metro

INTERIM REPORT

2009 THIRD QUARTER HIGHLIGHTS

- Net earnings of $112.6 million, up 22.5%
- Fully diluted net earnings per share of $1.01, up 24.7%
- Sales of $3,513.3 million, up 4.3%
- Same store sales up 4.2%
- Declared dividend of $0.1375 per share, up 10.0%

REPORT TO SHAREHOLDERS

Dear Shareholders,

I am pleased to present our interim report for the third quarter of fiscal 2009, ended July 4, 2009.

The Company's sales reached $3,513.3 million compared to $3,370.0 million for the third quarter of 2008, an increase of 4.3%. Excluding decreased sales due to the non-renewal of a convenience store chain supply contract, 2009 third quarter sales increased by 5.2%. Same store sales increased by 4.2%.

Third quarter net earnings were $112.6 million compared to $91.9 million last year, an increase of 22.5%. Fully diluted net earnings per share increased by 24.7% to $1.01 compared to $0.81 last year. Excluding non-recurring items recorded in the third quarter of 2009, namely $2.9 million before taxes to convert our Ontario supermarkets to the Metro banner as well as a tax expense decrease of $2.7 million, our adjusted net earnings(1) were $111.8 million, a 21.7% increase over last year, and adjusted fully diluted net earnings per share were $1.01, up 24.7% from $0.81 in 2008.

Adjusted net earnings(1) for the first 40 weeks of 2009 reached $273.1 million versus $208.3 million last year, up 31.1%. Adjusted fully diluted net earnings per share(1) were $2.45, up 33.9% from $1.83 last year.

We are very pleased with the results for the third quarter of 2009 which prove that our strategies are effective in the current economic environment. Our ongoing efforts to improve execution, particularly in Ontario, allowed us to increase our EBITDA(1) margin.

Our financial position at the end of the third quarter of 2009 was very solid. We had cash and cash equivalents in the amount of $164.1 million, an unused authorized revolving line of credit in the amount of $400.0 million, and a debt ratio (long-term debt/total capital) of 31.1%.

On August 5, 2009, the Board of Directors declared a quarterly dividend of $0.1375 per share, an increase of 10.0% over the dividend declared last year.

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

Our Ontario supermarket conversion plan is on schedule with 128 of 159 stores converted to the Metro banner as of July 24, 2009. We are confident that we are well-positioned to continue to grow[(2)] our business in an always challenging marketplace.

Eric R. La Flèche
President and Chief Executive Officer

August 6, 2009

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) sets out the financial position and consolidated results of METRO INC. on July 4, 2009. This report should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes in this interim report along with the consolidated financial statements for the fiscal year ended September 27, 2008 and related notes and MD&A presented in the Company's 2008 Annual Report. Certain comparative figures in this interim report have been restated as a consequence of the new accounting standard on inventories which the Company adopted in the first quarter of 2009. This report is based upon information as at July 24, 2009 unless otherwise stated. Additional information, including the Certification of Interim Filings letters for the quarter ended July 4, 2009 signed by the President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer, is also available on the SEDAR website at: www.sedar.com.

Forward-looking Information

We have used, throughout this interim report, different statements that could, within the context of regulations issued by the Canadian Securities Administrators, be construed as being forward-looking information. In general, any statement contained herein, which does not constitute a historical fact, may be deemed a forward-looking statement. Expressions such as "to grow", "should not", "do not anticipate", "foresee", "shall reduce", "will be" and other similar expressions are generally indicative of forward-looking statements. The forward-looking statements contained herein are based upon certain assumptions regarding the Canadian food industry, the general economy, our annual budget as well as our 2009 action plan.

These forward-looking statements do not provide any guarantees as to the future performance of the Company and are subject to potential risks, known and unknown, as well as uncertainties that could cause the outcome to differ significantly. An economic slowdown or recession or the arrival of a new competitor are examples described under the "Risk Management" section of the 2008 Annual Report which could have an impact on these statements. We believe these statements to be reasonable and pertinent as at the time of publication of this interim report and represent our expectations. The Company does not intend to update any forward-looking statements contained herein, except as required by applicable law.

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 GAAP and therefore may not be comparable to similar measurements presented by other public companies.

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

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

Adjusted EBITDA, adjusted net earnings and adjusted fully diluted net earnings per share

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

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

Operating Results

We realized net earnings of $112.6 million in the third quarter of fiscal 2009 versus $91.9 million in fiscal 2008, an increase of 22.5%. Fully diluted net earnings per share were $1.01 versus $0.81 last year, an increase of 24.7%. Excluding non-recurring items recorded in the third quarter of 2009, namely $2.9 million before taxes to convert our Ontario supermarkets to the Metro banner as well as a tax expense decrease of $2.7 million, our adjusted net earnings[1] were $111.8 million, a 21.7% increase over last year, adjusted fully diluted net earnings per share were $1.01, up 24.7% from $0.81 in 2008.

SALES

2009 third quarter sales reached $3,513.3 million compared to $3,370.0 million last year, an increase of 4.3%. Excluding decreased sales due to the non-renewal of a convenience store chain supply contract, 2009 third quarter sales increased by 5.2%. Same store sales increased by 4.2%.

Sales for the first 40 weeks of 2009 reached $8,663.5 million, up 5.0% compared to sales of $8,249.2 million for the corresponding period of fiscal 2008. Excluding decreased sales due to the non-renewal of a convenience store chain supply contract, sales increased by 5.9%.

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

Third quarter EBITDA[1] in 2009 was $233.0 million, up 13.1% from $206.0 million for the same quarter last year. Third quarter EBITDA[1] represented 6.6% of sales versus 6.1% last year. Excluding banner conversion costs of $2.9 million recorded in 2009, adjusted third quarter EBITDA[1] represented 6.7% of sales. This increase is due mainly to an increase in our gross margin driven by our efforts to improve our operations in Ontario.

EBITDA[1] for the first 40 weeks of 2009 was $565.8 million or 6.5% of sales compared to $478.3 million or 5.8% of sales for the same period last year. Excluding banner conversion costs of $8.7 million recorded for the first 40 weeks of 2009, adjusted EBITDA[1] represented 6.6% of sales. The higher 2009 EBITDA[1] as a percentage of sales compared to that for the corresponding period of 2008 can be explained largely by the difficulties we experienced in the first two quarters of 2008, namely intense competition in Ontario, issues associated with our new information systems in Ontario and our new Food Services warehouse in Québec, which we overcame in the third and fourth quarters of 2008.

In the first quarter of 2009, we retrospectively applied a new accounting standard issued by the Canadian Institute of Chartered Accountants (CICA), Section 3031 “Inventories”, by restating prior periods’ financial statements. Unlike the two first quarters of 2009 where changes in inventory levels between the beginning and the end of each quarter had affected EBITDA[1], the new standard’s application had no material effect in the third quarter. The high level of inventory at the end of the first quarter, because of the Holidays, raised first quarter EBITDA[1]. As level of inventories decreased in the second quarter, EBITDA[1] was affected negatively. As fourth quarter inventory variations should not[2] be material, then should not[2] be any material effect on either fourth quarter or overall fiscal 2009 EBITDA[1].

Our share of earnings from an investment in Alimentation Couche-Tard for the third quarter and the first 40 weeks of 2009 were $5.2 million and $25.7 million respectively, versus $1.7 million and $12.6 million for the corresponding periods of fiscal 2008. Excluding non-recurring items as well as our share of earnings from our investment in Alimentation Couche-Tard, our adjusted EBITDA[1] for the third quarter and the first 40 weeks of 2009 were $230.7 million and $548.8 million respectively or 6.6% and 6.3% of sales versus $204.3 million or 6.1% of sales for the third quarter of 2008 and $465.7 million or 5.6% of sales for the 40-week period.

[1] See section on “Non-GAAP measurements”
[2] See section on “Forward-looking information”

EBITDA[1] Adjustments

16 weeks / Fiscal Year

(Millions of dollars, unless otherwise indicated)	2009 EBITDA	2009 Sales	2009 EBITDA/Sales (%)	2008 EBITDA	2008 Sales	2008 EBITDA/Sales (%)
EBITDA	**233.0**	**3,513.3**	**6.6**	206.0	3,370.0	6.1
Banner conversion costs	**2.9**	—		—	—	
Adjusted EBITDA	**235.9**	**3,513.3**	**6.7**	206.0	3,370.0	6.1
Share of earnings from our investment in Alimentation Couche-Tard	**(5.2)**	—		(1.7)	—	
Adjusted EBITDA excluding share of earnings	**230.7**	**3,513.3**	**6.6**	204.3	3,370.0	6.1

40 weeks / Fiscal Year

(Millions of dollars, unless otherwise indicated)	2009 EBITDA	2009 Sales	2009 EBITDA/Sales (%)	2008 EBITDA	2008 Sales	2008 EBITDA/Sales (%)
EBITDA	**565.8**	**8,663.5**	**6.5**	478.3	8,249.2	5.8
Banner conversion costs	**8.7**	—		—	—	
Adjusted EBITDA	**574.5**	**8,663.5**	**6.6**	478.3	8,249.2	5.8
Share of earnings from our investment in Alimentation Couche-Tard	**(25.7)**	—		(12.6)	—	
Adjusted EBITDA excluding share of earnings	**548.8**	**8,663.5**	**6.3**	465.7	8,249.2	5.6

DEPRECIATION AND AMORTIZATION AND FINANCIAL COSTS

Total depreciation and amortization expenses for the third quarter and the first 40 weeks of fiscal 2009 amounted to $58.6 million and $142.8 million respectively, compared with $55.2 million and $134.9 million for the same periods last year. Third quarter financial costs totalled $14.6 million in 2009 versus $17.5 million last year, while financial costs for the 40-week period totalled $37.9 million in 2009 versus $46.0 million last year. Interest rates for the first 40 weeks of 2009 averaged 4.6% versus 5.3% for the corresponding period last year.

INCOME TAXES

The 2009 third quarter and 40-week income tax expenses of $47.2 million and $115.1 million represented effective tax rates of 29.5% and 29.9% respectively. On May 17, 2009, an approval milestone was met with regard to the Québec government’s 2007-2008 budget provision to cut the tax rate on investment income from 16.25% to 11.9%, i.e. the same rate as for business income. This change in tax rate reduces our future income tax liabilities by $2.7 million and our 2009 third quarter income tax expenses by the same amount. Excluding this reduction, our effective 2009 third quarter and 40-week tax rates were 31.2% and 30.6% respectively. In 2008, third quarter and 40-week income tax expenses were $41.4 million and $79.6 million respectively and the tax rates were 31.1% and 26.8% respectively. In the first quarter of 2008, we benefited from an income tax expense decrease of $11.4 million. Excluding this decrease, the effective tax rate for the 2008 40-week period was 30.6%.

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

In the 2009 budget speech on March 26, 2009, the Ontario government announced successive future decreases in the corporate tax rate from the current rate of 14% to 10% between July 1, 2010 and July 1, 2013. The parliament was adjourned until September 14 before the measure could be approved in first reading. When this milestone is met, we shall reduce[2] both our future income tax liabilities and income tax expenses. This amount will be[2] $7.2 million if the milestone is completed before the end of our 2009 fiscal year.

NET EARNINGS

The 2009 third quarter net earnings were $112.6 million compared to $91.9 million for the corresponding quarter last year, an increase of 22.5%. Fully diluted net earnings per share rose 24.7% to $1.01 from $0.81 last year. Excluding non-recurring items recorded in the third quarter of 2009, namely $2.9 million before taxes to convert our Ontario supermarkets to the Metro banner as well as a tax expense decrease of $2.7 million, our adjusted net earnings[1] were $111.8 million, a 21.7% increase over fiscal 2008.

Net earnings for the first 40 weeks of 2009 reached $270.0 million versus $219.7 million last year, up 22.9%. Excluding the income tax expense decreases of $2.7 million in 2009 and $11.4 million in 2008 as well as banner conversion costs of $8.7 million before taxes in 2009, adjusted net earnings[1] for the 2009 40-week period were $273.1 million, up 31.1% from the $208.3 million for the corresponding period of 2008. Adjusted fully diluted net earnings per share[1] were $2.45, up 33.9% from $1.83 last year.

Net Earnings Adjustments

16 weeks / Fiscal Year

	2009		2008		Change *(%)*	
	(Millions of dollars)	**Fully diluted EPS** ***(Dollars)***	*(Millions of dollars)*	Fully diluted EPS *(Dollars)*	Net earnings	Fully diluted EPS
Net earnings	**112.6**	**1.01**	91.9	0.81	22.5	24.7
Banner conversion costs after taxes	**1.9**	**0.02**	—	—		
Decrease in tax expense	**(2.7)**	**(0.02)**	—	—		
Adjusted net earnings[1]	**111.8**	**1.01**	91.9	0.81	21.7	24.7

40 weeks / Fiscal Year

	2009		2008		Change *(%)*	
	(Millions of dollars)	**Fully diluted EPS** ***(Dollars)***	*(Millions of dollars)*	Fully diluted EPS *(Dollars)*	Net earnings	Fully diluted EPS
Net earnings	**270.0**	**2.42**	219.7	1.93	22.9	25.4
Banner conversion costs after taxes	**5.8**	**0.05**	—	—		
Decrease in tax expense	**(2.7)**	**(0.02)**	(11.4)	(0.10)		
Adjusted net earnings[1]	**273.1**	**2.45**	208.3	1.83	31.1	33.9

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

Quarterly Highlights

(Millions of dollars, unless otherwise indicated)	**2009**	2008	2007	Change *(%)*
Sales				
Q3	**3,513.3**	3,370.0	–	4.3
Q2	**2,549.7**	2,372.4	–	7.5
Q1	**2,600.5**	2,506.8	–	3.7
Q4	**–**	2,476.0	2,432.4	1.8
Net earnings				
Q3	**112.6**	91.9	–	22.5
Q2	**76.3**	54.0	–	41.3
Q1	**81.1**	73.8	–	9.9
Q4	**–**	72.5	58.4	24.1
Adjusted net earnings(1)				
Q3	**111.8**	91.9	–	21.7
Q2	**77.2**	54.0	–	43.0
Q1	**84.1**	62.4	–	34.8
Q4	**–**	72.5	67.6	7.2
Fully diluted net earnings per share *(Dollars)*				
Q3	**1.01**	0.81	–	24.7
Q2	**0.68**	0.48	–	41.7
Q1	**0.73**	0.64	–	14.1
Q4	**–**	0.65	0.50	30.0
Adjusted fully diluted net earnings per share(1) *(Dollars)*				
Q3	**1.01**	0.81	–	24.7
Q2	**0.68**	0.48	–	41.7
Q1	**0.76**	0.54	–	40.7
Q4	**–**	0.65	0.58	12.1

First, second and third quarter sales for 2009 were up 3.7%, 7.5% and 4.3% respectively over those for 2008. Excluding decreased sales due to the non-renewal of a convenience store chain supply contract, 2009 first quarter sales were up 4.7%; second quarter sales were up 8.3%; and third quarter sales were up 5.2%.

Sales in the fourth quarter of 2008 versus those for the corresponding quarter of 2007 were affected by increased competition in Ontario and decreased sales of tobacco products. Excluding the decreased sales of tobacco products, 2008 fourth quarter sales were up 2.1% over 2007.

First quarter net earnings and fully diluted net earnings per share for 2009 were up 9.9% and 14.1% respectively over those for 2008. Excluding 2009 first quarter banner conversion costs of $4.5 million before taxes and the income tax expense decrease of $11.4 million in 2008 as a result of future federal income tax rate decreases, 2009 first quarter adjusted net earnings(1) and adjusted fully diluted net earnings per share(1) were up 34.8% and 40.7% respectively.

Second quarter net earnings and fully diluted net earnings per share for 2009 were up 41.3% and 41.7% respectively from 2008. Excluding non-recurring costs of $1.3 million before taxes recorded in the second quarter of 2009, adjusted net earnings(1) for the second quarter of 2009 were up 43.0%.

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

The difficulties encountered in the first two quarters of 2008 stemming from a more intensely competitive environment in Ontario and issues associated with our new information systems in Ontario and our new Food Services warehouse in Québec were resolved in the third and fourth quarters of 2008.

Third quarter net earnings and fully diluted net earnings per share in 2009 were up 22.5% and 24.7% respectively from 2008. Excluding non-recurring items recorded in the third quarter of 2009, namely $2.9 million before taxes to convert our Ontario supermarkets to the Metro banner as well as an income tax expense decrease of $2.7 million, adjusted net earnings(1) and adjusted fully diluted net earnings per share(1) for the third quarter of 2009 were up 21.7% and 24.7% respectively, compared to adjusted net earnings(1) and adjusted fully diluted net earnings per share(1) for the third quarter of 2008. Effective merchandising allowed us to record sales growth and our ongoing efforts to improve execution, particularly in Ontario, allowed us to increase our gross margins.

Fourth quarter net earnings and fully diluted net earnings per share in 2008 were up 24.1% and 30.0% respectively over those for 2007. Excluding A&P acquisition-related integration and rationalization costs before taxes of $14.1 million in the fourth quarter of 2007, adjusted net earnings(1) and adjusted fully diluted net earnings per share(1) for the fourth quarter of 2008 were up 7.2% and 12.1% over adjusted net earnings(1) and adjusted fully diluted net earnings per share(1) for the fourth quarter of 2007. Our return to earnings growth in the third quarter of 2008 continued in the fourth quarter.

	2009			2008				2007
(Millions of dollars)	**Q1**	**Q2**	**Q3**	Q1	Q2	Q3	Q4	Q4
Net earnings	**81.1**	**76.3**	**112.6**	73.8	54.0	91.9	72.5	58.4
Integration and rationalization costs after taxes	—	—	—	—	—	—	—	9.2
Banner conversion costs after taxes	**3.0**	**0.9**	**1.9**	—	—	—	—	—
Decrease in tax expense	—	—	**(2.7)**	(11.4)	—	—	—	—
Adjusted net earnings(1)	**84.1**	**77.2**	**111.8**	62.4	54.0	91.9	72.5	67.6

	2009			2008				2007
(Dollars and per share)	**Q1**	**Q2**	**Q3**	Q1	Q2	Q3	Q4	Q4
Fully diluted net earnings	**0.73**	**0.68**	**1.01**	0.64	0.48	0.81	0.65	0.50
Integration and rationalization costs after taxes	—	—	—	—	—	—	—	0.08
Banner conversion costs after taxes	**0.03**	—	**0.02**	—	—	—	—	—
Decrease in tax expense	—	—	**(0.02)**	(0.10)	—	—	—	—
Adjusted fully diluted net earnings(1)	**0.76**	**0.68**	**1.01**	0.54	0.48	0.81	0.65	0.58

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

Cash Position

OPERATING ACTIVITIES

Operating activities generated cash flows of $115.2 million in the third quarter and $289.3 million over the first 40 weeks of 2009, compared to $143.2 million and $264.7 million respectively in the corresponding periods of fiscal 2008. The decrease in third quarter cash flows in 2009 compared to 2008 is due mainly to a net change in non-cash items. The increase in 40-week period cash flows compared to those for 2008 is due mainly to an increase in net earnings and a net change in non-cash items.

INVESTING ACTIVITIES

Investing activities required outflows of $73.7 million in the third quarter and $164.0 million in the first 40 weeks of 2009 versus $39.6 million in the third quarter and $115.9 million in the first 40 weeks of 2008. These increases are due primarily to greater acquisition of fixed assets.

During the first 40 weeks of 2009, the Company and the retailers invested $275.5 million in our retail network, for a gross expansion of 410,700 square feet and a net expansion of 206,800 square feet or 1.1%. Major renovations and expansions of 23 stores were completed, and 10 new stores were opened.

FINANCING ACTIVITIES

Financing activities required outflows of $86.0 million and $112.9 million in the third quarter and 40-week period of 2009 versus 2008 third quarter and 40-week outflows of $44.7 million and $124.6 million. The increase in third quarter outflows in 2009 over 2008 is largely attributable to the greater redemption of shares in the amount of $76.1 million in 2009 versus $29.0 million in 2008. The decrease in 40-week period outflows between 2009 and 2008 is largely attributable to the issuance of shares for $43.5 million in 2009 versus $3.6 million in 2008.

Financial Position

Despite the difficult economic environment, we do not anticipate(2) any liquidity risk and consider that our financial position at the end of the third quarter of 2009 remains very solid. We had $164.1 million in cash and cash equivalents and an unused authorized revolving line of credit of $400.0 million. Our long-term debt corresponded to 31.1% of the combined total of long-term debt and shareholders' equity (long-term debt/total capital).

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

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

At the end of the quarter, interest rate swap agreements in the notional amount of $100.0 million were outstanding under our Credit A Facility. These agreements provide for the exchange of variable interest payments for fixed interest payments according to the following terms:

Fixed Rates	Notional Amount *(Millions of dollars)*	Maturity
3.9820%	50.0	December 16, 2009
4.0425%	50.0	December 16, 2010

Giving effect to these swap agreements, at the end of the quarter, long-term indebtedness comprised $700.0 million at fixed rates ranging from 4.482% to 5.97% and $269.3 million at variable rates which fluctuate with changes in bankers' acceptance rates.

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

FINANCIAL RATIOS

	As at July 4, 2009	As at September 27, 2008
Financial structure		
Long-term debt *(Millions of dollars)*	**1,006.8**	1,005.0
Shareholders' equity *(Millions of dollars)*	**2,235.7**	2,068.3
Long-term debt/total capital *(%)*	**31.1**	32.7
	Fiscal 2009 *(40 weeks)*	Fiscal 2008 *(40 weeks)*
Results		
EBITDA(1)/Financial costs *(Times)*	**14.9**	10.4

CAPITAL STOCK, STOCK OPTIONS AND PERFORMANCE SHARE UNITS

	As at July 4, 2009	As at September 27, 2008
Number of Class A Subordinate Shares outstanding *(Thousands)*	**109,006**	109,806
Number of Class B Shares outstanding *(Thousands)*	**728**	750
Stock options:		
Number outstanding *(Thousands)*	**1,806**	3,534
Exercise price *(Dollars)*	**17.23 to 39.17**	17.01 to 39.17
Weighted average exercise price *(Dollars)*	**28.10**	23.63
Performance share units:		
Number outstanding *(Thousands)*	**231**	210
Weighted average maturity *(Months)*	**19**	18

NORMAL COURSE ISSUER BID PROGRAM

The Company decided to renew the issuer bid program as an additional option for using excess funds. Thus, we will be able to decide, in the shareholders' best interest, to reimburse debt or to repurchase Company shares. Subject to regulatory approval, the Board of Directors authorized the Company to repurchase, in the normal course of business, between September 8, 2009 and September 7, 2010, up to 6,000,000 of its Class A Subordinate Shares representing approximately 5.5% of its issued and outstanding shares at the close of the Toronto Stock Exchange on August 5, 2009. Repurchases will be made through the stock exchange at market price and in accordance with its policies and regulations. The Class A Subordinate Shares so repurchased will be cancelled. Under the existing normal course issuer bid program covering the period from September 5, 2008 to July 24, 2009, the Company repurchased 4,143,600 Class A Subordinate shares at an average price of $34.53 per share for a total of $143.1 million.

DIVIDENDS

On August 5, 2009, the Company's Board of Directors declared a quarterly dividend of $0.1375 per Class A Subordinate Share and Class B Share payable September 4, 2009, an increase of 10.0% over the dividend for the same quarter last year. On an annualized basis, this dividend represents more than 20% of 2008 net earnings.

SHARE TRADING

The value of METRO INC. shares remained in the range of $27.38 to $40.00 over the first three quarters of fiscal 2009. During this period, a total of 95.9 million shares were traded on the Toronto Stock Exchange. The closing price on Friday, July 24, 2009 was $34.75, compared to $31.77 at the end of fiscal 2008.

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

New Accounting Policies

ADOPTED IN **2009**

Inventories

In the first quarter of 2009, the Company adopted Section 3031 "Inventories". Under this new standard, inventories shall be measured at the lower of cost and net realizable value and the retail method may be used if it is close to cost. Furthermore, all costs incurred in bringing the inventories to their present location and condition shall be included in the cost of inventories. Other costs shall be recognized as expenses in the period in which they are incurred.

The Company measures its wholesale inventories at the lower of cost, determined by the average cost method net of certain considerations received from vendors, and net realizable value. Retail inventories are valued at the retail price less the gross margin and certain considerations received from vendors. Following this new section's adoption, the Company has included certain costs in its cost of inventories, such as receiving and shelving costs and also costs for products transformed in store. Warehousing costs are recognized as operating expenses.

The new Section 3031 was applied retrospectively with restatement of prior periods' financial statements.

The adjustments are explained in note 2 to the consolidated financial statements included in this interim report.

Goodwill and Intangible Assets

In the first quarter of 2009, the Company adopted Section 3064 "Goodwill and Other Intangible Assets". The new section states that upon their initial identification, intangible assets are to be recognized as assets only if they meet the definition of an intangible asset and the recognition criteria. As for subsequent measurement of intangible assets, goodwill and disclosure, Section 3064 carries forward the requirements of the old Section 3062 "Goodwill and Other Intangible Assets". The adoption of these guidelines did not have any material effect on the Company's results, financial position or cash flows.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In the second quarter of 2009, the Company adopted EIC-173 "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". Under this new standard, an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. The adoption of these guidelines did not have any material effect on the Company's results, financial position or cash flows.

RECENTLY ISSUED

International Financial Reporting Standards

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

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

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

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

Phase 1: Preliminary Study and Diagnostic

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

Phase 2: Analysis of Standards

Actions	Analysis of the differences between GAAP and IFRS. Selection of the accounting policies that the Company will apply on an ongoing basis. Company's selection of IFRS 1 exemptions at the date of transition. Calculation of the quantitative impacts on the consolidated financial statements. Disclosure analysis. Preparation of draft consolidated financial statements and notes. Identification of the collateral impacts in the following areas: • information technology; • internal control over financial reporting; • disclosure controls and procedures; • contracts; • compensation; • taxation; • training.
Timetable	We have prepared a detailed timetable which contemplates the bulk of the analysis that will be completed by the end of September 2010. We prioritized standards, based on their ranking in the diagnostic, the time needed to complete the analysis and implementation, working group members' availability, as well as the timing of discussion papers, exposure drafts and new standards to be issued by the International Accounting Standards Board (IASB).
Progress	At the end of the third quarter of fiscal 2009, we began the analysis of 17 IFRS standards and interpretations out of a total of approximately 50 that may have an impact on our Company.

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

Phase 3: Implementation

Actions	Preparation of the opening balance sheet at the date of transition. Compilation of the comparative financial data. Production of the interim consolidated financial statements and the associated disclosure. Production of the annual consolidated financial statements and the associated disclosure. Implementation of changes regarding collateral impacts.
Timetable	At the end of fiscal 2011, our opening balance sheet, comparative financial data under IFRS and changes regarding collateral impacts will be completed. In fiscal 2012, we will produce our interim and annual consolidated financial statements and disclosure in accordance with IFRS.
Progress	Not yet commenced.

Throughout our IFRS transition project, we will provide update reports on our work plan. We will also explain the main differences between our existing accounting policies and those we will be implementing under IFRS (both narrative and quantitative information), as well as our selection of IFRS 1 exemptions available at the date of transition.

Financial Instruments

In June 2009, the CICA issued amendments to Section 3862 "Financial Instruments – Disclosures" adding enhanced disclosure requirements about fair value measurements and liquidity risk of financial instruments for publicly accountable enterprises. The amendments will be effective for annual financial statements relating to fiscal years ending after September 30, 2009 and will have no effect on results, financial position or cash flows. The Company does not foresee(2) that these amendments' adoption in its annual financial statements will have a material effect on its disclosures.

Outlook

Building on the momentum of our first half of the year, we are very pleased with our results for the third quarter of 2009, which prove that our strategies are effective in the current economic environment. Our Ontario supermarket conversion plan is on schedule with 128 of 159 stores converted to the Metro banner as of July 24, 2009. We are confident that we are well-positioned to continue to grow(2) our business in an always challenging marketplace.

Montréal, August 6, 2009

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

Consolidated Statements of Earnings

Periods ended July 4, 2009 and July 5, 2008

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

	16 weeks Fiscal Year		40 weeks Fiscal Year	
	2009	2008 (Restated – note 2)	**2009**	2008 (Restated – note 2)
Sales	**$ 3,513.3**	$ 3,370.0	**$ 8,663.5**	$ 8,249.2
Cost of sales and operating expenses *(note 8)*	**(3,282.6)**	(3,165.7)	**(8,114.7)**	(7,783.5)
Share of earnings in a public company subject to significant influence	**5.2**	1.7	**25.7**	12.6
Banner conversion costs *(note 3)*	**(2.9)**	—	**(8.7)**	—
Earnings before financial costs, taxes, depreciation and amortization	**233.0**	206.0	**565.8**	478.3
Depreciation and amortization	**(58.6)**	(55.2)	**(142.8)**	(134.9)
Operating income	**174.4**	150.8	**423.0**	343.4
Financial costs, net *(note 5)*	**(14.6)**	(17.5)	**(37.9)**	(46.0)
Earnings before income taxes	**159.8**	133.3	**385.1**	297.4
Income taxes *(note 6)*	**(47.2)**	(41.4)	**(115.1)**	(79.6)
Earnings before minority interest	**112.6**	91.9	**270.0**	217.8
Minority interest	**—**	—	**—**	1.9
Net earnings	**$ 112.6**	$ 91.9	**$ 270.0**	$ 219.7
Net earnings per share *(Dollars) (note 7)*				
Basic	**1.02**	0.81	**2.44**	1.94
Fully diluted	**1.01**	0.81	**2.42**	1.93

See accompanying notes

Consolidated Balance Sheets

(Unaudited) (Millions of dollars)

	As at July 4, 2009	As at September 27, 2008 (Restated – note 2)
ASSETS		
Current assets		
Cash and cash equivalents	**$ 164.1**	$ 151.7
Accounts receivable	**334.9**	309.7
Inventories *(note 8)*	**648.8**	641.6
Prepaid expenses	**17.8**	7.6
Income taxes receivable	**2.4**	25.0
Future income taxes	**21.9**	38.4
	1,189.9	1,174.0
Investments and other assets	**189.9**	169.1
Fixed assets	**1,244.4**	1,231.9
Intangible assets	**327.4**	328.6
Goodwill	**1,478.6**	1,478.6
Future income taxes	**2.7**	2.7
Accrued benefit assets	**49.4**	40.7
	$ 4,482.3	$ 4,425.6
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank loans	**$ 1.4**	$ 0.9
Accounts payable	**965.9**	1,062.7
Income taxes payable	**33.6**	50.9
Future income taxes	**6.0**	6.0
Current portion of long-term debt	**4.6**	6.3
	1,011.5	1,126.8
Long-term debt	**1,006.8**	1,005.0
Accrued benefit obligations	**49.9**	50.7
Future income taxes	**146.9**	140.8
Other long-term liabilities	**31.5**	34.0
	2,246.6	2,357.3
Shareholders' equity		
Capital stock *(note 9)*	**724.2**	697.6
Contributed surplus *(note 10)*	**2.6**	4.9
Retained earnings	**1,511.5**	1,366.8
Accumulated other comprehensive income *(note 11)*	**(2.6)**	(1.0)
	2,235.7	2,068.3
	$ 4,482.3	$ 4,425.6

See accompanying notes

Consolidated Statements of Cash Flows

Periods ended July 4, 2009 and July 5, 2008

(Unaudited) (Millions of dollars)

	16 weeks Fiscal Year		40 weeks Fiscal Year	
	2009	2008 (Restated – note 2)	**2009**	2008 (Restated – note 2)
Operating activities				
Net earnings	**$ 112.6**	$ 91.9	**$ 270.0**	$ 219.7
Non-cash items				
Share of earnings in a public company subject to significant influence	**(5.2)**	(1.7)	**(25.7)**	(12.6)
Depreciation and amortization	**58.6**	55.2	**142.8**	134.9
Amortization of deferred financing costs	**0.6**	0.6	**1.6**	1.6
Loss (gain) on disposal and write-off of fixed and intangible assets	**0.9**	(0.4)	**0.3**	(1.6)
Gain on disposal of investments	**(0.1)**	—	**(0.1)**	(0.6)
Interest income on investments	**—**	—	**(0.2)**	—
Future income taxes	**11.6**	3.1	**23.2**	(4.9)
Stock-based compensation cost	**1.7**	1.2	**3.8**	2.7
Difference between amounts paid for employee future benefits over current period cost	**(0.8)**	5.1	**(9.5)**	0.9
Minority interest	**—**	—	**—**	(1.9)
	179.9	155.0	**406.2**	338.2
Net change in non-cash working capital related to operations	**(64.7)**	(11.8)	**(116.9)**	(73.5)
	115.2	143.2	**289.3**	264.7
Investing activities				
Net change in investments and other assets	**3.5**	(7.0)	**0.8**	(6.0)
Dividends from public company subject to significant influence	**0.7**	0.7	**2.2**	2.2
Acquisition of fixed assets	**(63.8)**	(35.3)	**(152.9)**	(99.2)
Disposal of fixed assets	**0.9**	9.4	**12.7**	15.8
Acquisition of intangible assets	**(15.0)**	(7.4)	**(26.8)**	(28.7)
	(73.7)	(39.6)	**(164.0)**	(115.9)
Financing activities				
Net change in bank loans	**0.3**	0.4	**0.5**	0.5
Issuance of shares *(note 9)*	**7.3**	1.7	**43.5**	3.6
Redemption of shares *(note 9)*	**(76.1)**	(29.0)	**(99.2)**	(80.3)
Acquisition of treasury shares *(note 9)*	**—**	—	**(4.3)**	(0.9)
Performance share units cash settlement *(note 10)*	**(0.5)**	—	**(0.5)**	—
Increase of long-term debt	**0.6**	0.5	**4.4**	1.6
Repayment of long-term debt	**(2.6)**	(1.7)	**(8.3)**	(4.7)
Net change in other long-term liabilities	**0.2**	(1.3)	**(4.7)**	(1.8)
Dividends paid	**(15.2)**	(14.1)	**(44.3)**	(41.4)
Settlement and distribution to minority interest	**—**	(1.2)	**—**	(1.2)
	(86.0)	(44.7)	**(112.9)**	(124.6)
Net change in cash and cash equivalents	**(44.5)**	58.9	**12.4**	24.2
Cash and cash equivalents – beginning of period	**208.6**	65.8	**151.7**	100.5
Cash and cash equivalents – end of period	**$ 164.1**	$ 124.7	**$ 164.1**	$ 124.7
Other information				
Interest paid	**21.5**	22.4	**44.8**	52.8
Income taxes paid	**33.9**	38.8	**86.8**	101.6

See accompanying notes

Consolidated Statements of Retained Earnings

40-week periods ended July 4, 2009 and July 5, 2008

(Unaudited) (Millions of dollars)

	Fiscal Year	
	2009	2008 (Restated – note 2)
Balance – beginning of period	**$ 1,359.6**	$ 1,214.3
Adjustment due to a new accounting policy related to inventories *(note 2)*	**7.2**	7.7
Restated balance	**1,366.8**	1,222.0
Net earnings	**270.0**	219.7
Dividends	**(44.3)**	(41.4)
Share redemption premium *(note 9)*	**(81.0)**	(60.8)
Balance – end of period	**$ 1,511.5**	$ 1,339.5

See accompanying notes

Consolidated Statements of Comprehensive Income

Periods ended July 4, 2009 and July 5, 2008

(Unaudited) (Millions of dollars)

	16 weeks Fiscal Year		40 weeks Fiscal Year	
	2009	2008 (Restated – note 2)	**2009**	2008 (Restated – note 2)
Net earnings	**$ 112.6**	$ 91.9	**$ 270.0**	$ 219.7
Other comprehensive income *(note 11)*				
Change in fair value of derivatives designated as cash flow hedges	**0.9**	0.6	**(2.2)**	(3.0)
Corresponding income taxes	**(0.3)**	(0.2)	**0.6**	1.0
Comprehensive income	**$ 113.2**	$ 92.3	**$ 268.4**	$ 217.7

See accompanying notes

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

1. Statement Presentation

The unaudited interim consolidated financial statements were prepared by management in accordance with Canadian generally accepted accounting principles (GAAP). The accounting policies and procedures used in preparing these interim consolidated financial statements are the same as those used in preparing the audited annual consolidated financial statements for the year ended September 27, 2008, 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 2008 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 2009

Inventories

In the first quarter of 2009, the Company adopted Section 3031 "Inventories". Under this new standard, inventories shall be measured at the lower of cost and net realizable value and the retail method may be used if it is close to cost. Furthermore, all costs incurred in bringing the inventories to their present location and condition shall be included in the cost of inventories. Other costs shall be recognized as expenses in the period in which they are incurred.

The Company measures its wholesale inventories at the lower of cost, determined by the average cost method net of certain considerations received from vendors, and net realizable value. Retail inventories are valued at the retail price less the gross margin and certain considerations received from vendors. Following this new section's adoption, the Company has included certain costs in its cost of inventories, such as receiving and shelving costs and also costs for products transformed in store. Warehousing costs are recognized as operating expenses.

The new Section 3031 was applied retrospectively with restatement of prior periods' financial statements.

The Company recorded the following adjustments in fiscal 2009:

Balance sheet components

Increase or (Decrease)	Beginning balance September 28, 2008
Inventories	26.0
Goodwill	(11.5)
Long-term future income tax liabilities	7.3
Retained earnings	7.2

The Company recorded the following adjustments to its fiscal 2008 third quarter:

Balance sheet components

Increase or (Decrease)	Beginning balance September 30, 2007	Ending balance July 5, 2008
Inventories	26.8	25.8
Goodwill	(11.5)	(11.5)
Long-term future income tax liabilities	7.6	7.3
Retained earnings	7.7	7.0

2. New Accounting Policies (cont'd)

Earnings components

Increase or (Decrease)	16-week period ended July 5, 2008	40-week period ended July 5, 2008
Cost of sales and operating expenses	1.0	1.0
Income taxes	(0.3)	(0.3)
Net earnings	(0.7)	(0.7)
Basic net earnings per share *(Dollars)*	(0.01)	(0.01)
Fully diluted net earnings per share *(Dollars)*	(0.01)	(0.01)

Goodwill and Intangible Assets

In the first quarter of 2009, the Company adopted Section 3064 "Goodwill and Intangible Assets". The new section states that upon their initial identification, intangible assets are to be recognized as assets only if they meet the definition of an intangible asset and the recognition criteria. As for subsequent measurement of intangible assets, goodwill and disclosure, Section 3064 carries forward the requirements of the old Section 3062 "Goodwill and Other Intangible Assets". The adoption of these guidelines did not have any material effect on the Company's results, financial position or cash flows.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In the second quarter of 2009, the Company adopted EIC-173 "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". Under this new standard, an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. The adoption of these guidelines did not have any material effect on the Company's results, financial position or cash flows.

RECENTLY ISSUED

Financial Instruments

In June 2009, the Canadian Institute of Chartered Accountants (CICA) issued amendments to Section 3862 "Financial Instruments — Disclosures" adding enhanced disclosure requirements about fair value measurements and liquidity risk of financial instruments for publicly accountable enterprises. The amendments will be effective for annual financial statements relating to fiscal years ending after September 30, 2009 and will have no effect on results, financial position or cash flows. The Company does not foresee that these amendments' adoption in its annual financial statements will have a material effect on its disclosures.

3. Banner Conversion Costs

On August 7, 2008, the Company announced its conversion plan for changing the five banners under which it operates its 159 Ontario supermarkets to the Metro banner by December 2009. The Company also announced that an amount of approximately $25 will be incurred for this conversion, most of which had already been recorded under the A&P Canada integration plan.

Banner conversion costs of $8.7 for the 40-week period of 2009, including $2.9 incurred in the third quarter, are part of those not recorded under the A&P Canada integration plan. More costs will be incurred and expensed over the next few quarters.

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			
	2009		2008		**2009**		2008	
	Pension plans	**Other plans**	Pension plans	Other plans	**Pension plans**	**Other plans**	Pension plans	Other plans
Defined contribution plans	**$ 8.7**	**$ 0.2**	$ 7.9	$ 0.2	**$ 21.5**	**$ 0.5**	$ 19.9	$ 0.4
Defined benefit plans								
Current service cost	**6.4**	**0.4**	7.9	0.4	**16.0**	**1.0**	18.4	1.1
Interest cost	**10.3**	**0.6**	9.4	0.6	**25.8**	**1.5**	23.5	1.5
Projected return on plan assets	**(12.1)**	**—**	(13.1)	—	**(30.4)**	**—**	(32.6)	—
Amortization of actuarial losses (gains) and past service cost	**0.5**	**—**	0.8	—	**1.2**	**(0.1)**	1.5	—
	5.1	**1.0**	5.0	1.0	**12.6**	**2.4**	10.8	2.6
	$ 13.8	**$ 1.2**	$ 12.9	$ 1.2	**$ 34.1**	**$ 2.9**	$ 30.7	$ 3.0

5. Financial Costs, net

	16 weeks Fiscal Year		40 weeks Fiscal Year	
	2009	2008	**2009**	2008
Interest, short term	**$ 0.7**	$ 0.4	**$ 1.6**	$ 2.4
Interest, long term	**13.5**	16.7	**36.3**	44.8
Amortization of deferred financing costs	**0.6**	0.6	**1.6**	1.6
Interest income	**(0.2)**	(0.2)	**(1.6)**	(2.8)
	$ 14.6	$ 17.5	**$ 37.9**	$ 46.0

6. Income Taxes

The effective income tax rates were as follows:

(Percentage)	16 weeks Fiscal Year 2009	16 weeks Fiscal Year 2008 (Restated – note 2)	40 weeks Fiscal Year 2009	40 weeks Fiscal Year 2008 (Restated – note 2)
Combined statutory income tax rate	**31.5**	31.2	**31.4**	31.2
Changes				
Impact of provincial tax rate decrease of 2.2% on future taxes related to capital gains (2009 – $2.7)	**(1.7)**	—	**(0.7)**	—
Impact of federal tax rate decrease of 3.5% on future taxes (2008 – $11.4)	—	—	—	(3.8)
Share of earnings in a public company subject to significant influence	**(0.6)**	(0.2)	**(1.1)**	(0.7)
Other	**0.3**	0.1	**0.3**	0.1
	29.5	31.1	**29.9**	26.8

7. Net Earnings per Share

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

(Millions)	16 weeks Fiscal Year 2009	16 weeks Fiscal Year 2008	40 weeks Fiscal Year 2009	40 weeks Fiscal Year 2008
Weighted average number of shares outstanding – Basic	**110.7**	112.3	**110.8**	113.0
Dilutive effect under stock option plan and performance share units	**0.6**	0.6	**0.8**	0.8
Weighted average number of shares outstanding – Diluted	**111.3**	112.9	**111.6**	113.8

8. Inventories

The breakdown of inventories was as follows:

	As at July 4, 2009	As at September 27, 2008 (Restated – note 2)
Wholesale inventories	**$ 281.8**	$ 293.7
Retail inventories	**367.0**	347.9
	$ 648.8	$ 641.6

The cost of inventories recognized as an expense for the 16-week period ended July 4, 2009 was $2,892.3 (2008 – $2,786.7) and $7,134.1 for the 40-week period of 2009 (2008 – $6,845.9).

9. Capital Stock

Outstanding

	Class A Subordinate Shares		Class B Shares		Total
	Number *(Thousands)*		Number *(Thousands)*		
Balance as at September 27, 2008	109,806	$ 696.1	750	$ 1.5	$ 697.6
Shares issued for cash	2,019	43.5	—	—	43.5
Stock options exercised	—	1.7	—	—	1.7
Shares redeemed for cash, excluding premium of $81.0	(2,778)	(18.2)	—	—	(18.2)
Conversion of Class B Shares into Class A Subordinate Shares	22	—	(22)	—	—
Acquisition of treasury shares, excluding premium of $3.6	(115)	(0.7)	—	—	(0.7)
Released treasury shares	52	0.3	—	—	0.3
Balance as at July 4, 2009	109,006	$ 722.7	728	$ 1.5	$ 724.2

Stock Option Plan

The outstanding options and the changes during the 40-week period of fiscal 2009 were summarized as follows:

	Number *(Thousands)*	Weighted average exercise price *(Dollars)*
Balance as at September 27, 2008	3,534	23.63
Granted	261	37.35
Exercised	(1,987)	21.35
Cancelled	(2)	34.86
Balance as at July 4, 2009	1,806	28.10

The exercise prices of the outstanding options ranged from $17.23 to $39.17 as of July 4, 2009 with expiration dates up to 2016. 511,280 of those options could be exercised at a weighted average exercise price of $21.92.

The weighted average fair value of stock options granted during the 40-week period ended July 4, 2009 was $7.88 (2008 – $6.04) and 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 2.1% (2008 – 3.3%), expected six-year term (2008 – six-year term), anticipated volatility of 22.0% (2008 – 22.4%) and an anticipated 1.4% dividend yield (2008 – 1.4%).

The compensation expense for these stock options amounted to $0.8 for the 16-week period ended July 4, 2009 (2008 – $0.7) and $1.8 for the 40-week period of 2009 (2008 – $1.4).

9. Capital Stock (cont'd)

Performance Share Unit Plan

Performance share units (PSUs) outstanding and changes during the 40-week period of fiscal 2009 were summarized as follows:

	Number *(Units)*
Balance as at September 27, 2008	210,472
Granted	84,843
Settled	(64,177)
Cancelled	(267)
Balance as at July 4, 2009	230,871

The Company holds in trust Class A Subordinate Shares for participants until the PSUs shall be vested or cancelled. The trust, considered a variable interest entity, is consolidated in the Company's financial statements with the value of the acquired shares presented as treasury shares reducing capital stock.

Changes in treasury shares during the 40-week period of fiscal 2009 were summarized as follows:

	Number *(Units)*
Balance as at September 27, 2008	194,000
Acquisition of treasury shares	115,000
Released treasury shares	(51,745)
Balance as at July 4, 2009	257,255

A compensation expense of $0.9 and $2.0 respectively during the 16-week period and the 40-week period ended July 4, 2009 pertaining to PSUs was recorded (2008 − $0.5 and $1.3).

10. Contributed Surplus

Balance as at September 27, 2008	$ 4.9
Stock-based compensation cost	3.8
Stock options exercised	(1.7)
Acquisition of treasury shares	(3.6)
Released treasury shares	(0.3)
PSUs cash settlement	(0.5)
Balance as at July 4, 2009	$ 2.6

11. 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	
	2009	2008
Balance – beginning of period	**$ (1.0)**	$ 1.2
Change in fair value of derivatives designated net of income taxes of $0.6 (2008 – $1.0)	**(1.6)**	(2.0)
Balance – end of period	**$ (2.6)**	$ (0.8)

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