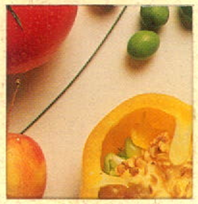
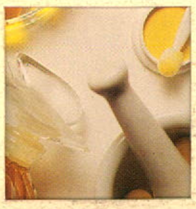
ANNUAL REPORT

The ANNUAL

1988



MÉTRO-RICHELIEU
A TOTAL COMMITMENT TO EXCELLENCE



METRO-RICHELIEU

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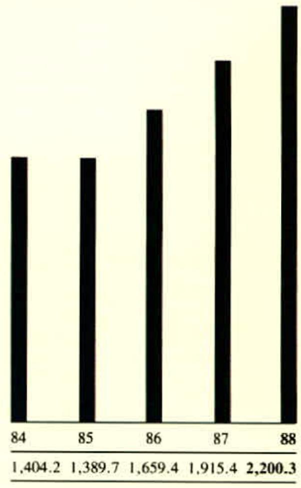
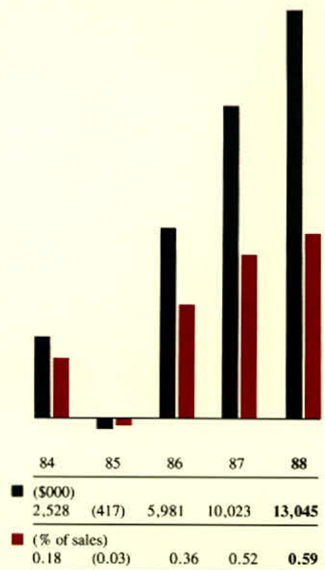
HIGHLIGHTS

	1988	1987	▲
Operating Results ($000)			
Sales	**2,200,252**	1,915,417	15%
Earnings from operations	**66,475**	44,849	48%
Earnings before extraordinary item	**13,045**	8,737	49%
Net earnings	**13,045**	10,023	30%
Financial structure ($000)			
Working capital	**34,530**	24,682	40%
Total assets	**569,120**	533,165	7%
Long-term debt	**193,465**	188,968	2%
Shareholders' equity	**159,263**	145,775	9%
Per common share			
Net earnings before extraordinary item	**$0.63**	$0.58	9%
after extraordinary item	**$0.63**	$0.67	(6%)
Book value	**$7.35**	$6.75	9%
Financial ratios			
Working capital	**1.17**	1.13	
Net earnings/sales before extraordinary item	**0.59%**	0.46%	
after extraordinary item	**0.59%**	0.52%	
Long-term debt/shareholders' equity	**1.21**	1.30	
Return on shareholders' equity	**9.4%**	12.3%	

Sales
($000,000)



Net Earnings



MESSAGE OF THE CHAIRMAN OF THE BOARD

From left to right; members of the Executive Committee: **Messrs. Aimé Gagnon,** Vice-Chairman of the Board; **Réal Brouillette,** Director; **Marcel R. Guertin,** Chairman of the Board; **Bernard Bélair,** Treasurer. Not shown here: **Jean-Claude Messier,** Secretary.

Fiscal year 1988 marked the fortieth anniversary of the Métro banner. Throughout the years, Métro-Richelieu inc. (Métro-Richelieu) has remained faithful to its primary mission, which is to support the growth of its merchants by giving them access to considerable purchasing power and enabling them to offer consumers the best possible services.

In light of this mission, the 1988 year proved to be positive in every respect. Sales and earnings from operations for the year were the best in our history and results as a whole continued to improve, as evidenced by the report from the President and Chief Executive Officer of Métro-Richelieu. As anticipated, our acquisitions resulted in a considerable increase in sales despite the modest growth of the food sector.

Particularly worthy of note, and the best indication of our success, is the improvement in the Company's financial health. The agreement concluded at year end with Caisse de dépôt et placement du Québec will undoubtedly help us continue in this direction. As part of the agreement, we will have the benefit of two directors appointed by Caisse de dépôt et placement du Québec to the Métro-Richelieu Board of Directors. We can now rely on a new financial partner whose financial strength and expertise will undoubtedly prove invaluable to our future growth.

Our excellent results can be attributed to several factors. In the food sector, the renovation of our retail merchants' stores and the introduction of our "Métro 5 étoiles" banner resulted in greater store traffic. We must spare no effort to make our banners synonymous with excellence in the eyes of consumers. The concentration of the retailers' purchases from our divisions also contributed to increasing our volume and optimizing the profitability of our facilities.

Pharmaceutical products distribution outperformed all other sectors this year. Integration of our wholesale activities in this sector is under way and our presence is established in all segments of this market. Now we must proceed with developing and rationalizing our banners, as we did in the food sector, so that each can meet the specific needs of its clientele. Although this sector of activities is growing in Quebec, we can expect a slowdown due to negligible demographic growth throughout the province. With this in mind, it is vital for us to constantly enhance the image of our banners and consolidate our presence in this industry over the next few years, while there is still the opportunity for growth.

Efforts to integrate and rationalize our activities in all of the Company's divisions and subsidiaries have resulted in major

From left to right; members of the Board: **Messrs. Benoît Gadoury, Roger Lévesque, Jacques Laliberté, Roland Ferland, Mario Torti, Pierre Shooner, James Parsons** and **Maurice Jodoin.**

productivity gains over the past twelve months. More efficient use of our human, material and financial resources resulted in increased earnings from operations.

More and more, we can rely on major assets to sustain our growth. In the food sector, we have established a basic structure capable of achieving productivity levels higher than the industry average and, owing to restructuring, we can expect comparable results in the distribution of pharmaceutical products. Our expertise in the distribution and marketing of mass consumption products is well established. Furthermore, the dedication and commitment of our merchants and their close ties with consumers enable us to keep abreast of market trends and adapt our stores and marketing strategies accordingly.

However, despite these advantages and the consistent growth reported over the past few years, the battle is never over. We in Quebec operate in a mature market and the situation will continue to be difficult in the retail sector. The average annual rate of population growth is at its lowest ever in Quebec and specialists predict that, if the current trend continues, the population will start to decline within 20 years. On the other hand, since the end of the early 80's recession, the inflation rate in our industry has remained quite low. In addition, new opportunities for major acquisitions in the food sector have become extremely rare in Quebec. In light of this situation, we must continue to rationalize our operations and make every effort to keep operating expenses to a minimum. We must also take measures to maintain a high degree of motivation among management and staff so that we can attain and even exceed our volume and profitability forecasts.

We must also define Métro-Richelieu's development strategy over the long term to ensure future growth. Experience has clearly shown that it is in the Company's interest to venture into sectors where we can make maximum use of our expertise.

Another possibility well worth investigating in light of the internationalization trend prevailing in our business is the development of new markets outside Quebec, in sectors requiring little capital and where our various forms of expertise can generate new sources of income.

A number of avenues are thus open for us to explore over the coming years. For the time being, we will continue to consolidate our positions and increase profitability in our current sectors. Decisions affecting the long-term growth of the Company will be made in the near future. These decisions, like every action taken by Métro-Richelieu, will be guided by a determination to increase our performance and provide our shareholders with the best possible return on their equity.

It is gratifying to know that this decision-making process can rely on the expertise of all those who have contributed to the success of Métro-Richelieu, namely the members of the Board, our team of seasoned managers, as well as the management and staff of our divisions, subsidiaries and stores. I would like to thank each and every one of them for their firm commitment and their excellent work. Regardless of our future directions, the quality of our human resources remains our best guarantee of success.

The 1987-1988 year proved to be positive in every respect. Sales and earnings from operations for the year were the best in our history.

Marcel R. Guertin
Chairman of the Board

MESSAGE OF THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

Jacques L. Maltais, President and Chief Executive Officer.

After experiencing strong growth and diversification in 1987, Métro-Richelieu inc. (Métro-Richelieu) focused on consolidating and integrating its activities during fiscal year 1988 in an effort to increase synergy among the Company's divisions.

Our efforts were successful, as evidenced by the 1988 results, showing the best performance in the Company's history.

Sales grew by nearly 15% due to an increase in our activities in the Quebec food market, a greater number of banners in the pharmaceutical sector and the impact of our recent acquisitions, notably the first complete year of results from the Super Carnaval stores since their acquisition by Métro-Richelieu.

Earnings from operations rose from 2.34% to 3.02%. The improvement can be attributed in part to the Company's greater participation in retail activities, especially the Super Carnaval stores. In an industry where the inflation rate remained quite low throughout the year, these earnings also reflect the ongoing improvement of the Company's management, an increase in productivity in the food sector and sustained efforts to integrate and rationalize activities.

Net earnings were up 49%, rising from $8.7 million ($10 million after extraordinary item) in 1987 to $13 million in 1988. This figure represents .59% of sales, compared with .46% (.52% after extraordinary item) the previous year, attesting to more efficient use of our facilities. Our objective is to achieve earnings representing 1% of sales and we will continue to make every effort in that direction. Earnings per share rose from $0.58 ($0.67 after extraordinary item) in 1987 to $0.63 in 1988.

Métro-Richelieu continued to improve its financial structure. The long-term debt to equity ratio dropped from 1.67 in 1986 to 1.30 in 1987 and 1.21 in 1988. In other words, we are moving steadily towards our targeted ratio of 1. We also consolidated the Company's long-term debt, several elements of which had variable interest rates. Towards the end of the year, we benefited from a major investment of $30 million from the Caisse de dépôt et placement du Québec. This is a particularly important investment in view of this new financial partner's size and the expertise it can contribute to the Company's future growth.

Our integration and consolidation efforts extended to all sectors of activities.

Our integration and consolidation efforts extended to all sectors of activities.

In the food sector, integration took the form of concentrating the purchases made by Super Carnaval stores from the Épiciers Unis Métro-Richelieu divisions and closer cooperation between the subsidiaries working in this sector. We also continued to specialize our banners and rationalize our food wholesaling activities. Moreover, Métro-Richelieu acquired more efficient means to consolidate and enhance its presence in the food sector in the medium and long term.

Sales in the pharmaceutical sector increased by nearly 100% during the year. Relocating the McMahon-Essaim head office in Montreal and grouping the distribution activities of Entreprises Gilles Cloutier inc. with those of the McMahon-Essaim warehouse in Montreal enabled us to start integrating distribution activities in this sector. Also, the geographical growth and distribution of our various banners will enable the Métro-Richelieu subsidiary, McMahon-Essaim, to play a leading role over the next few years in rationalizing the Quebec distribution sector for pharmaceutical products and cover the main segments of this market.

Our André Lalonde Sports subsidiary also continued to grow, increasing the number of its corporate and franchised stores.

Métro-Richelieu's interest in companies whose activities are related or complementary to the Company's principal activities resulted in increased sales for Éconogros, our Food Services Division.

Société Immobilière Devimont inc. which, prior to 1988, had been managing buildings and leases belonging to Métro-Richelieu, embarked on a phase of development in real estate, announcing at year end an investment of $10 million to build a shopping centre in Hull, $4 million of which will be allocated to opening a fourteenth Super Carnaval store. These investments will enable Métro-Richelieu to control the long-term growth of its activities in other sectors by ensuring ownership of certain commercial sites which seem particularly advantageous from a strategic standpoint.

The integration of the Company's activities made it necessary to develop and apply global policies to standardize a set of financial and human resources management procedures for Métro-Richelieu and its subsidiaries. These are management tools which correspond more closely to the Company's current situation while respecting the specific needs and operating conditions of all its entities.

A number of fringe benefits were standardized and a new pension plan was implemented for management and non-unionized employees of Métro-Richelieu. Succession planning enabled the Company to identify those individuals currently holding management positions who are best qualified to meet the future needs of the Company. A new employee stock ownership plan was launched. Despite the uncertainty of the stock market, over 500 employees joined the plan, thus associating themselves with the Company's growth.

In labour relations, cooperation prevailed at every level of the Company and a total of 21 collective agreements were negotiated and finalized to satisfaction of all parties involved.

To sum up, after an initial diversification phase, 1988 enabled Métro-Richelieu to consolidate its activities and reevaluate its strategic planning in light of the current situation, market growth and financial opportunities. In general, while remaining open to attractive business opportunities over the next few years, the Company will focus its attention on developing sectors of activities where it is already active, such as the pharmaceutical products industry.

Métro-Richelieu plans to continue developing the real estate market insofar as such investments will enable the Company to secure new sales outlets, thus consolidating its presence in this sector.

Finally, while applying the same criteria to all our investments in other companies, in the future we intend to acquire majority interests, in order to promote maximum synergy among the Company's various entities.

I would like to thank all our employees, merchants and shareholders without whose confidence Métro-Richelieu could not have achieved such outstanding results during the past year.

I also wish to thank consumers who, by continuing to shop in stores displaying our banners, have confirmed the merit of our constant efforts to maintain the highest possible quality standards. Our contribution to various humanitarian causes and involvement in the community is our way of showing gratitude to those whose support is indispensable to our growth.

Jacques L. Maltais
President and Chief Executive Officer


EC-DIB
EC-DIB

OPERATIONS REVIEW

ÉPICIERS UNIS MÉTRO-RICHELIEU INC.

DISTRIBUTION STILL IN THE LEAD

Épiciers Unis Métro-Richelieu inc. (EUMR), a wholly-owned subsidiary of Métro-Richelieu whose activities represent nearly 70% of Métro-Richelieu's total sales, experienced a sales growth of 6.5%, for a total of $1,689 million. This good performance in a fully mature economic sector can be attributed to the aggressive promotion strategy for the Métro supermarkets' 40th anniversary celebrations, combined with the increased specialization of the Company's various banners and modernization of its sales outlets.

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Grocery sector: tighter inventory management

With a distribution of over 7,000 different grocery products to some 500 retailers throughout Quebec, EUMR must constantly strive to improve productivity in its Montreal, Quebec City and Mont-Joli warehouses. During the year, EUMR's sales in the grocery sector rose by 3.1%.

The recent addition of two new semi-automated shipping lines to those already in operation at the Mérite 1 distribution centre in Montreal has enabled EUMR to increase its volume of deliveries and eliminate the risk of tie-ups during peak hours.

The highlight of the year was without doubt EUMR's introduction of a new "management by categories" program for its warehouse merchandise. The purpose of this state-of-the-art information system is to provide accurate data on the earnings and profit margins generated by each product, regardless of supplier, rather than the entire range of products from a single supplier. This innovation will enable EUMR to maximize performance in its distribution activities.

Produce sector: a greater selection of exotic products

More and more consumers are becoming quality-conscious. Aware of this, the EUMR Produce Division keeps abreast of any new developments in consumer trends.

Moreover, the emphasis on absolute freshness, combined with the need to maintain competitive prices, has forced produce wholesalers to become more demanding with respect to suppliers. As a result, the distributor must apply strict management methods in purchasing and storage, as well as in shipping to retail sales outlets.

A wide variety of fresh fruit and vegetables.

The ham smoking room of the
BOEUF MÉRITE Division.

During the year, the EUMR Produce Division focused its attention on rationalizing operations in its Montreal, Quebec City and Ottawa distribution centres.

To that end, regional responsibilities were redistributed to enable retailers in every part of the province to obtain improved service, better adapted to their specific needs. Our efforts resulted in a 21% increase over last year's produce sales.

Meat and frozen products: volume on the rise

EUMR's Boeuf Mérite Division experienced a sales growth of 7.7% in 1988 and remains the largest Quebec distributor of meat and meat products.

During the year, Boeuf Mérite completed its project to centralize distribution of all processed meat to its retailers, a responsibility previously assumed by individual manufacturers. This new policy enables Boeuf Mérite to increase its sales volume and control the quality of meat and meat products offered in the stores.

Furthermore, the introduction of the Mérite house brand frozen pasta also enabled EUMR to increase the volume and profitability of its meat and frozen products division.

In light of the countrywide rapid growth in the restaurant and food services sector, Boeuf Mérite also successfully intensified its efforts to penetrate these promising markets.

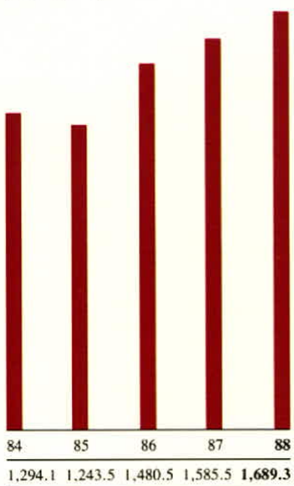
Pêcheries Atlantiques du Québec: a new start

Acquired last year, Pêcheries Atlantiques du Québec (Pêcheries Atlantiques) enables EUMR to enhance its presence in the fish, seafood and frozen food distribution sector. These products have become increasingly popular over the past few years. The new division supplies fresh fish and frozen products to retailers and institutions.

At the beginning of the year, Pêcheries Atlantiques was severely affected by the "mussel crisis". In the wake of this setback, the division concentrated its efforts on rationalizing operations. Last spring, for instance, a new distribution centre was opened in Quebec City to serve customers in the eastern part of the province.

Pêcheries Atlantiques will continue to modernize its facilities during the coming year. The Montreal warehouse will move into more adequate premises and major changes will be made to the self-service counter at the Marché Central in Montreal. The new facilities are expected to contribute to the division's growth.

EUMR
Sales growth*
($000,000)



*Before Inter-sectorial eliminations

RETAILERS: THE CORNERSTONE OF OUR COMPANY

The food sector has become so competitive that the success of an organization depends on extensive integration of its wholesale and retail activities. In keeping with EUMR's belief in the effectiveness of an independent network of retailers, considerable efforts were made to develop coherent action and communication at every level of the organization. This is why marketing and merchandising strategies are planned with a view to generating maximum impact on retail sales.

Excellence pays off

Several programs of excellence such as the Couperet d'or (Golden Cleaver) in the meat sector and Rosée d'or (Golden Dew) in the produce sector were created at the retail level. By promoting healthy competition among specialized personnel, these contests based on a commitment to quality and customer service encourage excellence while at the same time increasing customer traffic.

"Métro 5 étoiles" a resounding success

In the same vein, last year's launching of the new "Métro 5 étoiles" store concept and its application this year were highly successful. This new formula meets the most diverse expectations of today's consumer. Any retailer can enter provided he makes certain renovations to his facilities to meet the new criteria of specialization expected in a modern supermarket.

Over 65 Métro supermarkets have already modernized their facilities and are now displaying the "Métro 5 étoiles" banner. A further 70 retailers are expected to do likewise over the next twelve months. It should be noted that the implementation of the "Métro 5 étoiles" formula has contributed in no small way to EUMR's sales increase over the year.

In 1988, the Company's store renovation program continued to elicit strong interest on the part of retailers. The program resulted in retailers' investment of $11.3 million over the past twelve months.

Space management system

EUMR implemented a brand new space management system throughout the network's stores. Known as Spaceman-Spacemax, this automated program uses the latest marketing techniques to maximize the profitability of merchandise on the shelves, based on size, allocated space, turnover and profit margin.

By introducing this system in its affiliated stores, EUMR has proven to be an innovator in the North American food industry.

With Spaceman/Spacemax, EUMR is in the forefront of shelf space management.

Métro and Marché Richelieu on the side of change

As a result of far-reaching changes in the Canadian population over the past few years, particularly with the arrival of new citizens from various parts of the world, a company the scale of EUMR has every reason to take an interest in such a phenomenon. This is why concrete measures were taken to reach this new clientele.

EUMR continued its efforts to strengthen ties with consumers. The company organized information workshops on proper food preparation, tastings, new recipes that are both practical and original, and major participation in several food shows and exhibitions.

In a constant effort to meet customer expectations, EUMR places the utmost importance on in-store specialties.

NUMBER OF SPECIALTIES INTRODUCED IN STORES

	Métro	Marché Richelieu
Bakery	220	44
Bulk goods	225	29
Buffet	200	45
Prepared meals	90	35
Fish and seafood	71	1
Cheese boutique	204	22

To each his own market

Through tighter management of its wholesale and retail activities, and a determination to better define the market segments best suited to its banners — Marché Richelieu for neighbourhood grocery stores and Métro for supermarkets — EUMR succeeded this year in expanding its activities while improving coordination between its various operations.

Over 65 Métro supermarkets have modernized their facilities and are now displaying the "Métro 5 étoiles" banner. This new formula meets the most diverse expectations of today's consumer.

Independent retailers expressed their sustained interest and growing satisfaction by showing greater loyalty towards the Company. Thus, EUMR was able to consolidate and reinforce its leadership position in each of the food industry segments in Quebec.

Each of the EUMR banners focuses on meeting specific needs.

ÉPICIERS UNIS MÉTRO-RICHELIEU INC.

	Number of stores		Total surface (sq.ft.)	
	1988	1987	**1988**	1987
Métro	**310**	316	**2,411,947**	2,329,699
Marché Richelieu	**190**	217	**480,041**	529,662
Others	**211**	214	**n/a**	n/a

CORPORATE STORES: EFFICIENT MANAGEMENT

The primary objective of the Corporate Store Division is to ensure efficient management of each of the businesses which belong to EUMR and will eventually be resold to independent merchants. The number of stores in this division varies from year to year, and sometimes from month to month, depending on the economic situation.

Relocated in new premises and equipped with computerized management tools in all its corporate stores, this division is in a position to fulfill its role and successfully support a nucleus of profitable corporate stores.

ÉQUIPEMENT MÉRITE

Équipement Mérite offers merchants who wish to renovate or enlarge their stores a team of specialists in layout, design and equipment. Any merchant interested in renovating his store can choose his own suppliers on the basis of recommendations made by the Équipement Mérite consultants.

Équipement Mérite thus ensures that the renovation plans comply with the image and standards of the Company so that consumers can easily identify the Métro-Richelieu supermarkets and find a consistent selection of merchandise from one store to another. This orientation has proven to be successful and profitable for the Division.

ÉCONOGROS, FOOD SERVICES SECTOR

Éconogros, whose activities in this sector are relatively recent, is fully aware of the requirements of its mission and devotes considerable effort to improving its service, year after year.

During 1988, the sales of Éconogros, EUMR's Food Services Division, climbed to $23 million, up 16% over the previous year.

In this very demanding and fast-growing sector of food distribution to hotels, restaurants and institutions, it is vital to ensure efficient service. Éconogros, whose activities in this sector are relatively recent, is fully aware of the requirements of its mission and devotes considerable effort to improving its service, year after year.

In 1987, in an effort to meet the expectations of its clientele, EUMR invested some $2.5 million to modernize its facilities in the Montreal area. This rationalization project continues, with the construction of a new 70,000 square-foot warehouse in Quebec City, scheduled to open in 1989.

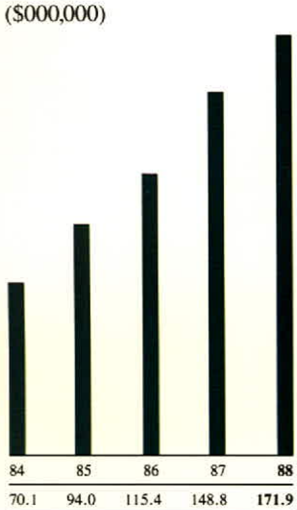
This modern warehouse will require investments of $7 million and, upon completion, combine the activities of Distagro ltée and Service Alimentaire de Québec inc.

The information systems have been redesigned to attain an optimum level of flexibility. The food services sector will now be able to provide clients with more detailed management data than is offered anywhere else in the industry, including statistics on product demand by volume and by unit cost.

For the coming year, Éconogros intends to pay particular attention to the thriving restaurant chain market, a sector where it has already made a promising breakthrough.

ÉCONOGROS offers attentive and specialized service to the Food Services Sector.

ÉCONOGROS
Sales growth*
($000,000)



*Before Inter-sectorial eliminations

The integration of La Ferme Carnaval operations into those of Métro-Richelieu went smoothly and resulted into a sizeable increase in the sales volume of the various Métro-Richelieu wholesale divisions.

LA FERME CARNAVAL INC.

Acquired in 1987, La Ferme Carnaval inc. (La Ferme Carnaval) ended its first year of operations within the ranks of Métro-Richelieu with sales of $321 million over a total sales surface of 525,519 square feet. Super Carnaval heads the list in terms of sales volume among superstore banners in Quebec.

The integration of La Ferme Carnaval operations into those of Métro-Richelieu went smoothly. With purchases of over $200 million on an annual basis, the arrival of La Ferme Carnaval resulted into a sizeable increase in the sales volume of the various Métro-Richelieu wholesale divisions.

Super Carnaval management makes use of the most advanced technology, including electronic cash registers with optical reader in all its stores, to increase the efficiency of inventory management. In addition, the introduction of a new system will soon enable Super Carnaval to issue discount coupons readable by optical scanner, thus becoming the only chain in Quebec with such a system.

The extensive use of electronics offers numerous advantages in terms of operations. The resulting improvements in efficiency enable the stores to maintain a highly competitive price structure.

In labour relations, La Ferme Carnaval management has always tried to maintain close relations with its employees in the interest of a productive work atmosphere. During the year, three collective agreements were signed to the satisfaction of all concerned.

More than low prices

The formula which made the Super Carnaval banner an indisputable success is based on a firm conviction that the consumer should not be deprived of the pleasure of shopping, for the sake of lower prices. The same holds true for Super Carnaval's customer service and the appearance of its stores, neither of which was neglected for the sake of greater business efficiency.

The thirteenth Super Carnaval
located in Trois-Rivières.

By offering a complete range of "specialized boutiques" inside of a vast space (exceeding 50,000 square feet in some stores) displaying fresh and manufactured products at a discount, based on the "warehouse" formula, Super Carnaval was the first Quebec banner to respond to the new requirements of today's households.

This year, Super Carnaval is launching an aggressive televised campaign to advertise its image of a "super supermarket" combining the features of traditional supermarkets with those of specialized boutiques. The campaign challenges the notion that a superstore must be a warehouse-type store, which is obviously not what made Super Carnaval so successful.

Once again this year, the range of Super C house brand products was widened and now includes 350 products which, more than ever, represent both quality and good prices. Some 50 prepared meals, hot or cold, to eat on the premises or take out, were added to the list of traditional grocery products in an effort to meet the demand of busy consumers who appreciate the convenience.

In October 1987, a thirteenth Super Carnaval store opened in Trois-Rivières, and a fourteenth has opened in Hull in December 1988. Built at a cost of $4 million, this new store, with a total floor surface of 45,000 square feet, employed 175 people and is part of the shopping centre built and managed by Société Immobilière Devimont inc., Métro-Richelieu's Real Estate Division.

Other projects to open new Super Carnaval stores are currently being studied and decisions will be made during the next fiscal year. La Ferme Carnaval is also considering the possibilty of reaching other segments of the Quebec food market.

LE GROUPE MÉRIDEV INC.

Last year, Métro-Richelieu brought together newly acquired companies working in areas other than food distribution and created Le Groupe Méridev inc. (Groupe Méridev) to oversee these subsidiaries' operations.

PHARMACEUTICAL PRODUCTS: OUTSTANDING GROWTH

The pharmaceutical products sector is in the midst of reorganization throughout the country. We are currently seeing a rationalization of the sector's activities, in terms of both retail banners and distribution companies, not unlike the situation which has prevailed in the food sector over the past ten years. In Quebec, the pharmaceutical products market represents retail sales of $1.9 billion a year, while wholesalers report combined sales of $950 million.

Strategic acquisitions

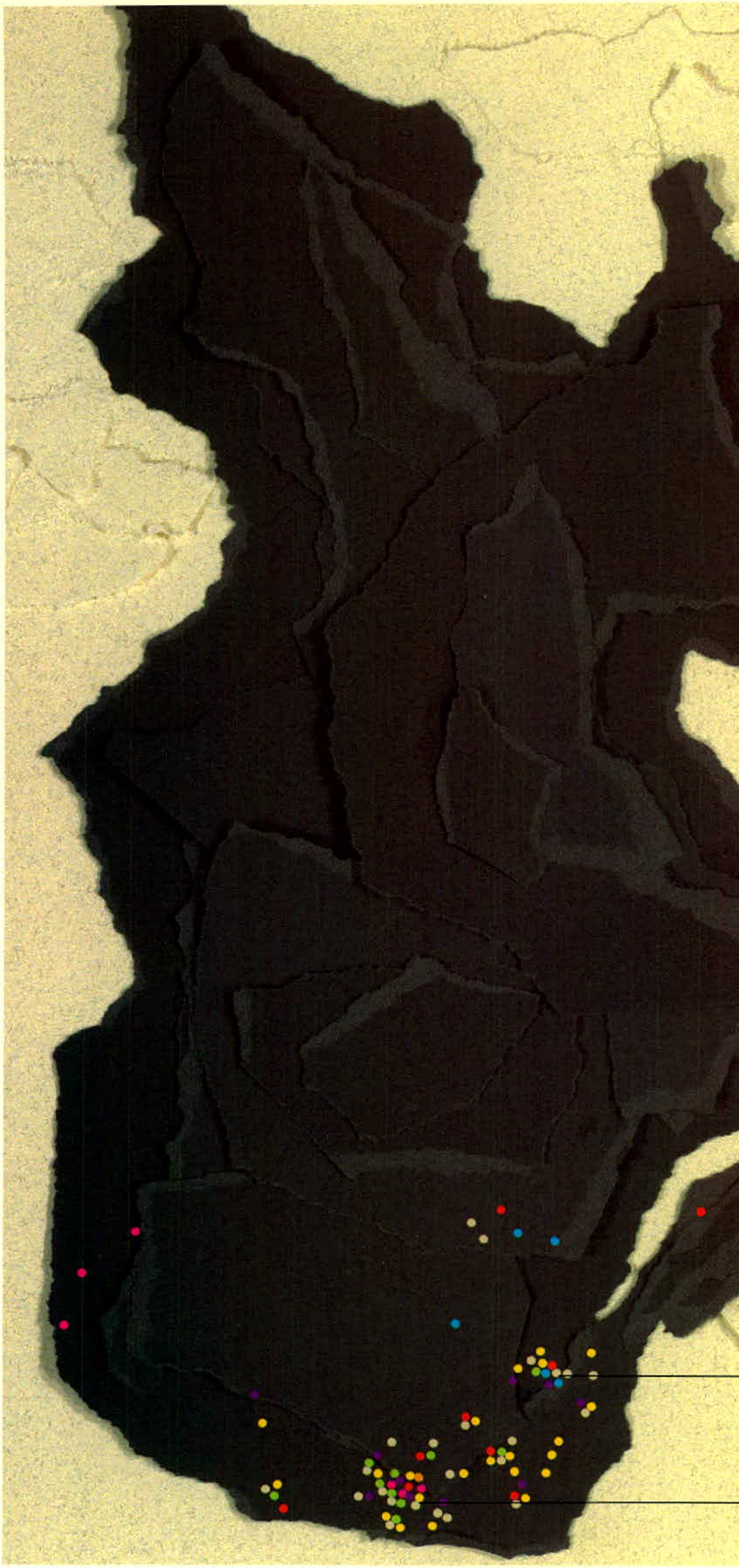
Since its acquisition by Métro-Richelieu in October 1986, McMahon-Essaim inc. (McMahon-Essaim) has seen its sales soar from $52 million to $121 million, a yearly growth average of over 53 %, which attests to the major role Métro-Richelieu intends to play in the pharmaceutical sector in Quebec.

McMahon-Essaim supplies the 114 independent pharmacies displaying the Essaim banner throughout Quebec. In addition, McMahon-Essaim acquired Entreprises Gilles Cloutier inc. in 1987, along with its distribution centre serving the 13 Cloutier super pharmacies.

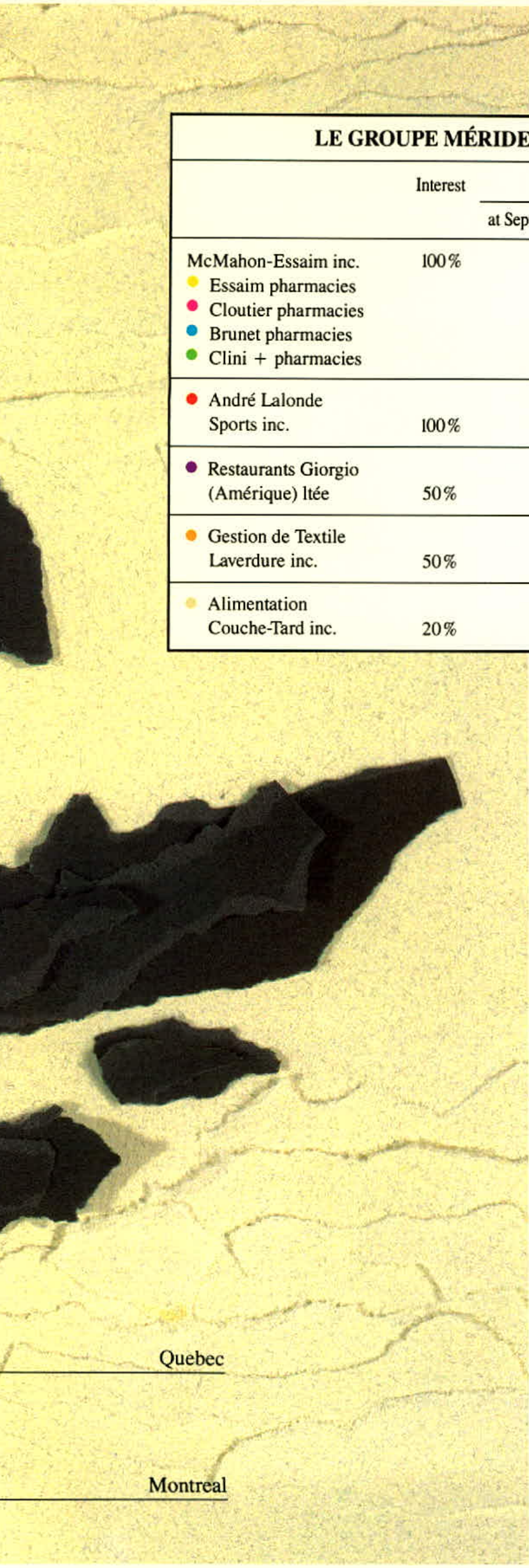
During the year, McMahon-Essaim became owner of leases and franchises of 6 Pharmaprix Carnaval outlets located near Super Carnaval food stores. Since their acquisition, these Pharmaprix stores have changed banner and are now operating under the name Cloutier. This transaction has increased McMahon-Essaim sales by $20 million a year.

In Abitibi, the opening of 3 pharmacies under the Cloutier banner has firmly established McMahon-Essaim's foot-hold in the region.

During the year, two new stores also opened in Brossard and Pointe-aux-Trembles, bringing to 24 the total number of super pharmacies under the Cloutier banner.



LE GROUPE MÉRIDEV INC.			
	Interest	Number of sales outlets	
		at Sept. 24, 1988	at Sept. 26, 1987
McMahon-Essaim inc.	100%	—	—
• Essaim pharmacies		114	107
• Cloutier pharmacies		24	13
• Brunet pharmacies		14	—
• Clini + pharmacies		32	—
• André Lalonde Sports inc.	100%	31	25
• Restaurants Giorgio (Amérique) ltée	50%	35	37
• Gestion de Textile Laverdure inc.	50%	—	—
• Alimentation Couche-Tard inc.	20%	132	120



Le GROUPE MÉRIDEV is a presence in all Quebec areas.

Furthermore, McMahon-Essaim continued to grow by acquiring full ownership of the W. Brunet Co Ltd. franchise company. This transaction enabled McMahon-Essaim to make a major breakthrough in the Quebec City and Saguenay/Lac-St-Jean areas, where the 14 Brunet pharmacies have been enjoying an enviable reputation for over 135 years.

And the creation of a new banner

In June 1988, McMahon-Essaim launched Clini+, a new banner offered to small pharmacies located in medical clinics. Within a few months, 32 pharmacies had joined the Clini + group. Among these, 6 Essaim pharmacies, whose business mission was more in line with the new banner, joined Clini +.

A third warehouse in Montreal

As a result of increased sales in the pharmaceutical division, a new warehouse had to be set up in Montreal, in addition to those already operating in Quebec City and Sherbrooke. The official opening this year of the Montreal warehouse made it possible to integrate the activities of Entreprises Gilles Cloutier inc. into those of McMahon-Essaim.

This opening, as well as major changes to information and accounting systems, resulted in some operational difficulties which affected the profitability of the division during the last quarter. The adjustment period is almost over and management expects operations to return to normal by the end of the first quarter of 1988-1989.

For the coming year, McMahon-Essaim intends to consolidate its activities after two years of strong growth, without neglecting any potential development opportunity.

ANDRÉ LALONDE SPORTS:
THE NUMBER ONE SPORTS SPECIALIST

The André Lalonde Sports stores are well known for their expertise in middle and high-end sports equipment in Quebec. In addition, they offer consumers highly competent advice.

During the year, André Lalonde Sports inc. (André Lalonde Sports) was able to bring the total number of corporate or franchised stores in Quebec from 25 to 31, including 4 boutiques operating inside highly popular recreational centres.

In August, André Lalonde Sports inaugurated a tenth corporate store. This year, André Lalonde Sports plans to continue developing the existing network of stores, primarily by using the franchise formula.

REAL ESTATE: A STRENGTH TO BE DEVELOPED

This year, Société immobilière Devimont inc. (Devimont) laid the groundwork for further development of the real estate market by Métro-Richelieu.

The shortage of highly desirable and available commercial sites in most Quebec urban centres, and their rapidly growing value have become additional key factors justifying a greater involvement of Métro-Richelieu in real estate.

Last fall, Devimont initiated the first phase of construction for a shopping centre in Hull, investing $6 million (not including the $4 million needed to set up the facilities, as well as the purchase equipment and stock) in a fourteenth Super Carnaval store also located in this new shopping centre.

Over the coming years, Métro-Richelieu plans to enhance its presence in the real estate sector each time its primary activities stand to benefit from such action.

COMPLEMENTARY INTERESTS

Group Méridev also holds a 50% or minority interest in some companies known for their growth potential and expertise in fields related and complementary to those of Métro-Richelieu.

Restaurants Giorgio (Amérique) ltée

Initially considered by Métro-Richelieu as a natural for diversification, the acquisition of a 50% share in Restaurants Giorgio (Amérique) ltée (Restaurants Giorgio) has enabled the Company to increase the sales of its Food Services Division, Éconogros.

During the year, Restaurants Giorgio rationalized its operations after the integration of Restaurants Pastelli inc., and underwent several reorganizations to improve the quality and consistency of its menus. The manufacturing process for sauces served in all Giorgio restaurants, for instance, was centralized. This new orientation also enables the Company to offer these products in supermarkets.

McMahon-Essaim inc. has seen its sales soar from $52 million to $121 million, a yearly growth average of over 53%, which attests to the major role Métro-Richelieu intends to play in the pharmaceutical sector in Quebec.

Alimentation Couche-Tard inc.

Métro-Richelieu owns 20% of Alimentation Couche-Tard inc. (Alimentation Couche-Tard), the second largest network of convenience stores in Quebec.

Alimentation Couche-Tard reported excellent results for its fiscal year ended May 1988. The number of sales outlets went from 120 to 132, and the earnings of its affiliated retailers rose by approximately 165%.

These gratifying results contributed to increasing the sales of Éconogros, the Métro-Richelieu Food Services Division, which is the exclusive supplier of convenience-store operators who belong to the Couche-Tard/Sept Jours Network.

Gestion de Textile Laverdure inc.

A specialist in the rental and maintenance of linen and uniforms for commercial and industrial companies, Gestion de Textile Laverdure inc. (Gestion de Textile Laverdure) provides all Métro-Richelieu retail merchants with an invaluable service.

In January, the Company acquired Buanderie Crown of Sherbrooke City, followed by, in June, half the customers of Buanderie Cité of Montreal.

The Expansion Service thoroughly evaluates all business opportunities.

FINANCIAL REVIEW

FINANCIAL OBJECTIVES

For Métro-Richelieu Inc., fiscal year 1988 was one of increased financial health and progress towards attaining its financial objectives. These objectives are as follows:

- net earnings equal to 1% of sales
- 15% return on shareholders' equity
- long-term debt/shareholders' equity ratio of 1/1

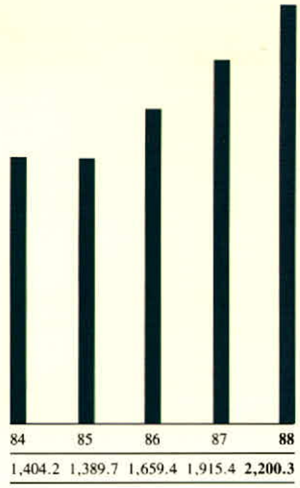
Although these are medium-term objectives, the results to date indicate that the targets are well within reach. The ratio of net earnings to sales now stands at 0.59%, compared with 0.46% in 1987 and 0.36% in 1986. Over the past few years, the long-term debt/shareholders' equity ratio has improved a great deal, dropping from 1.67 in 1986 to 1.30 in 1987, and currently standing at 1.21. The Company's major capitalization efforts over the past two years have considerably reduced its leverage, with a resulting drop in return on shareholders' equity to 9.4%. However, this trend is expected to reverse in 1989.

SALES

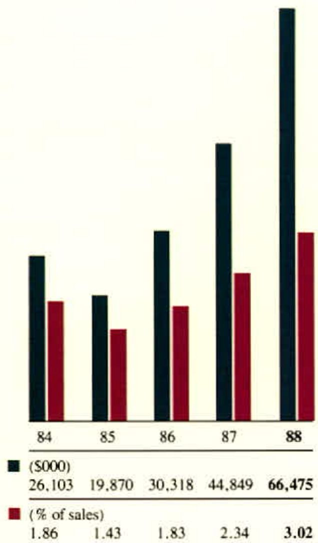
Consolidated sales for 1988 rose to $2,200,252,000, compared with $1,915,417,000 the previous year, a 15% increase. This can be attributed in part to the sales of companies acquired by Métro-Richelieu during 1987; these sales were consolidated from the date of acquisition only. The acquisition of the Super Carnaval stores, in particular, resulted in a sales increase in both the retail and wholesale sectors. Sales for the Company's main sectors are as follows:

($000)	1988	1987
Food sector		
— wholesale	1,689,253	1,585,501
— institutional	171,877	148,833
— retail	483,424	260,753
Pharmaceutical sector	121,378	63,764
Others	25,614	23,353
Inter-sectorial eliminations	(291,294)	(166,787)
	2,200,252	1,915,417

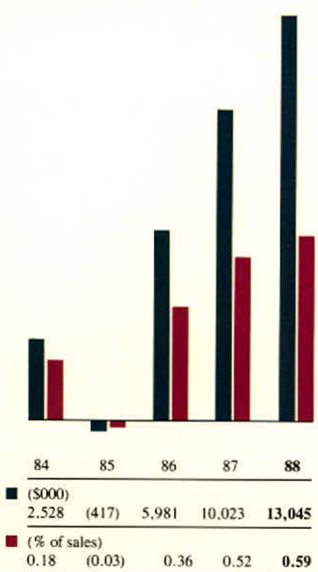
Sales
($000,000)



Earnings from
operations



Net Earnings



EARNINGS FROM OPERATIONS

Earnings from operations for the year totalled $66,475,000 compared with $44,849,000 for the previous year, an increase of 48%. As a percentage of sales, the operating income represents 3.02%, compared with 2.34% in 1987. This can be attributed to the contribution of the retail food sector, which combines the Super Carnaval stores and corporate stores, as well as to the Company's efforts to integrate and rationalize its activities.

NET EARNINGS

Net earnings at year end totalled $13,045,000, compared with $8,737,000 ($10,023,000 after extraordinary item) the previous year, an increase of 49%. Unusual earning of $3,298,000 contributed to the results for the year, reflecting the gain before income taxes on the sale of corporate stores.

As a percentage of sales, net earnings for the year represent 0.59%, against 0.46% (0.52% after extraordinary item) for the previous year. Earnings per share stand at $0.63 compared with $0.58 ($0.67 after extraordinary item) for 1987. The appreciable increase in earnings during the year had a moderate impact on earnings per share, and return on shareholders' equity dropped to 9.4%. The explanation lies in the Company's capitalization efforts. During the past few years, the Company has sought to increase its equity with a view to reinforcing its financial structure and suppor - ting its growth.

Depreciation and interest expenses went up, from $14,604,000 and $14,308,000 to $22,181,000 and $24,163,000 respectively. These increases are basically related to acquisitions made the previous year, whose impact was felt throughout the entire period. Increasing financial expenses caused a slight drop in the interest coverage ratio, which now stands at 1.97, compared with 2.11 a year ago.

CAPITAL EXPENDITURES

Capital expenditures over the year rose to $22,000,000. From that amount, a sum of $8,500,000 was used to ensure efficient management of the Company's storage and distribution activities. In addition, $8,000,000 were invested in retail operations, either to purchase corporate stores, renovate or outfit them. The Company's real estate subsidiary devoted $3,100,000 to its development while the other sectors shared the remaining $2,400,000.

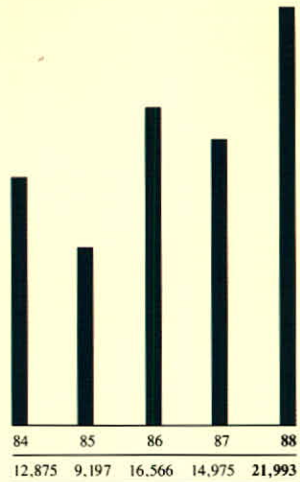
FINANCIAL STRUCTURE

The Company's total assets rose to $569,120,000, an increase of 7% over the previous year. This $36,000,000 increase, made up of current assets in the amount of $24,000,000, was financed through a $14,000,000 increase in current liabilities, a $4,500,000 net increase of long-term debt, a $4,500,000 increase in deferred income taxes, and $13,000,000 in reinvested earnings.

The long-term debt to equity ratio improved, dropping from 1.30 the previous year to 1.21 at year end. Towards the end of the year, Métro-Richelieu concluded with Caisse de dépôt et placement du Québec an investment transaction of $30,000,000 in the form of convertible debentures bearing interest at a rate of 9.5%. The proceed of the investment was used to reduce variable rate long-term bank loans. If we were to include this financing of $30,000,000 in the Company's equity, since it is in the form of convertible debentures, the long-term debt to equity ratio would stand at 0.86. During the year, the Company also concluded swap facilities agreements with third parties with a view to establishing a maximum interest rate of 9.98% on a sum of $35,000,000 until 1993. Given these two operations, 74% of the long-term debt is at a fixed rate, which reduces the risk related to the fluctuation of interest rates.

Funds derived from operations for the year amounted to $36,496,000, representing 1.7% of sales and $2.16 per share, compared with $26,241,000 the previous year or 1.4% of sales and $1.92 per share. Of that amount, $9,848,000 was reinvested in the working capital, which totalled $34,530,000 at year end, compared with $24,682,000 the previous year. The working capital ratio rose slightly, from 1.13 to 1.17.

Capital Expenditures
($000)



Long-Term Debt/
Shareholders' Equity

QUARTERLY RESULTS

YEAR ENDED SEPTEMBER 24, 1988	First Quarter (12 wks)	Second Quarter (12 wks)	Third Quarter (16 wks)	Fourth Quarter (12 wks)	Year
Sales ($000)	520,726	489,893	681,920	507,713	2,200,252
Net earnings ($000)	3,155	4,352	3,824	1,714	13,045
Earnings per share	$0.15	$0.24	$0.18	$0.06	$0.63
Quoted market price					
High	$8⅞	$6¼	$7	$5⅞	$8⅞
Low	$5	$5	$5¼	$4.60	$4.60
Volume of transactions	685,985	445,653	736,777	454,510	2,322,925

YEAR ENDED SEPTEMBER 26, 1987	First Quarter (12 wks)	Second Quarter (12 wks)	Third Quarter (16 wks)	Fourth Quarter (12 wks)	Year
Sales ($000)	449,760	394,199	577,888	493,570	1,915,417
Earnings before extraordinary item ($000)	1,676	1,588	3,328	2,145	8,737
Net earnings ($000)	1,676	2,052	3,328	2,967	10,023
Earnings per share					
before extraordinary item	$0.13	$0.12	$0.21	$0.12	$0.58
after extraordinary item	$0.13	$0.16	$0.21	$0.17	$0.67
Quoted market price					
High	$7½	$8⅛	$13¼	$10	$13¼
Low	$6⅛	$6⅛	$7¾	$7¼	$6⅛
Volume of transactions	415,307	1,044,518	3,546,704	625,461	5,631,990

FINANCIAL STATEMENTS

Year ended September 24, 1988

MANAGEMENT'S REPORT
On the Company's consolidated financial statements

The consolidated financial statements of Métro-Richelieu Inc. and financial information contained in this Annual Report are the responsibility of Management. These consolidated financial statements were prepared according to the accounting principles generally accepted in Canada and were approved by the Board of Directors.

Métro-Richelieu Inc. maintains accounting and administrative control systems which, in the opinion of Management, ensure reasonable accuracy of financial information and well-ordered, efficient management of the Company's affairs.

The Board of Directors discharges its responsibilities for approving the consolidated financial statements included in this Annual Report, principally through its Audit Committee. This Committee, which holds periodic meetings with members of Management, the internal auditor and external auditors, reviewed the consolidated financial statements of Métro-Richelieu Inc. and recommended their approval to the Board of Directors.

The enclosed consolidated financial statements were audited by Mallette, Benoit, Boulanger, Rondeau & Associés, chartered accountants and their report indicating the extent of their audit and their opinion on the consolidated financial statements is set out below.

Jacques L. Maltais
President and Chief Executive Officer

L.G. Serge Gadbois, c.a.
Vice-president, Finance

AUDITORS' REPORT
To the Shareholders of Métro-Richelieu Inc.

We have examined the consolidated balance sheet of Métro-Richelieu Inc. as at September 24, 1988 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at September 24, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Mallette, Benoit, Boulanger, Rondeau & Associés

Chartered Accountants

Montreal,
November 11, 1988

CONSOLIDATED STATEMENT OF EARNINGS
Year ended September 24, 1988

	1988	1987
	(in thousands of dollars)	
Sales	**$ 2,200,252**	$ 1,915,417
Cost of sales and operating expenses	**2,133,777**	1,870,568
Earnings from operations	**66,475**	44,849
Other items		
Financial —		
Short-term	**3,060**	2,186
Long-term	**21,103**	12,122
Depreciation and amortization (note 3)	**22,181**	14,604
Gain on disposal of stores	**(3,298)**	—
	43,046	28,912
Earnings before income taxes and extraordinary item	**23,429**	15,937
Income taxes (note 4)		
Current	**5,984**	4,266
Deferred	**4,400**	2,934
	10,384	7,200
Earnings before extraordinary item	**13,045**	8,737
Extraordinary item	**—**	1,286
Net earnings	**$ 13,045**	$ 10,023
Earnings per share		
Before extraordinary item	**$ 0.63**	$ 0.58
After extraordinary item	**$ 0.63**	$ 0.67

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
Year ended September 24, 1988

	1988	1987
	(in thousands of dollars)	
Balance, beginning of year	**$ 15,119**	$ 8,085
Add:		
Net earnings	**13,045**	10,023
Transfer of the excess of appraised value of fixed assets over cost	**13**	13
	28,177	18,121
Deduct:		
Share issue expenses less income taxes	**19**	1,437
Excess of redemption price of shares over their stated value	**—**	920
Dividends on preferred shares	**2,304**	645
	2,323	3,002
Balance, end of year	**$ 25,854**	$ 15,119

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended September 24, 1988

	1988	1987
	(in thousands of dollars)	
Operating activities		
Earnings before extraordinary item	**$ 13,045**	$ 8,737
Depreciation and amortization	**22,181**	14,604
Gain on disposal of long-term assets	**(3,130)**	(34)
Deferred income taxes	**4,400**	2,934
	36,496	26,241
Net changes in other items	**(16,913)**	(19,253)
Cash provided from operating activities	**19,583**	6,988
Financing activities		
Issuance of convertible debentures	**30,000**	—
Increase in long-term debt	**80,184**	147,361
Repayment of long-term debt	**(104,745)**	(30,065)
Net changes in minority interest	**(830)**	830
Issuance of capital stock	**2,813**	97,640
Share issue expenses	**(19)**	(1,437)
Redemption of capital stock	**(47)**	(4,057)
Cash provided from financing activities	**7,356**	210,272
Investing Activities		
Acquisition of fixed assets	**(21,993)**	(67,317)
Acquisition of other assets	**(18,781)**	(156,955)
Disposal of fixed assets and other assets	**12,059**	6,237
Net change in investments	**(3,313)**	(14,367)
Cash applied to investing activities	**(32,028)**	(232,402)
Dividends	**(2,304)**	(645)
Cash decrease	**(7,393)**	(15,787)
Cash position, beginning of year	**(53,620)**	(37,833)
Cash position, end of year	**$(61,013)**	$(53,620)

Cash consists of outstanding cheques and bank loans.

CONSOLIDATED BALANCE SHEET

September 24, 1988

	1988	1987
ASSETS	(in thousands of dollars)	
Current assets		
Accounts receivable	**$106,717**	$ 91,949
Inventories	**117,726**	110,773
Prepaid expenses	**7,356**	6,241
Current portion of investments (note 5)	**5,629**	4,359
	237,428	213,322
Investments (note 5)	**13,478**	11,435
Fixed assets (note 6)	**146,125**	142,668
Other assets (note 7)	**172,089**	165,740
	$569,120	$533,165

	1988	1987
LIABILITIES	(in thousands of dollars)	
Current liabilities		
Outstanding cheques	**$ 36,683**	$ 47,143
Bank loans	**24,330**	6,477
Accounts payable and accrued liabilities	**129,966**	123,992
Income taxes	**838**	889
Current portion of long-term debt (note 8)	**11,081**	10,139
	202,898	188,640
Long-term debt (note 8)	**163,465**	188,968
Deferred income taxes	**13,494**	8,952
Minority interest	**—**	830
Convertible debentures (note 9)	**30,000**	—
Shareholders' equity		
Capital stock (note 10)	**132,692**	129,926
Retained earnings	**25,854**	15,119
Contributed surplus	**157**	157
Excess of appraised value of fixed assets over cost	**560**	573
	159,263	145,775
	$569,120	$533,165

On behalf of the board

Marcel R. Guertin

Marcel R. Guertin,
Chairman of the Board

Bernard Bélair

Bernard Bélair,
Treasurer

1. Statutes of incorporation:

The Company is governed by Part 1A of the Quebec Companies Act.

2. Summary of the principal accounting policies:

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles. The following is a summary of the principal accounting policies used to prepare the consolidated financial statements.

a) Consolidation —

The consolidated financial statements include the accounts of the Company and its subsidiaries.

b) Inventory valuation —

Inventory is valued at lower of cost (generally determined on a first in, first out basis) and net realizable value.

c) Acquisitions and disposals of stores —

Acquisitions and disposals of stores form part of the company's normal operations. Gains and losses on disposals of stores are accounted for when realized.

d) Investments —

Investments in companies subject to significant influence are accounted for using the equity method. Other investments are accounted for at cost.

e) Fixed assets, capital leases and depreciation —

Fixed assets and fixed assets under capital leases are accounted for at cost, except for a land and a building which were appraised in 1968.

Depreciation of fixed assets and fixed assets under capital leases are recorded using the straight-line method at the following rates:

Land improvements	2½% to 5%
Buildings	2½%
Machinery and equipment	2½% to 25%
Rolling stock	10% to 25%
Leasehold improvements	term of the leases

f) Other assets and amortization —

Other assets are accounted for at cost.

Amortization is recorded using the straight-line method at the following rates:

Goodwill	2½% to 5%
Leasehold rights	term of the leases
Other	5% to 33⅓%

g) Excess of appraised value of fixed assets over cost —

The excess is transferred to retained earnings when realized through depreciation or sale of appraised fixed assets.

h) Pension plan —

Pension costs related to current services are charged to earnings for the period during which the services are rendered; past service costs are amortized over the expected average remaining service life of the employees covered by the plans, namely sixteen years. The difference between the pension costs and funding payments is recorded on the balance sheet under "Other assets".

i) Earnings per share —

Earnings per share are calculated using the weighted average number of outstanding Class A subordinate shares and Class B shares, taking into account dividends on first preferred shares, Series 1 and second preferred shares.

Fully diluted earnings per share are calculated when potential conversions of shares, debt or debentures and the exercise of rights and warrants would affect significantly earnings per share.

3. Earnings:

The consolidated statement of earnings includes the following items:

	1988	1987
	(in thousands of dollars)	
Depreciation and amortization		
Fixed assets	**$ 15,145**	$ 11,841
Goodwill	**2,879**	1,312
Leasehold rights	**1,830**	669
Other	**2,327**	782
	$ 22,181	$ 14,604
Interest in companies subject to significant influence	**$(168)**	$(46)

4. Income taxes:

The actual income tax rates of the Company are as follows:

	1988	1987
Statutory income tax rates	**40.62 %**	42.92 %
Other	**3.70**	2.26
	44.32 %	45.18 %

5. Investments:

	1988	1987
	(in thousands of dollars)	
Investments in companies subject to significant influence	**$ 9,070**	$ 9,391
Loans	**8,119**	4,533
Other	**1,918**	1,870
	19,107	15,794
Current portion	**5,629**	4,359
	$ 13,478	$ 11,435

6. Fixed assets:

	1988			1987
	Cost	**Accumulated depreciation**	**Net value**	Net value
	(in thousands of dollars)			
Land and land improvements	**$ 8,984**	**$ 369**	**$ 8,615**	$ 6,200
Building under construction	**945**	**—**	**945**	—
Buildings	**62,158**	**10,594**	**51,564**	51,674
Machinery and equipment	**40,829**	**16,982**	**23,847**	23,235
Rolling stock	**30,883**	**17,477**	**13,406**	11,500
Leasehold improvements	**4,926**	**1,715**	**3,211**	1,553
	148,725	**47,137**	**101,588**	94,162
Fixed assets under capital leases	**57,217**	**12,680**	**44,537**	48,506
	$205,942	**$ 59,817**	**$146,125**	$142,668

7. Other assets, at amortized cost:

	1988	1987
	(in thousands of dollars)	
Goodwill	**$ 89,227**	$ 88,905
Leashehold rights	**68,306**	70,127
Other	**14,556**	6,708
	$172,089	$165,740

8. Long-term debt:

	1988	1987
	(in thousands of dollars)	
Loans, secured by first and second mortgages, bearing interest at rates ranging from 11% to 13.5%, maturing up to 1995	**$ 21,379**	$ 39,085
Loans, secured by a first collateral mortgage and by a commercial pledge, bearing interest at the rate of 13.395%, maturing in 1993	**5,500**	6,500
Loans, secured by liens on equipment, bearing interest at rates ranging from 9.95% to 14.25%, maturing up to 1995	**9,127**	7,787
Notes, without interest or bearing interest at rates ranging from 1% below to 1½% above the prime rate, maturing up to 1992	**8,511**	23,065
Notes, secured by shares of some subsidiaries, bearing interest at the prime rate, maturing in December 1989	**10,000**	—
Debentures, secured by a floating charge on all assets of the Company under a trust deed, Series A and B, bearing interest at the prime rate until 1993 and at the rate of ¼ of 1% above prime rate from 1993 to 1998, maturing in 1998	**70,000**	—
Notes, reimbursed in advance	**—**	70,000
Loans from shareholder customers, redeemable after five and ten years of their respective instalments, bearing interest at rates ranging from 1% below to 1½% above the average prime rate	**530**	688
Notes from shareholder customers, without interest, converted quarterly into Class A subordinate shares	**380**	285
Other loans from shareholder customers, without repayment conditions, bearing interest payable semi-annually at rates ranging from 9% to the average prime rate	**1,299**	1,129
Obligations under capital leases, bearing interest at rates ranging from 9.19% to 13.25%, maturing up to 1997	**47,820**	50,568
	174,546	199,107
Current portion	**11,081**	10,139
	$163,465	$188,968

The Company has concluded a swap facilities contract for an amount of $35,000,000 bearing interest at the rate of 9.98% until 1993.

Capital repayments of the long-term debt, payable during the next five years, and minimum payments under capital leases are as follows, assuming that loans subject to renewal are renewed under the same conditions:

Long-term debt	Capital leases		
(in thousands of dollars)			
1989 – $ 5,014	1989	–	$ 11,178
1990 – $ 17,206	1990	–	9,262
1991 – $ 13,499	1991	–	9,006
1992 – $ 7,761	1992	–	8,030
1993 – $ 7,633	1993 and following	–	35,559
			73,035
	Less interest included in instalments		25,215
			$ 47,820

9. Convertible debentures:

On September 22, 1988, the Company has issued unsecured convertible debentures in the amount of $30,000,000 at the rate of 9.5%, repayable September 22, 1998. The debentures are convertible at any time at the holder's request by blocks of $7,500,000 into first preferred shares, Series 2 or into participating shares of the Company's capital stock at a price of $7.25 per share and are retractable by the Company under certain conditions from September 22, 1991.

10. Capital stock:

Authorized:

Unlimited number of first preferred shares, without par value, issuable in series:

Series 1, non-voting, convertible into Class A subordinate shares at a price of $ 13.80, redeemable at $ 1,000 per share, cumulative dividend equal to 50% of the prime rate plus 1¾% up to a maximum of 8%

Series 2, non-voting, convertible into an equal number of participating shares, redeemable, dividend at the same rate as Class A subordinate shares and Class B shares

12,000 second non-voting preferred shares, cumulative dividend of 75% of bank prime rate plus 1½%, redeemable, with a par value of $ 100 each

Unlimited number of Class A subordinate shares without par value

Unlimited number of Class B shares without par value

	1988	1987
	(in thousands of dollars)	
Issued:		
32,500 first preferred shares, Series 1	**$ 32,500**	$ 32,500
3,899 second preferred shares (1987 – 9,305)	**390**	931
16,031,749 Class A subordinate shares (1987 – 15,389,193)	**96,185**	92,948
1,164,920 Class B shares (1987 – 1,280,040)	**3,617**	3,700
Deduct:		
Shares held by wholly-owned subsidiaries	**—**	(153)
	$132,692	$129,926

The change in capital stock is summarized as follows:

	1988		1987	
	Number of shares	**Amount**	Number of shares	Amount
		(in thousands of dollars)		
Issuance of capital stock:				
First preferred shares, Series 1	**—**	**$ —**	32,500	$ 32,500
Class A subordinate shares	**373,809**	**$ 2,257**	8,324,853	$ 64,638
Class B shares	**97,200**	**$ 556**	64,800	$ 502
Redemption of shares:				
Second preferred shares	**1,991**	**$ 200**	1,914	$ 191
Class A subordinate shares	**—**	**$ —**	531,980	$ 2,468
Class B shares	**—**	**$ —**	301,000	$ 1,398
Conversion of shares:				
Class B shares converted into Class A subordinate shares	**212,320**	**$ 639**	229,300	$ 640
3,415 second preferred shares converted into Class A subordinate shares	**56,427**	**$ 341**	—	$ —

The Company has issued notes convertible until December 31, 1990 into a total of 200,000 Class A subordinate shares for a consideration of $2,000,000 and 300,000 warrants entitling their holders to purchase until December 31, 1990, 300,000 Class A subordinate shares at a price of $ 10 per share.

The Company has granted Class A subordinate share options to certain officers, entitling them to subscribe for 546,250 shares at a price ranging from $4.75 to $6.125 until December 8, 1993.

11. Pension plan:

The actuarial value of pension benefits as of September 24, 1988 amounts to $5,133,000. The assets of the pension fund are assessed at a market value of $ 1,951,000 as at September 24, 1988.

12. Contingent liabilities:

For certain of its shareholder customers and other firms with which business relationships are established:

- The Company assumes a contingent liability as endorser of lease contracts having terms varying from five to twenty-five years and maturing from 1992 to 2001. The annual minimum lease payments, excluding escalator clauses, amount to $535,000. The contingent liability under these endorsements as of September 24, 1988 is $5,981,000.
- The Company has endorsed loans granted by financial institutions for a maximum amount of $ 10,389,000.
- The Company has a limited contingent liability as guarantor of conditional sales contracts. As at September 24, 1988, the outstanding contracts amounted to $ 8,770,000, representing the capital balance of the contracts.
- The Company assumes a contingent liability as guarantor of operating results of two related companies in order that each of the companies does not have a loss.

13. Contractual obligations:

a) The Company has undertaken to lease certain premises under leases with terms varying from three to twenty-five years and extending up to the year 2007 for annual minimum payments totalling $ 11,015,000. The total commitments excluding escalator clauses are $ 172,268,000. The balance of these commitments as at September 24, 1988 amounts to $ 137,022,000.

b) Under lease agreements and lease offers with terms varying from five to twenty-five years extending until 2010, the Company has undertaken to lease premises for minimum annual payments totalling $ 12,265,000. The total commitments excluding escalator clauses amount to $ 221,373,000. The balance of these commitments as at September 24, 1988 amounts to $ 185,887,000.
In return, the Company sublets these premises under the same terms and conditions and for the same considerations as in the above-mentioned lease agreements and lease offers.

c) The Company has undertaken, under a business agreement, to pay during the next four years an aggregate amount of about $ 1,300,000. This agreement concerns site development and a contribution to rental payments with respect to retail food outlets.

d) In accordance with acquisition contracts of investments and other assets, the Company may be called upon to make additional payments up to a maximum amount of $ 1,842,000, should certain conditions be met.

e) The Company has undertaken, under a construction contract, to build a shopping centre for an amount of $ 3,194,000. The balance of this commitment as at September 24, 1988 amounts to $ 2,510,000.

14. Related party transactions:

The major portion of the sales of the Company and its subsidiaries results from transactions concluded with its shareholder customers.

15. Subsequent events:

Since the end of the year, the Company has acquired a shopping center and land for a total cost of $ 4,920,000.

16. Comparative figures:

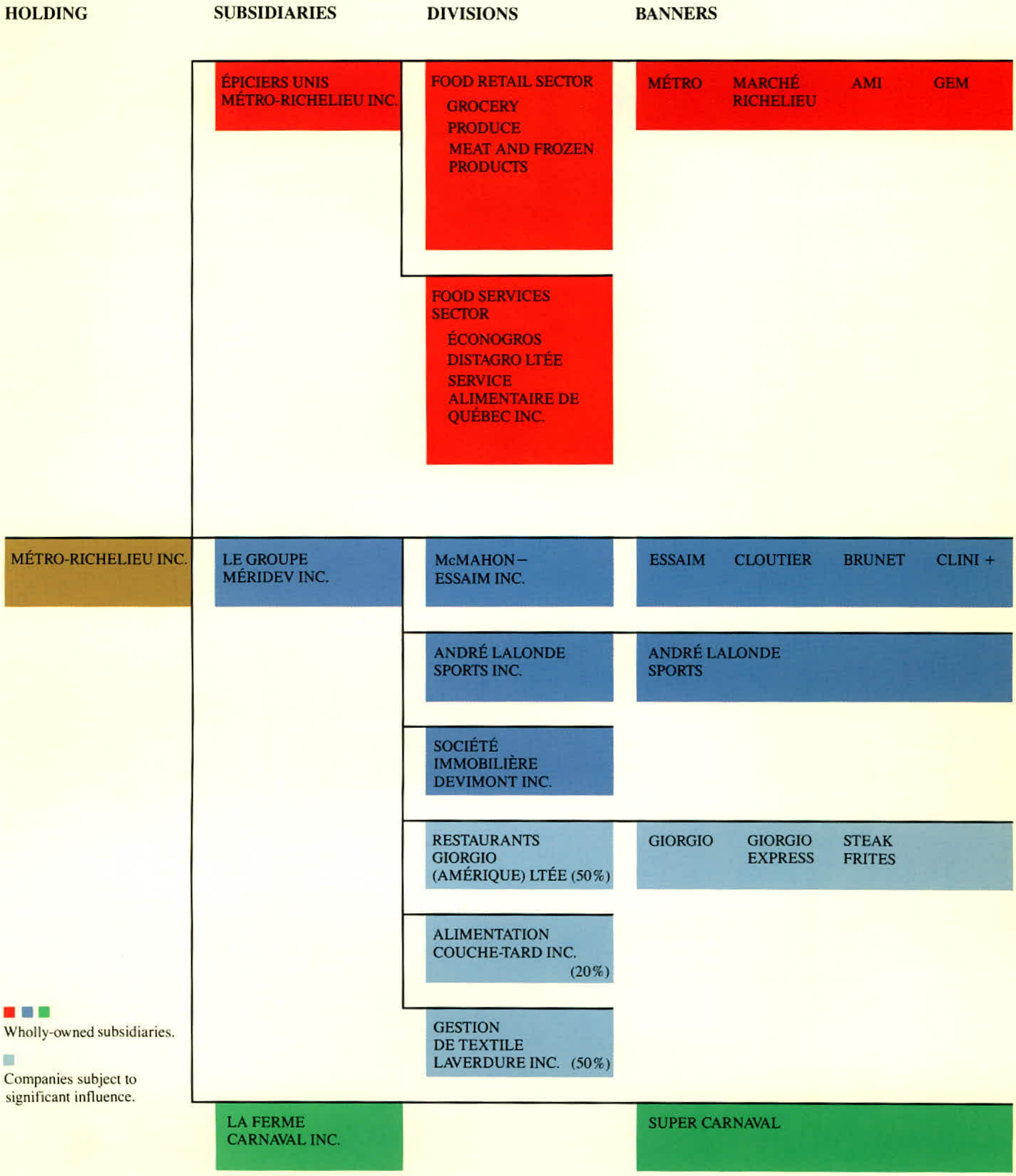
Certain comparative figures have been reclassified to conform with the presentation used in the current year.

FINANCIAL RETROSPECTIVE

Unaudited	1988	1987	1986	1985	1984
SUMMARY OF EARNINGS ($000)					
Sales	2,200,252	1,915,417	1,659,413	1,389,704	1,404,203
Earnings from operations	66,475	44,849	30,318	19,870	26,103
Depreciation	22,181	14,604	9,409	8,745	8,473
Interest	24,163	14,308	11,015	13,873	14,278
Unusual item	3,298	—	—	—	—
Income taxes	10,384	7,200	3,913	(1,682)	824
Earnings before extraordinary item	13,045	8,737	5,981	(1,066)	2,528
Net earnings	13,045	10,023	5,981	(417)	2,528
CHANGES IN FINANCIAL POSITION ($000)					
Funds derived from operations	36,496	26,241	19,546	5,856	13,366
Capital expenditures	21,993	14,975*	16,566	9,197	12,875
FINANCIAL STRUCTURE ($000)					
Working capital	34,530	24,682	19,783	7,305	12,333
Current assets	237,428	213,322	153,686	143,567	119,635
Current liabilities	202,898	188,640	133,903	136,262	107,032
Fixed assets	146,125	142,668	91,404	84,456	85,665
Total assets	569,120	533,165	257,533	234,835	211,147
Long-term debt	193,465	188,968	73,945	63,251	85,050
Shareholders' equity	159,263	145,775	44,404	33,624	15,626
FINANCIAL RATIOS					
Net earnings/sales	0.59%	0.52%	0.36%	(0.03%)	0.18%
Earnings before extraordinary item/sales	0.59%	0.46%	0.36%	(0.08%)	0.18%
Earnings from operations/sales	3.02%	2.34%	1.83%	1.43%	1.86%
Cash flow/sales	1.66%	1.37%	1.18%	0.42%	0.95%
Return on shareholders' equity	9.4%	12.3%	18.0%	N/A	N/A
Long-term debt/shareholders' equity	1.21	1.30	1.67	1.88	5.44
Total liabilities/shareholders' equity	2.49	2.59	4.68	5.93	12.31
Working capital	1.17	1.13	1.15	1.05	1.11
Interest coverage	1.97	2.11	1.90	0.80	1.23
COMMON SHARE					
Earnings					
before extraordinary item	$0.63	$0.58	$0.73	($0.53)	N/A
after extraordinary item	$0.63	$0.67	$0.73	($0.34)	N/A
Cash flow	$2.16	$1.92	$2.44	N/A	N/A
Number of shares outstanding at year end	17,196,669	16,669,233	9,112,560	N/A	N/A
Weighted number of shares	16,917,113	13,676,276	7,997,840	N/A	N/A
Book value	$7.35	$6.75	$4.76	N/A	N/A
Quoted market price					
High	$8⅞	$13¼	N/A	N/A	N/A
Low	$4.60	$6⅛	N/A	N/A	N/A
Volume of transactions	2,322,925	5,631,990	N/A	N/A	N/A

* Excluding capital expenditures arising from acquisitions, in the amount of $52,342,000.

ORGANIZATIONAL CHART



MANAGEMENT

BOARD OF DIRECTORS

□ **Marcel R. Guertin**
Chairman of the Board

□ **Aimé Gagnon**
Vice-Chairman of the Board

□ **Jean-Claude Messier**
Secretary

□ **Bernard Bélair**
Treasurer

□ **Réal Brouillette**
Director

○ **Maurice Jodoin**
Director

○ **Roland Ferland**
Director

○ **Mario Torti**
Director

● **Benoît Gadoury**
Director

● **Jacques Laliberté**
Director

* **Roger Lévesque**
Director

* **Pierre Shooner**
Director

James S. Parsons
Director

□ Member of the Executive Committee
○ Member of the Audit Committee
● Member of the Marketing Committee
* Member of the Human Resources Committee

MANAGEMENT

MÉTRO-RICHELIEU INC.

Jacques L. Maltais
President and Chief Executive Officer

Réjean Bouchard
Assistant to the President

Raymond Bachand
Vice-President,
Planning and Development

Gaétan Frigon
Vice-President, Marketing
and Head of Retail Operations

L.G. Serge Gadbois
Vice-President,
Finance

Denise Martin
Vice-President,
Information Systems

Jacques Obry
President and Chief Operating Officer,
Épiciers Unis Métro-Richelieu inc.

Guy Piuze
Vice-President,
Human Resources

Michel Robin
President and Chief Operating Officer,
La Ferme Carnaval inc.

André Roy,
Vice-President,
Administration

Charles Roy
Vice-President,
Food Services and
Corporate Stores

ÉPICIERS UNIS MÉTRO-RICHELIEU INC.

Jacques Obry
President and Chief Operating Officer

Marc Cassidy
Vice-President,
Eastern Quebec

Pierre Charron
Vice-President,
Grocery

Paul Laporte
Vice-President,
Distribution

Robert Sawyer
Vice-President,
Produce

Lawrence Timmons
Vice-President,
Meat & Frozen Products

LA FERME CARNAVAL INC.

Michel Robin
President and
Chief Operating Officer

Jean-Paul Hurteau
Vice-President,
Marketing

Guy Jodoin
Vice-President,
Operations

LE GROUPE MÉRIDEV INC.

Raymond Bachand
President and
Chief Operating Officer

Claude Brunetta
Vice-President,
Expansion & Real Estate
Development

Transfer Officer and Registrar:
Montreal Trust

Bankers:
National Bank of Canada
Royal Bank of Canada
Caisse centrale Desjardins du Québec

Securities listed on the Montreal Stock Exchange:
Class A Subordinate Shares
Share symbol: **MRU, A**

Auditors:
Mallette, Benoit, Boulanger, Rondeau & Associés
Chartered Accountants

Les actionnaires peuvent se procurer
la version française de ce rapport
en s'adressant à:
Métro-Richelieu Inc.
a/s Vice-Président, Finances
11011, boul. Maurice-Duplessis
Montréal, Qc H1C 1V6
(514) 643-1003

Annual Meeting:
The annual shareholders' meeting will be held on
January 30, 1989 at 10:00 a.m.
at the Sheraton Centre
1201 René-Lévesque Blvd. West, in Montréal.

METRO-RICHELIEU