



## **METRO REPORTS RECORD NET EARNINGS OF \$89.3 MILLION FOR THE THIRD QUARTER OF 2007**

---

### **THIRD QUARTER 2007 HIGHLIGHTS**

- The Company realized net earnings of \$89.3 million compared to \$85.1 million, an increase of 4.9%. Fully diluted net earnings per share reached \$0.77, up 5.5% from \$0.73.
- Excluding non-recurring items recorded in the third quarter of 2007 and 2006, adjusted net earnings<sup>(1)</sup> for the third quarter of 2007 would have been \$91.1 million, an increase of 16.3%, and adjusted fully diluted net earnings per share<sup>(1)</sup> would have been \$0.78, an increase of 14.7%. Non-recurring items include integration and rationalization costs of \$5.4 million before taxes for the third quarter of 2007 and \$3.9 million before taxes for the corresponding quarter of 2006, as well as third quarter income tax expense decrease of \$1.8 million in 2007 and \$9.4 million in 2006.
- Sales increased 0.1% to \$3,341 million. Excluding decreased sales of tobacco products and lost sales due to the disposal, in the fourth quarter of 2006, of our interest in a grocery wholesaler, sales would have increased by 3.2%. Same-store sales increased by 2.1%.
- During the third quarter, we continued the integration of A&P Canada and recorded synergies of \$27.9 million compared to \$15.5 million in the same quarter last year.

### **HIGHLIGHTS FOR THE 2007 40-WEEK PERIOD ENDED JULY 7, 2007**

- The Company realized net earnings of \$219 million, up 25.8% from \$174.1 million. Fully diluted net earnings per share were \$1.88, up 25.3% from \$1.50.
- Excluding non-recurring items recorded in the 40-week periods of 2007 and 2006, adjusted net earnings<sup>(1)</sup> for the 2007 40-week period would have been \$228.2 million, a 22.3% increase, and adjusted fully diluted net earnings per share<sup>(1)</sup> would have been \$1.96 compared to \$1.61 for the 2006 40-week period, a 21.7% increase. The non-recurring items are integration and rationalization costs of \$16.4 million before taxes for the first 40 weeks of 2007 and of \$24.8 million before taxes for the corresponding period of 2006, as well as income tax expense decrease of \$1.8 million for the first 40 weeks of 2007 and \$4.1 million for the corresponding period of 2006.
- Sales for the first 40 weeks of 2007 reached \$8,212.2 million, down 0.7%. Excluding decreased sales of tobacco products and lost sales due to the disposal, in the fourth quarter of 2006, of our interest in a grocery wholesaler, sales would have increased by 2.3%.
- Synergies of \$67.5 million were achieved in the first 40 weeks of 2007 versus \$32.6 million in the same period of the previous fiscal year.

<sup>(1)</sup> See "Non-GAAP Measurements".

**(Montréal, August 9, 2007)** – METRO INC. realized net earnings of \$89.3 million in the third quarter of 2007, compared to \$85.1 million in the corresponding quarter of the previous fiscal year, and fully diluted net earnings per share of \$0.77 versus \$0.73 last year. Non-recurring items were recorded in the third quarters of 2007 and 2006, namely integration and rationalization costs of \$5.4 million before taxes in 2007 and \$3.9 million before taxes in 2006, as well as third quarter income tax expense decrease of \$1.8 million in 2007 and \$9.4 million in 2006. Excluding these non-recurring items, adjusted net earnings<sup>(1)</sup> for the third quarter of 2007 would have been \$91.1 million compared with \$78.3 million for the corresponding quarter of 2006, an increase of 16.3%, and adjusted fully diluted net earnings per share<sup>(1)</sup> would have been \$0.78 compared with \$0.68 for the corresponding quarter of 2006, an increase of 14.7%.

#### SALES

Third quarter sales reached \$3,341 million, an increase of 0.1% compared to fiscal 2006 third quarter sales of \$3,336.7 million. Excluding decreased sales of tobacco products and lost sales due to the disposal, in the fourth quarter of 2006, of our interest in a grocery wholesaler, sales would have increased by 3.2%. Third quarter same-store sales increased by 2.1%.

Sales for the first 40 weeks of 2007 reached \$8,212.2 million, down 0.7% compared to sales of \$8,270.5 million for the corresponding period of fiscal 2006. Excluding decreased sales of tobacco products and lost sales due to the disposal, in the fourth quarter of 2006, of our interest in a grocery wholesaler, sales would have increased by 2.3%.

#### INTEGRATION AND RATIONALIZATION COSTS

Following the acquisition of A&P Canada, we developed a plan to integrate and rationalize our operations. This three-part plan, dealing with our store network, the integration of our overall operations, and the implementation of our information systems at A&P Canada, continued during the third quarter of 2007.

During the third quarter, we completed the implementation of our retail information systems in all of our stores and our payroll and human resources management systems.

On July 13, 2007, we disconnected the last A&P US information systems, thereby terminating the systems outsourcing period with A&P US a few weeks before the anticipated deadline of two years.

Over fiscal 2006, integration and rationalization plan costs totalled \$28 million. Costs incurred during the 40-week period of 2007 totalled \$16.4 million, \$5.4 million of which were in the third quarter. As a result of the third quarter decision to further integrate Loeb Canada's operations into A&P Canada's, we revised our initial figure of \$55 million to \$59 million.

#### Integration and Rationalization Costs

(Millions of \$)

	Incurred		2006 (53 weeks)	Anticipated	Total
	2007 (16 weeks)	2007 (40 weeks)			
Stores	—	2.2	11.9	5.1	19.2
Integration of operations	0.5	5.0	13.9	5.2	24.1
Implementation of information systems	4.9	9.2	2.2	4.3	15.7
	<b>5.4</b>	<b>16.4</b>	28.0	14.6	59.0

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

EBITDA for the third quarter of 2007 were \$195.9 million, up 1.9% over the \$192.3 million for the same quarter last year. Third quarter EBITDA represented 5.9% of sales versus 5.8% last year. Third quarter integration and rationalization costs were \$5.4 million and \$3.9 million in 2007 and 2006 respectively. Our third quarter equity earnings from our investment in Alimentation Couche-Tard were \$3.9 million in 2007 compared to \$3.7 million in 2006.

<sup>(1)</sup> See "Non-GAAP Measurements".

Excluding integration and rationalization costs as well as equity earnings from our investment in Alimentation Couche-Tard, 2007 third quarter EBITDA would have been \$197.4 million or 5.9% of sales versus \$192.5 million or 5.8% of sales in 2006. This improvement in EBITDA is due mainly to further synergies in 2007. Despite more competitive market conditions, we managed to keep gross margin levels similar to those for the corresponding period of the previous fiscal year.

In the third quarter of 2007, we recorded \$27.9 million in synergies compared to \$15.5 million in the third quarter of 2006. With these results, we expect to achieve close to \$90 million of synergies for fiscal year-end.

EBITDA for the 40-week period rose 11.4% to \$490.6 million or 6% of sales compared to \$440.4 million or 5.3% of sales for the same period last year. We incurred integration and rationalization costs of \$16.4 million in the first 40 weeks of 2007 versus \$24.8 million over the same period in 2006. Equity earnings from our investment in Alimentation Couche-Tard were \$17.7 million for the 40-week period compared to \$17.1 million in 2006.

Excluding integration and rationalization costs and earnings from our investment in Alimentation Couche-Tard, our EBITDA for the first 40 weeks of 2007 would have been \$489.3 million or 6% of sales compared to \$448.1 million or 5.4% for the same period of fiscal 2006.

The increase in EBITDA is due mainly to effective merchandising and further synergies achieved in 2007. Despite more competitive market conditions starting in the third quarter, we were able to increase 2007 40-week period gross margins over the same period of last year.

We achieved \$67.5 million in synergies in the first 40 weeks of 2007 versus \$32.6 million in the same period of fiscal 2006. These synergies consist mainly of lower costs for goods purchased for resale.

#### **INTEREST, DEPRECIATION AND AMORTIZATION**

Total depreciation and amortization expenses for the third quarter and first 40 weeks of fiscal 2007 amounted to \$51.1 million and \$126 million respectively, compared with \$57.3 million and \$135.2 million for the same periods last year. These decreases result primarily from additional amortization charges in fiscal 2006 following the reassessment of the useful life of certain assets. Third quarter interest expenses totalled \$19.2 million versus \$21.2 million last year, while interest expenses for the 40-week period totalled \$47.6 million versus \$53 million last year. These decreases are due primarily to a debt reduction of \$107.6 million since the end of the third quarter of 2006. Interest rates for the first 40 weeks of 2007 averaged 5.4% compared with 4.9% for the corresponding period of the previous fiscal year.

#### **INCOME TAXES**

The 2007 third quarter and 40-week period income tax expenses of \$39.2 million and \$99.1 million represent effective tax rates of 31.2% and 31.3% respectively. The 2006 third quarter and 40-week period income tax expenses of \$26.5 million and \$74.3 million represented effective tax rates of 23.3% and 29.5% respectively. In the third quarter of 2007, the Canadian government completed the approval process for the federal budget tabled March 19, 2007 providing, among other things, for a 0.5% decrease in the large business tax rate, effective January 1, 2011. This future decrease in the federal tax rate reduced our future tax liabilities by \$1.8 million as well as our third quarter income tax expenses by the same amount.

<sup>(1)</sup> See "Non-GAAP Measurements".

In the first quarter of 2006, an approval milestone was met with regard to the Québec government's budget tabled on April 21, 2005 providing, among other things, for increases of the large business tax rate from 8.9% to 11.9% planned between January 1, 2006 and January 1, 2009. Accordingly, in the first quarter, we recorded a \$5.3 million increase in our future income tax liabilities and an additional tax expense in the same amount corresponding to the future 3% Québec income tax increase that will apply to our future tax liabilities. During the third quarter, an approval milestone was also met with regard to the federal budget tabled on May 2, 2006 providing, among other things, for a decrease in the tax rate from 22.12% to 19% planned between January 1, 2008 and January 1, 2010. These future decreases in the federal tax rate reduced our future tax liabilities by \$9.4 million as well as our third quarter income tax expenses by the same amount. Excluding all these additional tax expense changes, the effective tax rates for the third quarter and first 40 weeks of fiscal 2007 would have been 32.7% and 31.9% respectively, compared with 31.5% and 31.1% for the third quarter and first 40 weeks of fiscal 2006 respectively.

#### **NET EARNINGS**

Third quarter net earnings were \$89.3 million compared to \$85.1 million for the corresponding quarter of fiscal 2006, an increase of 4.9%. Fully diluted net earnings per share increased 5.5% to \$0.77 compared to \$0.73 last year. Excluding third quarter integration and rationalization costs of \$5.4 million before taxes in 2007 and of \$3.9 million before taxes in 2006 as well as third quarter income tax expense decrease of \$1.8 million in 2007 and \$9.4 million in 2006, adjusted net earnings<sup>(1)</sup> for the third quarter would have been \$91.1 million, up 16.3% from net earnings for the same quarter last year. Adjusted fully diluted net earnings per share<sup>(1)</sup> would have been \$0.78 compared to \$0.68 for the corresponding period of 2006, an increase of 14.7%.

Net earnings for the first 40 weeks of 2007 reached \$219 million versus \$174.1 million last year, a 25.8% increase. Fully diluted net earnings per share rose 25.3% to \$1.88 versus \$1.50 last year. Excluding integration and rationalization costs of \$16.4 million before taxes for the first 40 weeks of 2007 and of \$24.8 million before taxes for the first 40 weeks of 2006 as well as income tax expense decrease of \$1.8 million for the 2007 40-week period and of \$4.1 million for the first 40 weeks of 2006, adjusted net earnings<sup>(1)</sup> for the 2007 40-week period would have been \$228.2 million, up 22.3% over the \$186.6 million for the corresponding period last year. Adjusted fully diluted net earnings per share<sup>(1)</sup> would have been \$1.96 compared to \$1.61 for the 2006 40-week period, an increase of 21.7%.

<sup>(1)</sup> See "Non-GAAP Measurements".

## Quarterly Highlights

(Millions of dollars, except earnings per share)

	2007 (52 weeks)	2006 (53 weeks)	2005 (52 weeks)	Variation (Percentage)
<b>Sales (Restated – EIC-156)</b>				
Q3	3,341.0	3,336.7	–	0.1
Q2	2,356.2	2,412.1	–	(2.3)
Q1	2,515.0	2,521.7	–	(0.3)
Q4	–	2,673.5	1,951.8	37.0
<b>Net earnings</b>				
Q3	89.3	85.1	–	4.9
Q2	61.8	57.0	–	8.4
Q1	67.9	32.0	–	112.2
Q4	–	78.9	50.2	57.2
<b>Adjusted net earnings</b>				
Q3	91.1 <sup>(1)</sup>	78.3 <sup>(1)</sup>	–	16.3
Q2	65.5 <sup>(1)</sup>	58.7 <sup>(1)</sup>	–	11.6
Q1	71.6 <sup>(1)</sup>	49.6 <sup>(1)</sup>	–	44.4
Q4	–	71.0 <sup>(1)</sup>	50.2	41.4
<b>Fully diluted net earnings per share (Dollars)</b>				
Q3	0.77	0.73	–	5.5
Q2	0.53	0.49	–	8.2
Q1	0.58	0.28	–	107.1
Q4	–	0.68	0.48	41.7
<b>Adjusted fully diluted net earnings per share (Dollars)</b>				
Q3	0.78 <sup>(1)</sup>	0.68 <sup>(1)</sup>	–	14.7
Q2	0.56 <sup>(1)</sup>	0.50 <sup>(1)</sup>	–	12.0
Q1	0.62 <sup>(1)</sup>	0.43 <sup>(1)</sup>	–	44.2
Q4	–	0.61 <sup>(1)</sup>	0.48	27.1

The variations in our results over the last four quarters are due primarily to the August 13, 2005 acquisition of A&P Canada, the effect of our integration plan during those quarters, and the synergies achieved.

The impact of this acquisition is well demonstrated by the increase in fourth quarter sales in 2006 over those of 2005. A&P Canada results were included for the entire fourth quarter in 2006, comprising 13 weeks versus 12 weeks for the corresponding quarter of 2005, while the fourth quarter of 2005 included only 6 weeks of such results. Sales for the first three quarters of 2007 are comparable to those for the corresponding quarters of 2006 with respect to the acquisition of A&P Canada.

Quarterly sales for 2007 compared with those for 2006 were affected by decreased sales of tobacco products, lost sales due to the disposal, in the fourth quarter of 2006, of our interest in a grocery wholesaler, and the fact that Christmas week fell in the first quarter of 2007 rather than in the second quarter as in 2006. Excluding these items, 2007 first, second and third quarter sales would have been up 0.6%, 3%, and 3.2% respectively over 2006.

<sup>(1)</sup> See “Non-GAAP Measurements”.

Over the last four quarters, net earnings and fully diluted net earnings per share were impacted by, among other things, integration and rationalization costs related to the acquisition of A&P Canada, a gain on disposal of an investment and income tax expense variations resulting from fluctuations in tax rates applicable to large corporations announced by both governments.

Excluding these non-recurring items, increases in fiscal 2006 fourth quarter adjusted net earnings<sup>(1)</sup> and adjusted fully diluted net earnings per share<sup>(1)</sup>, compared with those for fiscal 2005, are due primarily to the acquisition of A&P Canada, synergies and the impact of the 53<sup>rd</sup> week of 2006. Increases in adjusted net earnings<sup>(1)</sup> and adjusted fully diluted net earnings per share<sup>(1)</sup> for the first three quarters of fiscal 2007, compared with those of 2006, are due primarily to more effective merchandising programs and further synergies.

	2007				2006			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Net earnings</b> <i>(Millions of dollars)</i>								
Adjusted net earnings <sup>(1)</sup>	71.6	65.5	91.1	—	49.6	58.7	78.3	71.0
Integration and rationalization costs after taxes	(3.7)	(3.7)	(3.6)	—	(12.3)	(1.7)	(2.6)	(2.1)
Investment disposal gain, after taxes	—	—	—	—	—	—	—	8.6
Decrease (increase) in tax expense	—	—	1.8	—	(5.3)	—	9.4	1.4
<b>Net earnings</b>	<b>67.9</b>	<b>61.8</b>	<b>89.3</b>	<b>—</b>	<b>32.0</b>	<b>57.0</b>	<b>85.1</b>	<b>78.9</b>

	2007				2006			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Fully diluted net earnings per share</b> <i>(Dollars)</i>								
Adjusted fully diluted net earnings <sup>(1)</sup>	0.62	0.56	0.78	—	0.43	0.50	0.68	0.61
Integration and rationalization costs after taxes	(0.04)	(0.03)	(0.03)	—	(0.10)	(0.01)	(0.03)	(0.02)
Investment disposal gain, after taxes	—	—	—	—	—	—	—	0.07
Decrease (increase) in tax expense	—	—	0.02	—	(0.05)	—	0.08	0.02
<b>Fully diluted net earnings per share</b>	<b>0.58</b>	<b>0.53</b>	<b>0.77</b>	<b>—</b>	<b>0.28</b>	<b>0.49</b>	<b>0.73</b>	<b>0.68</b>

<sup>(1)</sup> See "Non-GAAP Measurements".

## Synergies, before taxes

(Millions of dollars)

	Fiscal Year	
	2007	2006
Q1	19.0	7.9
Q2	20.6	9.2
Q3	27.9	15.5
Q4	-	18.7
	<b>67.5</b>	<b>51.3</b>

## Cash Position

### OPERATING ACTIVITIES

Operating activities generated cash flows of \$152.5 million in the third quarter and \$318.5 million over the first 40 weeks of 2007, compared to \$191.2 million and \$319.5 million respectively in the corresponding periods of fiscal 2006. The differences in 2007 third quarter and 40-week period cash flows compared to those for the corresponding periods of fiscal 2006 are mainly the consequence of changes in non-cash working capital from operating activities.

### INVESTMENT ACTIVITIES

Investing activities required \$67.3 million in the third quarter of 2007 and \$188.3 million in the first 40 weeks versus \$48.2 million in the third quarter of 2006 and \$128.7 million in the first 40 weeks of 2006. These increases are due primarily to the acquisition of additional fixed assets related to new store construction, expansion, and renovation projects.

During the first 40 weeks of 2007, the Company and retailers invested \$252.5 million in our retail network for a gross expansion of 723,000 square feet or 3.9%, and a net expansion of 209,000 square feet. The opening of 14 new stores, major renovations and expansions of 37 stores have been completed.

### FINANCING ACTIVITIES

Financing activities required outflows of \$20.1 million in the third quarter of 2007 and \$48.9 million in the first 40 weeks of 2007 versus 2006 third quarter and 40-week outflows of \$102.7 million and \$26.2 million respectively. The main reason for the 2007 third quarter drop in outflows compared to the same quarter of 2006 is the \$80 million by which long-term debt was paid down in 2006.

## Financial Position

Our financial position at the end of the third quarter of 2007 was very solid. We had \$247 million in cash and cash equivalents. We have not used our approved \$400 million line of credit. Our long-term debt corresponds to 36.8% of the combined total of long-term debt and shareholders' equity (long-term debt/total capital).

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

	Interest Rate	Balance (Millions of dollars)	Maturity
Credit Facility A	Rates fluctuate with changes in bankers' acceptance rates	469.3	August 15, 2010
Medium-term Series A notes	4.98% fixed rate	200.0	October 15, 2015
Medium-term Series B notes	5.97% fixed rate	400.0	October 15, 2035

At the end of the third quarter, interest rate swap agreements in the notional amount of \$150 million were outstanding under Credit Facility A. These agreements provide for the exchange of variable interest payments for fixed interest payments according to the following terms:

Fixed Rate	Notional Amount (Millions of dollars)	Maturity
4.6480%	50.0	November 23, 2008
4.6820%	50.0	December 16, 2009
4.7425%	50.0	December 16, 2010

Giving effect to these swap agreements, at the end of the quarter, long term indebtedness comprised \$750 million at fixed rates ranging from 4.6480% to 5.97% and \$319.3 million at variable rates which fluctuate with changes in bankers' acceptance rates.

#### FINANCIAL RATIOS

	As at July 7, 2007	As at September 30, 2006
<b>Financial structure</b>		
Long-term debt (Millions of \$)	1,115.3	1,116.6
Shareholders' equity (Millions of \$)	1,916.7	1,723.8
Long-term debt/total capital (%)	36.8	39.3
	<b>Fiscal 2007 (40 weeks)</b>	<b>Fiscal 2006 (40 weeks)</b>
<b>Results</b>		
EBITDA <sup>(1)</sup> /Interest (Times)	10.3	8.3

#### CAPITAL STOCK, STOCK OPTIONS AND PERFORMANCE SHARE UNITS

	As at July 7, 2007	As at September 30, 2006
Number of Class A Subordinate Shares outstanding (Thousands)	114,475	113,852
Number of Class B Shares outstanding (Thousands)	815	880
Stock options:		
Number outstanding (Thousands)	3,701	4,233
Exercise price	\$11.80 to \$39.17	\$8.73 to \$33.87
Weighted average exercise price	\$22.19	\$20.85
Number of performance share units:		
Number outstanding (Thousands)	130	48
Weighted average maturity	26 months	30 months

<sup>(1)</sup> See "Non-GAAP Measurements".

#### **ISSUER BID PROGRAM**

The Company has decided to renew its issuer bid program in order to have an additional option to use its excess cash. Thus, we will be able to decide, in the shareholders' best interest, to reimburse debt or to repurchase shares of the Company. Subject to regulatory approval, the Board of Directors has authorized the Company to purchase, in the normal course of its activities, from September 5, 2007 to September 4, 2008, up to 4 million of its Class A Subordinate Shares, representing approximately 3.5% of the outstanding public float of such shares on August 8, 2007 at the close of the Toronto Stock Exchange. The purchases will be made at market prices through the facilities of such exchange in accordance with its rules and policies. The Class A Subordinate Shares thereby purchased will be cancelled. With respect to its current normal course issuer bid program covering the period from September 5, 2006 to September 4, 2007, the Company has repurchased in the normal course of its activities, from September 5, 2006 to August 8, 2007, 14,800 of its Class A Subordinate Shares at an average price of \$36.72. Shareholders may obtain without charge a copy of the documents filed with the regulatory authorities concerning this program by writing to the legal department of the Company.

#### **DIVIDENDS**

On August 8, 2007, the Company's Board of Directors declared a quarterly dividend of \$0.115 per Class A Subordinate Share and Class B Share payable September 5, 2007, an increase of 9.5% over the dividend for the corresponding quarter last year. On an annualized basis, this dividend represents 21% of 2006 net earnings.

#### **SHARE TRADING**

The value of METRO shares remained in the range of \$33.23 to \$41.78 over the first 40 weeks of fiscal 2007. During this period, a total of 41 million shares were traded on the Toronto Stock Exchange. The closing price on Friday, July 27, 2007 was \$37.92, compared with \$33.60 at the end of fiscal 2006.

### **Recently Issued New Accounting Standards**

#### **FINANCIAL INSTRUMENTS AND CAPITAL**

In December 2006, the Canadian Institute of Chartered Accountants (CICA) issued three new Handbook sections regarding financial instruments and capital, i.e. sections 1535, 3862 and 3863, which are effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. We intend to apply these new standards in the first quarter ending December 22, 2007, and do not foresee that these new sections will have a material effect on our results, financial position and cash flows.

Section 1535 "Capital Disclosures" establishes standards for disclosing information about an entity's capital and how it is managed. These standards require an entity to disclose the following:

- its objectives, policies and processes for managing capital;
- summary quantitative data about what it manages as capital;
- whether during the period it complied with any externally imposed capital requirements to which it is subject;
- when the entity has not complied with such requirements, the consequences of such non-compliance.

Section 3862 "Financial Instruments - Disclosures" modifies the disclosure requirements for financial instruments and replaces Section 3861 "Financial Instruments - Disclosure and Presentation". The new standards require entities to provide disclosures in their financial statements that enable users to evaluate:

- the significance of financial instruments for the entity's financial position and performance;
- the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks.

Section 3863 "Financial Instruments - Presentation" carries forward unchanged the presentation requirements of the old Section 3861 "Financial Instruments - Disclosure and Presentation".

## **INVENTORIES**

In March 2007, the CICA issued the new Section 3031 "Inventories" which will replace Section 3030 "Inventories". The new Section prescribes measurement of inventories at the lower of cost and net realizable value. It provides guidance on the determination of cost, prohibits use in the future of the last-in, first-out (LIFO) method, and requires reversal of previous write-downs when there is a subsequent increase in the value of inventories. It also requires greater disclosure regarding inventories and the cost of sales. The new standard will be effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. We are currently evaluating their effect on our results, financial position and cash flows as well as the possibility of early application.

## **Subsequent Event**

On August 8, 2007 the company renegotiated conditions of its banking credit facilities relative to the \$400 million revolving line of credit which is not drawn and the \$469.3 million credit A term loan. The expiry terms for both credits have been extended to August 2012 and the relative interest rates have been reduced.

## **Outlook**

*"By the end of the fiscal year, we plan to complete our original integration and rationalization plan following the acquisition of A&P Canada and achieve close to \$90 million in synergies. We are already preparing the phase II of our integration plan involving the rationalization of our banners and private labels to be completed over the next three years, which will allow us to continue our growth in the Canadian grocery market,"* stated the President and Chief Executive Officer, Mr. Pierre H. Lessard.

## **Forward-looking Statements**

Any statement contained in this quarterly Management's Discussion and Analysis which does not constitute an historic fact, may be considered forward-looking. Verbs such as "believe", "foresee", "estimate" and other similar expressions appearing in this discussion and analysis generally indicate forward-looking statements. These projections do not provide guarantees as to the future performance of METRO INC. and are subject to risks, both known and unknown, as well as uncertainties which may cause the outlook, profitability and actual results of METRO INC. to differ significantly from the profitability or future results stated or implied in these forward-looking statements.

## **Non-GAAP Measurements**

In addition to the Canadian generally accepted accounting principles (GAAP) earnings measurements provided, we have included certain non-GAAP earnings measurements. These measurements are presented for information purposes only. They do not have a standardized meaning prescribed by Canadian GAAP and therefore may not be comparable to similar measures presented by other public companies.

### **Adjusted net earnings and adjusted fully diluted net earnings per share**

Adjusted net earnings and adjusted fully diluted net earnings per share are earnings measurements that exclude non-recurring items. We believe that presenting earnings without non-recurring items leaves readers of financial statements better informed as to the current period and corresponding period's earnings, thus enabling them to better evaluate the Company's performance and judge its future outlook.

### **Earnings before interest, taxes, depreciation and amortization (EBITDA)**

EBITDA is a measurement of earnings that excludes interest, taxes, depreciation and amortization. We believe that EBITDA is a measurement commonly used by readers of financial statements to evaluate a company's operational cash-generating capacity and ability to discharge its financial expenses.

## **Conference Call**

Financial analysts and investors are invited to participate in a conference call at **10:00 a.m. EDT on August 9, 2007**. To access the conference call, please dial 416-646-3097 or 514-807-8791. The media and public are invited to listen to the call in real time or delayed time on the METRO INC. Web site at **www.metro.ca**.

**SOURCE:** METRO INC.

**INFORMATION:** Richard Dufresne  
Senior Vice-President  
and Chief Financial Officer  
Tel: (514) 643-1003

**INVESTOR RELATION DEPARTMENT:** Tel: (514) 643-1055  
E-mail: [finance@metro.ca](mailto:finance@metro.ca)

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

## Consolidated Statements of Earnings

Periods ended July 7, 2007 and July 1<sup>st</sup>, 2006

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

	16 Weeks Fiscal Year		40 Weeks Fiscal Year	
	2007	2006	2007	2006
<b>Sales</b>	<b>\$ 3,341.0</b>	\$ 3,336.7	<b>\$ 8,212.2</b>	\$ 8,270.5
Cost of sales and operating expenses	<b>3,143.6</b>	3,144.2	<b>7,722.9</b>	7,822.4
Share of earnings in a public company subject to significant influence	<b>(3.9)</b>	(3.7)	<b>(17.7)</b>	(17.1)
Integration and rationalization costs (note 3)	<b>5.4</b>	3.9	<b>16.4</b>	24.8
<b>Earnings before interest, taxes, depreciation and amortization</b>	<b>195.9</b>	192.3	<b>490.6</b>	440.4
Depreciation and amortization	<b>51.1</b>	57.3	<b>126.0</b>	135.2
<b>Operating income</b>	<b>144.8</b>	135.0	<b>364.6</b>	305.2
Interest, net				
Short term	<b>(0.7)</b>	(1.3)	<b>(2.0)</b>	(1.2)
Long term	<b>19.9</b>	22.5	<b>49.6</b>	54.2
	<b>19.2</b>	21.2	<b>47.6</b>	53.0
<b>Earnings before income taxes</b>	<b>125.6</b>	113.8	<b>317.0</b>	252.2
Income taxes (note 5)	<b>39.2</b>	26.5	<b>99.1</b>	74.3
<b>Earnings before minority interest</b>	<b>86.4</b>	87.3	<b>217.9</b>	177.9
Minority interest	<b>(2.9)</b>	2.2	<b>(1.1)</b>	3.8
<b>Net earnings</b>	<b>\$ 89.3</b>	\$ 85.1	<b>\$ 219.0</b>	\$ 174.1
<b>Earnings per share (note 6)</b>				
Basic	<b>\$ 0.77</b>	\$ 0.74	<b>\$ 1.90</b>	\$ 1.52
Fully diluted	<b>\$ 0.77</b>	\$ 0.73	<b>\$ 1.88</b>	\$ 1.50

See accompanying notes

## Consolidated Balance Sheets

(Unaudited) (Millions of dollars)

	As at July 7, 2007	As at September 30, 2006
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 247.0	\$ 165.7
Accounts receivable	328.7	302.1
Inventories	580.7	565.5
Prepaid expenses	23.4	11.3
Future income taxes	18.5	16.7
	<b>1,198.3</b>	1,061.3
Investments and other assets	147.1	117.9
Fixed assets	1,186.4	1,129.9
Intangible assets	336.9	331.7
Goodwill	1,490.1	1,490.1
Accrued benefit assets	33.0	33.0
	<b>\$ 4,391.8</b>	<b>\$ 4,163.9</b>
<b>Liabilities and Shareholders' equity</b>		
Current liabilities		
Bank loans	\$ 0.5	\$ 0.3
Accounts payable	1,100.7	1,049.5
Income taxes payable	21.1	36.8
Current portion of long-term debt	4.2	7.3
	<b>1,126.5</b>	1,093.9
Long-term debt	1,115.3	1,116.6
Accrued benefit obligations	58.7	60.6
Future income taxes	129.7	115.0
Other long-term liabilities	36.4	44.2
Minority interest	8.5	9.8
	<b>2,475.1</b>	2,440.1
<b>Shareholders' equity</b>		
Capital stock (note 7)	719.8	709.0
Contributed surplus	1.3	1.6
Retained earnings	1,193.2	1,013.2
Accumulated other comprehensive income (notes 2 and 8)	2.4	—
	<b>1,916.7</b>	1,723.8
	<b>\$ 4,391.8</b>	<b>\$ 4,163.9</b>

See accompanying notes

## Consolidated Statements of Cash Flows

Periods ended July 7, 2007 and July 1<sup>st</sup>, 2006  
(Unaudited) (Millions of dollars)

	16 Weeks Fiscal Year		40 Weeks Fiscal Year	
	2007	2006	2007	2006
<b>Operating activities</b>				
Net earnings	\$ 89.3	\$ 85.1	\$ 219.0	\$ 174.1
Non-cash items				
Integration and rationalization costs (note 3)	(1.7)	(0.6)	2.5	18.9
Share of earnings in a public company subject to significant influence	(3.9)	(3.7)	(17.7)	(17.1)
Depreciation and amortization	51.1	57.3	126.0	135.2
Amortization of deferred financing costs	0.6	0.7	1.6	1.9
Loss on disposal and write-off of fixed and intangible assets	2.5	8.1	2.8	8.5
Future income taxes	5.2	(6.1)	11.7	—
Stock-based compensation cost	1.6	0.7	2.8	1.2
Difference between amounts paid for employee future benefits over current period cost	(1.5)	—	(1.9)	(9.6)
Minority interest	(2.9)	2.2	(1.1)	3.8
	<b>140.3</b>	143.7	<b>345.7</b>	316.9
Net change in non-cash working capital related to operations	<b>12.2</b>	47.5	<b>(27.2)</b>	2.6
	<b>152.5</b>	191.2	<b>318.5</b>	319.5
<b>Investing activities</b>				
Net change in investments and other assets	2.7	(2.0)	1.6	(3.6)
Dividend of a public company subject to significant influence	—	0.5	1.2	1.0
Acquisition of fixed assets	(64.3)	(35.2)	(169.4)	(106.9)
Disposal of fixed assets	6.0	0.7	8.5	7.2
Acquisition of intangible assets	(11.7)	(12.2)	(30.2)	(26.4)
	<b>(67.3)</b>	(48.2)	<b>(188.3)</b>	(128.7)
<b>Financing activities</b>				
Net change in bank loans	0.1	(3.2)	0.2	(0.2)
Issuance of shares (note 7)	1.3	4.1	11.0	5.0
Redemption of shares (note 7)	(0.5)	—	(0.5)	—
Acquisition of treasury shares (note 7)	(0.7)	(1.5)	(3.2)	(1.5)
Increase of long-term debt	1.0	0.3	2.8	601.5
Repayment of long-term debt	(3.4)	(83.4)	(8.2)	(588.6)
Net change in other long-term liabilities	(4.4)	(6.9)	(12.2)	(6.9)
Dividends paid	(13.3)	(12.1)	(38.6)	(35.5)
Distribution to minority interest	(0.2)	—	(0.2)	—
	<b>(20.1)</b>	(102.7)	<b>(48.9)</b>	(26.2)
<b>Net change in cash and cash equivalents</b>	<b>65.1</b>	40.3	<b>81.3</b>	164.6
Cash and cash equivalents – beginning of period	<b>181.9</b>	218.1	<b>165.7</b>	93.8
Cash and cash equivalents – end of period	<b>\$ 247.0</b>	\$ 258.4	<b>\$ 247.0</b>	\$ 258.4
<b>Other information</b>				
Interest paid	\$ 27.1	\$ 30.5	\$ 57.6	\$ 45.0
Income taxes paid	\$ 31.7	\$ 25.3	\$ 103.1	\$ 66.9

See accompanying notes

### Consolidated Statements of Retained Earnings

40-week periods ended July 7, 2007 and July 1<sup>st</sup>, 2006  
(Unaudited) (Millions of dollars)

	Fiscal Year	
	2007	2006
<b>Balance – beginning of period</b>	<b>\$ 1,013.2</b>	<b>\$ 807.7</b>
Net earnings	219.0	174.1
Dividends	(38.6)	(35.5)
Share redemption premiums	(0.4)	—
<b>Balance – end of period</b>	<b>\$ 1,193.2</b>	<b>\$ 946.3</b>

See accompanying notes

### Consolidated Statements of Comprehensive Income

Periods ended July 7, 2007 and July 1<sup>st</sup>, 2006  
(Unaudited) (Millions of dollars) (notes 2 and 8)

	16 Weeks Fiscal Year		40 Weeks Fiscal Year	
	2007	2006	2007	2006
<b>Net earnings</b>	<b>\$ 89.3</b>	<b>\$ 85.1</b>	<b>\$ 219.0</b>	<b>\$ 174.1</b>
<b>Other comprehensive income</b>				
Change in fair value of derivatives designated as cash flow hedges (net of income taxes of \$1.0)	2.1	—	2.0	—
<b>Comprehensive income</b>	<b>\$ 91.4</b>	<b>\$ 85.1</b>	<b>\$ 221.0</b>	<b>\$ 174.1</b>

See accompanying notes

## Notes to Interim Consolidated Financial Statements

Periods ended July 7, 2007 and July 1<sup>st</sup>, 2006

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

### 1. Statement Presentation

The unaudited interim consolidated financial statements were prepared by management in accordance with Canadian generally accepted accounting principles. The accounting policies and procedures used in preparing these interim consolidated financial statements are the same as those used in preparing the audited annual consolidated financial statements for the year ended September 30, 2006, except for the new accounting policies described in note 2. The unaudited interim consolidated financial statements should be read along with the audited annual consolidated financial statements and notes to the statements in the Company's 2006 Annual Report. The operating results for the interim period covered do not necessarily reflect overall results for the fiscal year. Certain comparative figures have been reclassified to conform to the presentation being used in the current fiscal year.

### 2. New Accounting Policies

#### ADOPTED IN 2007

#### Comprehensive Income, Financial Instruments, and Hedges

In the first quarter of 2007, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA):

Section 1530, *Comprehensive Income*, introduces a new financial statement which shows the change in equity of an enterprise from transactions and other events and circumstances from non-owner sources.

Section 3855, *Financial Instruments — Recognition and Measurement*, establishes standards for recognizing and measuring financial instruments, namely financial assets, financial liabilities and derivatives.

The new standard lays out how financial instruments are to be recognized depending on their classification. Depending on financial instruments' classification, changes in subsequent measurements are recognized in net income or comprehensive income.

The Company has implemented the following classification:

- Cash and cash equivalents are classified as "Financial Assets Held for Trading". These financial assets are marked-to-market through net income at each period end.
- Accounts receivable and loans to certain customers are classified as "Loans and Receivables". After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method. For the Company, the measured amount generally corresponds to cost.
- Investments in companies are classified as "Available-for-sale Securities". These financial assets are marked-to-market through comprehensive income at each period end.
- Bank loans, accounts payable, credit facilities, notes, loans payable, and obligations under capital leases are classified as "Other Financial Liabilities". After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method. For the Company, the measured amount generally corresponds to cost.

Section 3865, *Hedges*, whose application is optional, establishes how hedge accounting may be applied. The Company, in keeping with its risk management strategy, has decided to apply hedge accounting to its interest rate swaps and treat them as cash flow hedges. These derivatives are marked-to-market at each period end and resulting gains/losses are recognized in comprehensive income to the extent the hedging relationship is effective.

These new standards have to be applied without restatement of prior period amounts. Upon initial application all adjustments to the carrying amount of financial assets and liabilities shall be recognized as an adjustment to the opening balance of retained earnings or accumulated other comprehensive income, depending on the classification of existing assets or liabilities. The Company has recognized a \$0.4 adjustment to the opening balance of accumulated other comprehensive income with respect to the interest rate swaps designated as cash flow hedges.

## 2. New Accounting Policies (cont'd)

### ADOPTED IN 2006

#### **Accounting by a Vendor for Consideration Given to a Customer (including a Reseller of the Vendor's Products)**

The Company adopted, in the third quarter of fiscal 2006, EIC-156 "*Accounting by a Vendor for Consideration Given to a Customer (including a Reseller of the Vendor's Products)*". Under this new standard, certain rebates granted by the Company to its retailers have to be reclassified as a reduction in sales rather than as cost of sales. The new standard must be applied retroactively with restatement of prior interim financial statements.

### RECENTLY ISSUED

#### **Financial Instruments and Capital**

In December 2006, the CICA issued three new Handbook sections regarding financial instruments and capital, i.e. sections 1535, 3862 and 3863, which are effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The Company intends to apply these new standards in the first quarter ending December 22, 2007, and do not foresee that these new sections will have a material effect on its results, financial position and cash flows.

Section 1535 "Capital Disclosures" establishes standards for disclosing information about an entity's capital and how it is managed. These standards require an entity to disclose the following:

- its objectives, policies and processes for managing capital;
- summary quantitative data about what it manages as capital;
- whether during the period it complied with any externally imposed capital requirements to which it is subject;
- when the entity has not complied with such requirements, the consequences of such non-compliance.

Section 3862 "Financial Instruments – Disclosures" modifies the disclosure requirements for financial instruments and replaces Section 3861 "Financial Instruments – Disclosure and Presentation". The new standards require entities to provide disclosures in their financial statements that enable users to evaluate:

- the significance of financial instruments for the entity's financial position and performance;
- the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks.

Section 3863 "Financial Instruments – Presentation" carries forward unchanged the presentation requirements of the old Section 3861 "Financial Instruments – Disclosure and Presentation".

#### **Inventories**

In March 2007, the CICA issued the new Section 3031 "Inventories" which will replace Section 3030 "Inventories". The new Section prescribes measurement of inventories at the lower of cost and net realizable value. It provides guidance on the determination of cost, prohibits use in the future of the last-in, first-out (LIFO) method, and requires reversal of previous write-downs when there is a subsequent increase in the value of inventories. It also requires greater disclosure regarding inventories and the cost of sales. The new standard will be effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The Company is currently evaluating their effect on its results, financial position and cash flows as well as the possibility of early application.

### 3. Integration and Rationalization Costs

During the period ended July 7, 2007, the Company pursued its plan for the integration and rationalization of its operations following the acquisition of A&P Canada. This three-part plan deals with the store network, the integration of overall operations, and the implementation of information systems at A&P Canada.

Over fiscal 2006, integration and rationalization plan costs amounted to \$28.0 and \$31.0 is anticipated in 2007. Costs incurred over the 40-week period amounted to \$16.4, which includes \$5.4 in the third quarter of 2007.

#### By Nature of Project

	Incurred		2006 (53 weeks)	Anticipated	Total
	2007 (16 weeks)	2007 (40 weeks)			
Stores	\$ —	\$ 2.2	\$ 11.9	\$ 5.1	\$ 19.2
Integration of operations	0.5	5.0	13.9	5.2	24.1
Implementation of information systems	4.9	9.2	2.2	4.3	15.7
	<b>\$ 5.4</b>	<b>\$ 16.4</b>	\$ 28.0	\$ 14.6	\$ 59.0

#### By Nature of Costs for the 16-Week Period

	Liability as at March 17, 2007	Incurred 2007 (16 weeks)	Paid 2007 (16 weeks)	Liability as at July 7, 2007	Incurred 2006 (53 weeks)	Antici- pated	Total
Retention bonuses, termination benefits and others	\$ 4.4	\$ 0.1	\$ 1.3	\$ 3.2	\$ 18.1	\$ 5.5	\$ 27.9
Training and IT implementation	—	4.9	4.9	—	2.2	4.3	15.7
Vacant premises	3.4	—	0.5	2.9	2.4	0.8	5.5
	\$ 7.8	\$ 5.0	\$ 6.7	\$ 6.1	\$ 22.7	\$ 10.6	\$ 49.1
Asset write-offs		0.4			5.3	4.0	9.9
		<b>\$ 5.4</b>			\$ 28.0	\$ 14.6	\$ 59.0

### 3. Integration and Rationalization Costs (cont'd)

#### By Nature of Costs for the 40-Week Period

	Liability as at Sept. 30, 2006	Incurred 2007 (40 weeks)	Paid 2007 (40 weeks)	Liability as at July 7, 2007	Incurred 2006 (53 weeks)	Antici- pated	Total
Retention bonuses, termination benefits and others	\$ 2.1	\$ 4.3	\$ 3.2	\$ 3.2	\$18.1	\$ 5.5	\$27.9
Training and IT implementation	—	9.2	9.2	—	2.2	4.3	15.7
Vacant premises	1.5	2.3	0.9	2.9	2.4	0.8	5.5
	\$ 3.6	\$15.8	\$13.3	\$ 6.1	\$22.7	\$10.6	\$49.1
Asset write-offs		0.6			5.3	4.0	9.9
		\$16.4			\$28.0	\$14.6	\$59.0

As a result of the third quarter decision to further integrate Loeb Canada operations into A&P Canada's, the Company has revised the initial figure of \$55.0 to \$59.0.

### 4. Employee Future Benefits

The Company offers several defined benefit and defined contribution plans that provide most participants with pension, other retirement and other post-employment benefits. The Company's defined benefit and defined contribution plan expenses were as follows:

	16 Weeks Fiscal Year				40 Weeks Fiscal Year			
	2007		2006		2007		2006	
	Pension plans	Other plans	Pension plans	Other plans	Pension plans	Other plans	Pension plans	Other plans
<b>Defined contribution plans</b>	\$ 8.4	\$ 0.1	\$ 6.9	\$ 0.1	\$ 20.0	\$ 0.2	\$ 17.0	\$ 0.3
<b>Defined benefit plans</b>								
Current service cost	\$ 7.4	\$ 0.4	\$ 6.6	\$ 0.3	\$ 18.8	\$ 0.9	\$ 16.2	\$ 0.8
Interest cost	8.5	0.4	7.3	0.6	21.1	1.0	18.5	1.6
Projected return on plan assets	(11.6)	—	(10.5)	—	(29.2)	—	(25.9)	—
Amortization of actuarial losses and past service cost	0.7	—	0.2	—	1.3	—	0.6	—
	5.0	0.8	3.6	0.9	12.0	1.9	9.4	2.4
	\$ 13.4	\$ 0.9	\$ 10.5	\$ 1.0	\$ 32.0	\$ 2.1	\$ 26.4	\$ 2.7

## 5. Income Taxes

The effective income tax rates were as follows:

	16 Weeks Fiscal Year		40 Weeks Fiscal Year	
	2007 %	2006 %	2007 %	2006 %
Combined statutory income tax rate	<b>32.8</b>	31.8	<b>32.4</b>	31.8
Changes				
Impact of federal tax rate decrease of 0.5% (3.12% in 2006) on future taxes (\$1.8 in 2007 and \$9.4 in 2006)	<b>(1.5)</b>	(8.2)	<b>(0.6)</b>	(3.7)
Impact of Québec tax rate increase of 3% on future taxes (\$5.3 in 2006)	—	—	—	2.1
Share of earnings of a public company subject to significant influence	<b>(0.5)</b>	(0.4)	<b>(0.8)</b>	(0.9)
Other	<b>0.4</b>	0.1	<b>0.3</b>	0.2
	<b>31.2</b>	23.3	<b>31.3</b>	29.5

## 6. Earnings per Share

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

	16 Weeks Fiscal Year		40 Weeks Fiscal Year	
	2007	2006	2007	2006
<i>(Millions)</i>				
Weighted average number of shares outstanding – Basic	<b>115.3</b>	114.7	<b>115.1</b>	114.5
Dilutive effect of stock option plan and performance share units	<b>1.5</b>	1.3	<b>1.6</b>	1.4
Weighted average number of shares outstanding – Diluted	<b>116.8</b>	116.0	<b>116.7</b>	115.9

## 7. Capital Stock

### Issued and Outstanding

	Class A Subordinate Shares		Class B Shares		Total
	Number (Thousands)		Number (Thousands)		
Balance as at September 30, 2006	113,852	\$ 707.3	880	\$ 1.7	\$ 709.0
Share issue	655	11.0	—	—	11.0
Transfer from contributed surplus – options exercised	—	0.4	—	—	0.4
Shares redeemed for cash, excluding premium of \$0.4	(15)	(0.1)	—	—	(0.1)
Conversion of shares	65	0.1	(65)	(0.1)	—
Acquisition of treasury shares, excluding premium of \$2.7	(82)	(0.5)	—	—	(0.5)
Balance as at July 7, 2007	114,475	\$ 718.2	815	\$ 1.6	\$ 719.8

### Stock Option Plan

As at July 7, 2007, 3,700,880 stock options had been granted to certain employees at exercise prices varying from \$11.80 to \$39.17, with expiry dates up to 2014. Of these stock options, 2,607,900 could be exercised for an average weighted exercise price of \$20.29.

	16 Weeks Fiscal Year		40 Weeks Fiscal Year	
	2007	2006	2007	2006
Granted stock options during the period	<b>131,100</b>	135,100	<b>135,600</b>	180,100
Weighted average exercise price	<b>\$ 37.81</b>	\$ 30.16	<b>\$ 37.74</b>	\$ 30.57
Weighted average fair value	<b>\$ 10.46</b>	\$ 9.57	<b>\$ 10.48</b>	\$ 9.65

During the 40-week period of 2007, the weighted average fair value of stock options was established at the time of grant using the Black & Scholes model and based on the following weighted average assumptions: risk-free interest rate of 4.2% (2006 – 4.2%), expected six-year term (2006 – six-year term), anticipated volatility of 25.2% (2006 – 30%) and an anticipated 1.5% dividend yield (2006 – 1.5%).

The compensation expense for these stock options amounted to \$1.0 for the third quarter of 2007 (2006 – \$0.5) and to \$1.7 for the 40-week period of 2007 (2006 – \$1.0).

### Performance Share Unit Plan

As of July 7, 2007, a total of 129,659 performance share units (PSUs) had been granted to certain employees including 1,377 in the third quarter.

At the end of the third quarter, 154,000 shares were held in trust for participants until the PSUs shall have vested or been cancelled. 18,500 of these shares have been acquired during the third quarter.

A compensation expense of \$1.1 pertaining to PSUs was recorded in the 40-week period of 2007 (2006 – \$0.2), \$0.6 of which was recorded in the third quarter (2006 – \$0.2).

## 8. Accumulated Other Comprehensive Income

Derivatives designated as cash flow hedges constitute the sole item in Accumulated Other Comprehensive Income. The changes that occurred during the 40-week period were as follows:

	Fiscal Year	
	2007	2006
Adjusted opening balance due to the new accounting policies adopted regarding financial instruments (net of income taxes of \$0.2) (note 2)	\$ 0.4	\$ —
Change in fair value during the period (net of income taxes of \$1.0)	2.0	—
Balance – end of period	\$ 2.4	\$ —

## 9. Contingency

In January 2007, the Company was named in a suit brought by beneficiaries of a multiemployer pension plan. They claim that plan assets were mismanaged and are seeking, among others, damages of \$1 billion from the trustees and the employers. The Company is one of the 443 employers affected by the suit and did not participate in managing the plan. The Company forcefully contests the suit's merits and considers that it will have no future financial obligation relating to this recourse.

## 10. Financial Instruments

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

	As at July 7, 2007		As at September 30, 2006	
	Book value	Fair value	Book value	Fair value
<b>Investments and other assets</b>				
Available-for-sale financial assets				
Investments in companies	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1
Loans and receivables				
Loans to certain customers	\$ 9.5	\$ 9.5	\$ 8.6	\$ 8.6
Derivatives designated as cash flow hedges				
Interest rate swaps	\$ 3.6	\$ 3.6	\$ —	\$ 0.6
<b>Long-term debt</b>				
Other financial liabilities				
Credit facility A	\$ 469.3	\$ 469.3	\$ 469.3	\$ 469.3
Series A notes	200.0	186.6	200.0	199.8
Series B notes	400.0	366.0	400.0	410.3
Loans	10.3	10.3	10.4	10.4
Obligations under capital leases	39.9	47.5	44.2	53.7
	<b>\$1,119.5</b>	<b>\$1,079.7</b>	\$1,123.9	\$1,143.5

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.

## **10. Financial Instruments (cont'd)**

The fair value of investments in companies, public companies for the most part, is evaluated based on stock market prices at the balance sheet date.

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 the derivative financial instruments generally reflects the estimates of the amounts the Company would receive by way of settlement of favourable contracts or that it would pay to terminate unfavourable contracts at the balance sheet date. The fair values of the interest rate swaps are calculated using the prices obtained from major financial institutions.

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

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

## **11. Subsequent Event**

On August 8, 2007 the company renegotiated conditions of its banking credit facilities relative to the \$400 million revolving line of credit which is not drawn and the \$469.3 million credit A term loan. The expiry terms for both credits have been extended to August 2012 and the relative interest rates have been reduced.