFRS .....	50
3- Significant accounting policies .....	68
4- New accounting policies .....	73
5- Significant judgements and estimates .....	75
6- Business acquisitions .....	76
7- Additional information on the nature of earnings components .....	78
8- Income taxes .....	79
9- Net earnings per share .....	80
10- Inventories .....	81
11- Assets held for sale .....	81
12- Investment in an associate .....	81
13- Other financial assets .....	82
14- Fixed assets .....	82
15- Investment properties .....	83
16- Intangible assets .....	84
17- Goodwill .....	86
18- Bank loans .....	86
19- Provisions .....	86
20- Debt .....	87
21- Other liabilities .....	88
22- Capital stock .....	88
23- Accumulated other comprehensive income .....	91
24- Dividends .....	92
25- Employee benefits .....	92
26- Commitments .....	95
27- Contingencies .....	96
28- Related party transactions .....	96
29- Management of capital .....	97
30- Financial instruments .....	97
31- Event after the reporting period .....	100
32- Comparative figures .....	101
33- Approval of financial statements .....	101





**Consolidated statements of income**  
**Years ended September 29, 2012 and September 24, 2011**  
*(Millions of dollars, except for net earnings per share)*

	<b>2012</b>	2011
	<i>(53 weeks)</i>	<i>(52 weeks)</i>
<b>Sales (note 28)</b>	<b>12,010.8</b>	11,396.4
Cost of sales and operating expenses (note 7)	<b>(11,189.1)</b>	(10,652.0)
Share of an associate's earnings (notes 7 and 12)	<b>72.6</b>	42.4
Closure expenses (note 7)	<b>—</b>	(20.5)
<b>Earnings before financial costs, taxes, depreciation and amortization</b>	<b>894.3</b>	766.3
Depreciation and amortization (note 7)	<b>(183.9)</b>	(179.3)
<b>Operating income</b>	<b>710.4</b>	587.0
Financial costs, net (note 7)	<b>(46.4)</b>	(41.5)
<b>Earnings before income taxes</b>	<b>664.0</b>	545.5
Income taxes (note 8)	<b>(174.7)</b>	(152.8)
<b>Net earnings</b>	<b>489.3</b>	392.7
Attributable to:		
Equity holders of the parent	<b>481.8</b>	392.7
Non-controlling interests	<b>7.5</b>	—
	<b>489.3</b>	392.7
<b>Net earnings per share (Dollars) (note 9)</b>		
Basic	<b>4.87</b>	3.81
Fully diluted	<b>4.84</b>	3.79

See accompanying notes



## Consolidated statements of comprehensive income

Years ended September 29, 2012 and September 24, 2011

(Millions of dollars)

	2012 (53 weeks)	2011 (52 weeks)
Net earnings	489.3	392.7
Other comprehensive income (note 23)		
Change in the fair value of a derivative designated as cash flow hedge	—	0.4
Changes in defined benefit plans		
Actuarial losses	(65.6)	(66.8)
Asset ceiling effect	(2.7)	0.5
Minimum funding requirement	0.1	(2.5)
Share of an associate's other comprehensive income	(0.6)	0.1
Corresponding income taxes	19.0	17.4
<b>Comprehensive income</b>	<b>439.5</b>	<b>341.8</b>
Attributable to:		
Equity holders of the parent	432.0	341.8
Non-controlling interests	7.5	—
	<b>439.5</b>	<b>341.8</b>

See accompanying notes

**Consolidated statements of financial position**  
**As at September 29, 2012, September 24, 2011 and September 26, 2010**  
*(Millions of dollars)*

	2012	2011	2010
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	73.3	255.5	214.7
Accounts receivable <i>(notes 13 and 28)</i>	332.8	300.3	311.3
Inventories <i>(note 10)</i>	784.4	728.3	699.3
Prepaid expenses	6.6	11.7	9.7
Current taxes	13.9	2.2	1.7
	<b>1,211.0</b>	1,298.0	1,236.7
Assets held for sale <i>(note 11)</i>	0.6	6.6	—
	<b>1,211.6</b>	1,304.6	1,236.7
<b>Non-current assets</b>			
Investment in an associate <i>(note 12)</i>	324.5	258.7	220.9
Other financial assets <i>(note 13)</i>	21.6	17.0	15.8
Fixed assets <i>(note 14)</i>	1,280.3	1,226.1	1,217.2
Investment properties <i>(note 15)</i>	22.1	27.0	27.8
Intangible assets <i>(note 16)</i>	373.1	297.2	304.0
Goodwill <i>(note 17)</i>	1,859.5	1,649.1	1,603.7
Deferred taxes <i>(note 8)</i>	56.3	45.8	48.8
Defined benefit assets <i>(note 25)</i>	1.4	1.6	20.3
	<b>5,150.4</b>	4,827.1	4,695.2
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Bank loans <i>(note 18)</i>	0.3	0.3	1.0
Accounts payable	1,086.4	1,061.1	1,064.1
Current taxes	60.5	46.2	50.8
Provisions <i>(note 19)</i>	11.2	17.3	9.2
Current portion of debt <i>(note 20)</i>	12.1	378.1	4.7
	<b>1,170.5</b>	1,503.0	1,129.8
<b>Non-current liabilities</b>			
Debt <i>(note 20)</i>	973.9	656.2	1,004.3
Defined benefit liabilities <i>(note 25)</i>	156.9	132.2	97.0
Provisions <i>(note 19)</i>	3.1	4.0	4.8
Deferred taxes <i>(note 8)</i>	147.7	119.0	124.5
Other liabilities <i>(note 21)</i>	13.9	13.4	15.9
Non-controlling interest <i>(note 30)</i>	139.3	—	—
	<b>2,605.3</b>	2,427.8	2,376.3
<b>Equity</b>			
Capital stock <i>(note 22)</i>	664.6	682.6	702.1
Contributed surplus	4.6	3.8	8.2
Retained earnings	1,976.1	1,763.6	1,608.4
Accumulated other comprehensive income <i>(note 23)</i>	(101.0)	(51.2)	(0.3)
Equity attributable to equity holders of the parent	<b>2,544.3</b>	2,398.8	2,318.4
Non-controlling interests	0.8	0.5	0.5
	<b>2,545.1</b>	2,399.3	2,318.9
	<b>5,150.4</b>	4,827.1	4,695.2

Commitments and contingencies *(notes 26 and 27)*

See accompanying notes

On behalf of the Board:



ERIC R. LA FLÈCHE  
 Director



MICHEL LABONTÉ  
 Director



## Consolidated statements of changes in equity

Years ended September 29, 2012 and September 24, 2011

(Millions of dollars)

(53 weeks)	Attributable to the equity holders of the parent						Non-controlling interests	Total equity
	Capital stock (note 22)	Contributed surplus	Retained earnings	Accumulated other comprehensive income (note 23)	Total			
Balance as at September 24, 2011	682.6	3.8	1,763.6	(51.2)	2,398.8	0.5	2,399.3	
Net earnings			481.8		481.8	7.5	489.3	
Other comprehensive income				(49.8)	(49.8)		(49.8)	
Comprehensive income	—	—	481.8	(49.8)	432.0	7.5	439.5	
Shares issued for cash	0.1				0.1		0.1	
Stock options exercised	10.3	(2.3)			8.0		8.0	
Shares redeemed	(28.7)				(28.7)		(28.7)	
Share redemption premium			(186.3)		(186.3)		(186.3)	
Acquisition of treasury shares	(0.3)				(0.3)		(0.3)	
Treasury share acquisition premium		(2.3)			(2.3)		(2.3)	
Released treasury shares	0.6	(0.6)			—		—	
Share-based compensation cost		6.1			6.1		6.1	
Performance share units cash settlement		(0.1)			(0.1)		(0.1)	
Dividends (note 24)			(82.9)		(82.9)		(82.9)	
Share conversion fees			(0.1)		(0.1)		(0.1)	
Reclassification of non-controlling interest liability					—	(7.2)	(7.2)	
	(18.0)	0.8	(269.3)	—	(286.5)	(7.2)	(293.7)	
Balance as at September 29, 2012	664.6	4.6	1,976.1	(101.0)	2,544.3	0.8	2,545.1	

(52 weeks)	Attributable to the equity holders of the parent						Non-controlling interests	Total equity
	Capital stock (note 22)	Contributed surplus	Retained earnings	Accumulated other comprehensive income (note 23)	Total			
Balance as at September 26, 2010	702.1	8.2	1,608.4	(0.3)	2,318.4	0.5	2,318.9	
Net earnings			392.7		392.7		392.7	
Other comprehensive income				(50.9)	(50.9)		(50.9)	
Comprehensive income	—	—	392.7	(50.9)	341.8	—	341.8	
Stock options exercised	9.1	(2.1)			7.0		7.0	
Shares redeemed	(27.9)				(27.9)		(27.9)	
Share redemption premium			(160.4)		(160.4)		(160.4)	
Acquisition of treasury shares	(1.3)				(1.3)		(1.3)	
Treasury share acquisition premium		(7.6)			(7.6)		(7.6)	
Released treasury shares	0.6	(0.6)			—		—	
Share-based compensation cost		6.3			6.3		6.3	
Performance share units cash settlement		(0.4)			(0.4)		(0.4)	
Dividends (note 24)			(77.1)		(77.1)		(77.1)	
	(19.5)	(4.4)	(237.5)	—	(261.4)	—	(261.4)	
Balance as at September 24, 2011	682.6	3.8	1,763.6	(51.2)	2,398.8	0.5	2,399.3	

See accompanying notes



**Consolidated statements of cash flows**  
**Years ended September 29, 2012 and September 24, 2011**  
*(Millions of dollars)*

	2012 <i>(53 weeks)</i>	2011 <i>(52 weeks)</i>
<b>Operating activities</b>		
Earnings before income taxes	664.0	545.5
Non-cash items		
Share of an associate's earnings	(72.6)	(42.4)
Closure expenses	—	8.9
Depreciation and amortization	183.9	179.3
Amortization of deferred financing costs	0.3	0.4
Loss (gain) on disposal and write-offs of fixed and intangible assets and investment properties	(5.4)	10.0
Impairment losses on fixed and intangible assets and investment properties	10.3	14.8
Impairment loss reversals on fixed and intangible assets	(10.0)	(5.5)
Share-based compensation cost	6.1	6.3
Difference between amounts paid for employee benefits and current period cost	(43.3)	(14.9)
Financial costs, net	46.4	41.5
	779.7	743.9
Net change in non-cash working capital items	(44.4)	(7.1)
Interest paid	(48.0)	(45.1)
Income taxes paid	(141.2)	(149.3)
	546.1	542.4
<b>Investing activities</b>		
Business acquisitions, net of cash acquired totalling \$3.0 in 2012 <i>(note 6)</i>	(146.8)	(74.2)
Proceeds on disposal of assets held for sale	6.6	—
Net change in other financial assets	(4.6)	5.4
Dividends from an associate	6.2	4.7
Additions to fixed assets	(210.5)	(148.1)
Proceeds on disposal of fixed assets	26.9	2.6
Proceeds on disposal of investment properties	3.5	2.8
Additions to intangible assets and goodwill	(38.3)	(19.9)
	(357.0)	(226.7)
<b>Financing activities</b>		
Net change in bank loans	(15.5)	(0.7)
Shares issued <i>(note 22)</i>	8.1	7.0
Shares redeemed <i>(note 22)</i>	(215.0)	(188.3)
Acquisition of treasury shares <i>(note 22)</i>	(2.6)	(8.9)
Performance share units cash settlement	(0.1)	(0.4)
Increase in debt	391.1	8.4
Repayment of debt	(454.9)	(12.1)
Use of non-current provisions	—	(0.3)
Net change in other liabilities	0.5	(2.5)
Dividends <i>(note 24)</i>	(82.9)	(77.1)
	(371.3)	(274.9)
<b>Net change in cash and cash equivalents</b>	<b>(182.2)</b>	<b>40.8</b>
Cash and cash equivalents – beginning of year	255.5	214.7
Cash and cash equivalents – end of year	73.3	255.5

See accompanying notes



**Notes to consolidated financial statements**

**September 29, 2012 and September 24, 2011**

*(Millions of dollars, unless otherwise indicated)*

**1. DESCRIPTION OF BUSINESS**

METRO INC. (the Corporation) is a company incorporated under the laws of Québec. The Corporation is one of Canada's leading food retailers and distributors and operates a network of supermarkets, discount stores and drugstores. Its head office is located at 11011 Maurice-Duplessis Blvd., Montréal, Québec, Canada, H1C 1V6. Its various components constitute a single operating segment.

**2. EXPLANATIONS ON THE TRANSITION TO IFRS**

As of September 25, 2011, the Corporation has prepared its financial statements according to International Financial Reporting Standards (IFRS). This note explains the principal adjustments made in converting the consolidated financial statements from Canadian Generally Accepted Accounting Principles (GAAP) to IFRS, specifically the consolidated statements of financial position as at September 26, 2010 and September 24, 2011, as well as the consolidated statements of income, consolidated statements of comprehensive income and consolidated statements of cash flows for the fiscal year ended September 24, 2011.

To facilitate comprehension, the adjustments are presented in two different ways. In the first, the adjustments are itemized according to IFRS standards and the three following categories: 1) optional exemptions under IFRS 1 "First-time Adoption of International Financial Reporting Standards" that apply only once at the time of changeover to IFRS, 2) recurring differences in accounting treatment between GAAP and IFRS, 3) reclassifications for presentation purposes that have no impact on net earnings (see page 56). In the second, the adjustments are itemized according to financial statement items (see page 63).

**TERMINOLOGY**

There are differences between IFRS and GAAP terminology. The following table lists the main differences:

<b>GAAP terminology</b>	<b>IFRS terminology</b>
<b>Statement of earnings</b>	<b>Statement of income</b>
<b>Balance sheet</b>	<b>Statement of financial position</b>
Long-term	Non-current
Investment in a company subject to significant influence	Investment in an associate
Future income taxes	Deferred taxes
Accrued benefit assets or liabilities	Defined benefit assets or liabilities
Shareholders' equity	Equity
<b>Notes to financial statements</b>	<b>Notes to financial statements</b>
Reportable segment	Operating segment
Variable interest entities	Special purpose entities
Assets or liabilities held for trading	Financial assets or liabilities at fair value through net earnings
Definite/indefinite useful lives	Finite/indefinite useful lives
Capital leases	Finance leases
Employee future benefits	Employee benefits
Projected benefit method prorated on services/Accumulated benefit method	Projected unit credit method
Accrued benefit obligations	Defined benefit obligations
Stock-based compensation and other stock-based payments	Share-based payment transactions

**FIRST-TIME ADOPTION OF IFRS**

At the date of transition, IFRS 1 authorizes certain exemptions from retrospective application. The following optional exemptions were used:

**Employee benefits**

All actuarial gains and losses on the date of transition were recognized in retained earnings.

**Business combinations**

The IFRS 3 "Business Combinations" was not applied to business combinations that occurred before the transition date.



## Notes to consolidated financial statements

September 29, 2012 and September 24, 2011

(Millions of dollars, unless otherwise indicated)

### RECONCILIATION OF CONSOLIDATED FINANCIAL POSITION AND EQUITY

	Notes	As at September 24, 2011				IFRS
		GAAP	IFRS 1	Accounting treatment	Presentation	
<b>ASSETS</b>						
<b>Current assets</b>						
Cash and cash equivalents		255.5				255.5
Accounts receivable	i	306.9			(6.6)	300.3
Inventories		728.3				728.3
Prepaid expenses		11.7				11.7
Income taxes receivable		2.2				2.2
Deferred taxes	n	19.2			(19.2)	—
		1,323.8	—	—	(25.8)	1,298.0
Assets held for sale	i	—			6.6	6.6
		1,323.8	—	—	(19.2)	1,304.6
<b>Non-current assets</b>						
Investment in an associate	r	—		1.3	257.4	258.7
Other financial assets	s	274.7		(0.3)	(257.4)	17.0
Fixed assets	t	1,321.3		(63.7)	(31.5)	1,226.1
Investment properties	u	—		(4.5)	31.5	27.0
Intangible assets	d	308.5		(11.3)		297.2
Goodwill	e	1,649.9		(0.8)		1,649.1
Deferred taxes	q	1.2	11.2	14.2	19.2	45.8
Defined benefit assets	v	79.4	(47.3)	(30.5)		1.6
		4,958.8	(36.1)	(95.6)	—	4,827.1
<b>LIABILITIES AND EQUITY</b>						
<b>Current liabilities</b>						
Bank loans		0.3				0.3
Accounts payable	l	1,078.4			(17.3)	1,061.1
Income taxes payable		46.2				46.2
Provisions	l	—			17.3	17.3
Deferred taxes	n	11.2			(11.2)	—
Current portion of debt	m	8.8			369.3	378.1
		1,144.9	—	—	358.1	1,503.0
<b>Non-current liabilities</b>						
Debt	m	1,025.5			(369.3)	656.2
Defined benefit liabilities	v	44.0	38.1	50.1		132.2
Provisions	l	—			4.0	4.0
Deferred taxes	q	158.5	(10.9)	(39.8)	11.2	119.0
Other liabilities	e, l	17.9			(4.5)	13.4
		2,390.8	27.2	10.3	(0.5)	2,427.8
<b>Equity</b>						
Capital stock		682.6				682.6
Contributed surplus	h	1.7		2.1		3.8
Retained earnings	w	1,883.7	(63.3)	(56.8)		1,763.6
Accumulated other comprehensive income	x	—		(51.2)		(51.2)
Equity attributable to the equity holders of the parent		2,568.0	(63.3)	(105.9)	—	2,398.8
Non-controlling interests	e	—			0.5	0.5
		2,568.0	(63.3)	(105.9)	0.5	2,399.3
		4,958.8	(36.1)	(95.6)	—	4,827.1



## Notes to consolidated financial statements

September 29, 2012 and September 24, 2011

(Millions of dollars, unless otherwise indicated)

### RECONCILIATION OF CONSOLIDATED FINANCIAL POSITION AND EQUITY

	Notes	As at September 26, 2010				IFRS
		GAAP	IFRS 1	Adjustments Accounting treatment	Presentation	
<b>ASSETS</b>						
<b>Current assets</b>						
Cash and cash equivalents		214.7				214.7
Accounts receivable		311.3				311.3
Inventories		699.3				699.3
Prepaid expenses		9.7				9.7
Income taxes receivable		1.7				1.7
Deferred taxes	n	12.3			(12.3)	—
		1,249.0	—	—	(12.3)	1,236.7
<b>Non-current assets</b>						
Investment in an associate	r	—		1.4	219.5	220.9
Other financial assets	s	235.3			(219.5)	15.8
Fixed assets	t	1,319.1		(69.7)	(32.2)	1,217.2
Investment properties	u	—		(4.4)	32.2	27.8
Intangible assets	d	315.7		(11.7)		304.0
Goodwill		1,603.7				1,603.7
Deferred taxes	q	1.3	11.2	24.0	12.3	48.8
Defined benefit assets	v	72.8	(47.3)	(5.2)		20.3
		4,796.9	(36.1)	(65.6)	—	4,695.2
<b>LIABILITIES AND EQUITY</b>						
<b>Current liabilities</b>						
Bank loans		1.0				1.0
Accounts payable	l	1,073.3			(9.2)	1,064.1
Income taxes payable		50.8				50.8
Provisions	l	—			9.2	9.2
Deferred taxes	n	12.8			(12.8)	—
Current portion of debt		4.7				4.7
		1,142.6	—	—	(12.8)	1,129.8
<b>Non-current liabilities</b>						
Debt		1,004.3				1,004.3
Defined benefit liabilities	v	48.5	38.1	10.4		97.0
Provisions	l	—			4.8	4.8
Deferred taxes	q	137.5	(10.9)	(14.9)	12.8	124.5
Other liabilities	e, l	21.2			(5.3)	15.9
		2,354.1	27.2	(4.5)	(0.5)	2,376.3
<b>Equity</b>						
Capital stock		702.1				702.1
Contributed surplus	h	6.1		2.1		8.2
Retained earnings	w	1,734.9	(63.3)	(63.2)		1,608.4
Accumulated other comprehensive income		(0.3)				(0.3)
Equity attributable to the equity holders of the parent		2,442.8	(63.3)	(61.1)	—	2,318.4
Non-controlling interests	e	—			0.5	0.5
		2,442.8	(63.3)	(61.1)	0.5	2,318.9
		4,796.9	(36.1)	(65.6)	—	4,695.2



## Notes to consolidated financial statements

September 29, 2012 and September 24, 2011

(Millions of dollars, unless otherwise indicated)

### RECONCILIATION OF CONSOLIDATED STATEMENTS OF INCOME

	Notes	Fiscal year ended September 24, 2011			IFRS
		GAAP	Adjustments		
			Accounting treatment	Presentation	
<b>Sales</b>	o	11,430.6		(34.2)	11,396.4
Cost of sales and operating expenses	y	(10,679.6)	(6.6)	34.2	(10,652.0)
Share of an associate's earnings	b	42.6	(0.2)		42.4
Closure expenses	c	(20.2)	(0.3)		(20.5)
<b>Earnings before financial costs, taxes, depreciation and amortization</b>		773.4	(7.1)	—	766.3
Depreciation and amortization	z	(195.2)	15.9		(179.3)
<b>Operating income</b>		578.2	8.8	—	587.0
Financial costs, net		(41.5)			(41.5)
<b>Earnings before income taxes</b>		536.7	8.8	—	545.5
Income taxes	aa	(150.4)	(2.4)		(152.8)
<b>Net earnings</b>		386.3	6.4	—	392.7
<b>Net earnings per share (Dollars)</b>					
Basic		3.75			3.81
Fully diluted		3.73			3.79



## Notes to consolidated financial statements

September 29, 2012 and September 24, 2011

(Millions of dollars, unless otherwise indicated)

### RECONCILIATION OF CONSOLIDATED COMPREHENSIVE INCOME

	Notes	Fiscal year ended September 24, 2011		IFRS
		GAAP	Adjustments Accounting treatment	
Net earnings		386.3	6.4	392.7
Other comprehensive income				
Change in the fair value of a derivative designated as cash flow hedge		0.4		0.4
Changes in defined benefit plans				
Actuarial losses	f	—	(66.8)	(66.8)
Asset ceiling effect	f	—	0.5	0.5
Minimum funding requirement	f	—	(2.5)	(2.5)
Share of an associate's other comprehensive income	b	—	0.1	0.1
Corresponding income taxes	f	(0.1)	17.5	17.4
Comprehensive income		386.6	(44.8)	341.8





## Notes to consolidated financial statements

September 29, 2012 and September 24, 2011

(Millions of dollars, unless otherwise indicated)

### RECONCILIATION OF CONSOLIDATED CASH FLOWS

	Notes	Fiscal year ended September 24, 2011			
		GAAP	Adjustments		IFRS
			Accounting treatment	Presentation	
<b>Operating activities</b>					
Net earnings		386.3	6.4		392.7
Income taxes	aa, p	—	2.4	150.4	152.8
Earnings before income taxes		386.3	8.8	150.4	545.5
Non-cash items					
Share in an associate's earnings	b	(42.6)	0.2		(42.4)
Closure expenses		8.9			8.9
Depreciation and amortization	z	195.2	(15.9)		179.3
Amortization of deferred financing costs		0.4			0.4
Loss on disposal and write-offs of fixed and intangible assets and investment properties	c	9.7	0.3		10.0
Interest income from investments	p	(0.1)		0.1	—
Deferred taxes	p	14.6		(14.6)	—
Impairment losses of fixed and intangible assets and investment properties	d	—	14.8		14.8
Impairment loss reversals of fixed and intangible assets	d	—	(5.5)		(5.5)
Share-based compensation cost		6.3			6.3
Difference between amounts paid for employee benefits and current period cost	f	(11.1)	(3.8)		(14.9)
Financial costs, net	p	—		41.5	41.5
		567.6	(1.1)	177.4	743.9
Net change in non-cash working capital items	e, l, p	(24.4)	0.8	16.5	(7.1)
Interest paid	p	—		(45.1)	(45.1)
Income taxes paid	p	—		(149.3)	(149.3)
		543.2	(0.3)	(0.5)	542.4
<b>Investing activities</b>					
Business acquisitions	e	(74.5)	0.3		(74.2)
Net change in other financial assets		5.4			5.4
Dividends from an associate		4.7			4.7
Additions to fixed assets		(148.1)			(148.1)
Proceeds on disposal of fixed assets	k	5.4		(2.8)	2.6
Proceeds on disposal of investment properties	k	—		2.8	2.8
Additions to intangible assets		(19.9)			(19.9)
		(227.0)	0.3	—	(226.7)
<b>Financing activities</b>					
Net change in bank loans		(0.7)			(0.7)
Shares issued		7.0			7.0
Shares redeemed		(188.3)			(188.3)
Acquisition of treasury shares		(8.9)			(8.9)
Performance share units cash settlement		(0.4)			(0.4)
Increase in debt		8.4			8.4
Repayment of debt		(12.1)			(12.1)
Use of non-current provisions	l	—		(0.3)	(0.3)
Net change in other liabilities	l	(3.3)		0.8	(2.5)
Dividends		(77.1)			(77.1)
		(275.4)	—	0.5	(274.9)
<b>Net change in cash and cash equivalents</b>					
		40.8	—	—	40.8
Cash and cash equivalents – beginning of year		214.7			214.7
Cash and cash equivalents – end of year		255.5	—	—	255.5

**Notes to consolidated financial statements**

**September 29, 2012 and September 24, 2011**

*(Millions of dollars, unless otherwise indicated)*

**NOTES TO RECONCILIATIONS BY STANDARD**

**IFRS 1**

**a) Employee benefits**

At the date of transition to IFRS, use of the exemption from retrospective application, allowing all actuarial gains and losses to be recognized in retained earnings, entailed the following adjustments:

<i>Increase / (decrease)</i>	Notes	September 24, 2011	September 26, 2010
Financial position:			
Deferred tax assets	q	11.2	11.2
Defined benefit assets	v	(47.3)	(47.3)
Defined benefit liabilities	v	38.1	38.1
Deferred tax liabilities	q	(10.9)	(10.9)
Retained earnings	w	(63.3)	(63.3)

**ACCOUNTING TREATMENT**

**b) Investment in an associate**

Starting with the first quarter of its 2012 fiscal year, the publicly traded associate in which the Corporation has an interest issued its first IFRS consolidated financial statements. The Corporation's share of the adjustments related to the conversion of the associate's consolidated financial statements from GAAP to IFRS was made up of the following items:

<i>Increase / (decrease)</i>	Notes	September 24, 2011	September 26, 2010
Financial position:			
Investment in an associate	r	1.3	1.4
Deferred tax liabilities	q	0.1	0.1
Retained earnings	w	1.1	1.3
Accumulated other comprehensive income	x	0.1	—
Net earnings:			
Share in an associate's earnings		(0.2)	—
Comprehensive income:			
Share in an associate's comprehensive income		0.1	—

**Notes to consolidated financial statements**

**September 29, 2012 and September 24, 2011**

*(Millions of dollars, unless otherwise indicated)*

**c) Fixed assets**

Under IFRS, the roof and HVAC are separate building components whose useful life is less than the building's. The roof and HVAC are depreciated over 20 years and the rest of the building over 50 years. Under GAAP, all of the building was depreciated over 40 years. This adjustment had the following impacts:

<i>Increase / (decrease)</i>	Notes	September 24, 2011	September 26, 2010
Financial position:			
Fixed assets	t	16.8	16.0
Deferred tax assets	q	(1.0)	(1.0)
Deferred tax liabilities	q	3.4	3.2
Retained earnings	w	12.4	11.8
Net earnings:			
Depreciation and amortization	z	1.1	—
Closure expenses		(0.3)	—
Income taxes	aa	(0.2)	—
Cash flows:			
Loss on disposal and write-offs of fixed and intangible assets and investment properties		0.3	—

**d) Impairment of assets**

Under IFRS, impairment testing is conducted at the level of the asset itself, a 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. Each store is a separate CGU, and impairment testing is performed at the store level. Impairment testing of warehouses is conducted at the level of the different groups of CGUs. As for goodwill, certain private labels and support assets that cannot be allocated wholly to a single CGU, impairment testing is conducted at the level of the unique operating segment. Impairment testing of investment properties, investment in an associate, banners, certain private labels and loyalty programs is conducted at the level of the asset itself. Under GAAP, impairment testing was done at the level of the asset itself, a group of assets or a reporting unit. These adjustments had the following impacts:

<i>Increase / (decrease)</i>	Notes	September 24, 2011	September 26, 2010
Financial position:			
Fixed assets	t	(80.5)	(85.7)
Investment properties	u	(4.5)	(4.4)
Intangible assets		(11.3)	(11.7)
Deferred tax assets	q	15.5	24.2
Deferred tax liabilities	q	(9.0)	(1.7)
Retained earnings	w	(71.8)	(75.9)
Net earnings:			
Impairment losses	y	(14.8)	—
Impairment loss reversals	y	5.5	—
Depreciation and amortization	z	14.8	—
Income taxes	aa	(1.4)	—

**Notes to consolidated financial statements**

**September 29, 2012 and September 24, 2011**

(Millions of dollars, unless otherwise indicated)

At the date of transition to IFRS and in subsequent periods, impairment testing, conducted at the level of stores and warehouses, consisted in a comparison of the carrying value and recoverable value of asset, CGU or group of CGUs. The recoverable value is the higher of the value in use and the fair value less costs to sell. The recoverable value of each store and warehouse was determined based on its value in use which was calculated using pre-tax cash flow forecasts from management-approved budgets discounted to present value using the pre-tax discount rate of 14.4 %. The resulting impairment losses as at September 26, 2010 were allocated as follows between the different categories of fixed and intangible assets:

	September 26, 2010
Fixed assets:	
Buildings	8.3
Land	1.9
Equipment	44.7
Leasehold improvements	29.3
Buildings under finance leases	1.5
	85.7

	September 26, 2010
Intangible assets:	
Leasehold rights	3.3
Software	5.9
Improvements and development of retail network loyalty	1.7
Prescription files	0.8
	11.7

At the date of transition to IFRS and in subsequent periods, impairment testing was also done at the level of investment properties. Their recoverable value was determined based on their fair value less costs to sell, based on recent transactions on the market.

Further information on impairment losses as at September 24, 2011 is provided in notes 14, 15 and 16.

**e) Business combinations**

Under 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. Non-controlling interests are presented in equity. Under GAAP, business combination-related costs were considered in purchase price allocation. Restructuring costs for the acquired business could be included in the purchase price allocation. Non-controlling interests were presented in other liabilities. These adjustments had the following impacts:

<i>Increase / (decrease)</i>	Notes	September 24, 2011	September 26, 2010
Financial position:			
Goodwill		(0.8)	—
Other financial assets	s	(0.3)	—
Deferred tax liabilities	q	(0.3)	—
Other liabilities		(0.5)	(0.5)
Retained earnings	w	(0.8)	—
Non-controlling interests		0.5	0.5
Net earnings:			
Operating expenses	y	(1.1)	—
Income taxes	aa	0.3	—
Cash flows:			
Business acquisitions		0.3	—
Net change in non-cash working capital items		0.8	—

**Notes to consolidated financial statements**

**September 29, 2012 and September 24, 2011**

*(Millions of dollars, unless otherwise indicated)*

**f) Employee benefits**

**Actuarial gains or losses**

Under IFRS, actuarial gains or losses are recognized in comprehensive income. Under GAAP, they were deferred and amortized using the corridor method and recognized in net earnings. This adjustment had the following impacts:

<i>Increase / (decrease)</i>	Notes	September 24, 2011	September 26, 2010
Financial position:			
Deferred tax assets	q	(1.1)	(0.2)
Defined benefit assets	v	(23.2)	12.2
Defined benefit liabilities	v	39.5	(18.2)
Deferred tax liabilities	q	(17.0)	7.6
Retained earnings	w	3.0	0.6
Accumulated other comprehensive income	x	(49.8)	22.0
Net earnings:			
Employee benefit expense	y	4.1	0.8
Income taxes	aa	(1.1)	(0.2)
Comprehensive income:			
Actuarial gains (losses)		(66.8)	29.6
Corresponding income taxes		17.0	(7.6)

**Past service cost**

Under IFRS, past service cost for vested benefits is recognized immediately in net earnings. Under GAAP, past service cost was amortized on a straight-line basis over the average remaining service period of active participants, regardless of vesting. This adjustment had the following impacts:

<i>Increase / (decrease)</i>	Notes	September 24, 2011	September 26, 2010
Financial position:			
Deferred tax assets	q	1.7	1.7
Defined benefit liabilities	v	10.6	10.4
Deferred tax liabilities	q	(0.9)	(0.9)
Retained earnings	w	(8.0)	(7.8)
Net earnings:			
Employee benefit expense	y	(0.2)	—

**Asset ceiling and minimum funding requirement**

Under IFRS, in the case of a surplus funded plan, defined benefit assets are limited to the availability of future contribution reductions calculated on a going concern and solvency basis. Furthermore, an additional liability could be recorded when minimum funding requirements exceed economic benefits available. Ceiling and minimum funding requirement effects are recognized for each period and recorded in comprehensive income. Under GAAP, in the case of a surplus funded plan, accrued benefit assets were limited to the availability of future contribution reductions calculated on a going concern basis. Any variances regarding the ceiling were recorded in net earnings. These adjustments had the following impacts:



**Notes to consolidated financial statements**

**September 29, 2012 and September 24, 2011**

(Millions of dollars, unless otherwise indicated)

<i>Increase / (decrease)</i>	Notes	September 24, 2011	September 26, 2010
Financial position:			
Defined benefit assets	v	(11.1)	(9.0)
Deferred tax liabilities	q	(3.0)	(2.5)
Retained earnings	w	(6.6)	(6.5)
Accumulated other comprehensive income	x	(1.5)	—
Net earnings:			
Employee benefit expense	y	(0.1)	—
Comprehensive income:			
Asset ceiling effect		0.5	—
Minimum funding requirement		(2.5)	—
Corresponding income taxes		0.5	—

**Post-employment benefits**

Post-employment benefits plans consist of pension benefits, post-employment life insurance, and post-employment health care. Certain plans provide post-employment life insurance and health care benefits only to employees with a minimum of 20 years of service and aged 65 at retirement. Under IFRS, vested rights to these plans are recognized only when employees turn 45, if hired before then. Under GAAP, recognition was from an employee's hiring date for employees hired before they were 45 years old. As the recognition date is later under IFRS than under GAAP, recognized obligations are less under IFRS. This adjustment had the following impacts:

<i>Increase / (decrease)</i>	Notes	September 24, 2011	September 26, 2010
Financial position:			
Defined benefit assets	v	3.8	3.8
Deferred tax assets	q	(0.9)	(0.9)
Retained earnings	w	2.9	2.9

**g) Income taxes**

Under IFRS, differences between the carrying amount and tax base of intangible assets with indefinite useful lives have to be recognized as deferred tax assets or liabilities 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 therefore the capital gains tax rate was used. Under GAAP, the common practice was to use the corporate tax rate in accounting for deferred taxes. This adjustment had the following impacts:

<i>Increase / (decrease)</i>	Notes	September 24, 2011	September 26, 2010
Financial position:			
Deferred tax liabilities	q	(13.1)	(13.1)
Retained earnings	w	13.1	13.1

**Notes to consolidated financial statements**

**September 29, 2012 and September 24, 2011**

*(Millions of dollars, unless otherwise indicated)*

**h) Share-based payment**

Under IFRS, when stock option awards vest gradually, each tranche is considered as a separate award with recognition of the compensation expense over the vesting term of each tranche. Under GAAP, all tranches were considered as a single award with straight-line recognition of the compensation expense over the total vesting term of all tranches. This adjustment had the following impacts:

<i>Increase / (decrease)</i>	Notes	September 24, 2011	September 26, 2010
Financial position:			
Contributed surplus		2.1	2.1
Retained earnings	w	(2.1)	(2.1)

**PRESENTATION**

**i) Assets held for sale**

Under IFRS, assets held for sale are presented separately in the consolidated statement of financial position. Under GAAP, they were included in accounts receivable. The impact of this reclassification as at September 24, 2011 was \$6.6.

**j) Investment in an associate**

Under IFRS, investments accounted for using the equity method are presented separately in the consolidated statement of financial position. Under GAAP, they were included in investments and other assets. The impacts of this reclassification as at September 26, 2010 and September 24, 2011 were \$219.5 and \$257.4 respectively (notes r and s).

**k) Investment properties**

Under IFRS, investment properties are held for capital appreciation and to earn rentals. They are not occupied by the owner for its ordinary activities. They are presented separately in the consolidated statement of financial position. Under GAAP, the concept of investment properties did not exist and such land and buildings were included in fixed assets. This reclassification had the following impacts:

<i>Increase / (decrease)</i>	Notes	September 24, 2011	September 26, 2010
Financial position:			
Fixed assets	t	(31.5)	(32.2)
Investment properties	u	31.5	32.2
Cash flows:			
Proceeds on disposal of fixed assets		(2.8)	—
Proceeds on disposal of investment properties		2.8	—

**l) Provisions**

Under IFRS, current and non-current provisions are presented separately in the consolidated statement of financial position. Under GAAP, they were included in accounts payable and other long-term liabilities. This reclassification had the following impacts:

<i>Increase / (decrease)</i>	September 24, 2011	September 26, 2010
Financial position:		
Current provisions	17.3	9.2
Accounts payable	(17.3)	(9.2)
Non-current provisions	4.0	4.8
Other liabilities	(4.0)	(4.8)
Cash flows:		
Net change in non-cash working capital items	(0.5)	—
Non-current provisions used	(0.3)	—
Net change in other liabilities	0.8	—

**Notes to consolidated financial statements****September 29, 2012 and September 24, 2011***(Millions of dollars, unless otherwise indicated)***m) Debt**

Under IFRS, financial liabilities at the closing date will mature within the next 12 months are presented in current items in the consolidated statement of financial position, even if a refinancing agreement is entered into after the closing date and before the financial statements are authorized for issue. Under GAAP, they were presented with the non-current items. The impact of this reclassification as at September 24, 2011 was \$369.3 for the Credit A Facility.

**n) Deferred taxes**

Under IFRS, deferred tax assets and liabilities are classified as non-current items in the consolidated statement of financial position. Under GAAP, the current and non-current portions of deferred tax assets and liabilities were presented separately. The impacts of this reclassification of current deferred tax assets and liabilities as at September 26, 2010 were \$12.3 and \$12.8 and the impacts as at September 24, 2011 were \$19.2 and \$11.2 (note q).

**o) Loyalty programs**

Under IFRS, the cost of loyalty program points is recorded as a reduction in sales. Under GAAP, it was recorded in the cost of sales and operating expenses. The impact of this reclassification for the year ended September 24, 2011 was \$34.2 (note y).

**p) Interest and income taxes paid**

Under IFRS, interest and income taxes paid are incorporated in the consolidated statement of cash flows. Under GAAP, interest and income taxes paid were presented as supplementary information. This reclassification had the following impacts:

<i>Increase / (decrease)</i>	September 24, 2011
Cash flows:	
Financial costs, net	41.5
Interest paid	(45.1)
Interest income from investments	0.1
Income taxes	150.4
Income taxes paid	(149.3)
Deferred taxes	(14.6)
Net change in non-cash working capital items	17.0

**Notes to consolidated financial statements**

**September 29, 2012 and September 24, 2011**

(Millions of dollars, unless otherwise indicated)

**SUMMARY OF FINANCIAL STATEMENT ADJUSTMENTS**

**FINANCIAL POSITION**

**q) Deferred tax assets and liabilities**

**Deferred tax assets**

<i>Increase / (decrease)</i>	Notes	September 24, 2011		
		IFRS 1	Accounting treatment	Presentation
Exemption from retrospective application	a	11.2		
Fixed assets	c		(1.0)	
Impairment of assets	d		15.5	
Employee benefits				
Actuarial gains or losses	f		(1.1)	
Past service cost	f		1.7	
Post-employment benefits	f		(0.9)	
Reclassification of current portion	n			19.2
		11.2	14.2	19.2

<i>Increase / (decrease)</i>	Notes	September 26, 2010		
		IFRS 1	Accounting treatment	Presentation
Exemption from retrospective application	a	11.2		
Fixed assets	c		(1.0)	
Impairment of assets	d		24.2	
Employee benefits				
Past service cost	f		1.7	
Post-employment benefits	f		(0.9)	
Reclassification of current portion	n			12.3
		11.2	24.0	12.3

**Deferred tax liabilities**

<i>Increase / (decrease)</i>	Notes	September 24, 2011		
		IFRS 1	Accounting treatment	Presentation
Exemption from retrospective application	a	(10.9)		
Investment in an associate	b		0.1	
Fixed assets	c		3.4	
Impairment of assets	d		(9.0)	
Business combinations	e		(0.3)	
Employee benefits				
Actuarial gains or losses	f		(17.0)	
Past service cost	f		(0.9)	
Asset ceiling and minimum funding requirement	f		(3.0)	
Income taxes	g		(13.1)	
Reclassification of current portion	n			11.2
		(10.9)	(39.8)	11.2

**Notes to consolidated financial statements**

**September 29, 2012 and September 24, 2011**

(Millions of dollars, unless otherwise indicated)

<i>Increase / (decrease)</i>	Notes	September 26, 2010		
		IFRS 1	Accounting treatment	Presentation
Exemption from retrospective application	a	(10.9)		
Investment in an associate	b		0.1	
Fixed assets	c		3.2	
Impairment of assets	d		(1.7)	
Employee benefits				
Past service cost	f		(0.9)	
Asset ceiling and minimum funding requirement	f		(2.5)	
Income taxes	g		(13.1)	
Reclassification of current portion	n			12.8
		(10.9)	(14.9)	12.8

**r) Investment in an associate**

<i>Increase / (decrease)</i>	Notes	September 24, 2011		September 26, 2010	
		Accounting treatment	Presentation	Accounting treatment	Presentation
Share of an associate's IFRS conversion	b	1.3		1.4	
Reclassification of other financial assets	j		257.4		219.5
		1.3	257.4	1.4	219.5

**s) Other financial assets**

<i>Increase / (decrease)</i>	Notes	September 24, 2011		September 26, 2010	
		Accounting treatment	Presentation		Presentation
Business combinations	e	(0.3)			
Reclassification of investment in an associate	j		(257.4)		(219.5)
		(0.3)	(257.4)		(219.5)

**t) Fixed assets**

<i>Increase / (decrease)</i>	Notes	September 24, 2011		September 26, 2010	
		Accounting treatment	Presentation	Accounting treatment	Presentation
Components	c	16.8		16.0	
Impairment of assets	d	(80.5)		(85.7)	
Reclassification of investment properties	k		(31.5)		(32.2)
		(63.7)	(31.5)	(69.7)	(32.2)

**Notes to consolidated financial statements**

**September 29, 2012 and September 24, 2011**

(Millions of dollars, unless otherwise indicated)

**u) Investment properties**

<i>Increase / (decrease)</i>	Notes	September 24, 2011		September 26, 2010	
		Accounting treatment	Presentation	Accounting treatment	Presentation
Impairment of assets	d	(4.5)		(4.4)	
Reclassification of fixed assets	k		31.5		32.2
		(4.5)	31.5	(4.4)	32.2

**v) Defined benefit assets and liabilities**

**Defined benefit assets**

<i>Increase / (decrease)</i>	Notes	September 24, 2011		September 26, 2010	
		IFRS 1	Accounting treatment	IFRS 1	Accounting treatment
Exemption from retrospective application	a	(47.3)		(47.3)	
Employee benefits					
Actuarial losses	f		(23.2)		
Asset ceiling and minimum funding requirement	f		(11.1)		(9.0)
Post-employment benefits	f		3.8		3.8
		(47.3)	(30.5)	(47.3)	(5.2)

**Defined benefit liabilities**

<i>Increase / (decrease)</i>	Notes	September 24, 2011		September 26, 2010	
		IFRS 1	Accounting treatment	IFRS 1	Accounting treatment
Exemption from retrospective application	a	38.1		38.1	
Employee benefits					
Actuarial losses	f		39.5		
Past service cost	f		10.6		10.4
		38.1	50.1	38.1	10.4



**Notes to consolidated financial statements**

**September 29, 2012 and September 24, 2011**

(Millions of dollars, unless otherwise indicated)

**w) Retained earnings**

<i>Increase / (decrease)</i>	Notes	September 24, 2011		September 26, 2010	
		IFRS 1	Accounting treatment	IFRS 1	Accounting treatment
Exemption from retrospective application	a	(63.3)		(63.3)	
Investment in an associate	b		1.1		1.3
Fixed assets	c		12.4		11.8
Impairment of assets	d		(71.8)		(75.9)
Business combinations	e		(0.8)		
Employee benefits					
Actuarial gains or losses	f		3.0		
Past service cost	f		(8.0)		(7.8)
Asset ceiling and minimum funding requirement	f		(6.6)		(6.5)
Post-employment benefits	f		2.9		2.9
Income taxes	g		13.1		13.1
Share-based payment	h		(2.1)		(2.1)
		(63.3)	(56.8)	(63.3)	(63.2)

**x) Accumulated other comprehensive income**

<i>Increase / (decrease)</i>	Notes	September 24, 2011	
		IFRS 1	Accounting treatment
Investment in an associate	b		0.1
Employee benefits			
Actuarial losses	f		(49.8)
Asset ceiling and minimum funding requirement	f		(1.5)
			(51.2)

**NET EARNINGS**

**y) Cost of sales and operating expenses**

<i>Decrease / (increase)</i>	Notes	September 24, 2011	
		Accounting treatment	Presentation
Impairment of assets			
Impairment losses	d	(14.8)	
Impairment loss reversals	d	5.5	
Business combinations	e	(1.1)	
Employee benefits			
Actuarial gains or losses	f	4.1	
Past service cost	f	(0.2)	
Asset ceiling and minimum funding requirement	f	(0.1)	
Loyalty programs	o		34.2
		(6.6)	34.2



## Notes to consolidated financial statements

September 29, 2012 and September 24, 2011

(Millions of dollars, unless otherwise indicated)

### z) Depreciation and amortization

<i>Decrease / (increase)</i>	Notes	September 24, 2011	
			Accounting treatment
Fixed assets	c		1.1
Impairment of assets	d		14.8
			<u>15.9</u>

### aa) Income taxes

<i>Decrease / (increase)</i>	Notes	September 24, 2011	
			Accounting treatment
Fixed assets	c		(0.2)
Impairment of assets	d		(1.4)
Business combinations	e		0.3
Employee benefits			
Actuarial gains or losses	f		(1.1)
			<u>(2.4)</u>

**Notes to consolidated financial statements****September 29, 2012 and September 24, 2011***(Millions of dollars, unless otherwise indicated)***3. SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements, in Canadian dollars, have been prepared by management in accordance with IFRS as issued by the International Accounting Standards Board (IASB). The consolidated financial statements have been prepared within the reasonable limits of materiality, on a historical cost basis, except for certain financial instruments measured at fair value. The significant accounting policies are summarized below:

**Consolidation**

The consolidated financial statements include the accounts of the Corporation and its subsidiaries, as well as those of special purpose entities. All intercompany transactions and balances were eliminated on consolidation.

**Sales recognition**

Sales come essentially from the sale of goods. Retail sales made by corporate stores and stores that are special purpose entities are recognized at the time of sale to the customer, and sales to affiliated stores and other customers when the goods are delivered. The rebates granted by the Corporation 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 is 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 Corporation 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 the cost of sales and operating expenses when receipt is considered likely and can be reasonably estimated.

**Loyalty programs**

The Corporation has two loyalty programs.

The first program, for which the Corporation acts as an agent, belongs to a third party and its cost is recorded as a reduction in sales at the time of sale to the customer.

The second program belongs to the Corporation. At the time of a sale to the customer, part of it is recorded in accounts payable as deferred revenue equal to the fair value of the program's issued points, as determined based on the exchange value of the points awarded and the expected redemption rate which are regularly remeasured, and recognized as sales when the points are redeemed.

**Foreign currency translation**

The consolidated financial statements are presented in Canadian dollars, the Corporation's functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. At each closing, monetary items denominated in foreign currency are translated using the exchange rate at the closing date. Non-monetary items that are measured at historical cost in foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in foreign currency are translated using the exchange rate at the date when the fair value was determined. Gains or losses resulting from currency translations are recognized in net earnings.

**Income taxes**

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to determine these amounts are those that are enacted or substantively enacted by tax authorities by the closing date.



## Notes to consolidated financial statements

September 29, 2012 and September 24, 2011

(Millions of dollars, unless otherwise indicated)

The Corporation follows the liability method of accounting for income taxes. Under this method, deferred 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. Deferred 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 net earnings in the period in which they occurs. The carrying amount of deferred tax assets is reviewed at every closing date and reduced to the extent that it is no longer probable that sufficient earnings will be available to allow all or part of the deferred tax assets to be utilized.

Income tax relating to items recognized directly in equity is recognized in equity.

### Share-based payment

A share-based compensation expense is recognized for the stock option and performance share unit (PSU) plans offered to certain employees.

Stock option awards vest gradually over the vesting term and each tranche is considered as a separate award. The value of the remuneration expense is calculated based on the fair value of the stock options at the option grant date and using the Black-Scholes valuation model. The compensation expense is recognized over the vesting term of each tranche.

The compensation expense for the PSU plan is determined based on the market value of the Corporation's Common 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.

### Net earnings per share

Basic net earnings per share are calculated by dividing the net earnings attributable to equity holders of the parent by the weighted average number of Common Shares outstanding during the year. For the fully diluted net earnings per share, the net earnings attributable to equity holders of the parent and the weighted average number of outstanding are adjusted to reflect all potential dilutive shares.

### 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 "Financial assets at fair value through net earnings" and measured at fair value, with revaluation at the end of each period. Resulting gains or losses are recorded in net earnings.

### Accounts receivable

Accounts receivable and loans to certain customers are classified as "Loans and receivables". After their initial fair value measurement, they are measured at amortized cost using the effective interest method. For the Corporation, the measured amount generally corresponds to cost.

### Inventories

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. All costs incurred in bringing the inventories to their present location and condition are included in the cost of warehouse and retail inventories.

### Assets held for sale

Non-current assets are classified as assets held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the sale must be highly probable, assets must be available for immediate sale in their present condition, and management must be committed to a plan to sell assets that should be expected to close within one year from the date of classification. Assets held for sale are recognized at the lower of their carrying amount and fair value less costs to sell. They are not depreciated.



## Notes to consolidated financial statements

September 29, 2012 and September 24, 2011

(Millions of dollars, unless otherwise indicated)

### Investment in an associate

The Corporation's investment in its associate is accounted for using the equity method. An associate is an entity in which the Corporation has significant influence.

### Investment in a joint venture

The Corporation has an interest in a joint venture, whereby the venturers have a contractual agreement that establishes joint control over the economic activities of the entity. This investment is accounted for using the equity method. The Corporation's share in the joint venture's earnings is recorded in the cost of sales and operating expenses.

### Fixed assets

Fixed assets are recorded at cost. Principal components of a fixed asset with different useful lives are depreciated separately. Buildings and equipment are depreciated on a straight-line basis over their useful lives. Leasehold improvements are depreciated on a straight-line basis over the shorter of their estimated useful lives or the remaining lease term. The depreciation method and estimate of useful lives are reviewed annually.

Buildings	20 to 50 years
Equipment	3 to 20 years
Leasehold improvements	5 to 20 years

### Leases

Leases are classified as finance leases if substantially all risks and rewards incidental to ownership are transferred to the lessee. At the moment of initial recognition, the lessee records the leased item as an asset at the lower of the fair value of the asset and the present value of the minimum lease payments. A corresponding liability to the lessor is recorded in the consolidated statement of financial position as a finance lease obligation. In subsequent periods, the asset is depreciated on a straight-line basis over the term of the lease and interest on the obligation is expensed through net earnings.

Leases are classified as operating leases if substantially all risks and rewards incidental to ownership are not transferred to the lessee. The lease payments are recognized as an expense on a straight-line basis over the lease term.

### Investment properties

Investment properties are held for capital appreciation and to earn rentals. They are not occupied by the owner for its ordinary activities. They are recognized at cost. Principal components, except for land which is not depreciated, are depreciated on a straight-line basis over their respective useful lives which vary from 20 to 50 years. The depreciation method and estimates of useful lives are reviewed annually.

### Intangible assets

Intangible assets with finite useful lives are recorded at cost and amortized on a straight-line basis over their useful lives. The amortization method and estimates of useful lives 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

The banners that the Corporation intends to keep and operate, the private labels for which it continues to develop new products and the loyalty programs it intends to maintain qualify as intangible assets with indefinite useful lives. They are recorded at cost and not amortized.

### Goodwill

Goodwill is recognized at cost measured as the excess of purchase price over the fair value of the acquired enterprise's identifiable net assets at the date of acquisition. Goodwill is not amortized.



## Notes to consolidated financial statements

September 29, 2012 and September 24, 2011

(Millions of dollars, unless otherwise indicated)

### Impairment of assets

At each reporting date, the Corporation must determine if there is any indication of depreciation of its fixed assets, intangible assets with finite useful lives, investment properties and investment in an associate. If any indication exists, the Corporation has to test the assets for impairment. Impairment testing of intangible assets with indefinite useful lives and goodwill is to be done at least annually, regardless of any indication of depreciation.

Impairment testing is conducted at the level of the asset itself, a 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. Each store is a separate CGU. Impairment testing of warehouses is conducted at the level of the different groups of CGUs. As for goodwill, certain private labels and support assets that cannot be allocated wholly to a single CGU, impairment testing is conducted at the level of the unique operating segment. Impairment testing of investment properties, investment in an associate, banners, certain private labels and loyalty programs is conducted at the level of the asset itself.

To test for impairment, the carrying amount of an asset, CGU or group of CGUs is compared with its recoverable amount. Generally, the recoverable amount is the higher of the value in use and the fair value less costs to sell. The value in use corresponds to the pre-tax cash flow projections from the management-approved budgets. These projections reflect past experience and are discounted at a pre-tax rate corresponding to the expected market rate for this type of investment. The recoverable amount of investment properties, investment in an associate, banners, certain private labels and loyalty programs is these assets' fair value less costs to sell. If the carrying amount exceeds the recoverable amount, an impairment loss in the amount of the excess is recognized in net earnings. CGU or group of CGUs' impairment losses are allocated pro rata to the assets of the CGU or group of CGUs, without however reducing the carrying amount of the assets below the highest of their fair value less costs to sell, their value in use, and zero.

Except for goodwill, any reversal of an impairment loss is recognized immediately in net earnings. A reversal of an impairment loss for a CGU or group of CGUs is allocated pro rata to the assets of the CGU or group of CGUs. The recoverable amount of an asset increased by a reversal of an impairment loss may not exceed the carrying amount that would have been determined, net of depreciation and amortization, if no impairment loss had been recognized for the asset in prior years.

### Deferred financing costs

Financing costs related to debt are deferred and amortized using the effective interest method over the term of the corresponding loans. When one of these loans is repaid, the corresponding financing costs are charged to net earnings.

### Employee benefits

Employee benefits include short-term employee benefits which correspond to wages and fringe benefits and are recognized immediately in net earnings as are termination benefits which are also recorded as a liability when the Corporation is demonstrably committed to terminating the employment.

Employee benefits also include post-employment benefits which comprise pension benefits (both defined benefit and defined contribution plans) and ancillary benefits such as post-employment life and medical insurance. Employee benefits also comprise other long-term benefits, namely long-term disability benefits not covered by insurance plans and ancillary benefits provided to employees on long-term disability. Assets and obligations and related costs of employee defined benefit plans, ancillary retirement benefits and other long-term benefits plan are accounted for using the following accounting policies:

- Defined benefit obligations and the cost of pension, ancillary retirement benefits and other long-term benefits earned by participants are determined from actuarial calculations according to the projected credit unit method. The calculations are based on management's best assumptions relating to expected long-term return on plan assets, salary escalation, retirement age of participants and expected health care costs.
- For the purpose of calculating the estimated rate of return on plan assets, assets are measured at fair value.
- Defined benefit obligations are discounted using high-quality corporate bond yield rates with cash flows that match the timing and amount of expected benefit payments.



**Notes to consolidated financial statements****September 29, 2012 and September 24, 2011***(Millions of dollars, unless otherwise indicated)*

- Actuarial gains or losses arise from the difference between the effective yield of plan assets for a period and the expected yield on plan assets for that period, from changes in actuarial assumptions used to determine defined benefit obligations and from emerging experience that differs from the selected assumptions. Actuarial gains or losses relating to pension plans and ancillary retirement benefit plans are recognized under other comprehensive income in the period in which they occur. Actuarial gains or losses relating to other long-term employee benefits are recognized in full immediately in net earnings.
- Past service cost for vested benefits is recognized immediately in net earnings. For non-vested benefits, past service cost is amortized on a straight-line basis over the average remaining vesting period.
- Defined benefit plans assets or liabilities recognized in the consolidated statement of financial position correspond to the difference between the present value of defined benefit obligations and the fair value of plan assets. In the case of a surplus funded plan, these assets are limited at the lesser of the actuarial value determined for accounting purposes or the value of the future economic benefit by way of surplus refunds or contribution holidays. Furthermore, an additional liability could be recorded when minimum funding requirements for past services exceed economic benefits available. The asset ceiling effect and minimum funding requirement are recognized under other comprehensive income in the period in which they occur.

Defined contribution plans costs, including those of multi-employer plans, are recorded when the contributions are due. As sufficient information to reliably determine multi-employer defined benefit plan obligations and assets is not available and as there is no actuarial valuation according to IFRS, these plans are accounted for as defined contribution plans.

**Provisions**

Provisions are recognized when the Corporation has a present obligation (legal or constructive) resulting from a past event and will likely have to settle the obligation, the amount of which can be reliably estimated. The amount recognized as provision is the best estimate of the expense required to settle the present obligation at the closing date. When a provision is measured based on estimated cash flows required to settle the present obligation, its carrying amount is the discounted value of these cash flows.

Present obligations resulting from onerous contracts are accounted for and measured as provisions. A contract is said to be onerous when the costs involved in fulfilling the terms and conditions of the contract are higher than the contract's expected economic benefits.

**Other financial liabilities**

Bank loans, accounts payable, credit facilities, notes, loans payable, and obligations under finance 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 Corporation, the measured amount generally corresponds to cost.

**Non-controlling interests**

The non-controlling interest in Adonis and Phoenicia should be recognized in equity. However, the Corporation has the option of buying out the minority shareholder in Adonis and Phoenicia and the minority shareholder has the option of having the Corporation buy out its interest in the two entities under certain conditions at a predetermined date. Given these options, the non-controlling interest is a financial liability. It is classified as "Financial liabilities held for trading" and measured at fair value with gains or losses resulting from the revaluation at the end of each period recorded in net earnings or in retained earnings. The Corporation elected to record them in retained earnings.

**Derivative financial instruments**

In accordance with its risk management strategy, the Corporation uses derivative financial instruments for hedging purposes. On inception of a hedging relationship, the Corporation indicates whether or not it will apply hedge accounting to the relationship. The Corporation 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 effectiveness of the hedging relationship is measured at its inception to determine whether it will be highly effective over the term of the relationship and assessed periodically to ensure that hedge accounting is still appropriate. The results of these assessments are formally documented.

**Notes to consolidated financial statements****September 29, 2012 and September 24, 2011***(Millions of dollars, unless otherwise indicated)*

The derivative financial instruments used by the Corporation consist primarily of interest rate swaps under which the Corporation substitutes variable rate interest payments with fixed rate interest payments. The Corporation elected 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 or losses recognized through comprehensive income at each period end, provided that the hedge is deemed effective.

The Corporation 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 Corporation elected not to apply hedge accounting to its foreign exchange forward contracts. These derivative financial instruments are classified as "Financial assets or liabilities at fair value through net earnings" and measured at fair value with revaluation at the end of each period. Resulting gains or losses are recorded in net earnings.

**Fiscal year**

The Corporation's fiscal year ends on the last Saturday of September. The fiscal year ended September 29, 2012 included 53 weeks of operations and the fiscal year ended September 24, 2011 included 52 weeks of operations.

**4. NEW ACCOUNTING POLICIES****RECENTLY ISSUED****Classification and measurement of financial assets and financial liabilities**

In November 2009, the IASB published IFRS 9 "Financial Instruments". This new standard simplifies the classification and measurement of financial assets set out in IAS 39 "Financial Instruments: Recognition and Measurement". Financial assets are to be measured at amortized cost or fair value. They are to be measured at amortized cost if the two following conditions are met:

- a) the assets are held within a business model whose objective is to collect contractual cash flows; and
- b) the contractual cash flows are solely payments of principal and interest on the outstanding principal.

All other financial assets are to be measured at fair value through net earnings. The entity may, if certain conditions are met, elect to use the fair value option instead of measurement at amortized cost. As well, the entity may choose upon initial recognition to measure non-trading equity investments at fair value through comprehensive income. Such a choice is irrevocable.

In October 2010, the IASB issued revisions to IFRS 9, adding the requirements for classification and measurement of financial liabilities contained in IAS 39 and further points. For financial liabilities measured at fair value through net earnings using the fair value option, the amount of change in a liability's fair value attributable to changes in its credit risk is recognized directly in other comprehensive income.

In December 2011, the IASB deferred the mandatory effective date of IFRS 9 to fiscal years beginning on or after January 1, 2015. Early adoption is permitted under certain conditions. An entity is not required to restate comparative financial periods for its first-time application of IFRS 9, but must comply with the new disclosure requirements.

**Offsetting financial assets and financial liabilities**

In December 2011, the IASB issued amendments to IAS 32 "Financial Instruments: Presentation" clarifying the requirements for offsetting financial assets and financial liabilities. These amendments shall be applied to annual periods beginning on or after January 1, 2014.

The IASB also issued amendments to IFRS 7 "Financial Instruments: Disclosures" improving disclosure on offsetting of financial assets and financial liabilities. These amendments shall be applied to annual and interim periods beginning on or after January 1, 2013.

**Notes to consolidated financial statements****September 29, 2012 and September 24, 2011***(Millions of dollars, unless otherwise indicated)***Consolidated Financial Statements**

In May 2011, the IASB published IFRS 10 “Consolidated Financial Statements” which is a replacement of SIC-12 “Consolidation – Special Purpose Entities”, and certain parts of IAS 27 “Consolidated and Separate Financial Statements”. IFRS 10 uses control as the single basis for consolidation, irrespective of the nature of the investee, employing the following factors to identify control:

- a) power over the investee;
- b) exposure or rights to variable returns from involvement with the investee;
- c) the ability to use power over the investee to affect the amount of the investor’s returns.

IFRS 10 shall be applied to fiscal years beginning on or after January 1, 2013. Early adoption is permitted under certain conditions.

**Joint Arrangements**

In May 2011, the IASB published IFRS 11 “Joint Arrangements” which supersedes IAS 31 “Interests in Joint Ventures” and SIC-13 “Jointly Controlled Entities – Non-Monetary Contributions by Venturers”. IFRS 11 requires that joint ventures be accounted for using the equity method of accounting and eliminates the need for proportionate consolidation. This new standard shall be applied to fiscal years beginning on or after January 1, 2013. Early adoption is permitted under certain conditions.

**Disclosure of Interests in Other Entities**

In May 2011, the IASB published IFRS 12 “Disclosure of Interests in Other Entities” which requires that an entity disclose information on the nature of and risks associated with its interests in other entities (i.e. subsidiaries, joint arrangements, associates or unconsolidated structured entities) and the effects of those interests on its financial statements. IFRS 12 shall be applied to fiscal years beginning on or after January 1, 2013. Early adoption is permitted under certain conditions. Entities may, without early adoption of IFRS 12, choose to incorporate only some of the required disclosures in their financial statements.

**Fair Value Measurement**

In May 2011, the IASB published IFRS 13 “Fair Value Measurement” to establish a single framework for fair value measurement of financial and non-financial items. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also requires disclosure of certain information on fair value measurements. IFRS 13 shall be applied to fiscal years beginning on or after January 1, 2013. Early adoption is permitted.

**Employee Benefits**

In June 2011, the IASB issued amendments to IAS 19 “Employee Benefits”. Changes in defined benefit obligations and plan assets are to be recognized in comprehensive income when they occur, thus eliminating the corridor approach and accelerating recognition of past service cost. Net interest is to be recognized in net earnings and calculated using the discount rate by reference to market yields at the end of the reporting period on high quality corporate bonds. The actual return on plan assets minus net interest is to be recognized in other comprehensive income. These amendments shall be applied to fiscal years beginning on or after January 1, 2013. Early adoption is permitted.

**Presentation of Financial Statements**

In June 2011, the IASB issued amendments to IAS 1 “Presentation of Financial Statements”. Items of other comprehensive income and the corresponding tax expense are required to be grouped into those that will and will not subsequently be reclassified through net earnings. These amendments shall be applied to fiscal years beginning on or after July 1, 2012. Early adoption is permitted.

At present, the Corporation is assessing the impact of the above-mentioned amendments on its earnings, financial position and cash flows.

**Notes to consolidated financial statements****September 29, 2012 and September 24, 2011***(Millions of dollars, unless otherwise indicated)***5. SIGNIFICANT JUDGEMENTS AND ESTIMATES**

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the recognition and valuation of assets, liabilities, sales, other income and expenses. These estimates and assumptions are based on historical experience and other factors deemed relevant and reasonable and are reviewed at every closing date. The use of different estimates could produce different amounts in the consolidated financial statements. Actual results may differ from these estimates.

**JUDGEMENTS**

In applying the Corporation's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognized in the consolidated financial statements:

**Leases**

In determining if leases are to be accounted for as operating leases or finance leases, management must judge whether or not substantially all risks and rewards incidental to ownership have been transferred, based on its analysis of the terms and conditions of each lease and evaluation of various criteria, such as the option to purchase the asset at a preferential price, the lease term as compared to the economic life of the asset, and the present value of the minimum lease payments as compared to the fair value of the leased asset.

**Consolidation of special purpose entities**

The Corporation has no voting rights in certain food stores. However, it assumes the majority of their risks and benefits from the majority of their advantages. For these reasons, the Corporation consolidates these food stores in its financial statements.

The Corporation has no voting rights in the trust created for PSU plan participants. However, under the trust agreement, it instructs the trustee as to the sale and purchase of Corporation shares and payments to beneficiaries, gives the trustee money to buy Corporation shares, assumes the majority of the risks, benefits from the majority of the advantages, and ensures that the trust holds a sufficient number of shares to meet its obligations to the beneficiaries. Management, having concluded that the Corporation controls the trust, consolidates the entity in its financial statements.

The Corporation also has an agreement with a distributor, whose majority of risks it assumes and whose majority of advantages it benefits from. For these reasons, the Corporation consolidates this distributor in its financial statements.

**ESTIMATES**

The assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the value of assets and liabilities within the next period, are discussed below:

**Impairment of assets**

In testing for impairment of intangible assets with indefinite useful lives and goodwill, value in use and fair value less costs to sell are estimated using the discounted future cash flows model, and the capitalized excess earnings before financial costs and taxes (EBIT) and royalty-free licence methods. These methods are based on various assumptions, such as the future cash flows estimate, excess EBIT, royalty rate, discount rate, earnings multiple and growth rate. The key assumptions are disclosed in notes 16 and 17.

**Share-based payment**

A compensation expense, corresponding to the fair value of the stock options at their grant date, is recognized in net earnings for all stock option awards. The fair value is calculated using the Black-Scholes model. The key assumptions are disclosed in note 22.

**Notes to consolidated financial statements**

**September 29, 2012 and September 24, 2011**

*(Millions of dollars, unless otherwise indicated)*

**Deferred taxes**

Deferred tax assets are recognized for tax loss carry forwards to the extent that it is probable that future taxable profits will be available against which the losses can be utilized. Management uses its judgement in determining these deferred assets, considering assumptions, i.e. the utilization period for losses carried forward and the level of future taxable profits in accordance with tax planning strategies. Non-discounted estimates of future taxable profits are made in establishing budgets and strategic plans for each tax jurisdiction and reviewed each quarter.

**Pension plans and other plans**

Defined pension plans, ancillary retirements and other long-term benefits obligations and costs associated to these obligations are determined from actuarial calculations according to the projected credit unit method. These calculations are based on management's best assumptions relating to expected long-term return on plan assets, salary escalation, retirement age of participants and expected health care costs. The key assumptions are disclosed in note 25.

**Non-controlling interest**

The non-controlling interest-related liability is calculated in relation to the buyout price which is mainly based on the future earnings of Adonis and Phoenicia beginning at a predetermined date. Given the uncertainty associated with the estimation of these future earnings, the Corporation used, at the end of the current fiscal year, its most probable estimate.

**6. BUSINESS ACQUISITIONS**

**Adonis and Phoenicia**

On October 23, 2011, the Corporation acquired 55% of the net assets of Adonis, a Montréal-area retailer with four existing stores and a fifth one under construction that was opened in December 2011, as well as Phoenicia, an importer and wholesaler with a distribution centre in Montréal and another in the Greater Toronto Area. These businesses specialize in perishable and ethnic food products. The final purchase price paid by the Corporation for the 55% interest was \$161.4 with a remaining balance of \$11.6 to be paid. The acquisition was accounted for using the purchase method. The Corporation controls the acquired businesses and consolidated their earnings as of the date of acquisition. The final total purchase price allocation was as follows:

Net assets acquired at their fair value	
Cash	3.0
Accounts receivable	10.6
Inventories	24.3
Prepaid expenses	0.5
Fixed assets	11.9
Intangible assets	
Finite useful life	10.7
Indefinite useful life	63.4
Goodwill	206.8
Bank loans	(15.5)
Accounts payable	(5.4)
Debt	(10.4)
Deferred tax liabilities	(6.4)
	<hr/>
	293.5
	<hr/>
Cash consideration	149.8
Balance due	11.6
	<hr/>
Total consideration for the Corporation's interest (55%)	161.4
Non-controlling interest (45%) (note 30)	132.1
	<hr/>
	293.5
	<hr/>

The non-controlling interest was measured at 45% of the fair value of the acquired companies' net assets.



## Notes to consolidated financial statements

September 29, 2012 and September 24, 2011

(Millions of dollars, unless otherwise indicated)

The goodwill from the acquisition corresponds to the growth potential of Adonis stores and the broadening of the Corporation's customer base through improvement of the ethnic food offering in all its stores. In the goodwill's tax treatment, 53% of the goodwill will be treated as an eligible capital property with related tax deductions and 47% as non-deductible.

Since their acquisition, the acquired businesses have increased Corporation sales and net earnings by \$236.6 and \$16.0 respectively. If the acquisition had taken place at the beginning of fiscal 2012, the acquired businesses would have increased Corporation sales and net earnings by an additional amount of \$16.5 and \$1.1 respectively.

Acquisition-related costs of \$1.1 were recorded in cost of sales and operating expenses.

### Affiliated stores

During fiscal 2011, the Corporation acquired 11 affiliated stores which it already supplied. The total purchase price was \$74.2 in cash. The acquisition of these stores was accounted for using the purchase method. The stores' results have been consolidated as of their respective acquisition dates. The final purchase price allocation was summarized as follows:

Net assets acquired at their fair value	
Inventories	10.2
Fixed assets	12.7
Deferred tax assets	2.4
Goodwill	48.9
<hr/>	
Cash consideration	74.2

The goodwill resulting from the acquisition corresponds to the additional contribution expected from these stores. The tax treatment of the goodwill was an eligible capital property with the related tax deductions.

Acquisition-related costs of \$0.3 were recorded in cost of sales and operating expenses.





## Notes to consolidated financial statements

September 29, 2012 and September 24, 2011

(Millions of dollars, unless otherwise indicated)

### 7. ADDITIONAL INFORMATION ON THE NATURE OF EARNINGS COMPONENTS

	2012 (53 weeks)	2011 (52 weeks)
<b>Sales</b>	<b>12,010.8</b>	11,396.4
<b>Cost of sales and operating expenses</b>		
Cost of sales	(9,800.3)	(9,333.6)
Wages and fringe benefits	(662.1)	(620.9)
Employee benefit expense (note 25)	(49.1)	(45.7)
Rents, taxes and common costs	(262.1)	(253.8)
Electricity and natural gas	(114.0)	(111.0)
Impairment losses on fixed and intangible assets and investment properties	(10.3)	(14.8)
Impairment loss reversals on fixed and intangible assets	10.0	5.5
Other expenses	(301.2)	(277.7)
	<b>(11,189.1)</b>	<b>(10,652.0)</b>
<b>Share of an associate's earnings (note 12)</b>		
Share of earnings	47.6	42.4
Dilution gain	25.0	—
	<b>72.6</b>	<b>42.4</b>
<b>Closure expenses</b>	—	(20.5)
<b>Depreciation and amortization</b>		
Fixed assets (note 14)	(150.5)	(146.1)
Investment properties (note 15)	(0.1)	(0.1)
Intangible assets (note 16)	(33.3)	(33.1)
	<b>(183.9)</b>	<b>(179.3)</b>
<b>Financing costs, net</b>		
Current interest	(2.9)	(1.1)
Non-current interest	(45.1)	(43.3)
Amortization of deferred financing costs	(0.3)	(0.4)
Interest income	2.2	3.5
Passage of time	(0.3)	(0.2)
	<b>(46.4)</b>	<b>(41.5)</b>
<b>Earnings before income taxes</b>	<b>664.0</b>	<b>545.5</b>

Impairment losses and impairment loss reversals recorded during the fiscal years were particularly on food stores where cash flows decreased or increased due to local competition.

During fiscal 2011, non-recurring closure expenses of \$20.5 before taxes, consisted of dismantling expenses, write-off of assets and others, were incurred for the closure of a meat processing plant in Montréal and a grocery warehouse in Toronto.

**Notes to consolidated financial statements**

**September 29, 2012 and September 24, 2011**

*(Millions of dollars, unless otherwise indicated)*

**8. INCOME TAXES**

The effective income tax rates were as follows:

<i>(Percentage)</i>	<b>2012</b> <i>(53 weeks)</i>	2011 <i>(52 weeks)</i>
Combined statutory income tax rate	<b>27.2</b>	28.8
Changes		
Impact on deferred taxes due to postponement of 1.5% future reductions of Ontario tax rate	<b>0.5</b>	—
Share of an associate's earnings	<b>(1.8)</b>	(1.3)
Others	<b>0.4</b>	0.5
	<b>26.3</b>	28.0

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

**Consolidated income statements**

	<b>2012</b> <i>(53 weeks)</i>	2011 <i>(52 weeks)</i>
Current		
Current tax expense	<b>150.8</b>	133.2
Adjustment of taxes payable for prior years	<b>(6.9)</b>	2.6
Deferred		
Adjustment related to temporary differences	<b>27.8</b>	17.0
Impact on deferred taxes due to postponement of 1.5% future reductions of Ontario tax rate	<b>3.0</b>	—
	<b>174.7</b>	152.8

**Consolidated comprehensive income statements**

	<b>2012</b> <i>(53 weeks)</i>	2011 <i>(52 weeks)</i>
Deferred tax related to items reported directly in other comprehensive income during the year		
Change in the fair value of a derivative designated as cash flow hedge	—	0.1
Share of an associate's other comprehensive income	<b>(0.1)</b>	—
Changes in defined benefit plans		
Actuarial losses	<b>(17.2)</b>	(17.0)
Asset ceiling effect	<b>(0.7)</b>	0.1
Minimum funding requirement	—	(0.6)
Impact on deferred taxes due to postponement of 1.5% future reductions of Ontario tax rate	<b>(1.0)</b>	—
	<b>(19.0)</b>	(17.4)



## Notes to consolidated financial statements

September 29, 2012 and September 24, 2011

(Millions of dollars, unless otherwise indicated)

Deferred income taxes reflect the net tax impact of temporary differences between the value of assets and liabilities for accounting and tax purposes. The main components of the deferred tax expense and deferred tax assets and liabilities were as follows:

	Consolidated statements of financial position			Consolidated statements of income	
	As at September 29 2012	As at September 24 2011	As at September 26 2010	2012 (53 weeks)	2011 (52 weeks)
Accrued expenses, provisions and other reserves that are tax- deductible only at the time of disbursement	(2.4)	(3.6)	(4.5)	1.2	1.3
Deferred tax losses	1.6	1.5	11.6	0.1	(10.1)
Inventories	(9.4)	(6.3)	(7.7)	(2.9)	1.4
Excess of tax value over net carrying value of assets under finance leases	5.2	5.5	5.8	(0.3)	(0.3)
Interest rate swaps	—	—	0.1	—	—
Employee benefits	41.9	32.0	18.7	(9.1)	(4.2)
Share of an associate's accumulated earnings	(39.7)	(30.9)	(27.6)	(8.8)	(3.3)
Excess of net carrying value over tax value					
Fixed assets	(9.6)	(11.9)	(14.6)	2.8	2.7
Investment properties	0.8	1.1	0.9	(0.3)	0.2
Intangible assets	(56.0)	(41.8)	(42.4)	(8.5)	0.6
Goodwill	(23.8)	(18.8)	(16.0)	(5.0)	(5.3)
	(91.4)	(73.2)	(75.7)	(30.8)	(17.0)
Deferred tax assets	56.3	45.8	48.8		
Deferred tax liabilities	(147.7)	(119.0)	(124.5)		
	(91.4)	(73.2)	(75.7)		

## 9. 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)	2012 (53 weeks)	2011 (52 weeks)
Weighted average number of shares outstanding – Basic	98.9	103.1
Dilutive effect under:		
Stock option plan	0.4	0.4
PSU plan	0.3	0.1
Weighted average number of shares outstanding – Fully diluted	99.6	103.6

**Notes to consolidated financial statements**

**September 29, 2012 and September 24, 2011**

*(Millions of dollars, unless otherwise indicated)*

**10. INVENTORIES**

Inventories were detailed as follows:

	<b>2012</b>	2011	2010
Wholesale inventories	<b>335.3</b>	299.6	296.3
Retail inventories	<b>449.1</b>	428.7	403.0
	<b>784.4</b>	728.3	699.3

**11. ASSETS HELD FOR SALE**

At the end of fiscal 2012 and 2011, the Corporation was committed to an asset sale plan. These assets were reclassified in the assets held for sale in the consolidated statement of financial position and they were measured at the lower of carrying amount and fair value less costs to sell. No gain or loss was recorded in 2012 for these assets and a loss of \$6.3 was recorded in cost of sales and operating expenses and also closure expenses in 2011.

**12. INVESTMENT IN AN ASSOCIATE**

The Corporation has a 11.1% interest in a publicly traded associate, which is Alimentation Couche-Tard. The associate's quoted market value was \$937.7 as at September 29, 2012 (\$598.7 as at September 24, 2011 and \$491.5 as at September 26, 2010).

The associate's reporting date is the last Sunday of April of every year. The Corporation applied the equity method, using the associate's first quarter financial statements as at July 22, 2012 (July 17, 2011 and July 18, 2010).

The associate's financial information was as follows:

	<b>2012</b>	2011	2010 *
Share of the associate's statement of financial position:			
Assets	<b>1,134.5</b>	489.1	407.2
Liabilities	<b>883.6</b>	239.5	221.4
Carrying amount of the investment	<b>324.5</b>	258.7	220.9

\* Given that assets and liabilities under IFRS (comparative balances) were not disclosed in the associate's first quarter financial statements, the Corporation presented its share of the assets and liabilities as at April 26, 2010.

	<b>2012</b>	2011
Share of the associate's earnings:		
Sales	<b>2,662.7</b>	2,123.7
Net earnings	<b>47.6</b>	42.4
Change in equity	<b>25.0</b>	—

In August 2012, Alimentation Couche-Tard issued 7.3 million shares for net proceeds of approximately \$330 to finance part of its acquisition of Statoil Fuel & Retail ASA. As the Corporation did not invest in this share issue, its interest in Alimentation Couche-Tard decreased from 11.6% to 11.1%. This dilution and the Corporation's share in Alimentation Couche-Tard's increased value as a result of the share issue amount to a deemed disposition and deemed proceeds of disposition of part of its investment for a net pre-tax gain of \$25.0.

**Notes to consolidated financial statements**

**September 29, 2012 and September 24, 2011**

(Millions of dollars, unless otherwise indicated)

**13. OTHER FINANCIAL ASSETS**

	2012	2011	2010
Loans to certain customers, bearing interest at floating rates, repayable in monthly instalments, maturing through 2030	19.3	16.5	24.7
Other assets	3.7	3.9	0.5
	<b>23.0</b>	20.4	25.2
Current portion included in accounts receivable	1.4	3.4	9.4
	<b>21.6</b>	17.0	15.8

**14. FIXED ASSETS**

	Land	Buildings	Equipment	Leasehold improvements	Buildings under finance leases	Total
<b>Cost</b>						
Balance as at September 26, 2010	143.1	422.0	1,102.4	562.6	35.5	2,265.6
Acquisitions	24.9	28.2	58.6	36.5	22.1	170.3
Acquisitions through business combinations (note 6)	0.7	3.2	8.8			12.7
Transfers	(2.2)	(3.0)	(0.7)	(0.4)		(6.3)
Disposals and write-offs	(0.8)	(7.2)	(40.8)	(1.8)	(2.0)	(52.6)
Balance as at September 24, 2011	<b>165.7</b>	<b>443.2</b>	<b>1,128.3</b>	<b>596.9</b>	<b>55.6</b>	<b>2,389.7</b>
Acquisitions	<b>28.1</b>	<b>52.5</b>	<b>82.0</b>	<b>47.9</b>		<b>210.5</b>
Acquisitions through business combinations (note 6)			<b>8.4</b>	<b>3.5</b>		<b>11.9</b>
Disposals and write-offs	<b>(2.1)</b>	<b>(18.2)</b>	<b>(33.5)</b>	<b>(14.7)</b>		<b>(68.5)</b>
Balance as at September 29, 2012	<b>191.7</b>	<b>477.5</b>	<b>1,185.2</b>	<b>633.6</b>	<b>55.6</b>	<b>2,543.6</b>
<b>Accumulated depreciation and impairment</b>						
Balance as at September 26, 2010	(1.9)	(111.1)	(649.9)	(265.8)	(19.7)	(1,048.4)
Depreciation		(11.7)	(84.3)	(47.5)	(2.6)	(146.1)
Disposals and write-offs		4.6	31.2		2.0	37.8
Impairment losses			(6.2)	(5.4)		(11.6)
Impairment loss reversals			2.5	2.2		4.7
Balance as at September 24, 2011	<b>(1.9)</b>	<b>(118.2)</b>	<b>(706.7)</b>	<b>(316.5)</b>	<b>(20.3)</b>	<b>(1,163.6)</b>
Depreciation		<b>(12.7)</b>	<b>(85.9)</b>	<b>(48.3)</b>	<b>(3.6)</b>	<b>(150.5)</b>
Disposals and write-offs	<b>0.3</b>	<b>5.6</b>	<b>33.4</b>	<b>11.1</b>		<b>50.4</b>
Impairment losses			<b>(4.6)</b>	<b>(4.2)</b>		<b>(8.8)</b>
Impairment loss reversals	<b>0.4</b>	<b>0.9</b>	<b>4.4</b>	<b>3.5</b>		<b>9.2</b>
Balance as at September 29, 2012	<b>(1.2)</b>	<b>(124.4)</b>	<b>(759.4)</b>	<b>(354.4)</b>	<b>(23.9)</b>	<b>(1,263.3)</b>
<b>Net carrying value</b>						
Balance as at September 26, 2010	141.2	310.9	452.5	296.8	15.8	1,217.2
Balance as at September 24, 2011	163.8	325.0	421.6	280.4	35.3	1,226.1
Balance as at September 29, 2012	<b>190.5</b>	<b>353.1</b>	<b>425.8</b>	<b>279.2</b>	<b>31.7</b>	<b>1,280.3</b>

No net addition of fixed assets was excluded from the consolidated statement of cash flows in 2012 (\$22.2 in 2011).



## Notes to consolidated financial statements

September 29, 2012 and September 24, 2011

(Millions of dollars, unless otherwise indicated)

### 15. INVESTMENT PROPERTIES

	Cost	Accumulated depreciation and impairment	Net carrying value
Balance as at September 26, 2010	40.1	(12.3)	27.8
Transfers	1.4		1.4
Disposals and write-offs	(1.9)		(1.9)
Depreciation		(0.1)	(0.1)
Impairment losses		(0.2)	(0.2)
Balance as at September 24, 2011	<b>39.6</b>	<b>(12.6)</b>	<b>27.0</b>
Transfers	<b>(0.6)</b>		<b>(0.6)</b>
Disposals and write-offs	<b>(5.1)</b>	<b>0.9</b>	<b>(4.2)</b>
Depreciation		<b>(0.1)</b>	<b>(0.1)</b>
Balance as at September 29, 2012	<b>33.9</b>	<b>(11.8)</b>	<b>22.1</b>

The fair value of investment properties was \$28.3 as at September 29, 2012 (\$34.1 as at September 24, 2011 and \$33.5 as at September 26, 2010). The fair value was determined based on recent transactions observable in the market rather than an independent expert's valuation.





## Notes to consolidated financial statements

September 29, 2012 and September 24, 2011

(Millions of dollars, unless otherwise indicated)

### 16. INTANGIBLE ASSETS

Intangible assets with finite useful lives were as follows:

	Leasehold rights	Software	Improvements and development of retail network loyalty	Prescription files	Total
<b>Cost</b>					
Balance as at September 26, 2010	74.9	164.0	231.6	7.4	477.9
Acquisitions		7.1	23.8		30.9
Disposals and write-offs		(0.3)	(40.1)		(40.4)
Transfers			(1.4)		(1.4)
Balance as at September 24, 2011	<b>74.9</b>	<b>170.8</b>	<b>213.9</b>	<b>7.4</b>	<b>467.0</b>
Acquisitions		<b>3.9</b>	<b>37.6</b>	<b>1.9</b>	<b>43.4</b>
Acquisitions through business combinations (note 6)		<b>0.1</b>	<b>10.6</b>		<b>10.7</b>
Disposals and write-offs	<b>1.5</b>	<b>(0.2)</b>	<b>(12.9)</b>	<b>(0.4)</b>	<b>(12.0)</b>
Transfers			<b>(2.0)</b>		<b>(2.0)</b>
Balance as at September 29, 2012	<b>76.4</b>	<b>174.6</b>	<b>247.2</b>	<b>8.9</b>	<b>507.1</b>
<b>Accumulated amortization and impairment</b>					
Balance as at September 26, 2010	(39.1)	(123.0)	(116.1)	(4.2)	(282.4)
Amortization	(2.4)	(12.0)	(18.0)	(0.7)	(33.1)
Disposals and write-offs		0.3	37.7		38.0
Impairment losses	(1.4)	(1.3)	(0.3)		(3.0)
Impairment loss reversals	0.8				0.8
Balance as at September 24, 2011	<b>(42.1)</b>	<b>(136.0)</b>	<b>(96.7)</b>	<b>(4.9)</b>	<b>(279.7)</b>
Amortization	<b>(2.6)</b>	<b>(11.7)</b>	<b>(18.4)</b>	<b>(0.6)</b>	<b>(33.3)</b>
Disposals and write-offs	<b>(1.5)</b>	<b>0.2</b>	<b>7.3</b>	<b>0.4</b>	<b>6.4</b>
Impairment losses	<b>(0.6)</b>	<b>(0.8)</b>		<b>(0.1)</b>	<b>(1.5)</b>
Impairment loss reversals	<b>0.4</b>	<b>0.1</b>		<b>0.3</b>	<b>0.8</b>
Balance as at September 29, 2012	<b>(46.4)</b>	<b>(148.2)</b>	<b>(107.8)</b>	<b>(4.9)</b>	<b>(307.3)</b>
<b>Net carrying value</b>					
Balance as at September 26, 2010	35.8	41.0	115.5	3.2	195.5
Balance as at September 24, 2011	32.8	34.8	117.2	2.5	187.3
Balance as at September 29, 2012	<b>30.0</b>	<b>26.4</b>	<b>139.4</b>	<b>4.0</b>	<b>199.8</b>



## Notes to consolidated financial statements

September 29, 2012 and September 24, 2011

(Millions of dollars, unless otherwise indicated)

Intangible assets with indefinite useful lives were as follows:

	Banners	Private labels	Loyalty programs	Total
Balance as at September 26, 2010	53.3	33.1	22.1	108.5
Transfers			1.4	1.4
Balance as at September 24, 2011	<b>53.3</b>	<b>33.1</b>	<b>23.5</b>	<b>109.9</b>
Acquisitions through business combinations (note 6)	<b>57.0</b>	<b>6.4</b>		<b>63.4</b>
Balance as at September 29, 2012	<b>110.3</b>	<b>39.5</b>	<b>23.5</b>	<b>173.3</b>

Net additions of intangible assets excluded from the consolidated statement of cash flows amounted to \$6.5 in 2012 (\$11.0 in 2011).

For impairment testing, the carrying amount of certain private labels was allocated to the unique operating segment. The recoverable amount was determined based on its value in use which was calculated using pre-tax cash flow forecasts from the management-approved budgets. The forecasts reflected past experience. A pre-tax discount rate of 14.4% was used without considering a growth rate.

Impairment testing of loyalty programs was conducted at the level of the asset itself. The recoverable amount was determined based on its fair value less costs to sell, which was calculated using the capitalized excess EBIT method. The estimated EBIT directly allocated to the programs, after deduction of the return on contributory assets, was based on historical data reflecting past experience. The earnings multiple used was 6.9 considering a growth rate of 2.0% corresponding to the consumer price index.

Impairment testing of banners and certain private labels were conducted at the level of the asset itself. The recoverable amount was determined based on its fair value less costs to sell, which was calculated using the royalty-free licence method. The estimated royalty rate was based on information from external sources and historical data reflecting past experience. For the banners, the earnings multiples used were 7.5 et 10.0 considering growth rates of 2.0% and 3.0% corresponding to the consumer price index and banners' growth. For certain private labels, the earnings multiple used was 11.1 considering a growth rate of 3.0% corresponding to the consumer price index and the growth of these private labels.

No reasonably possible change of any of the previously mentioned key assumptions would result in a carrying amount higher than the recoverable amount.



## Notes to consolidated financial statements

September 29, 2012 and September 24, 2011

(Millions of dollars, unless otherwise indicated)

### 17. GOODWILL

	2012	2011
Balance – beginning of year	1,649.1	1,603.7
Acquisitions	7.3	—
Acquisitions through business combinations (note 6)	206.8	48.9
Disposals	(3.7)	(3.5)
Balance – end of year	1,859.5	1,649.1

For impairment testing, the carrying amount of goodwill was allocated to the unique operating segment. The recoverable amount was determined based on its value in use which was calculated using pre-tax cash flow forecasts from the management-approved budgets. The forecasts reflected past experience. A pre-tax discount rate of 14.4% was used without consideration of the growth rate. No reasonably possible change of any of these key assumptions would result in a carrying amount higher than the recoverable amount.

### 18. BANK LOANS

As at September 29, 2012, the Corporation did not have other bank loans except for the credit margins of special purpose entities. The consolidated special purpose entities have credit margins totalling \$6.5 (\$6.3 as at September 24, 2011 and \$6.6 as at September 26, 2010), bearing interest at prime, unsecured and maturing on various dates through 2013. As at September 29, 2012, \$0.3 (\$0.3 as at September 24, 2011 and \$1.0 as at September 26, 2010) had been drawn down under credit margins at an interest rate of 3.0% (3.0% as at September 24, 2011 and 2.9% as at September 26, 2010).

### 19. PROVISIONS

	Onerous leases	Plant closures	Other	Total
Current provisions	1.7		7.5	9.2
Non-current provisions	4.8			4.8
Balance as at September 26, 2010	6.5	—	7.5	14.0
Balance as at September 26, 2010	6.5	—	7.5	14.0
Additional provisions	0.2	8.9	10.8	19.9
Amounts used	(1.3)		(11.3)	(12.6)
Balance as at September 24, 2011	5.4	8.9	7.0	21.3
Current provisions	1.4	8.9	7.0	17.3
Non-current provisions	4.0			4.0
Balance as at September 24, 2011	5.4	8.9	7.0	21.3
Balance as at September 24, 2011	5.4	8.9	7.0	21.3
Additional provisions	0.8		11.0	11.8
Amounts used	(1.8)	(8.9)	(8.1)	(18.8)
Balance as at September 29, 2012	4.4	—	9.9	14.3
Current provisions	1.3		9.9	11.2
Non-current provisions	3.1			3.1
Balance as at September 29, 2012	4.4	—	9.9	14.3

**Notes to consolidated financial statements**

**September 29, 2012 and September 24, 2011**

*(Millions of dollars, unless otherwise indicated)*

The provision for onerous leases corresponds to the discounted present value of the future lease payments the Corporation has to make under non-cancellable onerous operating leases, less the income that should be made from these leases, including estimated future sublease income, if any. The estimate may vary in response to changes in use of leased premises and subleases, if any. The remaining terms of these leases are from one to 12 years.

The provision for plant closures corresponds to the closure costs for the Montréal meat processing plant and a grocery warehouse in Toronto.

Other provisions include notably amounts with respect to provincial worker's compensation insurance.

**20. DEBT**

	2012	2011	2010
Revolving Credit Facility, bearing interest at a weighted average rate of 2.48%, repayable on November 3, 2016 or earlier	315.4	—	—
Credit A Facility, bearing interest at a weighted average rate of 1.82% (1.79% in 2011 and 1.04% in 2010)	—	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	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	400.0
Loans, maturing on various dates through 2031, bearing interest at an average rate of 3.06% (3.71% as at September 24, 2011 and 3.38% as at September 26, 2010)	32.6	21.7	15.8
Obligations under finance leases, bearing interest at an effective rate of 8.6% (8.6% in 2011 and 11.2% in 2010)	43.2	47.1	28.1
Deferred financing costs	(5.2)	(3.8)	(4.2)
	<b>986.0</b>	1,034.3	1,009.0
Current portion	<b>12.1</b>	378.1	4.7
	<b>973.9</b>	656.2	1,004.3

As at September 24, 2011, the Corporation had a Credit A Facility of \$369.3, which was presented as long-term as at September 26, 2010 but was reclassified as short-term since it was maturing on August 15, 2012. This credit facility was repaid at its maturity by a new revolving credit facility of \$600.0 obtained on November 4, 2011. In addition, for the fiscal years ending September 24, 2011 and September 26, 2010, the Corporation had a revolving line of credit of \$400.0 which was unused. This line of credit was canceled when the new revolving credit facility was obtained.

The revolving credit facility with a maximum of \$600.0 bears interest at rates that fluctuate with changes in bankers' acceptance rates and is unsecured. As at September 29, 2012, the unused authorized revolving credit facility was \$284.6. Given that the Corporation frequently increases and decreases this loan through bankers' acceptances with a minimum of 30 days and to simplify its presentation, the Corporation found that it is preferable for the understanding of its financing activities to present the consolidated statement of cash flows solely with net changes.



## Notes to consolidated financial statements

September 29, 2012 and September 24, 2011

(Millions of dollars, unless otherwise indicated)

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

	Facility and loans	Notes	Obligations under finance leases	Total
2013	8.0	—	7.5	15.5
2014	2.4	—	6.3	8.7
2015	1.2	—	6.2	7.4
2016	0.8	200.0	6.0	206.8
2017	320.0	—	5.8	325.8
2018 and thereafter	15.6	400.0	35.5	451.1
	<b>348.0</b>	<b>600.0</b>	<b>67.3</b>	<b>1,015.3</b>

The minimum payments in respect of the obligations under finance leases included interest amounting to \$24.1 on these obligations in 2012 (\$27.6 in 2011).

On October 12, 2012, the maturity of the revolving credit facility was extended to November 3, 2017 and this change is not taken into consideration in the present note tables.

## 21. OTHER LIABILITIES

	2012	2011	2010
Lease liabilities	12.1	13.1	14.5
Other liabilities	1.8	0.3	1.4
	<b>13.9</b>	<b>13.4</b>	<b>15.9</b>

## 22. CAPITAL STOCK

### Authorized

Following the Annual General Meeting of Shareholders held on January 31, 2012, the Corporation's share capital has been changed. The issued and outstanding Class B Shares carrying 16 votes per share have been converted into one single vote Class A Subordinate Share. The Class B Shares, along with the rights, privileges, restrictions and conditions attached thereto, have been eliminated. The Class A Subordinate Shares have been redesignated as "Common Shares". The first Preferred Shares have been redesignated as "Preferred Shares".

As at September 29, 2012, the authorized capital stock of the Corporation was summarized as follows:

- unlimited number of Common Shares, bearing one voting right per share, participating, without par value;
- unlimited number of Preferred Shares, non-voting, without par value, issuable in series.

### Outstanding

For ease of reading, the Corporation has restated all prior periods disclosed to reflect the share capital reorganization of January 31, 2012 as if it had always existed. Therefore, only the Common Shares are disclosed in this note. This restatement is possible since Class B Shares and Class A Subordinate Shares were participating shares. The differences between these classes of shares were primarily voting rights, the exclusivity of Class B Shares held by Metro Merchants, and that Class B Shares were not listed on the Toronto Stock Exchange.



## Notes to consolidated financial statements

September 29, 2012 and September 24, 2011

(Millions of dollars, unless otherwise indicated)

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

	Common Shares	
	Number	
	(Thousands)	
Balance as at September 26, 2010	105,069	702.1
Shares issued for cash	1	—
Shares redeemed for cash, excluding premium of \$160.4	(4,147)	(27.9)
Acquisition of treasury shares, excluding premium of \$7.6	(190)	(1.3)
Released treasury shares	94	0.6
Stock options exercised	257	9.1
Balance as at September 24, 2011	<b>101,084</b>	<b>682.6</b>
Shares issued for cash	2	0.1
Shares redeemed for cash, excluding premium of \$186.3	(4,213)	(28.7)
Acquisition of treasury shares, excluding premium of \$2.3	(50)	(0.3)
Released treasury shares	92	0.6
Stock options exercised	271	10.3
Balance as at September 29, 2012	<b>97,186</b>	<b>664.6</b>

### Stock option plan

The Corporation has a stock option plan for certain Corporation employees providing for the grant of options to purchase up to 10,000,000 Common Shares. As at September 29, 2012, a balance of 3,259,356 shares that could be issued following the exercise of stock options (3,530,552 as at September 24, 2011 and 3,787,752 as at September 26, 2010). The subscription price of each Common 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	Weighted average exercise price
	(Thousands)	(Dollars)
Balance as at September 26, 2010	1,777	32.29
Granted	290	47.06
Exercised	(257)	27.30
Cancelled	(34)	34.67
Balance as at September 24, 2011	<b>1,776</b>	<b>35.38</b>
Granted	<b>293</b>	<b>53.76</b>
Exercised	<b>(271)</b>	<b>29.77</b>
Cancelled	<b>(115)</b>	<b>38.44</b>
Balance as at September 29, 2012	<b>1,683</b>	<b>39.27</b>





## Notes to consolidated financial statements

September 29, 2012 and September 24, 2011

(Millions of dollars, unless otherwise indicated)

The table below summarizes information regarding the stock options outstanding and exercisable as at September 29, 2012:

Range of exercise prices (Dollars)	Outstanding options			Exercisable options	
	Number (Thousands)	Weighted average remaining period (Months)	Weighted average exercise price (Dollars)	Number (Thousands)	Weighted average exercise price (Dollars)
24.73 to 30.16	520	27.4	26.47	319	26.87
33.86 to 37.77	359	36.8	37.11	157	37.23
39.17 to 47.14	517	60.9	45.61	45	44.07
53.15 to 58.41	287	79.0	53.77	—	—
	1,683	48.5	39.27	521	31.47

The weighted average fair value of \$10.50 per option (\$9.58 in 2011 and \$10.39 in 2010) for stock options granted during fiscal 2012 was determined at the time of grant using the Black-Scholes model and the following weighted average assumptions: risk-free interest rate of 1.7% (2.7% in 2011 and 3.0% in 2010), expected life of 5.8 years (5.4 years in 2011 and 6.0 years in 2010), expected volatility of 22.4% (21.6% in 2011 and 23.0% in 2010) and expected dividend yield of 1.6% (1.6% in 2011 and 1.5% in 2010). The expected volatility is based on the historic share price volatility over a period similar to the life of the options.

Compensation expense for these options amounted to \$2.3 for fiscal 2012 (\$2.5 in 2011).

### Performance share unit plan

The Corporation 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 Corporation meets certain financial performance indicators. The PSUs entitle the participant to Common Shares of the Corporation, 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, 2010	308,904
Granted	110,756
Settled	(104,153)
Cancelled	(5,778)
Balance as at September 24, 2011	<b>309,729</b>
Granted	<b>97,043</b>
Settled	<b>(94,499)</b>
Cancelled	<b>(28,096)</b>
Balance as at September 29, 2012	<b>284,177</b>

Common Shares of the Corporation are held in trust for participants until the PSUs vest or are cancelled. The trust, considered a special purpose entity, is consolidated in the Corporation's financial statements with the cost of the acquired shares recorded as treasury shares as a reduction of capital stock.



## Notes to consolidated financial statements

September 29, 2012 and September 24, 2011

(Millions of dollars, unless otherwise indicated)

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

	Number (Units)
Balance as at September 26, 2010	203,548
Acquisition of treasury shares	190,000
Released treasury shares	(93,608)
Balance as at September 24, 2011	<b>299,940</b>
Acquisition of treasury shares	<b>50,000</b>
Released treasury shares	<b>(91,907)</b>
Balance as at September 29, 2012	<b>258,033</b>

The weighted average fair value of \$53.24 per PSU (\$42.88 in 2011 and \$39.90 in 2010) for PSUs granted during the year was the stock market valuation of a Common Share of the Corporation at grant date.

The compensation expense comprising all of these PSUs amounted to \$3.8 for fiscal 2012 (\$3.8 in 2011).

### 23. ACCUMULATED OTHER COMPREHENSIVE INCOME

	Cash flow hedge	Defined benefit plans	Share of an associate	Total
Balance as at September 26, 2010	(0.3)	—	—	(0.3)
Change in the fair value of a derivative designated as cash flow hedge	0.4			0.4
Changes in defined benefit plans				
Actuarial losses		(66.8)		(66.8)
Asset ceiling effect		0.5		0.5
Minimum funding requirement		(2.5)		(2.5)
Share of an associate's other comprehensive income			0.1	0.1
Corresponding income taxes	(0.1)	17.5		17.4
Balance as at September 24, 2011	—	<b>(51.3)</b>	<b>0.1</b>	<b>(51.2)</b>
Changes in defined benefit plans				
Actuarial losses		<b>(65.6)</b>		<b>(65.6)</b>
Asset ceiling effect		<b>(2.7)</b>		<b>(2.7)</b>
Minimum funding requirement		<b>0.1</b>		<b>0.1</b>
Share of an associate's other comprehensive income			<b>(0.6)</b>	<b>(0.6)</b>
Corresponding income taxes		<b>18.9</b>	<b>0.1</b>	<b>19.0</b>
Balance as at September 29, 2012	—	<b>(100.6)</b>	<b>(0.4)</b>	<b>(101.0)</b>



## Notes to consolidated financial statements

September 29, 2012 and September 24, 2011

(Millions of dollars, unless otherwise indicated)

### 24. DIVIDENDS

In fiscal 2012, the Corporation paid \$82.9 in dividends to holders of Common Shares (\$77.1 in 2011), or \$0.8375 per share (\$0.7475 in 2011). On September 25, 2012, the Corporation's Board of Directors declared a quarterly dividend of \$0.215 per Common Share payable November 21, 2012.

### 25. EMPLOYEE BENEFITS

The Corporation maintains several defined benefit and defined contribution plans for eligible employees, which provide most participants with pension, ancillary retirement benefits, and other long-term employee benefits which in certain cases are based on the number of years of service or final average salary. The defined benefit plans are funded by the Corporation's contributions, with some plans also funded by participants' contributions. The Corporation also provides eligible employees and retirees with health care, life insurance and other benefits. Ancillary retirement benefits plans and other long-term employee benefits are not funded and are presented in other plans.

The changes in present value of the defined benefit obligation were as follows:

	2012		2011	
	Pension plans	Other plans	Pension plans	Other plans
Balance – beginning of year	717.7	33.6	657.0	37.3
Current service cost	29.1	1.6	27.0	2.0
Interest cost	36.7	1.5	35.2	2.0
Participant contributions	3.9	—	4.0	—
Plan amendments	—	—	1.2	—
Benefits paid	(32.1)	(3.4)	(27.6)	(2.4)
Actuarial losses (gains)	85.8	(2.3)	20.9	(5.3)
Balance – end of year	841.1	31.0	717.7	33.6

The changes in the fair value of plan assets were as follows:

	2012		2011	
	Pension plans	Other plans	Pension plans	Other plans
Fair value – beginning of year	631.8	—	626.7	—
Expected return on plan assets	45.5	—	44.8	—
Actuarial gains (losses)	17.8	—	(49.6)	—
Employer contributions	63.4	3.4	33.5	2.4
Participant contributions	3.9	—	4.0	—
Benefits paid	(32.1)	(3.4)	(27.6)	(2.4)
Fair value – end of year	730.3	—	631.8	—



## Notes to consolidated financial statements

September 29, 2012 and September 24, 2011

(Millions of dollars, unless otherwise indicated)

The changes in the defined benefit plans' funding status were as follows:

	2012		2011		2010	
	Pension plans	Other plans	Pension plans	Other plans	Pension plans	Other plans
Balance of defined benefit obligation – end of year	(841.1)	(31.0)	(717.7)	(33.6)	(657.0)	(37.3)
Fair value – end of year	730.3	—	631.8	—	626.7	—
Funding position	(110.8)	(31.0)	(85.9)	(33.6)	(30.3)	(37.3)
Asset ceiling effect	(8.4)	—	(5.7)	—	(6.2)	—
Minimum funding requirement	(5.3)	—	(5.4)	—	(2.9)	—
	<b>(124.5)</b>	<b>(31.0)</b>	<b>(97.0)</b>	<b>(33.6)</b>	<b>(39.4)</b>	<b>(37.3)</b>
Defined benefit assets	1.4	—	1.6	—	20.3	—
Defined benefit liabilities	(125.9)	(31.0)	(98.6)	(33.6)	(59.7)	(37.3)
	<b>(124.5)</b>	<b>(31.0)</b>	<b>(97.0)</b>	<b>(33.6)</b>	<b>(39.4)</b>	<b>(37.3)</b>

The defined contribution and defined benefit plans expense was as follows:

	2012 (53 weeks)		2011 (52 weeks)	
	Pension plans	Other plans	Pension plans	Other plans
<b>Defined contribution plans</b>	<b>25.1</b>	<b>0.5</b>	24.2	0.5
<b>Defined benefit plans</b>				
Current service cost	29.1	1.6	27.0	2.0
Past service cost	—	—	1.2	—
Interest cost	36.7	1.5	35.2	2.0
Actuarial gains (losses)	—	0.1	—	(1.6)
Expected return on plan assets	(45.5)	—	(44.8)	—
	<b>20.3</b>	<b>3.2</b>	18.6	2.4
	<b>45.4</b>	<b>3.7</b>	42.8	2.9

The actuarial gains or losses recognized in accumulated other comprehensive income were as follows:

	2012		2011	
	Pension plans	Other plans	Pension plans	Other plans
Balance – beginning of the year	70.5	(3.7)	—	—
Actuarial losses (gains) incurred	68.0	(2.4)	70.5	(3.7)
Balance – end of year	<b>138.5</b>	<b>(6.1)</b>	70.5	(3.7)

Total cash payments for employee benefits, consisting of cash contributed by the Corporation to its funded pension plans and cash payments directly to beneficiaries for its unfunded other benefit plans, amounted to \$66.8 in 2012 (\$35.9 in 2011). The Corporation plans to contribute \$39.1 to the defined benefit plans during the next fiscal year.

The most recent actuarial valuations for funding purposes in respect of the Corporation's pension plans were performed on various dates between December 2010 and May 2012. The next valuations will be performed between December 2012 and June 2014.



## Notes to consolidated financial statements

September 29, 2012 and September 24, 2011

(Millions of dollars, unless otherwise indicated)

Plan assets held in trust and their weighted average allocation as at the measurement dates were as follows:

<b>Asset categories</b> (Percentage)	<b>2012</b>	2011	2010
Shares	<b>55</b>	54	56
Bonds	<b>40</b>	42	39
Others	<b>5</b>	4	5

The actual return on plan assets was \$63.3 in 2012 (\$(4.8) in 2011).

Pension plan assets include shares issued by the Corporation with a fair value of \$5.8 as at September 29, 2012 (\$5.1 as at September 24, 2011 and \$4.3 as at September 26, 2010).

The principal actuarial assumptions used in determining the defined benefit obligation were the following:

(Percentage)	<b>2012</b>		2011		2010	
	<b>Pension plans</b>	<b>Other plans</b>	Pension plans	Other plans	Pension plans	Other plans
Discount rate	<b>4.25</b>	<b>4.25</b>	5.0	5.0	5.25	5.25
Projected long-term return on plan assets	<b>7.25</b>	—	7.25	—	7.25	—
Rate of compensation increase	<b>3.0</b>	<b>3.0</b>	3.0	3.0	3.0	3.0

To determine the most suitable discount rate, management considers the interest rates for high-quality bonds issued by entities operating in Canada with cash flows that match the timing and amount of expected benefit payments. The mortality rate is based on available mortality tables. Projected inflation rates are taken into account in establishing future wage and pension increases.

The overall expected return corresponds to the weighted average projected return on the various asset categories held by the plans. The rate is determined based on the overall portfolio rather than the total of the individual asset categories. The managements' measurement of expected return is based on historical market return and analysts' long-term projections of different categories of assets return.

The assumed annual health care cost trend rate per participant was set at 7.7%. Under the assumption used, this rate should gradually decline to 4.5% in 2019 and remain at that level thereafter. A 1% change in this rate 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 defined benefit obligation	1.4	(1.2)

The history of experience adjustments for the defined benefit pension plans or other plans was as follows:

	<b>2012</b>	2011	2010
Experience adjustments of liabilities - (gains)	<b>(5.7)</b>	(2.0)	s.o.
Experience adjustments of assets - gains (losses)	<b>17.8</b>	(49.6)	s.o.
Fair value of total plan assets	<b>730.3</b>	631.8	626.7
Present value of defined benefit obligation	<b>(872.1)</b>	(751.3)	(694.3)
Funded (underfunded) plans status	<b>(141.8)</b>	(119.5)	(67.6)



## Notes to consolidated financial statements

September 29, 2012 and September 24, 2011

(Millions of dollars, unless otherwise indicated)

### 26. COMMITMENTS

#### Operating leases

The Corporation has operating lease commitments, with varying terms through 2037 and one to 14 five-year renewal options, to lease premises and equipment used for business purposes. The Corporation does not have an option to purchase the leased assets when the leases expire, but it has the right of first refusal in certain cases. Future minimum lease payments under these operating leases will be as follows:

	2012	2011	2010
Under 1 year	175.4	168.4	163.8
Between 1 and 5 years	555.0	535.3	523.8
Over 5 years	633.7	695.5	652.6
	<b>1,364.1</b>	<b>1,399.2</b>	<b>1,340.2</b>

In addition, the Corporation has committed to leases for premises, with varying terms through 2035 and one to 15 five-year lease renewal options, which it sublets to clients generally under the same terms and conditions. Future minimum lease payments under these operating leases will be as follows:

	2012	2011	2010
Under 1 year	40.4	36.8	40.3
Between 1 and 5 years	136.4	120.0	137.1
Over 5 years	233.2	190.5	239.9
	<b>410.0</b>	<b>347.3</b>	<b>417.3</b>

#### Finance leases

The Corporation has finance lease commitments, with varying terms through 2036 and three to seven five-year renewal options, to lease premises used for business purposes. The Corporation does not have an option to purchase the leased assets when the leases expire. Future minimum lease payments under these finance leases and the present value of net minimum lease payments will be as follows:

	Minimum lease payments			Present value of minimum lease payments		
	2012	2011	2010	2012	2011	2010
Under 1 year	7.5	7.4	5.1	4.1	3.9	2.4
Between 1 and 5 years	24.3	26.0	19.4	13.8	14.3	10.9
Over 5 years	35.5	41.3	19.4	25.3	28.9	14.8
Minimum lease payments	67.3	74.7	43.9	43.2	47.1	28.1
Future finance costs	(24.1)	(27.6)	(15.8)	—	—	—
Present value of minimum lease payments	43.2	47.1	28.1	43.2	47.1	28.1

#### Service contracts

The Corporation has service contract commitments essentially for transportation and IT, with varying terms through 2020 and no renewal option. Future minimum payments under these service contracts will be as follows:

	2012	2011	2010
Under 1 year	67.2	62.7	66.8
Between 1 and 5 years	243.9	234.8	186.7
Over 5 years	131.2	166.7	256.5
	<b>442.3</b>	<b>464.2</b>	<b>510.0</b>

**Notes to consolidated financial statements**

**September 29, 2012 and September 24, 2011**

(Millions of dollars, unless otherwise indicated)

**27. CONTINGENCIES**

**Guarantees**

For certain customers with established business relationships, the Corporation 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 (\$0.4 in 2011). The maximum contingent liability under these guarantees as at September 29, 2012 was \$2.7 (\$3.0 as at September 24, 2011 and \$3.4 as at September 26, 2010). In addition, the Corporation has guaranteed loans granted to certain customers by financial institutions, with varying terms through 2025. The balance of these loans amounted to \$22.9 as at September 29, 2012 (\$17.9 as at September 24, 2011 and \$12.9 as at September 26, 2010). No liability has been recorded in respect of these guarantees for the years ended September 29, 2012, September 24, 2011 and September 26, 2010.

**Claims**

In the normal course of business, various proceedings and claims are instituted against the Corporation. The Corporation 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 Corporation's financial position or on consolidated earnings.

**28. RELATED PARTY TRANSACTIONS**

The Corporation has significant interest in the following subsidiaries, jointly controlled entity and associate:

Names	Country of incorporation	Percentage of interest in the capital	Percentage of voting rights
<b>Subsidiaries</b>			
Metro Richelieu Inc.	Canada	100.0	100.0
McMahon Distributeur pharmaceutique Inc.	Canada	100.0	100.0
Metro Ontario Inc.	Canada	100.0	100.0
Groupe Adonis Inc.	Canada	55.0	55.0
Groupe Phoenicia Inc.	Canada	55.0	55.0
<b>Jointly controlled entity</b>			
Dunnhumby Canada Limitée	Canada	50.0	50.0
<b>Associate</b>			
Alimentation Couche-Tard Inc.	Canada	11.1	23.3

In the normal course of business, the following transactions have been entered into with related parties:

	2012 (53 weeks)			2011 (52 weeks)		
	Sales	Services received	Interests received	Sales	Services received	Interests received
Jointly controlled entity	—	10.6	—	—	11.2	0.1
Companies controlled by a member of the Board of Directors	28.3	—	—	27.4	—	—
	<b>28.3</b>	<b>10.6</b>	<b>—</b>	<b>27.4</b>	<b>11.2</b>	<b>0.1</b>
	Accounts receivable			Loans receivable		
	2012	2011	2010	2012	2011	2010
Jointly controlled entity	—	—	—	—	—	1.5
Companies controlled by a member of the Board of Directors	0.9	0.8	0.9	—	—	—
	<b>0.9</b>	<b>0.8</b>	<b>0.9</b>	<b>—</b>	<b>—</b>	<b>1.5</b>





## Notes to consolidated financial statements

September 29, 2012 and September 24, 2011

(Millions of dollars, unless otherwise indicated)

Compensation for the principal officers was as follows:

	2012 (53 weeks)	2011 (52 weeks)
Compensation and current employee benefits	2.4	2.4
Post-employment benefits	0.5	0.6
Other long-term benefits	2.0	1.7
Share-based payment	3.1	3.1
	<b>8.0</b>	<b>7.8</b>

## 29. MANAGEMENT OF CAPITAL

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

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

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

The Corporation's fiscal 2012 annual results regarding its capital management objectives were as follows:

- a non-current debt/total capital ratio of 27.7% (29.9% as at September 24, 2011 and 30.2 % as at September 26, 2010);
- a BBB credit rating confirmed by S&P and DBRS (same rating in 2011);
- a dividend representing 21.1% of net earnings for the previous fiscal year (19.7% in 2011).

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

## 30. 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, credit facilities 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 Corporation's credit risk is also taken into consideration in determining fair value.

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.

**Notes to consolidated financial statements**

**September 29, 2012 and September 24, 2011**

(Millions of dollars, unless otherwise indicated)

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

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

The fair value of the non-controlling interest-related liability is equivalent to the buyout price which is mainly based on the future earnings of Adonis and Phoenicia beginning at a predetermined date.

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

	2012		2011		2010	
	Book value	Fair value	Book value	Fair value	Book value	Fair value
<b>Other financial assets</b>						
Loans and receivables						
Loans to certain customers (note 13)	19.4	19.4	16.5	16.5	24.7	24.7
<b>Accounts payable</b>						
Derivative designated as cash flow hedge						
Interest rate swap	—	—	—	—	0.4	0.4
<b>Non-controlling interest</b>						
Financial liability held for trading	139.3	139.3	—	—	—	—
<b>Debt (note 20)</b>						
Other financial liabilities						
Revolving Credit Facility	315.4	315.4	—	—	—	—
Credit A facility	—	—	369.3	369.3	369.3	369.3
Series A Notes	200.0	217.2	200.0	218.0	200.0	218.2
Series B Notes	400.0	457.7	400.0	419.3	400.0	412.7
Loans	32.6	32.6	21.7	21.7	15.8	15.8
Obligations under finance leases	43.2	53.1	47.1	56.3	28.1	35.7
	<b>991.2</b>	<b>1,076.0</b>	<b>1,038.1</b>	<b>1,084.6</b>	<b>1,013.2</b>	<b>1,051.7</b>

The foreign exchange forward contracts, classified as “Financial assets or liabilities at fair value through net earnings”, are not shown in the above table, as they are insignificant in value.

**FAIR VALUE MEASUREMENTS HIERARCHY**

Fair value measurements recognized in the statement of financial position 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 Corporation 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.

For the non-controlling interest-related liability, the Corporation categorized the fair value measurements in Level 3, as they are derived from data that is not observable.



## Notes to consolidated financial statements

September 29, 2012 and September 24, 2011

(Millions of dollars, unless otherwise indicated)

The changes of the non-controlling interest-related liability were as follows:

	2012
Balance – beginning of year	—
Issuance through business combinations (note 6)	132.1
Share of earnings	7.2
Balance – end of year	139.3

No reasonably possible change of future earnings would result in a significant variation of the non-controlling interest-related liability fair value.

### INTEREST RATE RISK

In the normal course of business, the Corporation is exposed primarily to interest rate fluctuations risk 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 Corporation 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 Corporation has decided to designate its interest rate swaps as a cash flow hedge. Policy guidelines prohibit the Corporation from entering into derivative financial instruments for speculative purposes.

At the end of every quarter, the Corporation provides the Audit Committee with a detailed report on all of its derivative financial instruments along with their respective fair value. As at September 29, 2012 and September 24, 2011, there were no outstanding interest rate swap contracts. As at September 26, 2010, an interest rate swap contract of \$50.0 that matured on December 16, 2010 was outstanding. A 0.5% increase in interest rates would have reduced net earnings by \$1.1 while a 0.5% decrease would have raised it by \$1.1.

### CREDIT RISK

#### Loans and receivables / Guarantees

The Corporation 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 Corporation grants them long-term loans or guarantees loans obtained by them from financial institutions. Hence, the Corporation is subject to credit risk.

To mitigate such risk, the Corporation 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 29, 2012, September 24, 2011 and September 26, 2010, no customer accounted for over 10% of total loans and receivables.

To cover its credit risk, the Corporation holds guarantees from its clients' assets in the form of deposits, movable hypothecs on the Corporation stock and/or second hypothecs on their inventories, movable property, intangible assets and receivables.

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

As at September 29, 2012, the maximum potential liability under guarantees provided amounted to \$22.9 (\$17.9 as at September 24, 2011 and \$12.9 as at September 26, 2010) and no liability had been recognized as at that date.

**Notes to consolidated financial statements**

**September 29, 2012 and September 24, 2011**

*(Millions of dollars, unless otherwise indicated)*

**Financial assets at fair value through net earnings**

With regard to its financial assets at fair value through net earnings, consisting of foreign exchange forward contracts, the Corporation is subject to credit risk when these contracts result in receivables from financial institutions. In accordance with its risk management policy, the Corporation entered into these agreements with major Canadian financial institutions to reduce its credit risk.

As at September 29, 2012 and September 26, 2010, the Corporation was not exposed to credit risk in respect of its foreign exchange forward contracts, as they resulted in amounts payable. As at September 24, 2011, the maximum exposure to credit risk for the foreign exchange forward contracts was equal to their carrying amount.

**LIQUIDITY RISK**

The Corporation is exposed to liquidity risk primarily as a result of its debt and trade accounts payable.

The Corporation 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 Series A Notes, its revolving credit facility and its Series B Notes mature only in 2015, 2016 and 2035, respectively. The Corporation also has an unused authorized balance of \$284.6 on its revolving credit facility.

Undiscounted cash flows (capital and interest)

	Accounts payable	Facility and loans	Notes	Finance lease commitments	Non-controlling interest	Total
Maturing under 1 year	1,086.4	18.2	33.8	7.5	—	1,145.9
Maturing in 1 to 10 years	—	366.8	434.8	41.7	139.3	982.6
Maturing in 11 to 20 years	—	3.2	238.8	15.1	—	257.1
Maturing over 20 years	—	14.1	471.8	3.0	—	488.9
	1,086.4	402.3	1,179.2	67.3	139.3	2,874.5

**FOREIGN EXCHANGE RISK**

Given that some of its purchases are denominated in foreign currencies, the Corporation is exposed to foreign exchange risk.

In accordance with its risk management policy, the Corporation 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 29, 2012, September 24, 2011 and September 26, 2010, the fair value of foreign exchange forward contracts was insignificant.

**31. EVENT AFTER THE REPORTING PERIOD**

On October 22, 2012, the Corporation announced a conditional agreement to dispose of its food service operation, the Distagro division, which supplies restaurant and gas station chains. The disposal for a consideration of approximately \$15 excluding working capital and a net gain after taxes of approximately \$7 should take place in the next few weeks.

The transaction will be recorded in the financial statements as a discontinued operation and the Corporation's consolidated income statements for current and prior periods restated. Related Distagro sales and expenditures will be recorded as a net loss on a discontinued operation under a separate income statement section.



**Notes to consolidated financial statements**  
**September 29, 2012 and September 24, 2011**  
*(Millions of dollars, unless otherwise indicated)*

**32. COMPARATIVE FIGURES**

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

**33. APPROVAL OF FINANCIAL STATEMENTS**

The consolidated financial statements of fiscal year ended September 29, 2012 (including comparative figures) were approved for issue by the Board of Directors on November 13, 2012.



# Directors and officers

## BOARD OF DIRECTORS

Marc DeSerres<sup>(1)(3)</sup>  
Montréal, Québec

Claude Dussault<sup>(2)(3)</sup>  
Québec City, Québec

Serge Ferland  
Québec City, Québec

Paule Gauthier<sup>(2)(3)</sup>  
Québec City, Québec

Paul Gobeil<sup>(3)</sup>  
Ottawa, Ontario  
Vice-Chairman of the Board

Russel Goodman<sup>(1)</sup>  
Mont-Tremblant, Québec

Christian W.E. Haub<sup>(2)</sup>  
Greenwich, Connecticut

Michel Labonté<sup>(1)</sup>  
Montréal, Québec

Eric R. La Flèche  
Town of Mount Royal, Québec  
President and Chief Executive Officer

Pierre H. Lessard  
Westmount, Québec  
Executive Chairman of the Board

Marie-José Nadeau<sup>(1)(2)</sup>  
Montréal, Québec

Réal Raymond<sup>(2)</sup>  
Montréal, Québec  
Lead Director

Michael T. Rosicki<sup>(3)</sup>  
Orillia, Ontario

John H. Tory<sup>(1)</sup>  
Toronto, Ontario

## MANAGEMENT OF METRO INC.

Eric R. La Flèche  
President and Chief Executive Officer

Robert Sawyer  
Executive Vice-President and  
Chief Operating Officer

François Thibault  
Senior Vice-President  
Chief Financial Officer and Treasurer

Serge Boulanger  
Senior Vice-President  
National Procurement and  
Corporate Brands

Martin Allaire  
Vice-President  
Real Estate & Engineering

Jacques Couture  
Vice-President, Information Systems

Paul Dénomme  
Vice-President, Corporate Controller

Marc Giroux  
Vice-President and Chief Marketing  
and Communications Officer

Alain Picard  
Vice-President, Human Resources

Simon Rivet  
Vice-President  
General Counsel and  
Corporate Secretary

## QUÉBEC DIVISION

Christian Bourbonnière  
Senior Vice-President

Luc Martinovitch  
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 Audit Committee  
(2) Member of the Human Resources Committee  
(3) 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

**Auditors**  
Ernst & Young LLP  
Chartered Professional Accountants

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

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

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

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

## Annual meeting

The Annual General Meeting  
of Shareholders will be held  
on January 29, 2013 at 11:00 a.m.  
at:  
Centre Mont-Royal  
2200 Mansfield Street  
Montréal, Québec H3A 3R8

# Dividends\* 2013 fiscal year

**Declaration Date**

- January 28, 2013
- April 23, 2013
- August 13, 2013
- September 24, 2013

**Record Date**

- February 19, 2013
- May 23, 2013
- September 3, 2013
- November 9, 2013

**Payment Date**

- March 15, 2013
- June 14, 2013
- September 20, 2013
- November 27, 2013

\* Subject to approval by the Board of Directors



**metro.ca**



METRO is committed to respecting the principles of corporate responsibility notably in terms of the environment. The Company is therefore proud to present this annual report, printed using recycled paper that includes post-consumer fibres and is certified FSC.

The FSC® (Forest Stewardship Council®) is an international certification and labeling system that guarantees that the forest products you purchase, from the forest to the shelf, come from responsibly managed sources.