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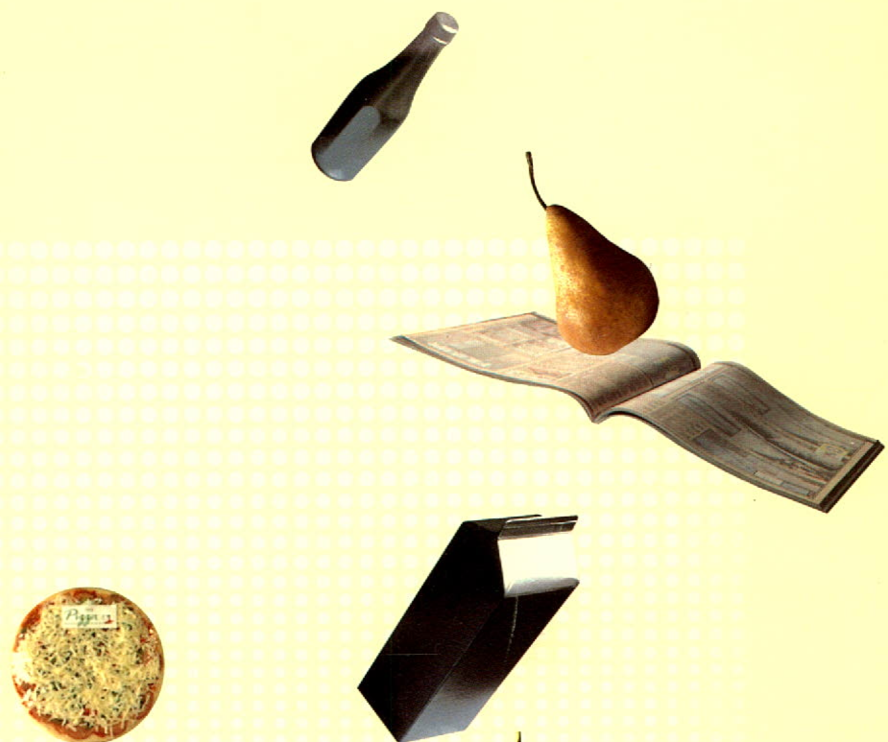
PROVIGO

Annual Report 1989



Provigo has embraced an integrated vision of the supply chain. We have forged value-adding partnerships with each link in the chain – our suppliers and our affiliated retailers – to build a sustainable profitable competitive advantage. In the process, we are evolving into a vertically-integrated marketing organization.

VALUE-ADDING PARTNERSHIPS

PROVIGO TURNS 20

This year Provigo is celebrating its 20th anniversary. Formed in 1969 through the merger of three Quebec food wholesalers in response to changing market needs and growing competition, Provigo regrouped independent grocers into a strong distribution network. Sales for the first year totalled $202 million.

Much has changed in the past two decades. Consumer needs have evolved with the profound trends that are reshaping our society. Technology has transformed the way we do business. But today as in 1969, Provigo pursues excellence and innovation. Through the shared efforts of all our partners – our employees, our retailers and our suppliers – Provigo has become a leading North American distributor of consumer goods. Strongly established in the food, pharmaceutical, convenience and specialty retailing sectors, our sales now exceed $7.3 billion and we employ over 22,000 people.

Our corporate history is an overwhelming testimonial to the success of partnership and to the spirit of entrepreneurship. We salute and thank all our partners who over the last two decades have shared our dreams and shaped our destiny.

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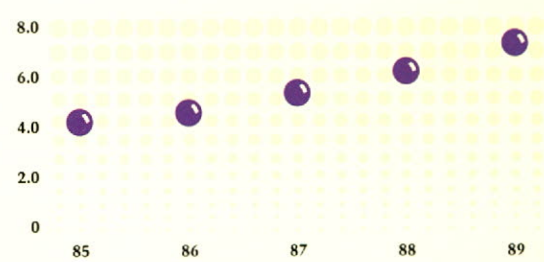
A complete account of the Provigo story, written by René Provost, co-founder of the Company, and Maurice Chartrand, has been published in French and an English version will be available in September. To order the book simply fill out the enclosed "Comment" card and return it along with a money order or cheque in the pre-addressed envelope.

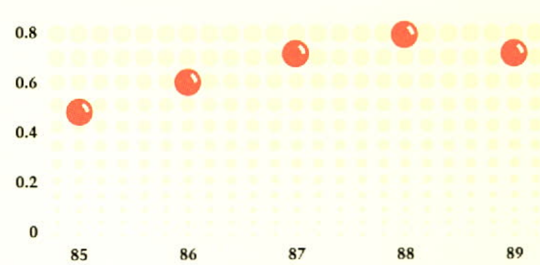
	1989	1988	Growth
Operations			
(Millions of dollars)			
System-wide sales[1]	**8,440.8**	7,309.5	15%
Net sales	**7,378.5**	6,285.7	17%
Income from continuing operations	**60.7**	65.7	(8%)
Income before extraordinary items	**60.2**	67.2	(10%)
Net income	**51.5**	67.2	(23%)
Capital expenditures	**122.7**	101.1	21%
Financial position			
(Millions of dollars)			
Working capital[2]	**248.7**	250.7	(1%)
Total assets[2]	**1,602.5**	1,429.3	12%
Total debt	**489.6**	461.0	6%
Shareholders' equity	**397.2**	363.8	9%
Per common share			
Income from continuing operations	**$0.72**	$0.78	(8%)
Income before extraordinary items	**0.71**	0.80	(11%)
Net income	**0.61**	0.80	(24%)
Dividends	**0.231**	0.203	14%
Shareholders' equity	**4.66**	4.29	9%
Financial statistics			
Return on average equity[3]	**16.0%**	19.3%	
Interest coverage (times)	**3.0**	5.3	
Total debt: Equity	**55:45**	56:44	

(1) Retail sales by stores operating under the various banners plus wholesale shipments to other customers.
(2) Excluding net assets of discontinued operations.
(3) Based on income from continuing operations.

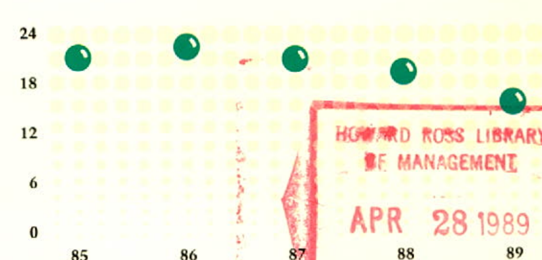
Net sales (billions of dollars) (Average annual growth rate: 14.0%)



Earnings per share from continuing operations (dollars) (Average annual growth rate: 9.5%)



Return on average equity from continuing operations (%)



A leading North American distributor of consumer goods at the wholesale and retail levels; a company with a focused direction; an organization undergoing a transformation. Three descriptions, one Company – Provigo.

A Dynamic Mission

Our mission to be a leading North American distributor of consumer goods has become a leitmotiv throughout the organization. It captures not only the strengths and traditions of the Company but also our vision for the future. It is both descriptive and prescriptive. Not only does it clearly establish the boundaries of our activities but it has led each operating company to adopt a congruent mission statement defining its businesses, market segments and specific mode of operations. This results in focused attention on market share and operating efficiency, as well as investments in the development of our human resources, the widespread use of information technologies and new retail facilities.

Our mission is not just a corporate statement. It is a call for action. Efforts are made to ensure that its meaning and relevance are ingrained within the whole fabric of the organization. To this end, we instituted three years ago the Conferences of the President, annual meetings of the management personnel of the Company. These meetings provide a large spectrum of our management team with an opportunity to hear prominent speakers address topical issues in the retailing or distribution businesses or a forum for senior management to explain the directions pursued by the Company and dialogue with the whole team.

At the Fall 1988 Conferences of the President, all participants were asked to express, in workshop settings, their interpretation of the word "leader" in our mission statement. The discussions centered around four dimensions considered essential to ensuring our continued leadership: the development of human resources, the systematic use of information technologies, teamwork and customer service. This Conference assembled over 2,300 managers in seven different cities. The feedback from the workshops was insightful and in many instances, contained constructive suggestions which are now being acted upon. I am convinced that such opportunities for the management personnel across the Company to exchange views constitute a potent mechanism to instill a better grasp of the things we must do well to achieve a common vision of our future.

Another example of the esprit de corps prevailing within the Company is the "Day in the Field". During this day, all head office employees – without exception – must work in a distribution center, on a delivery truck or in a store. The response is fantastic both from those participating as well as the employees in the "receiving" units. The event is becoming a tradition at Provigo; more importantly, several operating companies are instituting a similar program. Admittedly, the idea of the corporate team working one full day at the operational level is essentially symbolic. But in large organizations, the power of symbolism should not be underestimated. I know of few other ways to express so emphatically the message that our success depends on the quality of execution at all levels of the organization – especially in those functions that interface with our customers.

A Focused Direction

Our energies are focused on improving the efficiency of our wholesale and retail operations and strengthening our market positions. The Canadian Food Group's after-tax return on capital employed remained at 17% even though we are pursuing an aggressive growth strategy at the retail level. In fact, we have made a net addition of 34 supermarkets and 47 food and fresh produce stores to our Canadian network. In the convenience sector, C Corp., despite strong competition, has strengthened its market position in the important Quebec and Ontario markets and added 20 Provi-Soir and Winks to its networks of full-size convenience stores. We have also scored on both dimensions – efficiency and market position – at Provigo Corp. and Sports Experts. Recognizing the shifts in consumer values, we have launched several innovations designed to serve better the needs of consumers. Several are described in the following pages.

But we have not lost sight of longer-term objectives. We are making the efforts and investments required to build a resilient organization; one that possesses sustainable competitive advantages. This is exemplified by our commitment to the development of our human resources and the intelligent and widespread application of information technologies throughout the Company.

Our corporate human resources objectives are demanding. They aim to encourage a commitment to quality in every aspect of work; to foster initiative and innovation and promote teamwork; to ensure that our employees achieve their potential within an entrepreneurial environment; and, to recognize and reward the contribution of every employee.

This commitment has taken various forms. The most important is the training programs that have been developed and implemented on a massive scale in many operating companies. For instance, at Provigo Distribution and LOEB more than 11,000 employees participated in training programs last year.

Technology is also a priority. Our objectives are to automate all routine interactions with suppliers and associated retailers; to provide stores and distribution centers with efficient and sophisticated technological tools; to enable easy access to management information throughout the organization; and, to continuously strive to maximize the benefits from technology through effective training programs. Here again, we have made good progress over the past year.

The implementation of Electronic Data Interchange (EDI), which electronically links our distribution centers with our suppliers, is a case in point. More than $1,200 million of warehouse grocery purchases was transacted through EDI in fiscal 1989. Our objective for the coming year is to have 85% of grocery purchases by the Canadian Food Group carried out through EDI and 100% by December 1990. We are committed to making these not only paperless transactions but exchanges which will be totally integrated into our business processes including payment of suppliers by Electronic Funds Transfer.

During the year, we defined a long-term telecommunications strategy for the Company. This thrust, coupled with the goal of having microcomputers installed in over 1,000 stores over the next four years will uniquely position Provigo and our retail partners to participate in and benefit from the extensive applications of information technologies.

Our continued efforts to ensure our distribution system is the most effective in the industry are yielding tangible results. The premier beneficiaries are our affiliated retailers and their customers. Independent studies have shown that the Provigo Supermarkets enjoy the highest inventory turnover while at the same time experiencing the lowest out-of-stock situations in their market. Such results are no coincidence; they reflect our strong commitment to our associated retailers. We want them to be the most successful in the industry.

Transforming the Organization

The foregoing summarizes the strategic direction we have pursued during the last few years. However, it does not tell the whole story in that it does not describe the fundamental transformation reshaping the Company.

Provigo was formed in 1969, twenty years ago. It is useful to recall that it originated from the merger of three food wholesalers with little direct retail presence. Similarly M. Loeb

From left to right: Yvon Marcoux, Senior Vice-President, Administration, Provigo Inc.; David R. Friesen, President and Chief Operating Officer, Medis Health and Pharmaceutical Services Inc.; Reynald Gagné, President and Chief Operating Officer, Dellixo Inc.; William Kipp, President and Chief Operating Officer, LOEB Inc.; Yvan Bussières, President and Chief Operating Officer, Provigo Distribution Inc.; Pierre Lortie, Chairman, Chief Executive Officer and President, Provigo Inc.; Germain P. Lecours, Senior Vice-President, Finance and Control, Provigo Inc.

From left to right: Jean-Claude Merizzi, Executive Vice-President, Provigo Inc.; Maurice Tousson, President and Chief Operating Officer, Consumers Distributing Company Limited; Keith H. Thye, President and Chief Operating Officer, Market Wholesale Grocery Co.; Henri A. Roy, Executive Vice-President, Provigo Inc.; Wayne A. Wagner, President and Chief Operating Officer, Horne & Pitfield Foods Limited; Claude Perrault, President and Chief Operating Officer, C Corp. Inc.

Limited, acquired in 1977, Horne & Pitfield Foods, Market Wholesale Grocery and National Drug have also had a limited role at the retail level. In other words, the backbone of the Company has traditionally been at the wholesale level. Over time, certain operating companies have extended their presence at the retail level.

Our stated objective is to transform Provigo. We are embarked on a course aimed at shifting the Company's center of gravity: in short, *to transform Provigo from a wholesaler to a vertically-integrated marketing organization.* Significant investments are required in facilities, support systems and in the development of new skills to effect this new thrust. For example, Horne & Pitfield extended its IGA supermarket network by adding 10 stores through acquisitions and construction. At LOEB, the total surface of its supermarkets increased from 150,000 square meters in 1987 to 190,000 square meters last year. We expect it to reach 230,000 square meters at the end of this current year. The most striking illustration of the profound nature of this transformation is provided by Market Wholesale Grocery in California. Eighteen months ago, this organization was a pure wholesaler. Today it numbers 31 franchised and corporate supermarkets. On an annual basis, sales should increase from US $345 million in fiscal 1988 to US $755 million in fiscal 1990. At Consumers Distributing, the evolution into a vertically-integrated marketing organization requires the development and implementation of a totally new "pull" distribution system to replace the non-responsive "push" system (a significant investment in facilities and systems as well as a whole new approach in procurement, inventory management, merchandising, etc.), the establishment of a sophisticated customer data base, the development and implementation of in-store point of sale and management systems as well as the franchising of stores.

This shift in the "personality" of Provigo raises the strategic question of the fit of each operating company. In the case of Dellixo, this review has led to a redirection towards the "street business" and a de-emphasis of the institutional segments. This decision is based on the fact that success in the former segments requires a full range of marketing skills whereas in the latter, it remains based solely on price. But here again, the shift requires a different set of skills and emphasis on dimensions which were previously atrophied.

Comments on the Year's Results

"May you live in interesting times." Exhortation for fascinating challenges or Chinese curse? The events for the year just ended demonstrate that both descriptions apply.

We had set four financial objectives for the Company: increase earnings per share by 18%; achieve a return on average equity of 18%; maintain an "A" credit rating; and, pay to our shareholders dividends amounting to 30% of the previous year's income before extraordinary items. The latter two goals were met while ROE stood at 16%, a high performance by any standard. A concerted effort is underway throughout the Company to attain results in the coming year that measure up to these very demanding standards of performance.

For most of our operating companies, performance, be it measured in terms of market share or profitability, has further improved in fiscal 1989. Regrettably, the few exceptions imparted a heavy burden on the consolidated results dragging in the process those of the Company. The shortcomings were experienced at Medis and Consumers Distributing. In the case of Medis, the problems are well known. The situation is different at Consumers Distributing where the shortfall was identified at year-end which makes it much more difficult to accept. It would be useless to offer excuses for the shortcomings.

During the year, the strategy pursued by Medis was changed to better reflect its unique vocation as a national *distributor* of pharmaceutical products and its relative positioning in the Canadian pharmaceutical industry. A new President with considerable experience in both this operating company and Provigo has been appointed. Following his in-depth review of the operations, we agreed upon a plan of action designed to significantly reduce costs and improve the profitability of each division and line of business. In the process, we have identified, and in some cases generated, several non-recurrent expenses which were accounted for immediately.

At Consumers Distributing, the Catalogue Showroom division improved sales and performance income over last year. However, ToyCity experienced a poor performance resulting from minimal sales growth combined with lower merchandise margins and much higher expenses. Here also, strong measures were taken to ensure that the experience not be repeated in coming years. We are accelerating the planned implementation of a new financial and control system. All dimensions of the control function will be reinforced. The ToyCity division has been integrated with the Catalogue Showroom operations; the stand-alone ToyCity format will be gradually phased out of the market. The first ToyCity store was in fact a combination unit of ToyCity and Consumers Catalogue Showroom in one single facility. The performance of this unit in Ottawa has always been superior. We have opened three such "combination" stores late in the year with most interesting results. Consequently, we now have a solution to minimize the costs associated with the winding-down of ToyCity since its favorable locations will be made available to Consumers and the new format holds good potential.

Acknowledgements

Your Company is implementing well-focused plans that are generating aggressive expectations for the future. We will continue to pursue growth and innovation; our position of leadership both mandates and depends on it. We must welcome change if we are to manage it successfully.

We will continue to work very hard to strengthen the position of our associated retailers, while seeking new avenues for their growth. No ingredient is more essential to our success, no barometer a better indicator of our performance and potential than the success of our retailers.

I want to acknowledge here the outstanding contribution of Ms. Louise Martin as a Director of the Company. She brought to the Board not only her experience but, most importantly a different and very valuable perspective and a lot of dedication. She served on the Audit Committee and was the Chairman of the Donations Committee when she passed away as a result of a sudden illness. She is sorely missed.

We want to thank you, our shareholders, for your continued support.

I especially want to thank the more than 22,000 loyal Provigo employees for their hard work, dedication and commitment to excellence. They are the ones truly responsible for the achievements of this Company and its superior performance.

Pierre Lortie
Chairman,
Chief Executive Officer and President

AN INTEGRATED VISION OF THE SUPPLY CHAIN FOR THE BENEFIT OF CONSUMERS

The traditional view of the supply chain is outmoded in today's competitive environment. The supply chain should no longer be considered as a series of independent stages: manufacturers supplying wholesalers who in turn, stock retailers, with each link maximizing individual objectives, often at the expense of the other partners. The need for greater efficiency dictates a new approach: a partnership dedicated to the common pursuit of satisfying consumers at the lowest cost.

Provigo has embraced an integrated vision of the supply chain. We have forged value-adding partnerships with each link in the chain – our suppliers and our affiliated retailers – to build a sustainable profitable competitive advantage. The benefits of working together are greater flexibility in responding to consumer demand, improved efficiency and productivity through the entire distribution channel and greater profitability for each partner. Increased automation and powerful information technologies have supported the transformation of the supply chain into a comprehensive network of relationships.

But enhanced technology can only be effective and productive in the hands of people who share this vision of value-adding partnerships. From the systems analyst striving to increase the productivity of our relationship with our suppliers, to the supermarket retailer at the customer frontline, exceptional contributions have been made throughout Provigo to creating value-added for our partners. To underscore the important role played by our employees and associated retailers, we have in the next few pages highlighted some of their achievements.

For Our Customers:
Innovative Products and Services

Consumers' evolving needs drive the entire value-added chain. A major trend reshaping our society has been the increased number of working women. This additional household income and less time in the home have translated into new eating habits as well as increased demand for convenience and high quality.

In double-income households, the time available for getting meals on the table is significantly reduced. At the same time, these consumers are not willing to forego quality and freshness, and have ruled out many of the rapid preparation foods traditionally available in supermarkets. Restaurants have been the big winners. During the last decade, they experienced the highest growth rate in the food sector.

Supermarkets must respond to this new reality by diversifying their product mix. During the past year, innovative products have been developed to help our affiliated and franchised retailers maintain their competitive edge.

Last November, LOEB launched its "Made Today" LOEB PIZZA throughout its network of 110 IGA, LOEB IGA and LOEB stores. The LOEB team selected pizza as the fastest growing segment of the fast food market and developed a unique recipe which could compete with delivery services and frozen pizzas. This exciting program is LOEB's first step towards offering more freshly-prepared foods for home consumption.

C Corp. has also expanded the fast food offering of its convenience stores. From freshly-baked goods and take-out foods to hot snack counters, fast food represents a growing contribution to the sales of over 20 Winks and Winks Express operators in Ontario. In Quebec, Provi-Soir is a leader with 177 Hibouf counters.

Provigo responds to consumers' evolving needs through continuous innovation. Sal Seminara (right) and Paul Malboeuf (center) were key players in the introduction of the "Made Today" LOEB PIZZA. Together, LOEB and its IGA retailers can expect to sell millions of pizzas during the first year. Michel Bourret's Provigo Supermarket was a leader in offering consumers fast and convenient payment through debit card machines.

Consumers' evolving needs drive the entire value-added chain. A major trend has been increased demand for convenience and high quality.

Fast food is one answer to evolving consumer needs. Vacuum-prepared cuisine is another. North America has lagged behind many European countries in tapping the potential of vacuum-cooked meals to meet the growing consumer quest for convenient foods. While vacuum-packing technology has long been popular to better preserve products, it is only recently that Canadian consumers have been able to enjoy the ease of preparation and high quality of vacuum-cooked meals. Provigo Distribution was among the first in Canada to offer these products in its supermarkets, culminating in the launch of its own line of vacuum-prepared cuisine under the private label "La Toque Rouge".

Provigo is also a leader in customer service. Through the innovative application of new in-store technologies, it continually strives to offer convenience and efficiency.

In 1986, it became the first Canadian food retailer to accept debit cards on a pilot basis. Today, Electronic Funds Transfer is a standard service in over 75 of our Quebec supermarkets and rapidly expanding to many more. In California, over 15% of purchases in our Petrini's supermarkets are carried out using debit cards. Many new customers are attracted to Cost Less Foods, our most recent licensed warehouse store in Chico, California, as the only food retailer in its community to accept debit cards. In addition to speed and ease of payment, the system also offers the added value of allowing customers to make a cash withdrawal at the same time as they pay for their groceries. Over a third of our debit card clients regularly use this feature.

For Our Retailers: Outstanding Support

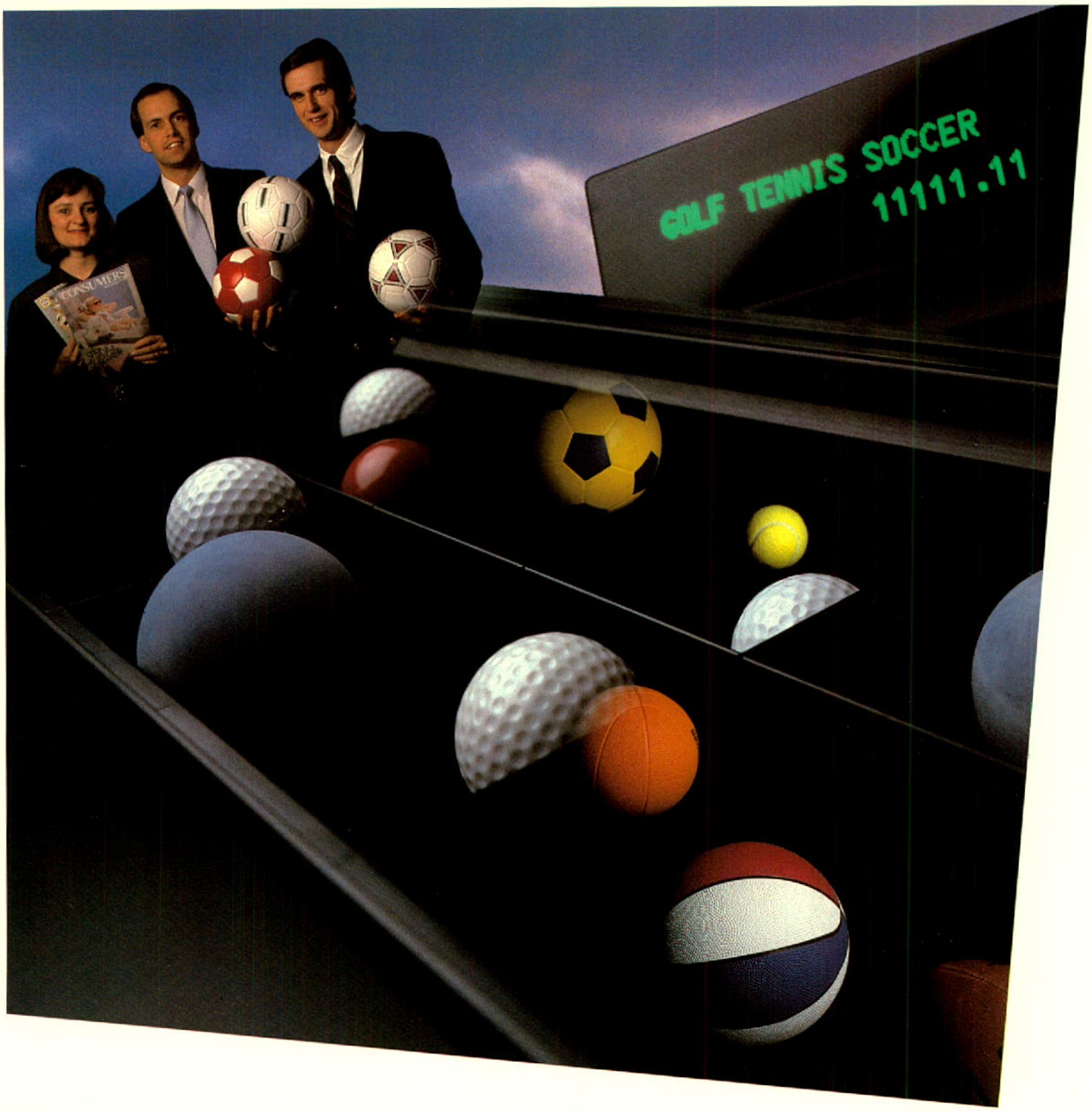
Such success stories unfold in a framework of carefully developed retail support programs. A commitment to the intelligent application of information technologies, a strong marketing focus and high-quality training are the hallmarks of Provigo's partnership with its retailers.

At Provigo, information technologies are an integral part of our business. We offer our retailers the technological tools and support to enhance their efficiency and improve the management of their operations.

An excellent illustration of our dedication to leading-edge applications of new technologies has been the development and adoption by Provigo Distribution of ODASSE. ODASSE (a French acronym meaning computer-aided retail support operations) is a state-of-the-art system which electronically links retailers with distribution centers and retail program managers in one central data bank. Its benefits are numerous.

ODASSE provides a powerful tool to increase the competitiveness of individual stores. It allows banner managers to provide the 150 Provigo retailers currently on the system with a pricing strategy on a store-by-store basis. Future applications, using data on individual transactions collected with scanners as well as demographics and information on the behaviour of competitors, are being tested and will allow retailers to better manage their product mix, promotion strategies, shelf-space allocation and prices.

Such information systems hold tremendous potential. They pave the way for a network of two-way electronic linkages between retailers and their partners – banner managers, distribution centers, financial institutions and other service providers. Over the past year,



Provigo supports its retailers through a complete range of services. Janice Partington at Consumers Distributing oversees the publication of the spring/summer and fall/winter Consumers catalogues. C Corp.'s Mario Lafontaine (center) directs the Montreal training centre for future Provi-Soir operators, while Robert Levesque is developing a point-of-sales system for Sports Experts retailers.

THE CONTINUOUS DEDICATION
TO A COMMON OBJECTIVE

The success of our retailers is key to our success. Provigo encourages them through support services designed to enhance their competitive edge.

Provigo has developed a comprehensive company-wide telecommunications plan to exploit aggressively new technological opportunities and share investments and facilities across our operating companies. This strategy will ensure our retailers reap the full potential of automated business communications.

As well, retailers such as Michel Racette in Montreal benefit from Provigo's marketing expertise and leadership. Last year, his neighbourhood food store was redesigned as the first Intermarché in Quebec. Aimed at the modern consumer seeking fresh, quality products and fast, personalized service, the Intermarché banner was launched to fill a void between the corner store and the conventional supermarket. These neighbourhood food stores which occupy 420 to 840 square meters, boast a friendly decor and an innovative layout, with emphasis on specialized meat, cheese and bakery counters. There are now 18 Intermarché stores across the province.

Provigo Distribution also scored a marketing coup by adding Consumers Distributing counters to 200 food stores in smaller and rural communities. Clients' catalogue-selected orders are electronically transmitted to a central warehouse and then delivered to the supermarket. This service allows these consumers to enjoy a wide selection of household goods at highly competitive prices not previously available in their communities.

In addition to technological and marketing support, retailers associated with Provigo receive high-calibre training programs.

At LOEB, the belief that each employee is vital to the success of the company has spawned a one-day orientation session for all employees prior to new store openings and after major renovations. Over 2,000 people from 15 LOEB's supermarkets have participated in these sessions, designed to introduce store employees to the structure and values of the company.

For C Corp., training programs are essential as the company evolves from convenience stores into multi-service centers. Last year, close to 100 Provi-Soir, Winks and Winks Express operators were trained in merchandising, general store management, customer service and in the rapidly-growing area of fast food offerings. A similar emphasis on comprehensive training is found at Provigo Distribution where over 9,000 employees, affiliated retailers and their employees have participated in training sessions during the past year.

For Our Suppliers: Enhanced Productivity

Marketing information travels along the distribution channel to the supplier who attempts to respond quickly and efficiently to consumer demand. An essential tool is Electronic Data Interchange (EDI) which involves the standardization and automation of routine transactions with our suppliers and in the process, lays the foundations for profoundly-transformed operating methods. EDI improves productivity in our distribution centers and in the operations of suppliers by reducing errors, minimizing paperwork and decreasing the time to complete business transactions.

Since 1984 Provigo has championed the use of EDI as a way of adding value to our relationship with our suppliers.

Technology is transforming Provigo's partnership with its suppliers. $1.2 billion dollars of goods are now purchased and invoiced electronically in our Canadian food warehouses. Through the efforts of Maurice Dignard (right) and Ivan Dussault from Provigo Distribution as well as Shirley Martin from Horne & Pitfield, Electronic Data Interchange has contributed to the enhanced productivity of the supply chain and will allow annual savings of $1 million.

THE FRUITFUL RESULTS OF ELECTRONIC LINKAGES

A commitment to the widespread application of information technologies is a hallmark of our relationship with both our retailers and suppliers.

1988 was a year of mass implementation of EDI in our food operations. At Provigo Distribution, the dollar volume of warehouse goods processed through EDI doubled in 1988 to reach 75%. LOEB now carries out 55% of its purchases through EDI and at 30%, Horne & Pitfield is the leading user among Western Canadian food operations.

At Sports Experts, five-day buying shows are organized three times a year to present the merchandise for the upcoming season. The products featured have generally been pre-selected by Sports Experts' buyers according to an overall merchandising and marketing plan which takes into account consumers' changing needs. However, the shows also enable Sports Experts retailers to meet directly with the largest suppliers and round out their merchandise mix with products tailored to their local markets. The suppliers are thus given the opportunity to meet with the retailers and gain useful insights.

For Our Communities: a Commitment to Excellence

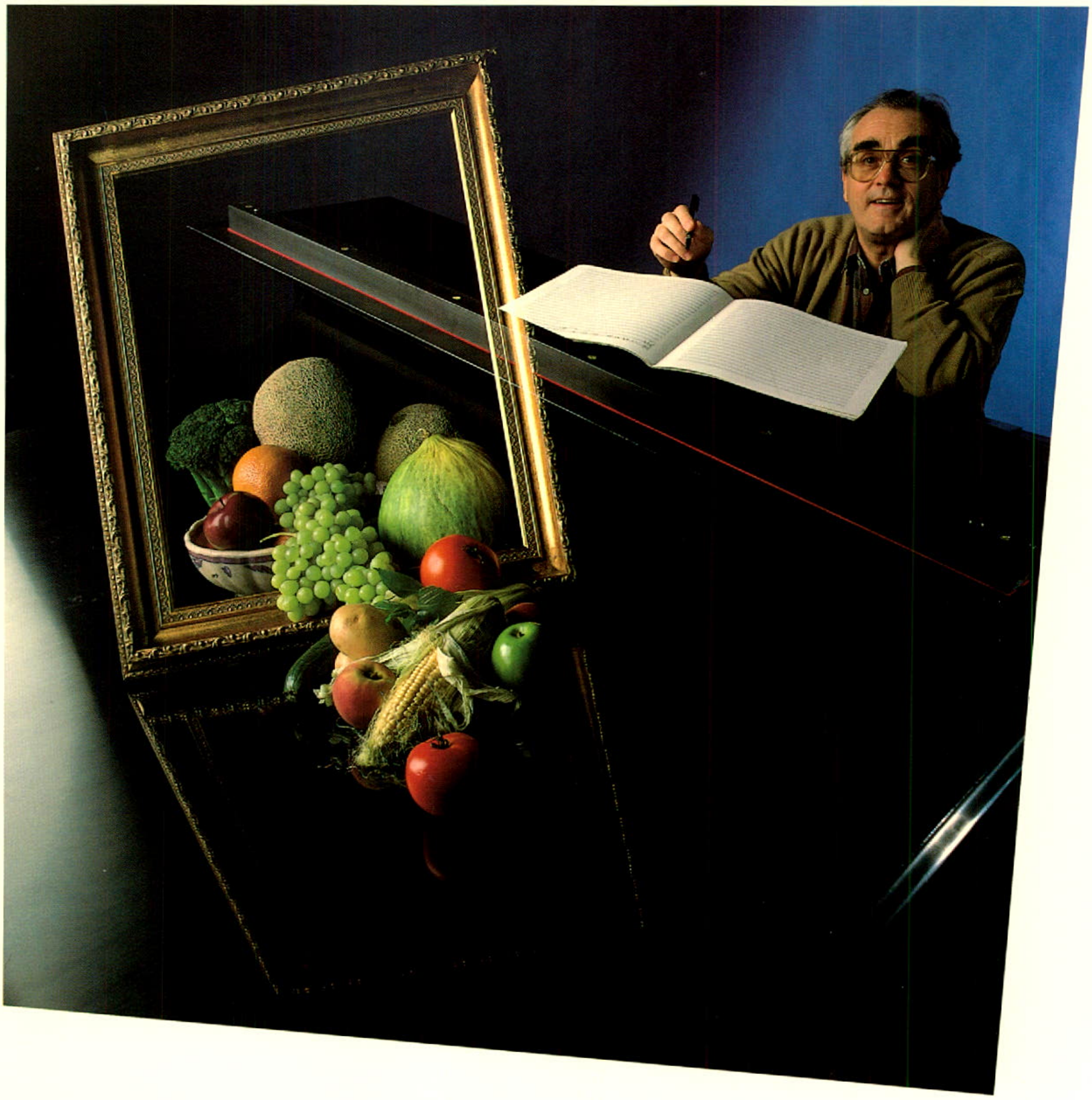
Whether through grants to student-athletes enabling them to compete in sporting events while pursuing university studies, or through a hiring program aimed at senior citizens, Provigo is genuinely committed to encouraging excellence in the communities it serves.

It is in this spirit that Provigo entered into an association with the internationally-acclaimed Montreal Symphony Orchestra to launch a new program: the Provigo-Pop concert series. The concerts featured such popular North American and European artists as world-renown composer Michel Legrand and conductor Erich Kunzel.

Provigo is also responding to the environmental concerns of its communities. Last year, Provigo announced that it was phasing out from its supermarkets and convenience stores, food packaging manufactured using chlorofluorocarbons (CFCs), a substance linked to the destruction of the earth's ozone layer. During the year, all CFC-based foam packages have been replaced with safer alternatives. Several governments throughout Canada have since announced their intention to ban the use of CFCs.

In California, our supermarket chain Petrini's is working with suppliers to encourage responsible farming practices which reduce and even eliminate pesticide residues. Petrini's now offers a selection of widely-consumed fruits and vegetables certified by NutriClean, an independent certification organization, as containing no detected pesticide residues. Provigo Distribution has taken a leadership position in Canada by contracting with NutriClean to test fresh produce. The program will allow Provigo Distribution to assure consumers that fresh produce purchased in our supermarkets meets the highest standards of quality.

In short, with the communities we serve as with all our partners, our goal is clear. We strive to achieve excellence and leadership in all our endeavours. We believe our achievements over the past years attest to our commitment in offering superior value to all our partners.



Provigo brings the best to its communities. Last November, noted composer Michel Legrand conducted the Montreal Symphony Orchestra in one of the special Provigo-Pop concerts. Other community initiatives include health, sporting and educational projects. Provigo is also responding to the environmental concerns of our communities. For example, in California our Petrini's supermarkets offer fruits and vegetables certified by an independent organization as containing no detected pesticide residues.

THE INNOVATIVE ART
OF COMMUNITY SUPPORT

Highlights

System-wide sales, consisting of retail sales by stores operating under the Company's various banners together with wholesale shipments to other customers, amounted to $8.4 billion, or 15% higher than in the previous fiscal year. Net sales were $7.4 billion, up over fiscal 1988 by 17%. Of the latter increase, 6% ($400 million) is accounted for by the full-year effect of the acquisition of Consumers Distributing Company Limited ("Consumers"), the remaining 11% being due to internal growth and other acquisitions. All the business groups, except Medis, exhibited strong sales growth.

Operating income was $205.6 million, or 8% higher than in fiscal 1988. This is mostly attributable to the Canadian and USA Food Groups as well as to the Convenience Group. The interest expense rose from $28.7 million in fiscal 1988 to $52.1 million. This increase is principally due to the full-year effect of the increase in debt stemming from the previous year's acquisition of Consumers. Income from continuing operations was $60.7 million, compared with $65.7 million in fiscal 1988. These two figures are not directly comparable. In fiscal 1988, the results of Consumers were only consolidated for the fourth quarter, which is its most profitable quarter, whereas this year's consolidated income includes the results of the company for the full year. A better comparison is achieved by restating the results for fiscal 1988 as if the acquisition of Consumers had taken place at the beginning of that year. On this basis, income from continuing operations for fiscal 1988 would have been $57.3 million. This means that income from continuing operations actually improved by 6% between fiscal 1988 and fiscal 1989.

Income before extraordinary items amounted to $60.2 million ($0.71 per share), compared with $67.2 million ($0.80 per share) in the previous year.

During the year, Provigo incurred extraordinary losses of $8.7 million. These relate to the disposal or discontinuance of unprofitable business segments: the USA East and West Coast divisions of Consumers ($7.7 million) and Pharmacom Systems (1986) Ltd. ($1.0 million).

Net income for the year amounted to $51.5 million ($0.61 per share), compared with $67.2 million ($0.80 per share) in fiscal 1988. Return on average equity was 16.0%.

Food Group – Canada

The Canadian Food Group continued its robust growth both in sales and income. System-wide sales were $5,187 million, up 8% over the previous year, while net sales increased by 9% to $4,365 million. Performance income, i.e. operating income net of taxes, grew by 16% to $60.2 million. Major capital expenditures were made in this sector during the year.

In Quebec, Provigo Distribution consolidated its position as market leader. The number of supermarkets increased by 19, including 7 stores acquired from Steinberg. In addition, 47 grocery, fruit and vegetable stores were added to the network. In this mature market, Provigo Distribution has continued to pursue a segmentation strategy. In this context, the discount food stores which the company operates under the "Maxi" and "Heritage" banners have been particularly successful and have contributed significantly to this year's growth in sales and income. During the year, Provigo Distribution launched the "Intermarché" program which aims at filling the void which previously existed between the neighbourhood store and the conventional supermarket. There are already 18 stores under this new banner.

Ontario is a major growth area. LOEB is currently implementing a major expansion and renovation program in its retail network in Ontario, including regions where it was previously absent. In fiscal 1989, the company opened 11 new supermarkets.

Developments have also taken place in Western Canada. In addition to opening 4 new supermarkets and renovating several others, Horne & Pitfield acquired 3 Safeway stores in Alberta while one of its affiliated retailers is acquiring 3 other stores from Safeway Canada. As a result, the number of supermarkets in the important Edmonton market will increase to 15.

Dellixo continued its penetration of the food services sector. During the year, the company acquired Distribution Jean Pigeon, a food

Segmented Information (Millions of dollars)

Business group	System-wide sales	Change from previous year	Net sales	Change from previous year	Performance income	Change from previous year	Average net assets	Change from previous year	Return on net assets (1989)	Return on net assets (1988)
Food-Canada	5,187	8%	4,365	9%	60.2	16%	356	16%	17%	17%
Food-USA	635	40%	611	34%	8.0	23%	70	49%	11%	14%
Health and Pharmaceutical	1,096	3%	1,096	5%	(2.8)	(188%)	117	4%	(2%)	3%
Convenience	537	10%	373	11%	10.8	6%	48	26%	23%	27%
Specialty Retailing	986	105%	934	114%	10.0	(27%)	292	4%	3%	5%
Total	**8,441**	**15%**	**7,379**	**17%**	**86.2**	**1%**	**883**	**12%**	**10%**	**11%**

services wholesaler in the Rimouski area. Dellixo was also engaged in reorganising its operations, following the several acquisitions made in the previous fiscal year. In addition, it disposed of its retail fish operations (Waldman). This will enable the company to focus on its mission which is to serve the food services sector.

During the year, Provigo launched the Phone Market in Toronto's Mississauga – Oakville areas. The Phone Market is an innovative shopping concept whereby customers select from a catalogue and place their orders by phone for next-day delivery to their homes.

The expansion of the Canadian Food Group required capital expenditures of $78.7 million, compared with $70.4 million in the previous year. The return on average net assets was 17%, the same as in fiscal 1988.

Food Group – USA

The USA Food Group (primarily North Californian operations) experienced a major transformation this year. During the second quarter, Provigo Corp. acquired the chain of 11 Petrini's full-service supermarkets in the San Francisco Bay area. In the third quarter, the company acquired two of the Palo Alto Coop supermarkets. In December 1988, Provigo Corp. completed the acquisition of 15 Alpha Beta/Lucky conventional supermarkets in Northern California. These acquisitions represent additional annual sales of approximately US$300 million.

In addition to these acquisitions, Provigo Corp. opened one new corporate Petrini's store and started the "Cost Less" banner with a licensed warehouse store in Chico. The retail division of Provigo Corp. now counts 31 stores, compared with only one at the end of the previous year.

Provigo Corp. is making the necessary upgrades to its distribution facilities in order to support the growth in retail activities. The Modesto warehouse is currently being expanded and land has been acquired in view of the construction of a frozen food warehouse at Tracy.

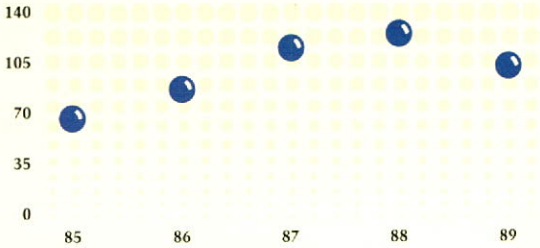
As a result of these developments, which required a total investment of $62.2 million, net sales rose by 45% to US$500 million. Despite start-up costs associated with the newly-acquired stores, performance income increased by 37% to US$6.7 million. Because of the decline in the value of the US dollar vis-à-vis the Canadian dollar, net sales and income show growth rates of 34% and 23% respectively when expressed in Canadian dollars. The return on average net assets was 11%, compared with 14% the previous year.

Health and Pharmaceutical Group

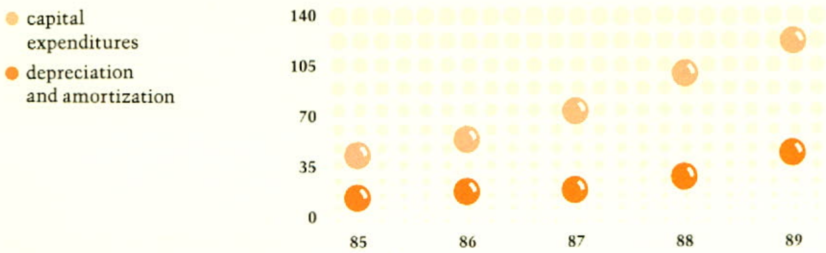
Fiscal 1989 was a difficult year for the Health and Pharmaceutical Group. The emphasis is now on consolidation and enhanced efficiency of operations. In fiscal 1989, net sales amounted to $1,096 million, slightly above the level of the previous year. The year ended with an after-tax loss of $2.8 million, compared with a performance income of $3.2 million in fiscal 1988. Measures taken to reestablish Medis on a sound and profitable footing have seriously affected the profitability of the company this year. The results for fiscal 1989 were impacted by non-recurring charges of $2.5 million after tax.

As part of the consolidation program, the business and assets of Pharmacom Systems (1986) Ltd. were disposed of in the course of the third quarter. This resulted in an extraordinary after-tax loss of $1.0 million.

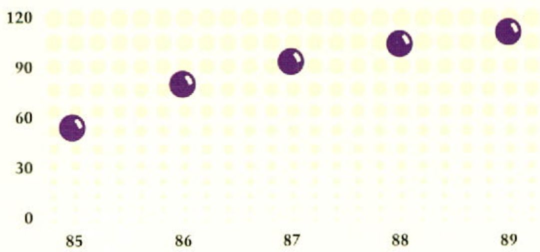
Income before income taxes (millions of dollars)



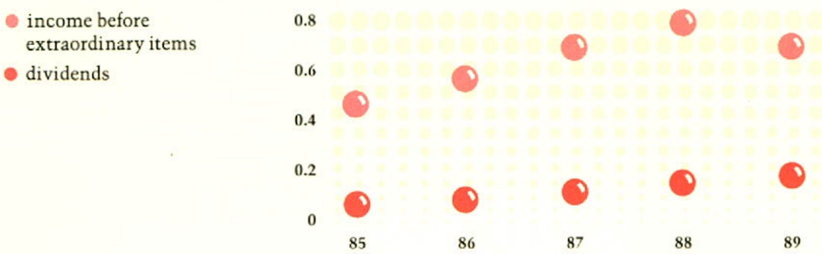
Capital expenditures & depreciation (millions of dollars)



Funds from operations (millions of dollars)



Earnings & dividends per share (dollars)



Equity and total debt (millions of dollars)

Convenience Group

Net sales of the Convenience Group grew by 11% to $373 million while performance income increased by 6% to $10.8 million. This reflects the increased penetration of C Corp. in Ontario and Quebec. 14 stores were opened in Ontario under the "Winks" and "Winks Express" banners while 6 Provi-Soir stores were added in Quebec. On the other hand, C Corp. reduced the number of free-standing gas stations which operate in Ontario under the "Top Valu" banner by 23. In Alberta, development efforts have been hampered by strained relations with certain affiliated retailers, following the transfer of the "Red Rooster" stores from Horne & Pitfield to C Corp. at the beginning of this year.

The new store openings required capital expenditures of $14.1 million. Return on average net assets was 23%, compared with 27% the previous year.

Specialty Retailing Group

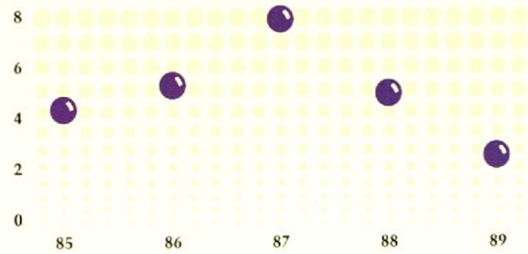
In the Specialty Retailing Group, net sales more than doubled this year, rising from $437 million to $934 million. This is mostly due to the full-year impact of the acquisition of Consumers which took place at the end of the third quarter in the previous year. Performance income was $10.0 million, compared with $13.7 million the previous year.

Major steps were taken this year to ensure that the full potential of Consumers is realized. At the beginning of the year, Provigo disposed of the business and assets of the USA East Coast division of Consumers. In Canada, the decision was made to integrate the Toy-City division with the Canadian Catalogue division in order to reduce costs and take advantage of ToyCity's favourable real estate locations. Three hybrid stores combining a large, self-serve toy store with a Consumers catalogue showroom were opened during the last quarter.

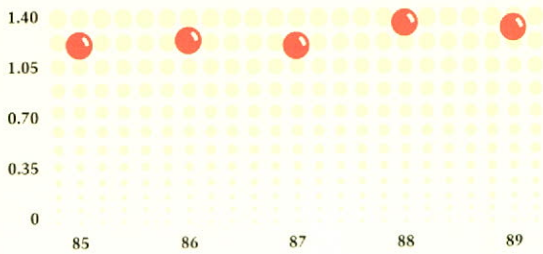
The results of Consumers for the year suffered because of the poor performance of the ToyCity division and because of exceptional inventory write-downs at year-end in the Canadian Catalogue and ToyCity divisions.

In the course of the year, 19 Consumers catalogue showrooms were franchised. Of the 202 catalogue showrooms, 28 (14%)

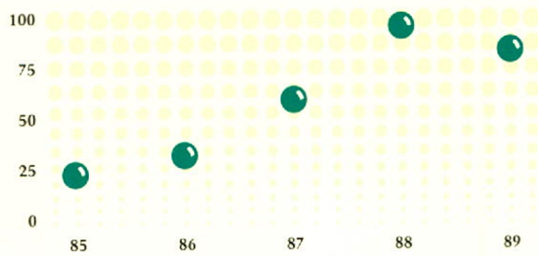
Interest coverage (times)



Current ratio (times)



Fixed rate debt (as a percentage of the total debt)



are now franchised. The results of the franchised operations to date indicate that the formula is also valid for this operation.

Sports Experts, the other operating company in the Specialty Retailing Group, made good progress as a result of its focused efforts to improve the efficiency of operations and reduce capital employed. During the year, Sports Experts opened 12 new stores, mostly in Ontario, bringing the total to 209. Altogether, 6 stores were franchised.

Liquidity and Capital Resources

In fiscal 1989, Provigo continued to invest heavily for growth. Capital expenditures amounted to $122.7 million, compared with $101.1 million the previous year. An additional $51.4 million was expended on business acquisitions. The total cash used for investing activities amounted to $141.6 million. This is net of cash proceeds of $44.6 million from the disposal of the US East Coast division of Consumers and $36.4 million from the disposal of stores and properties on which gains of $14.3 million were realized ($9.6 million after-tax).

Most of the cash required for investment was provided by operating activities. Cash generated by the latter amounted to $95.2 million.

Common shares amounting to $2.9 million were issued for cash during the year under the Company's employee stock purchase plans and the stock option plans for senior executives. In addition, preferred shares previously issued under the Provigo Performance Stock Plan were converted into common shares for a consideration of $1.4 million. $0.4 million of preferred shares were issued for cash under the same plan during the year.

Dividend payments amounted to $19.6 million, representing 30% of the fiscal 1988 income before extraordinary items.

The total debt: equity ratio improved. At the end of fiscal 1989, it stood at 55:45, compared with 56:44 a year earlier. Interest coverage remains strong at 3.0 times. The current ratio is also quite strong at 1.34 times.

Fixed-rate debt represents 86% of the total debt. This debt structure has largely sheltered the Company from the recent increases in interest rates. The average cost of debt was 10.70% in fiscal 1989, as against 10.02% the previous year.

Emphasis was placed during the year on the control of working capital. Non-cash working capital at January 28, 1989 represented 3.9% of sales, in comparison with 4.5% a year earlier.

At year-end, Provigo's available lines of credit with its banking syndicate amounted to $350 million, of which $327 million were unused. In addition, the Company has a commercial paper program with an internally authorized limit of $300 million. Of this, $262 million were unused at year-end.

Henri A. Roy
Executive Vice-President

MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of Provigo Inc. are the responsibility of management and have been approved by the Board of Directors. This responsibility includes the selection of appropriate accounting principles and the exercise of a careful judgement in establishing reasonable and accurate estimates in accordance with generally accepted accounting principles appropriate in the circumstances. Financial information shown elsewhere in this annual report is consistent with that contained in the consolidated financial statements.

Management of Provigo Inc. and its subsidiaries has developed and maintains accounting systems and internal controls designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and that the financial records are reliable for preparing the financial statements.

The Board of Directors carries out its responsibility with regards to the consolidated financial statements principally through its Audit Committee, consisting solely of outside directors. The Audit Committee reviews the annual consolidated financial statements and recommends their approval to the Board of Directors. The Audit Committee periodically reviews the results of audit examinations performed by the internal auditors and independent external auditors with respect to the Company's accounting principles, practices and systems of internal control.

These financial statements have been examined by Clarkson Gordon and Raymond, Chabot, Martin, Paré, Chartered Accountants and their report stating the extent of their audit examination and their opinion on the consolidated financial statements is presented below.

Pierre Lortie
Chairman, Chief Executive Officer and President

Germain P. Lecours
Senior Vice-President, Finance and Control

AUDITORS' REPORT

To the Shareholders of Provigo Inc.

We have examined the consolidated balance sheet of Provigo Inc. as at January 28, 1989 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended and have obtained all the information and explanations we have required. 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, and according to the best of our information and the explanations given to us, and as shown by the books of the Company, these consolidated financial statements are drawn up so as to exhibit a true and correct view of the state of the affairs of the Company as at January 28, 1989 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 years.

Clarkson Gordon
Chartered Accountants

Raymond, Chabot, Martin, Paré
Chartered Accountants

Montreal, Canada
March 16, 1989

CONSOLIDATED STATEMENT OF INCOME

year ended January 28, 1989
(Millions of dollars)

	1989	1988	1987
	(52 weeks)	(52 weeks)	(53 weeks)
Net sales	**7,378.5**	6,285.7	5,399.1
Cost of sales	**6,464.5**	5,579.5	4,794.8
Operating and administrative expenses	**708.4**	516.2	446.9
Operating income	**205.6**	190.0	157.4
Depreciation and amortization	**50.8**	35.0	26.1
Interest – net	**52.1**	28.7	16.6
Share of net income of a finance subsidiary and an affiliated company	**(0.5)**	1.7	(1.2)
Income from continuing operations before income taxes	**103.2**	124.6	115.9
Income taxes	**42.5**	58.9	54.9
Income from continuing operations	**60.7**	65.7	61.0
Income (loss) from discontinued operations	**(0.5)**	1.5	(0.7)
Income before extraordinary items	**60.2**	67.2	60.3
Extraordinary items	**(8.7)**	–	4.9
Net income	**51.5**	67.2	65.2
Earnings per common share:			
From continuing operations			
basic	**$0.72**	$0.78	$0.72
fully diluted	**$0.68**	$0.74	$0.69
Before extraordinary items			
basic	**$0.71**	$0.80	$0.71
fully diluted	**$0.67**	$0.76	$0.68
After extraordinary items			
basic	**$0.61**	$0.80	$0.77
fully diluted	**$0.58**	$0.76	$0.73

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

year ended January 28, 1989
(Millions of dollars)

	1989	1988	1987
	(52 weeks)	(52 weeks)	(53 weeks)
Retained earnings, beginning of year	**263.4**	213.3	163.0
Net income	**51.5**	67.2	65.2
Dividends paid	**(19.6)**	(17.1)	(14.9)
Retained earnings, end of year	**295.3**	263.4	213.3

The summary of significant accounting policies and the accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEET

January 28, 1989
(Millions of dollars)

	1989	1988
Current assets		
Cash	–	5.7
Receivables	336.2	298.1
Inventories	613.7	596.5
Prepaid expenses	24.2	21.0
Net assets of discontinued operations	–	48.3
	974.1	969.6
Current liabilities		
Bank loans and acceptances	28.5	20.2
Cheques issued and outstanding	93.6	74.6
Payables and accrued liabilities	567.8	528.8
Income and other taxes	25.7	36.0
Current portion of long-term debt and obligations under capital leases	9.8	11.0
	725.4	670.6
Working capital	248.7	299.0
Other assets		
Investments	39.4	20.8
Fixed assets	451.9	361.2
Sundry assets	137.1	126.0
	628.4	508.0
Assets employed	877.1	807.0
Other liabilities		
Long-term debt	396.4	367.3
Obligations under capital leases	54.9	62.5
Deferred income taxes	28.6	13.4
	479.9	443.2
Shareholders' equity		
Capital stock	106.1	101.7
Retained earnings	295.3	263.4
Foreign currency adjustments	(4.2)	(1.3)
	397.2	363.8
Capital employed	877.1	807.0

The summary of significant accounting policies and the accompanying notes are an integral part of the consolidated financial statements.

Approved on behalf of the Board,

Bertin F. Nadeau

Robert Després

year ended January 28, 1989
(Millions of dollars)

	1989	1988	1987
	(52 weeks)	(52 weeks)	(53 weeks)
Operating activities			
Continuing operations:			
Income from continuing operations	**60.7**	65.7	61.0
Items not affecting working capital	**51.8**	39.6	34.5
Working capital provided by continuing operations	**112.5**	105.3	95.5
Changes in non-cash working capital related to continuing operations	**(19.2)**	13.0	(26.1)
Foreign currency adjustments related to continuing operations	**2.4**	–	(0.7)
Cash provided (used) by discontinued operations	**(0.5)**	9.4	–
Total cash from operating activities	**95.2**	127.7	68.7
Investing activities			
Acquisition of businesses including cash and cash equivalents (or deficiency)	**(51.4)**	(209.3)	(33.9)
Investments	**(30.2)**	(13.0)	(22.0)
Realization of investments	**5.6**	24.7	3.7
Acquisition of fixed assets	**(122.7)**	(101.1)	(76.1)
Sale of fixed assets	**36.4**	26.2	29.2
Increase in deferred charges	**(20.0)**	(13.4)	(5.3)
Purchase of minority interest in a subsidiary	–	(5.7)	–
Proceeds (costs) arising from extraordinary items	**40.7**	(6.1)	9.6
Total cash used for investing activities	**(141.6)**	(297.7)	(94.8)
Financing activities			
Increase in long-term debt	**40.8**	252.0	75.0
Reimbursement of long-term debt	**(3.7)**	(80.0)	(69.8)
Net increase (decrease) in obligations under capital leases	**(8.5)**	1.2	(2.7)
Redemption of preferred shares	**(0.1)**	–	(9.4)
Issue of shares	**4.5**	3.1	2.3
Total cash related to financing activities	**33.0**	176.3	(4.6)
Dividend payments			
Preferred shares	–	–	(0.4)
Common shares	**(19.6)**	(17.1)	(14.5)
Total cash used for dividend payments	**(19.6)**	(17.1)	(14.9)
Cash and cash equivalents (deficiency)			
Net decrease for the year	**(33.0)**	(10.8)	(45.6)
Beginning of year	**(89.1)**	(78.3)	(32.7)
End of year	**(122.1)**	(89.1)	(78.3)

Cash and cash equivalents (deficiency) consist of cash, less bank loans and acceptances and cheques issued and outstanding.

The summary of significant accounting policies and the accompanying notes are an integral part of the consolidated financial statements.

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada, consistently applied, and conform in all material respects with International Accounting Standards with regard to the presentation of historical cost financial information. They include the following policies:

Basis of consolidation

The consolidated financial statements include the accounts of Provigo Inc. and its subsidiary companies except for a finance company, PVO Finance Inc., which is accounted for under the equity method. The latter is excluded from the consolidation as its business is fundamentally different from that of the consolidated group. All subsidiaries of the Company are wholly-owned.

Foreign currencies

The accounts of foreign operations have been translated into Canadian dollars as follows: assets and liabilities, at the year-end exchange rate; revenues and expenses, at the average exchange rate for the year. Foreign exchange gains or losses arising from translation are deferred and included in a separate component of shareholders' equity as foreign currency adjustments.

Foreign denominated long-term monetary items of Canadian operations are translated at the year-end exchange rate. Exchange gains and losses are deferred and amortized over the remaining term of the related items. Exchange gains or losses pertaining to long-term debt covered by currency exchange agreements are offset against losses and gains deriving from those currency exchange agreements. The unrealized exchange gains or losses are recorded in the balance sheet as a deferred asset or a deferred credit.

Inventories

Inventories, consisting essentially of merchandise, are valued at the lower of cost, generally determined on a first-in, first-out basis, and net realizable value.

Store opening costs

Costs associated with the opening of new stores are expensed in the year incurred.

Catalogue costs

The costs of each of a subsidiary's major catalogues are charged to earnings over their life based upon seasonal sales patterns. Similarly, the costs of supplementary catalogues are charged to earnings over the periods during which they are in effect. The unamortized portion of these costs is carried as a prepaid expense.

Software costs

Costs of developing computer software which is made available to affiliated and franchised merchants as part of the range of services provided to them are capitalized. These costs are amortized on a straight-line basis over a period of five years starting from the period when the software becomes operational. All other software development costs are expensed as incurred.

Pension plans

The Company and its subsidiaries participate in various defined benefit pension plans. The difference between the funding contributions and the amounts recorded as a pension expense or credit is reflected as a deferred pension asset. Pension expense or credit includes the amortization, on a straight-line basis, of the difference between the pension plans' assets and the actuarially projected benefit obligations attributed to services rendered, over the expected average remaining service life of the employee groups covered by the plans. Certain subsidiaries of the Company also participate in defined contribution pension plans. Substantially all the employees of the Company and its subsidiaries are eligible to participate in a pension plan.

Investments

The investment in the non-consolidated finance subsidiary and an investment in which the Company exercises significant influence are accounted for on an equity basis. Other investments are carried at cost.

Fixed assets

Fixed assets are stated at cost less accumulated depreciation. Leases which transfer substantially all of the benefits and risks of ownership to the Company are accounted for as capital leases. The Company follows the policy of capitalizing interest during construction as part of the cost of capital assets.

Depreciation is calculated according to the following methods and rates:

	Methods	Annual rates
Buildings	Straight-line	2.5% @ 5%
Equipment	Straight-line	10%
Store equipment	Straight-line	12.5%
Automotive equipment	Diminishing balance	30%
Assets under capital leases:		
Buildings	Straight-line	Terms of the related leases not exceeding 40 years
Store equipment	Straight-line	Terms of the related leases not exceeding 10 years

Leasehold improvements are amortized on a straight-line basis over the terms of the related leases and the first renewal option period, if any.

The gains and losses realized on the sale of stores and properties are considered an integral part of the Company's operations and are included in operating income.

Sundry assets

Goodwill, leasehold rights and deferred charges, the latter consisting primarily of debt issue costs and costs relating to a subsidiary's retailer equipment participation program are stated at cost less amortization accumulated on a straight-line basis. Deferred charges also include deferred financing costs related to the foreign debt.

The amortization periods are as follows:

- Goodwill: Periods not exceeding 40 years
- Leasehold rights: Terms of the related leases
- Debt issue costs: Terms of the related debt issue
- Retailer equipment participation program: Useful life of the equipment not exceeding 8 years

Sundry assets also include deferred pension assets.

Financial year

The Company's financial year ends on the last Saturday of January. Accordingly, the years ended January 28, 1989 and January 30, 1988 comprised 52 weeks of operations while the year ended January 31, 1987 comprised 53 weeks of operations.

All tabular figures are in millions of dollars.

1. ACQUISITIONS AND DISCONTINUED OPERATIONS

Acquisitions

During the three-year period ended January 28, 1989, subsidiaries of the Company acquired the shares or certain of the assets of companies operating in the food, the health and pharmaceutical and specialty retailing sectors. The consideration paid and the purchase price allocation detail as follows:

	1989	1988	1987
Working capital	**14.9**	102.6	4.0
Fixed assets	**33.4**	83.9	10.1
Sundry assets	**0.6**	43.5	–
	48.9	230.0	14.1
Less: Obligations under capital leases	**–**	37.0	–
Long-term debt	**2.9**	51.5	6.0
Deferred income taxes	**1.0**	–	–
Net assets acquired	**45.0**	141.5	8.1
Excess of cost attributed to goodwill	**9.6**	39.2	7.9
Cost of acquisitions	**54.6**	180.7	16.0
Represented by:			
Investment at equity value	**–**	41.9	–
Cash consideration	**54.6**	138.8	16.0
	54.6	180.7	16.0

The consideration paid and the purchase price allocation for the year ended January 30, 1988 includes the November 6, 1987 acquisition of Consumers Distributing Company Limited. On a pro-forma basis, for the year ended January 30, 1988, consolidated net sales and consolidated income from continuing operations would have been $6,686,000,000 and $57,288,000 respectively, had this acquisition of Consumers Distributing Company Limited, excluding the United States East Coast division which was disposed of effective February 26, 1988, been made at the beginning of the year ended January 30, 1988, rather than November 6, 1987. Basic and fully diluted earnings per common share from continuing operations would have been respectively $0.68 and $0.65 for the year then ended.

Discontinued operations

On May 20, 1988, the Company's subsidiary, Consumers Distributing Company Limited, disposed of the business and assets of its United States East Coast division effective February 26, 1988. In addition, on September 10, 1988, the Company's subsidiary, Medis Health and Pharmaceutical Services Inc., sold the business and assets of Pharmacom Systems (1986) Limited. The resulting losses on disposal have been recorded as extraordinary items, as outlined in note 5.

The assets, liabilities, revenues, expenses and cash flows have, therefore, been presented in these financial statements on a basis which shows the financial position, results of operations and changes in financial position of discontinued operations separately from the Company's continuing operations. Accordingly, the net sales resulting from discontinued operations for the year ended January 28, 1989 of $26,200,000 (1988 – $132,400,000 and 1987 – $2,500,000) have been reclassified in the consolidated statement of income and included in income (loss) from discontinued operations.

The net assets of discontinued operations for the year ended January 30, 1988 included in the consolidated balance sheet detail as follows:

Working capital:	
Inventories	86.0
Payables and accrued liabilities	(65.8)
Other	2.4
	22.6
Other assets	28.5
	51.1
Less: Obligations under capital leases	3.0
Deferred income taxes	(0.2)
Net assets of discontinued operations	48.3

All tabular figures are in millions of dollars.

2. DEPRECIATION AND AMORTIZATION	**1989**	1988	1987
Fixed assets	**43.3**	30.6	24.4
Goodwill	**2.8**	2.1	1.1
Leasehold rights	**1.9**	0.4	–
Deferred charges	**2.8**	1.9	0.6
	50.8	35.0	26.1

3. INTEREST – NET			
Long-term debt	**56.8**	32.5	16.9
Other	**7.1**	3.3	5.9
Interest capitalized on fixed assets	**(1.0)**	(0.2)	(0.6)
Amortization of gain on forward contracts	**(3.0)**	(0.2)	–
	59.9	35.4	22.2
Investment and interest income	**(7.8)**	(6.7)	(5.6)
	52.1	28.7	16.6

4. INCOME TAXES

The effective income tax rate on consolidated earnings reported in these financial statements varies from year to year due to factors such as changes in the statutory income tax rate structure and differences in the geographic mix of consolidated earnings. The Company's effective income tax rate does not differ significantly from the combined statutory income tax rate of 39.5% (1988 – 47.3% and 1987 – 47.7%).

The provision for income taxes includes deferred income taxes of $14,200,000 (1988 – $7,000,000 and 1987 – $5,200,000).

5. EXTRAORDINARY ITEMS	**1989**	1988	1987
Loss resulting from the disposal of the business and assets of the United States East Coast division of Consumers Distributing Company Limited, net of the related income tax recovery of $2,700,000	**(5.7)**	–	–
Provision for losses resulting from the final adjustments required in connection with the February 1, 1986, discontinuance of the United States West Coast division of Consumers Distributing Company Limited, net of the related income tax recovery of $1,500,000	**(2.0)**	–	–
Loss resulting from the disposal of the business and assets of Pharmacom Systems (1986) Limited, a subsidiary of Medis Health and Pharmaceutical Services Inc., net of the related income tax recovery of $500,000	**(1.0)**	–	–
Gain on sale of an investment, net of related income taxes of $700,000	–	–	8.6
Losses and provisions for losses on the abandonment of a food retail operation in the United States, net of the related income tax recovery of $1,200,000	–	–	(1.4)
Losses and provisions for losses on the sale and closing of supermarkets, mainly in the Montreal region, net of the related income tax recovery of $1,900,000	–	–	(2.3)
	(8.7)	–	4.9

All tabular figures are in millions of dollars.

6. INVESTMENTS

	1989	1988
Investments carried on an equity basis:		
PVO Finance Inc.*	**4.5**	2.0
Other	**0.4**	–
Investments at cost:		
Shares	**12.9**	0.5
Long-term receivables, at rates approximating prime, maturing up to 2001	**20.2**	17.9
Marketable securities and other	**1.4**	0.4
	39.4	20.8

* PVO Finance Inc. is a wholly-owned subsidiary of Provigo Inc. which began its operations in June 1987. The company obtains its own financing on the market and in turn provides financial services in respect of leasehold improvements, equipment, goodwill and core inventory, to merchants carrying on business under the Company's banners as well as to other customers. The Company through its subsidiaries has guaranteed these finance receivables.

Summarized financial information for the year ended January 28, 1989 and for the eight-month period ended January 30, 1988 is as follows:

	1989	1988
Operating results		
Income	**5.1**	1.0
Expenses	**4.6**	1.0
Net income	**0.5**	–
Financial position		
Finance receivables	**72.3**	47.5
Receivables from affiliated companies	**3.6**	2.0
Other assets	**0.3**	0.3
Total assets	**76.2**	49.8
Notes, 10.5%, maturing up to 1993	**70.7**	47.7
Other liabilities	**1.0**	0.1
Total liabilities	**71.7**	47.8
Shareholder's equity	**4.5**	2.0
Total liabilities and shareholder's equity	**76.2**	49.8

7. FIXED ASSETS

	Cost		Net Book Value	
	1989	1988	1989	1988
Land	**36.9**	34.3	**36.9**	34.3
Buildings	**154.9**	131.0	**128.4**	106.8
Equipment	**324.4**	245.5	**156.0**	107.5
Leasehold improvements	**102.6**	72.4	**70.4**	48.8
Assets under capital leases	**92.1**	94.1	**60.2**	63.8
	710.9	577.3	**451.9**	361.2

8. SUNDRY ASSETS

Goodwill, net of accumulated amortization	**83.8**	75.7
Leasehold rights, net of accumulated amortization	**25.1**	27.0
Deferred charges, net of accumulated amortization	**20.2**	17.9
Deferred pension assets	**8.0**	5.4
	137.1	126.0

All tabular figures are in millions of dollars.

9. LONG-TERM DEBT

	1989	1988
Series 1987 debentures, 9.8%, maturing in 1997	**50.0**	50.0
Series 1987-A debentures, 10.8%, maturing in 1997	**75.0**	75.0
Series 1987-B debentures, 11.0%, maturing in 1992	**100.0**	100.0
Series New Zealand debentures, 17.45%, maturing in 1992*	**65.1**	76.4
Series E debentures, 13.5%, maturing in 1993	**20.0**	20.0
Series F debentures, 11.875%, maturing in 1995	**20.0**	20.0
Promissory notes, 6.36%, convertible to common shares, repayable starting in June 1989, maturing in 1994	**20.0**	20.0
Notes**	**38.3**	–
Other notes	**7.7**	4.2
Mortgages	**2.6**	4.3
	398.7	369.9
Less instalments due within one year	**2.3**	2.6
	396.4	367.3

* The Company has entered into forward foreign exchange contracts which effectively reduce the financing cost of this borrowing to a competitive level and convert it into a Canadian dollar obligation in a principal amount of $61,416,000 at maturity.

** Notes consist of unsecured U.S. dollar promissory notes issued at market rates, maturing within one year and supported by committed long-term credit facilities. Accordingly, these borrowings are classified as long-term debt. These notes are excluded from the annual instalments as a result of the Company's intention to renew annually the long-term credit facilities supporting these notes for periods of not less than twenty-four months.

As at January 28, 1989, all long-term debt is unsecured with the exception of mortgages. Minimum annual instalments on long-term debt due in the next five years are as follows:

1990	1991	1992	1993	1994
2.3	2.5	4.8	161.8	20.1

10. OBLIGATIONS AND COMMITMENTS UNDER LEASES

Minimum lease payments under capital and operating leases are as follows:

		Operating leases	
	Capital leases	Gross	Net of sub-leases
1990	**15.1**	98.3	53.7
1991	**13.2**	95.3	52.2
1992	**10.0**	88.7	48.5
1993	**9.0**	81.0	44.6
1994	**6.8**	73.6	44.3
1995 and thereafter	**146.3**	593.3	443.0
Total minimum lease payments	**200.4**	1,030.2	686.3
Less:			
Imputed interest at the average rate of 13.3%	**138.0**		
Instalments due within one year	**7.5**		
Long-term obligations under capital leases	**54.9**		

The interest charged to income amounts to $8,834,000 (1988 – $5,617,000 and 1987 – $3,976,000) and is included in interest on long-term debt.

Operating lease expense charged to income during the year amounted to $52,719,000 (1988 – $32,137,000 and 1987 – $21,320,000), net of sub-leases revenue.

All tabular figures are in millions of dollars.

11. CAPITAL STOCK	1989	1988
Authorized:		
1,000,000 first preferred shares having a par value of $25 each and issuable in series.		
Unlimited number of preferred shares without par value and issuable in series.		
Unlimited number of common shares without par value.		
Issued and outstanding:		
778,181 preferred shares without par value (1988 – 643,542)	**0.6**	0.6
85,108,917 common shares (1988 – 84,564,483)	**105.5**	101.1
	106.1	101.7

Preferred shares are issued under a long-term incentive program for senior executives of the operating companies. These shares are redeemable at the Company's option, convertible into common shares of the Company or retractable over the next three-year period at a price depending on the financial performance of the operating companies during the related period. A compensation expense is recorded in accounts payable to reflect the expected appreciation in value between the period of issuance and the conversion date.

During the year, 475,877 preferred shares without par value were issued for a cash consideration of $375,000. Also, 116,531 preferred shares were redeemed for a cash consideration of $111,000 and 224,707 preferred shares were converted into 146,337 common shares for a consideration of $1,416,000.

Also, 238,717 common shares were issued under employee stock purchase plans for a cash consideration of $2,248,000 and 159,380 common shares were issued under stock option plans for the senior executives of the Company, for a cash consideration of $689,000.

As at January 28, 1989, common shares were reserved for the following:

	Common shares reserved
Employee stock purchase plans	995,732
Stock option plans for the senior executives of the Company	1,782,060
Long-term incentive program for the senior executives of the operating companies	853,663
Conversion right attached to the convertible promissory notes	4,480,000

Of the 1,782,060 common shares reserved under the stock option plans for the senior executives of the Company, 1,274,860 shares represent options that have been granted which can be exercised at prices varying from $4.00 to $10.38 per share after certain vesting periods expiring up to 1998.

The conversion right attached to the convertible promissory notes is exercisable at a price of $4.48 per share until June 1989 and $4.93 per share thereafter until 1994.

12. FOREIGN CURRENCY ADJUSTMENTS	1989	1988
Balance, beginning of year	**(1.3)**	4.2
Effect of changes in exchange rates during the year	**(5.3)**	(5.5)
Realized loss on the disposition of the United States East Coast division of Consumers Distributing Company Limited	**2.4**	–
Balance, end of year	**(4.2)**	(1.3)

All tabular figures are in millions of dollars.

13. ITEMS NOT AFFECTING WORKING CAPITAL

	1989	1988	1987
Depreciation and amortization	**50.8**	35.0	26.1
Deferred income taxes	**14.2**	7.1	10.3
Deferred pension assets	**(2.6)**	(2.9)	(2.5)
Gains realized on the sale of stores and properties	**(14.3)**	(3.5)	(1.0)
Other	**3.7**	3.9	1.6
	51.8	39.6	34.5

14. CHANGES IN NON-CASH WORKING CAPITAL RELATED TO CONTINUING OPERATIONS

Receivables	**(34.7)**	(14.3)	(54.6)
Inventories	**(5.4)**	28.2	(28.3)
Payables and accrued liabilities	**33.8**	(12.5)	35.7
Other	**(12.9)**	11.6	21.1
	(19.2)	13.0	(26.1)

15. PENSION PLANS

Funds are contributed to the trustee as necessary to provide for current service costs. To the extent that actuarial projected benefit obligations are fully covered by plans' assets, Company contributions may be reduced or not required in any particular year. Actuarial reports are prepared annually by independent actuaries for accounting and funding purposes.

The following table sets forth the pension credit relating to defined benefit pension plans for the years 1989, 1988 and 1987 and the defined benefit pension plans' funded status as of January 28, 1989, January 30, 1988 and January 31, 1987:

	1989	1988	1987
Pension credit			
Service cost for the year	**3.3**	2.5	1.9
Interest cost on projected benefit obligations	**6.1**	5.4	5.0
Return on assets	**(8.0)**	(7.4)	(6.5)
Amortization of actuarial surplus	**(2.1)**	(2.0)	(1.5)
Pension credit for the year	**(0.7)**	(1.5)	(1.1)
Plans' funded status			
Actuarial accumulated benefit obligations	**60.9**	58.2	47.1
Plans' assets at market based value	**96.9**	88.6	80.5
Actuarial projected benefit obligations	**72.0**	62.8	54.0
Plans' assets in excess of projected benefit obligations	**24.9**	25.8	26.5
Unamortized actuarial gains*	**(4.3)**	(6.3)	(8.4)
Unamortized portion of actuarial surplus as at January 26, 1986*	**(12.6)**	(14.1)	(15.6)
Deferred pension assets	**8.0**	5.4	2.5

*Being amortized over the expected average remaining service life of the employee groups covered by the plans, generally 12 years.

16. CONTINGENCY

The Company and its subsidiaries are parties to claims and suits brought against them in the ordinary course of business. In the opinion of management, all such claims and suits are adequately covered by insurance, or if not so covered, the results are not expected to materially affect the Company's financial position.

17. COMPARATIVE FIGURES

Certain of the 1988 and 1987 comparative figures have been reclassified in order to conform with the presentation adopted in 1989.

year ended January 28, 1989
All tabular figures are in millions of dollars.

18. SEGMENTED INFORMATION

	Net sales			Segment operating profit			Performance income		
	1989	1988	1987	**1989**	1988	1987	**1989**	1988	1987
Food Group – Canada The distribution and retail sale of food and related products.	**4,364.8**	4,010.5	3,692.2	**105.2**	99.4	94.2	**60.2**	51.8	49.0
Food Group – U.S.A.[1] The distribution and retail sale of food and related products in the United States.	**610.9**	455.4	446.3	**13.8**	11.7	12.3	**8.0**	6.5	6.2
Total Food Group	**4,975.7**	4,465.9	4,138.5	**119.0**	111.1	106.5	**68.2**	58.3	55.2
Health and Pharmaceutical Group The distribution of pharmaceuticals and other drugstore products.	**1,096.1**	1,047.3	789.1	**(4.1)**	6.1	16.4	**(2.8)**	3.2	8.1
Convenience Group The sale of convenience products and related support to a network of franchise stores and the retail sale of petroleum products.	**372.5**	336.0	319.4	**17.6**	18.3	16.3	**10.8**	10.2	8.9
Specialty Retailing Group The distribution and retail sale of consumer goods.	**934.2**	436.5	152.1	**20.3**	26.8	2.1	**10.0**	13.7	1.1
Total	**7,378.5**	6,285.7	5,399.1	**152.8**	162.3	141.3	**86.2**	85.4	73.3
General Corporate Expenses				**6.9**	7.0	7.8	**4.3**	3.8	3.7
Interest				**58.3**	34.3	19.9	**31.5**	18.6	10.4
Share of Net Income of a finance subsidiary and an affiliated company				**(1.3)**	(0.1)	(1.3)	**(0.7)**	(0.1)	(1.3)
Gains realized on the sale of stores and properties				**(14.3)**	(3.5)	(1.0)	**(9.6)**	(2.6)	(0.5)
Income taxes				**42.5**	58.9	54.9	–	–	–
Income from continuing operations				**60.7**	65.7	61.0	**60.7**	65.7	61.0

	Identifiable assets			Net assets employed by segment			Capital expenditures			Depreciation and amortization		
	1989	1988	1987	**1989**	1988	1987	**1989**	1988	1987	**1989**	1988	1987
Food Group – Canada	**737.7**	637.8	557.2	**377.5**	315.7	262.1	**78.7**	70.4	46.4	**24.3**	20.8	17.5
Food Group – U.S.A.[1]	**142.7**	72.3	76.7	**98.6**	46.8	45.6	**8.4**	2.2	1.5	**3.5**	1.8	1.9
Total Food Group	**880.4**	710.1	633.9	**476.1**	362.5	307.7	**87.1**	72.6	47.9	**27.8**	22.6	19.4
Health and Pharmaceutical Group	**222.8**	232.5	181.8	**115.2**	105.1	87.8	**6.9**	6.3	9.0	**3.9**	2.4	1.5
Convenience Group	**83.5**	70.6	64.1	**52.3**	38.4	40.9	**14.1**	13.4	9.1	**4.9**	4.1	3.6
Specialty Retailing Group	**405.5**	409.0	71.2	**276.5**	283.4	51.5	**14.2**	8.5	10.0	**14.0**	5.7	1.4
Corporate	**10.3**	7.1	49.6	**(4.7)**	(5.2)	33.0	**0.4**	0.3	0.1	**0.2**	0.2	0.2
Total assets of continued operations	**1,602.5**	1,429.3	1,000.6	**915.4**	784.2	520.9	**122.7**	101.1	76.1	**50.8**	35.0	26.1

Performance income corresponds to each segment's operating profit, net of related income taxes. General corporate expenses and interest shown in the same column are net of related income taxes.

Net assets employed correspond to each segment's identifiable assets, excluding cash, net of all current liabilities except for bank loans and acceptances and the current portion of long-term debt and capital leases.

Corporate assets, in 1987, consisted principally of investments in affiliated companies, notably Consumers Distributing Company Limited.

Inter-segment sales are not significant.

[1]The Company's only operations carried on outside Canada.

	1989	1988	1987	1986	1985
Income statement data (Millions of dollars)					
Net sales	**7,378.5**	6,285.7	5,399.1	4,746.1	4,367.4
Operating income	**205.6**	190.0	157.4	132.0	110.4
Depreciation and amortization	**50.8**	35.0	26.1	24.5	21.8
Interest – net	**52.1**	28.7	16.6	19.0	18.6
Income taxes	**42.5**	58.9	54.9	39.4	29.6
Income from continuing operations	**60.7**	65.7	61.0	48.3	40.3
Income before extraordinary items	**60.2**	67.2	60.3	48.3	40.3
Net income	**51.5**	67.2	65.2	34.5	40.3
Changes in financial position (Millions of dollars)					
Funds from operations	**112.5**	105.3	95.5	82.4	58.5
Capital expenditures	**122.7**	101.1	76.1	56.1	47.9
Dividends	**19.6**	17.1	14.9	12.0	10.2
Financial position (Millions of dollars)					
Current assets[1]	**974.1**	921.3	624.2	535.3	453.0
Current liabilities	**725.4**	670.6	509.7	424.7	369.2
Working capital[1]	**248.7**	250.7	114.5	110.6	83.8
Fixed assets	**451.9**	361.2	261.8	230.8	219.7
Total assets[1]	**1,602.5**	1,429.3	1,000.6	863.9	728.9
Total debt	**489.6**	461.0	206.7	202.5	206.5
Shareholders' equity	**397.2**	363.8	316.1	278.3	211.7
Financial statistics					
Return on average equity	**16.0%**	19.3%	20.7%	22.0%	21.6%
Total debt: Equity	**55:45**	56:44	40:60	42:58	49:51
Current ratio (times)[1]	**1.34**	1.37	1.22	1.26	1.23
Interest coverage (times)	**3.0**	5.3	8.0	5.6	4.7
Fixed rate debt % total debt	**86%**	96%	63%	37%	29%
Per common share (Dollars)					
Income from continuing operations	**0.72**	0.78	0.72	0.60	0.50
1st quarter	**0.10**	0.12	0.12	0.13	0.12
2nd quarter	**0.19**	0.17	0.22	0.20	0.15
3rd quarter	**0.15**	0.16	0.15	0.14	0.10
4th quarter	**0.28**	0.33	0.23	0.13	0.13
Income before extraordinary items	**0.71**	0.80	0.71	0.60	0.50
Net income	**0.61**	0.80	0.77	0.43	0.50
Dividends	**0.231**	0.203	0.173	0.144	0.119
Shareholders' equity	**4.66**	4.29	3.76	3.21	2.55
Market price (Montreal Exchange)					
high	**12.25**	13.50	11.13	8.50	4.78
low	**8.25**	7.00	7.63	4.41	3.66
Shareholder statistics					
Common shares outstanding at end of year (thousands)	**85,109**	84,564	84,154	83,814	78,063
Weighted average number of common shares outstanding during the year (thousands)	**84,822**	84,391	83,921	78,878	78,063
Average number of shares traded weekly[2]	**477,852**	370,215	487,934	437,194	467,368
Shareholders of record at end of year	**6,958**	7,884	7,346	6,515	5,537

[1] Excluding net assets of discontinued operations.
[2] Montreal Exchange and Toronto Stock Exchange.

OUR NETWORKS

as at January 28, 1989

FOOD GROUP

Operating Companies	Market	Employees: Full Time	Employees: Part Time	Wholesale Operations		Retail Operations: Banners	Corporate Stores	Affiliated and Franchised Stores	Surface (Square Meters)
• **Provigo Distribution Inc.**	Food wholesaling and retailing – Quebec	3,656	2,862	Distribution Centers:	13	Provigo	37	199	355,159
				Cash & Carry:	30	Axep		290	80,530
						Proprio		306	46,656
						Maxi	9		46,224
						Héritage	14	2	40,860
						Jovi		212	36,396
						Intermarché		18	10,376
						Octofruit		15	5,909
						N/G		2	1,555
• **LOEB Inc.**	Food supermarkets and Cash & Carry – Ontario, Northern Quebec	1,219	254	Distribution Centers:	7	IGA	1	88	119,066
				Cash & Carry:	22	LOEB IGA		18	49,783
						LOEB		3	8,638
						M/M		21	5,874
						Héritage		1	2,879
						Orange Store	1		558
• **Horne & Pitfield Foods Limited**	Food wholesaling and retailing – Alberta, Northern B.C., Yukon	756	423	Distribution Centers:	8	IGA	7	90	110,608
				Cash & Carry:	8	M/M		106	19,716
						Food Giant	5		10,797
						Mayfair		21	7,031
						Triple S		20	3,720
						Garden Market		1	2,610
						Reddi Mart		6	1,339
• **Provigo Corp.: Market Wholesale Grocery Co.**	Food wholesaling and retailing – Northern California	1,423	770	Distribution Centers:	4	Petrini's	13		38,014
				Cash & Carry:	6	Quality Plus	16		33,811
						Cost Less		1	5,115
						Better Buy		1	4,942
Tidewater Wholesale	Food wholesaling – Virginia, North Carolina			Distribution Center:	1				
• **Dellixo Inc.**	Food services – Quebec	585	32	Distribution Centers:	12				

HEALTH AND PHARMACEUTICAL GROUP

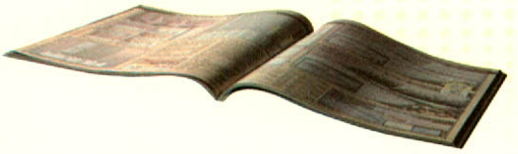
Operating Companies	Market	Employees: Full Time	Employees: Part Time	Wholesale Operations		Retail Operations: Banners	Corporate Stores	Affiliated and Franchised Stores	Surface (Square Meters)
• **Medis Health and Pharmaceutical Services Inc.**	Distribution of health and pharmaceutical products – Canada	1,024	41	Distribution Centers:	17	ARP		207	48,240
				Agency:	1	Promoprix		61	14,183

CONVENIENCE GROUP

Operating Companies	Market	Employees: Full Time	Employees: Part Time	Wholesale Operations		Retail Operations: Banners	Corporate Stores	Affiliated and Franchised Stores	Surface (Square Meters)
• **C Corp. Inc.**	Convenience stores and gasoline retailing – Quebec, Ontario, Alberta	225	74			Provi-Soir		235	53,411
						Winks		17	10,539
						Winks Express		3	1,779
						Pinto		13	2,643
						Red Rooster		161	37,730
						Top Valu		55	32,051

SPECIALTY RETAILING GROUP

Operating Companies	Market	Employees: Full Time	Employees: Part Time	Wholesale Operations		Retail Operations: Banners	Corporate Stores	Affiliated and Franchised Stores	Surface (Square Meters)
• **Sports Experts Inc.**	Sporting and leisure goods – Canada	507	912	Distribution Center:	1	Sports Experts	13	118	54,931
						Collegiate	34	21	23,672
						Intersport		10	1,183
• **Consumers Distributing Company Limited**	Semi-durable goods – Canada	1,771	5,556	Distribution Centers:	2	Consumers Catalogue Showrooms	173	28	202,778
						ToyCity	24		43,294
						Consumers plus ToyCity	3		5,760



DIRECTORS AND OFFICERS

DIRECTORS

H. Jonathan Birks
Montreal
President
Henry Birks & Sons
(Montreal) Ltd.
Elected in 1987

Robert Després[2]
Quebec
President
Les Placements DRM Inc.
Elected in 1988

Jeannine Guillevin Wood[5]
Montreal
Chairman, President and
Chief Executive Officer
Guillevin International Inc.
Elected in 1986

Jean-Louis Lamontagne[1]
Quebec
Director
Elected in 1969

Pierre Lortie[1][3]
Montreal
Chairman, Chief Executive
Officer and President
Provigo Inc.
Elected in 1985

Louise Martin[2][5]*
Montreal
Partner
Clarkson, Tétrault
Elected in 1986

Bertin F. Nadeau[1][3]
Montreal
Chairman, President
and Chief Executive Officer
Unigesco Inc.
Elected in 1985

Carmand Normand[2][4]
Montreal
President and General Manager
Corporation financière
du Saint-Laurent
Elected in 1982

René Provost[2][4]
Montreal
Director
Elected in 1961

Gerald A. Regan, P.C., Q.C.[4]
Ottawa
President
Hawthorne Development
Services
Elected in 1986

* Passed away January 17, 1989

Henri A. Roy
Montreal
Executive Vice-President
Provigo Inc.
Elected in 1987

Guy Saint-Germain[1][3]
Montreal
President and
Chief Executive Officer
Le Groupe Commerce
Elected in 1980

David F. Sobey[1]
New Glasgow, N.S.
Chairman and
Chief Executive Officer
Sobeys Stores Limited
Elected in 1982

Donald R. Sobey[3]
Stellarton, N.S.
Chairman
Empire Company Limited
Elected in 1982

William I.M. Turner, Jr. C.M.[1]
Montreal
President and Chief Executive
Officer
PCC Industrial
Elected in 1986

OFFICERS

Pierre Lortie[1][3]
Chairman
Chief Executive Officer
and President

Henri A. Roy
Executive Vice-President

Jean-Claude Merizzi[4]
Executive Vice-President

Yvon Marcoux[5]
Senior Vice-President,
Administration

Germain P. Lecours
Senior Vice-President,
Finance and Control

Paul Biron
Vice-President,
Technology and
Information Systems

Richard G. Sutton
Treasurer

Claude E. Leduc
Secretary and Legal Advisor

(1) Executive Committee
(2) Audit Committee
(3) Human Resources Committee
(4) Ethics Committee
(5) Donations Committee

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Claude Beaulieu
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Fax: (416) 245-7224
Maurice Tousson
President and
Chief Operating Officer

SHAREHOLDER AND INVESTOR INFORMATION

The Company is listed on
The Montreal Exchange and the
Toronto Stock Exchange
Stock symbol: PGI

Transfer Agent and Registrar
Montreal Trust of Canada
Montreal, Toronto

Dividend Payment Date
Provigo's quarterly dividends are normally paid in January, April, July and October.

Information for Investors
For further information about the Company, investors and analysts should contact the Investor Relations Department by writing to Head Office or calling (514) 878-8301.

On peut obtenir une copie française de ce rapport auprès de
Provigo inc.
Service des relations avec les
investisseurs
800, boul. René-Lévesque Ouest
Montréal (Québec) H3B 1Y2

Annual Meeting
The Annual General Meeting of the Shareholders will be held in Room 407 of The Montreal Convention Centre on Friday, May 26, 1989 at 11:00 a.m.

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