2005 Annual Report

Sobeys Inc. is a leading national grocery retailer and food distributor. Based in Stellarton, Nova Scotia and with regional offices in Edmonton, Alberta; Mississauga, Ontario; Montreal, Québec; and Stellarton, Nova Scotia, the Company owns or franchises more than 1,300 stores in all 10 provinces under retail banners that include Sobeys, IGA, IGA extra and Price Chopper.

2005 Operating and financial highlights

+10.3% Sales increase

+12.6% Increase in earnings per share

+77.1% Increase in share price over last five years

(All amounts expressed in millions)

	May 7, 2005†	May 1, 2004*	May 3, 2003*
Operating results			
Sales	**$ 12,189.4**	$ 11,046.8	$ 10,414.5
Earnings before interest and income taxes	**322.6**	294.3	325.6
Net earnings	**186.7**	166.5	178.1
Weighted average number of common shares outstanding	**65.5**	65.9	65.9
Financial position			
Cash flows from operating activities	**438.2**	364.6	348.4
Net working capital	**(188.6)**	(194.8)	(93.1)
Property and equipment	**1,461.9**	1,360.2	1,253.8
Total assets	**3,487.0**	3,278.9	3,195.7
Total long-term debt	**457.8**	453.1	595.8
Shareholders' equity	**1,682.1**	1,561.3	1,423.6

† 53 weeks
* Restated

Our fresh approach

At Sobeys Inc., our focus is clear and steadfast – we are focused on food, driven by our fresh expertise, supported by superior customer service – in the right-sized, right format stores for each individual market we serve. Our passion for food – supported and enabled by processes and tools that engage our people to get the job done well – sets us apart in a highly competitive marketplace. Our customers see and feel the difference, and their growing patronage is driving our sales and earnings growth.

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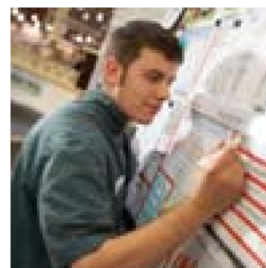


Our focus is fresh

Message from the President & C.E.O.

During fiscal 2005, our focus remained clear and steadfast. We delivered improved financial performance in a manner consistent with our expressed intention to build a healthy and sustainable retail food business and infrastructure for the long term.

Our positive momentum reflects the energy, efforts and commitment of our people in support of our passionate focus on food and food retailing. In our highly competitive markets, our solid financial performance reflects progress on key selling initiatives combined with significant productivity improvements.

Highlights of 2005

Clearly, our continued strong same-store sales growth of 3.7 percent over fiscal 2004 is a leading indicator that our strategy is working and delivering results. Our more competitive pricing posture, improved product assortment, more consistent merchandising execution and fresh innovations attracted more customers to shop in our stores more often – driving higher sales per square foot from increased traffic and higher average customer transaction size. The sales resulting from same store increases and the continued expansion and rejuvenation of our store network resulted in market share gains in each of our four operating regions.

Our bottom line progress reflects the net impact of improved merchandising, pricing and productivity improvements throughout the year – achieved while we continued to make significant investments in our retail network and infrastructure for the long term. While we are pleased with our earnings performance in 2005, we recognize that even with the progress we have made in improving our overall cost structure thus far, significant opportunity still exists.

Our positive momentum reflects the energy, efforts and commitment of our people in support of our passionate focus on food."

BILL McEWAN, President & Chief Executive Officer

Progress in a challenging environment

Our 2005 fiscal year unfolded in the midst of a very dynamic and extended period of change in the retail environment. Two overarching trends continued to challenge the market:

First – changing demographic and consumer lifestyle expectations have increased demands for greater choice, convenience, adaptability and responsiveness from product and service providers.

Second – conventional channels of retailing are giving way to convergence, as local, national and international retailers seek to earn a greater share of each customer's spending by expanding the range of the products they sell to include food and grocery products.

All this means more competition – but it also provides new opportunities for the most focused retailers in each segment. We are determined that nobody will "out-food", "out-fresh" or "out-service" Sobeys, and we are succeeding.

We believe our growth represents a significant achievement, given the complex and highly competitive retail environment. We remain determined to maintain our focus, while continuing to improve our financial performance through ongoing investment in initiatives to drive sales and productivity.

Selling initiative: Building our national reach and enhancing our format portfolio

Key to our leadership in the food business is our strategy of having the right-sized, right format stores in each local market we serve. Our portfolio of store formats has evolved accordingly, and we have consolidated and converted banners and formats to capitalize on specific market opportunities. Clearly, the full service format Sobeys and IGA extra banners are positioned to meet the greatest number of different customer occasion-based needs in a given market, but this format is not appropriate for all markets or locations.

"By leveraging our strong in-house customer and market research capabilities, we are aligning the right banner, format and store size in each market."

Meeting the needs of customers

The continuing popularity of "ready-to-go" meals is being driven by customers who find themselves increasingly time-challenged and seeking creative and convenient meal choices.

Fresh formats

Across Canada, every region is different, every community is different and every location is different. Understanding this, we know one size does not fit all. Instead, we are focused on meeting the diverse needs of our customers' food shopping requirements, region by region, community by community and store by store, with a portfolio of store formats.

1 Full service

Profile: Food stores that are ready to serve the total food shopping requirements of our customers with superior customer service and customized offerings.

Branding: Sobeys, IGA extra

Locations: Atlantic Canada, Québec, Ontario, Western Canada

2 Fresh service

Profile: Food stores that are ready to serve the "fresh fill-in" and "today's meal" needs of customers with superior customer service and customized offerings.

Branding: Sobeys, IGA (Québec), Sobeys *express* (Ontario)

Locations: Ontario, Québec

3 Community service

Profile: Food stores that are ready to serve the "routine and fill-in" food shopping occasions of our customers in rural and one-store communities.

Branding: IGA, Foodland

Locations: Atlantic Canada, Québec, Ontario, Western Canada

Our formats

4 Price service

Profile: Food stores that are ready to serve customers with low prices every day, in markets where price is the driving factor for store selection.

Branding: Price Chopper, Commisso's

Locations: Atlantic Canada, Ontario, Western Canada

5 Convenience service

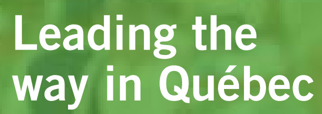
Profile: Stores that are ready to serve the convenience needs of our customers.

Branding: Needs, Sobeys *express*, Marché Bonichoix, Les Marchés Tradition

Locations: Atlantic Canada, Québec

Innovation

A commitment to market-customized food stores requires a commitment to continuous innovation, whether in terms of size, layout or offering. In 2005, we opened two Sobeys *express* stores – in conjunction with the Canadian Tire "Q" concept – which represent the advancement of our "fresh fill-in" format concept. At only 3,900 square feet, these stores offer an impressive breadth of assortment and supermarket level pricing.



Leading the way in Québec

Innovation and highly focused merchandising strategies and tactics in our Québec Region have driven IGA and IGA extra to the leading banner market share position in the province.

By leveraging our strong in-house customer and market research capabilities, we are aligning the right banner, format and store size in each market. We firmly believe that one size does not fit all, but rather there is a size and fit for each opportunity.

During the year, our store portfolio continued to evolve as we made ongoing investments in developing our formats and building new stores while realigning and renovating our current store base. In fiscal 2005, we renovated, acquired, expanded, replaced or converted close to 100 stores – a major undertaking. This included the continuation of our successful roll-out of the Sobeys banner in Western Canada, with the introduction of 11 Sobeys stores in Saskatchewan.

As well, we continued to respond to new and emerging market trends and opportunities with the development of new approaches and concepts to meet the evolving needs of our customers.

For example, in Ontario, we introduced Sobeys *express* in two locations in conjunction with another leading Canadian brand – Canadian Tire. At the "Q" outlets in Milton and Windsor, Ontario we have piloted the 3,900 square foot Sobeys *express* stores, with a fresh food and convenience offering in markets where "on-the-go" consumers demand a shopping experience that provides a compelling offering of fresh food, and ready-to-serve meals, at prices that don't disappoint.

We continued to respond to new and emerging market trends and opportunities with new approaches and concepts to meet the evolving needs of our customers."

To respond to consumer lifestyle trends, we have developed a specialized natural health, beauty and well-being product boutique format in Québec. *Natriga* are boutiques, designed as stores-within-a-store – located within select IGA extra locations. The offering includes approximately 3,000 SKUs in 1,000 square feet of floor space – and is proving popular with customers who buy natural and organic food, as well as with customers who regularly shop for natural health and wellness products at pharmacies and specialty stores. While generating sales, this specialized boutique format is also resulting in increased traffic to IGA extra stores. We will have a total of 10 *Natriga* boutiques in place by mid fiscal 2006.

Selling initiative: A fresh launch for *Compliments* – our private label brand

First and foremost, we are in the business of identifying the products, brands and services that our customers want, need and demand – and then satisfying that demand through the right assortment of national and regional brands, complemented by products that are uniquely ours. We have worked with our supply chain and national brand suppliers to enhance our overall assortment on a category by category basis. With that in mind, we have, in a balanced and disciplined manner, identified further opportunities to establish our leadership in food through the comprehensive development of our private label program. Our exclusive private label brand – ***Compliments*** – was introduced throughout 2005 in every banner across the country.

The launch of the ***Compliments*** brand is far more than a repackaging exercise. ***Compliments*** is unique in Canadian food retail as it comprises three tiers under the one brand – a value tier, a selection tier and a sensations (or premium) tier. More information on the ***Compliments*** tiering and segmentation can be found in the gatefold pullout in this report.

In developing this compelling new brand, we talked to our customers, looked at best practices around the world, acquired strong leadership and expertise, and launched a comprehensive review, assessment and overhaul of each of our existing private label products, while identifying additional new product opportunities.

To date, approximately 2,400 products have been introduced with an additional 600 products set to launch by October, 2005.

As we move forward, we see a major opportunity to develop ***Compliments*** fresh food and ready-to-serve food options for the increasingly time-challenged, yet value conscious, consumer. Product innovation will be a major focus of the partnerships we announced this year with Culinary Centres in both Nova Scotia and Ontario, which are outlined in the community section on page 20.

Our assortment of national and regional brands is complemented by products that are exclusively ours. *Compliments*, introduced in 2005, is unique in Canadian retailing.”

Quality, price and performance

Compliments offers consumers more of what they're looking for. By October 2005, Sobeys will have introduced approximately 3,000 products under the *Compliments* brand.

Compliments With the launch of Compliments, our private label offering, we are inspiring Canadians every day with better food choices and ensuring that Compliments represents the best combination of quality, price and product performance – made easy. Nothing less will do.

> **Value tier** **Best price, practical choice.** The best possible retail price product assortment, delivering acceptable quality that does not disappoint. Designed to parallel the taste and performance profiles of competitive product lines.

> **Selection tier** **Quality value solutio**
selection for value conscious consumers
Brand category leader, but are looking fo

1 Choice

Unique among private label brands, Compliments provides Canadians with a myriad of choices to meet their diverse needs. Compliments offers the choice of three distinct quality and price tiers of food and non-food products under one brand – including food, household products, health and beauty items, pet and baby needs.

2 Quality

In each Compliments tier, we strive to exceed the quality expectations of our customers. Our quality assurance team maintains high standards across all three tiers for taste, appearance and other product and packaging attributes. With the Sensations tier, we have raised the quality bar – utilizing comprehensive research, premium ingredients and innovative product development from our Culinary Centre partnerships to produce affordable indulgences.

3 Value

Value means more than low prices – it means the best product for the customer's dollar – and that is what every Compliments product represents. With the Compliments Value tier, we offer customers a wide assortment of products at the best possible retail price. This commitment to value also applies to our Selection and Sensations tiers, which feature quality products at market-competitive prices.

Private label

ns for every day. Trustworthy quality and
s who appreciate the quality of the National
or greater value for their overall food budget.

> **Sensations tier** **Affordable indulgences.** A product collection of the best you can get in the market. It is comprised of the most innovative, exclusive, unique and mouth-watering food experiences.

4 Information

Today, we all want to know more about the foods we eat. Our innovative information icons applied to all Compliments packaging provide customers with concise information in a clearly understandable and recognizable way on everything from allergy alerts to healthy food choices. These icons give our customers information they can trust and help them make informed decisions.

5 Lifestyle

Time-pressured Canadians want products that reflect and simplify their busy lifestyle. With Compliments, we are aiming to make things easier and add to the pleasure and enjoyment of every customer's food experience. That's why we have launched *Inspired* magazine – with helpful information on food and entertaining, and www.complimentscanada.ca – with extensive product information, recipes, feedback and more.

6 Loyalty

Compliments products support our focus on food and commitment to delivering incomparable customer care. Compliments products are consistently distributed across operating regions and all Sobeys Inc. store banners. These great products help to earn overall customer loyalty, which translates into more traffic and increased sales in our stores.

Well trained to serve our customers

In IGA extra and IGA stores in Québec, 1,300 Aide-Gourmets, well trained in food preparation, provide customers with value-added food knowledge and expertise.

A strong private label program will continue to build our business on several levels. First and foremost, it will drive and reinforce our focus on food. Innovation drives creativity, and creativity will inspire our employees to develop merchandising and marketing programs that highlight the quality and overall value of ***Compliments***, contributing to higher profitability for Sobeys. With consistent execution in our stores, day-to-day, and ongoing development of products, we expect ***Compliments*** will earn a greater share of our customers' requirements and spending.

Productivity initiative: SMART Retailing to improve operations in every store

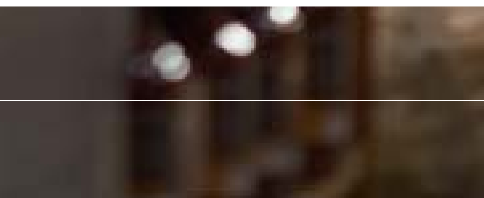
As our efforts to drive top-line sales growth deliver solid results, growing our bottom line will continue to demand, among other things, a disciplined focus on productivity and cost-management initiatives. In fiscal 2005, we invested significant effort and resources in our SMART Retailing initiative, which focuses on continuous improvement of our stores' operational processes – promoting efficiency and reducing waste, without compromising the customers' overall shopping experience.

SMART Retailing is not a technology-based initiative, but rather a series of "back-to-basics" continuous improvement fundamentals that engage all employees in all in-store departments to operate our stores more efficiently. Stores go through a rigourous certification process with results tracked by employees in every department.

SMART Retailing engages all employees in all in-store departments to operate our stores more efficiently – without compromising the customers' overall shopping experience."

The benefits are numerous and include:

- Reduced shrink (product waste), and improved inventory management, which generate savings. Small daily improvements at individual stores translate into millions of dollars in system-wide savings over the course of a year.
- Productivity improvements, which allow us to maintain our solid competitive price position and support our fresh product merchandising standards and customer service levels.
- The engagement of thousands of people in our stores in a culture of achievement.



In fiscal 2005, 397 stores introduced SMART Retailing and we expect an additional 315 stores to implement these principles in fiscal 2006. The productivity gains associated with SMART Retailing will support and fuel our ability to stay price competitive; support the consistent execution of our customer service initiatives across all of our formats; and finally, build margins and grow earnings.

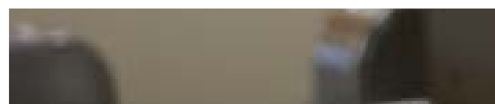
Productivity initiative: System-wide improvements with business process optimization

SMART Retailing is an important example of our process improvements at store level that are delivering tangible results. System wide, we are proceeding with far-reaching business process optimization initiatives to ensure our entire organization is positioned to serve our stores as efficiently and effectively as possible. Currently, we operate a number of different information systems and processes across our different banners and regions. We must complete the integration of these systems and processes to further rationalize and lower our cost structure. We are assessing every system and process to forge company-wide solutions with this multi-faceted and multi-year program.

One of our first major system-wide initiatives undertaken in fiscal 2005 was the roll-out of a common point of sale (POS) system, which provides us with improved customer information, while enabling improved customer service at the check-out counter. In addition, training time and administrative work are reduced and each store's cash office efficiency is improved through implementation of this common system. By the end of fiscal 2005, we had introduced the system in 195 of our stores with full implementation across the entire store network by mid fiscal 2007.

In our distribution centres, we have now implemented voice pick technology while completing the introduction of engineered labour standards. In addition, roll-out of a common finance and merchandising system is underway across the country, having been successfully completed in our Atlantic Region. We will leverage the processes and systems developed and deployed in the Atlantic implementation, region by region, beginning in Ontario.

The roll-out of a common point of sale system will provide us with better customer information, while enabling improved customer service at the check-out."



Reduced waste, improved efficiency

In its first year, SMART Retailing has proven effective in dramatically reducing the amount of shrink in stores across the country.

Fresh initiatives

With SMART Retailing, we have taken a back-to-basics approach to continuous improvement of operations in our grocery stores. By employing these basic techniques, people in every department are able to reduce waste, improve efficiency, enhance customer service and reinforce our focus on food.

1 Produce wheel

In the produce department, the major contributor to waste is, quite simply, displaying too much product. The produce wheel is a simple and effective tool that helps our produce employees determine the optimum display size for their particular store, based on that store's actual sales patterns.

2 Level block facing and case cutting

Level block facing and case cutting are basic techniques for the way packaged products are lined up and stocked on the grocery shelf. These practices contribute to better stocking in every store – reducing the number of out-of-stocks while enabling improved ordering accuracy.

3 JIT Production system

As fresh foods such as deli and many prepared food items must be monitored to ensure optimum quality, we have introduced "just-in-time" production scheduling for perishable items. This scheduling is tailored to each store and designed to ensure the right amount of food is on display at the right time – which means less waste and greater quality assurance.

SMART Retailing

4 Grocery back stock levels

Holding excess inventory in behind-the-scenes stock rooms is a major cost of business in every grocery store. With SMART Retailing, we have developed visual guides for better organization of backroom stock for every department – contributing to lower inventory levels and greater stocking efficiency.

5 KANBAN

With our focus on fresh food, we sell a lot of products with limited shelf life – less than a day – fresh baked items and many salad products, for example. For SMART Retailing, we have developed an approach based on KANBAN – the Japanese production term for continuous replenishment – allowing our people in each department to determine the right amount of product to produce at the right time of day.

6 Communication boards

In "SMART Certified" stores, communication boards in each department engage employees. These communication links for department teams provide messages, instructions, schedules, notes and the monitoring and measuring of vital information and data. Through these boards, team members have the means of tracking their progress in reducing waste and "shrink" while improving sales and service levels.

Proudly serving more than 800 communities

Sobeys Inc. retail banners met the diverse grocery needs of more than 8 million Canadian households in fiscal 2005.

We have a very disciplined, well led and well resourced approach to the transformation of our infrastructure. These foundational systems and our stronger common processes and infrastructure will accommodate our future growth, provide us with better, timelier information, and allow us to continue to lower our costs and grow our profitability.

Firm focus, fresh starts

We are moving forward with great confidence in our strong strategic positioning and our ever-strengthening financial condition. Our operations continue to grow, driven by a solid and committed workforce and management team with an unwavering focus on food. We have a formidable foundation for building sustainable worth through fiscal 2006 and beyond. We expect to show progress on a broad range of metrics and benchmarks as many of the initiatives introduced during the past year begin to deliver benefits. At the same time, we will continue to develop fresh and innovative ways to do things better.

We are on the right track with our food-focused strategy. Customer response and growth in market share provide clear evidence of that. We are also confident that we can boost productivity and improve our cost structure dramatically through the business process optimization initiatives underway.

Among our stakeholders, customers are already seeing – and responding to – our impassioned commitment to being "best in food". Our dedicated employees, franchisees and suppliers are seeing the benefits of association with a continuously improving and dynamic enterprise, as are the communities we serve. We are determined to ensure that the benefit is equally clear to you as we grow shareholder worth.

We are on the right track with our food-focused strategy. Customers are already seeing and responding to our impassioned commitment to being 'best in food'."

Bill McEwan
President & Chief Executive Officer

Our governance

"Our job is to help shape strategy, advise management and ensure we're pursuing long-range goals."

PETER C. GODSOE

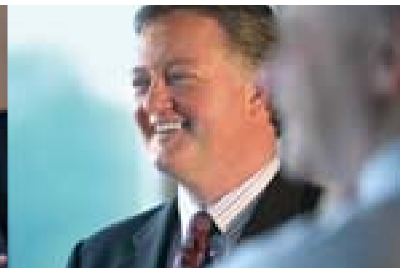
Toronto, Ontario
Director since 2004.
Former Chairman and
Chief Executive Officer,
The Bank of Nova Scotia.
Chairman, Sobeys Inc.

DONALD R. SOBEY (3)

New Glasgow, Nova Scotia
Director since 1998.
Chairman Emeritus (11)
Empire Company Limited

CHRISTINE CROSS (1) (9)

Thundridge, Hertfordshire,
United Kingdom
Director since 2003.
President,
Christine Cross Ltd.



BILL McEWAN

New Glasgow, Nova Scotia
Director since 2000.
President and
Chief Executive Officer,
Sobeys Inc.

Message from the Chairman

In my first year as Chairman of Sobeys Inc.'s Board of Directors, your Company continued to thrive as a major competitor in the national grocery business.

Notwithstanding the very tough competitive environment and our national focus, Sobeys retains a culture and sense of purpose that dates back 98 years to its east coast beginnings and family roots. The Company is run for all of its stakeholders – our millions of customers across Canada, our 75,000 loyal corporate and franchise employees, the communities in which we operate and our shareholders for whom we are creating long-term value. These goals, together with our commitment to social responsibility, good corporate governance and sense of ethics – second to none – are our guiding principles.

Our corporate strategy rests squarely on an absolute commitment to being focused on food. It is this focus, executed in multi-format, multi-sized stores, that is differentiating our offerings from those of our competitors. Our goal is simple: "out-food", "out-fresh" and "out-service" our competition.

Our fiscal 2005 results demonstrate our growing success in building long-term value as we achieved market-leading comparable store sales growth with quality offerings in every region of the country. Nevertheless, we are well aware that success is a never-ending journey which requires continuous improvement in our execution, in our commitment to customers, in our skill at being the "best in food" and in our ability to control costs.

DAVID F. SOBEY [3]
New Glasgow, Nova Scotia
Director since 1998.
Chairman Emeritus [11]
Sobeys Inc.

MALEN NG [2] [9]
Toronto, Ontario
Director since 2001.
Chief Financial Officer,
Workplace Safety and Insurance Board of Ontario

PAUL D. SOBEY [3] [5]
New Glasgow, Nova Scotia
Director since 1998.
President and Chief Executive Officer,
Empire Company Limited

ROBERT P. DEXTER [3] [6] [8]
Halifax, Nova Scotia
Director since 1998.
Chairman and Chief Executive Officer, Maritime Travel Inc.,
and Chairman,
Empire Company Limited

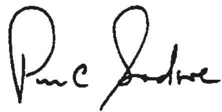
SIR GRAHAM DAY [1]
Hantsport, Nova Scotia
Director since 1998.
Counsel to Stewart McKelvey Stirling Scales.
Former Chairman,
Sobeys Inc.

(pictured above) Sobeys' Board of Directors

Your Board is committed to working with management to realize Sobeys' enormous potential. We firmly support Bill McEwan, the management team and all of Sobeys' employees and their steadfast focus on increasing shareholder value and meeting our commitment to all stakeholders.

As a group, your Board is equally committed to strong corporate governance and is aware that this is more than a matter of simple compliance with legal obligations. Our job is to help shape strategy, advise management and ensure we're pursuing long-range goals. This we do with an experienced and diverse group of Directors, the majority of whom are independent. Our task is not to manage the Company, but rather to ensure effective management through counselling, coaching and challenging on strategy and other major corporate decisions.

I would like to thank the management and staff of Sobeys Inc., as well as our franchisees and their employees, for being focused on food and for their commitment to service quality. I must also thank my Board colleagues for their ongoing commitment and adherence to solid governance practices. In particular, I would like to acknowledge Sir Graham Day, my predecessor as Chairman, who will retire from the Board at the Annual General Meeting in September after eight years of service. Your Company has benefited greatly from Sir Graham's wise counsel, principled stewardship and steadfast dedication to making Sobeys Inc. a stronger Company.



Peter C. Godsoe
Chairman of the Board

(1) Audit Committee Member
(2) Audit Committee Chair
(3) Human Resources Committee Member
(4) Human Resources Committee Chair
(5) Corporate Governance Committee Member
(6) Corporate Governance Committee Chair
(7) Nominating Committee Member
(8) Nominating Committee Chair
(9) Oversight Committee Member
(10) Oversight Committee Chair
(11) Honourary Title, for Life

MEL RHINELANDER (1) (3)
Toronto, Ontario
Director since 2004.
President and
Chief Executive Officer,
Extendicare Inc.

JOHN L. BRAGG (4) (5) (7)
Collingwood, Nova Scotia
Director since 1998.
Chairman, President and
Co-Chief Executive Officer,
Oxford Frozen Foods Ltd.

FRANK C. SOBEY (10)
Stellarton, Nova Scotia
Director since 2001.
Chairman, Crombie Properties
Limited

MARCEL CÔTÉ (1) (5) (7)
Montreal, Québec
Director since 1998.
Senior Partner, Secor Inc.

JOHN R. SOBEY (5) (7)
Stellarton, Nova Scotia
Director since 1998.
Corporate Director

(pictured above) Sobeys' Board of Directors

Our governance focus

The Board of Directors and management of Sobeys are committed to strong corporate governance in the interest of all stakeholders.

The cornerstones of good governance include an experienced and independent Board of Directors, codes of business conduct that hold directors, officers and employees to account and a comprehensive disclosure policy that ensures transparency.

We have reviewed our practices against the new Corporate Governance Guidelines (NP 58-201), adopted by each of the Canadian securities regulators, which will apply to Sobeys' annual reporting for fiscal 2006. Sobeys' current practices are largely aligned with the new guidelines and, in keeping with our commitment to the highest standard of corporate governance, we will continue to develop our governance practices measured against these new benchmarks.

Board Committees

Governance by our Board of Directors is supported by five committees. The composition of the committees is designed to bring an appropriate level of skill and independence to each of these important functions. In addition, the Audit Committee meets the independence and financial literacy tests set out by Canadian securities regulators. The committees of the Board include:

- **Corporate Governance Committee** – develops Sobeys' corporate governance policies, including responsibility for disclosure; reviews and assesses the performance and effectiveness of the Board, its committees and individual directors; and recommends compensation of directors.
- **Audit Committee** – reviews and assesses financial reporting practices and procedures, including internal accounting controls and appointment of external auditors. The committee also assesses risk management and reviews and approves consolidated quarterly and annual financial statements and related financial communications prior to public disclosure.
- **Nominating Committee** – assesses and recommends suitable candidates for election or appointment as directors of the Company.
- **Human Resources Committee** – reviews management training and development programs, monitors succession planning, ensures Sobeys' compliance with occupational health and safety standards and recommends compensation for executive management.
- **Oversight Committee** – reviews all matters related to business process optimization and information technology, including assessments, governance models, strategies and planning and risk management processes.

A comprehensive review of our corporate governance policies and practices can be found in our Proxy Circular and on our website at www.sobeys.com.

Focus on our communities

Grocery stores are at the heart of community life – and at Sobeys, we have always strived to show leadership in the communities where we operate. Indeed, “Proudly Serve Our Communities” is one of our core values.

Today, we are a leading participant in the economic and social health and well-being of more than 800 communities from coast to coast, and we believe it is our responsibility to give back to all of them.

Our corporate philanthropy is focused on major programs that promote the well being of families and children, as well as our major focus on supporting store-based initiatives in local communities. In these endeavours, we are supported by the efforts of franchisees and employees who generously donate money and volunteer time to support community causes.

The people who work in our stores are the public face of Sobeys in local communities, and we are very proud of the way they reflect our values. One of our ways of recognizing this invaluable contribution is through the Sobeys scholarship program, which supports eligible employees, their children and spouses with continuing university education.

In fiscal 2005, we supported hundreds of charities across Canada, ranging from Kids Help Phone to United Way/Centraide, Easter Seals, hospitals, sports and recreational programs and community food banks. For example, our stores have launched creative campaigns ranging from Fill ‘er Up in Atlantic Canada to Hampers of Hope, Pot of Soup, School is Cool and Fame for Food in Western Canada – engaging customers in donations of food for neighbours in need.

Among our efforts in fiscal 2005:

- **Tsunami relief** – with support of franchisees, employees and customers in all regions, Sobeys raised and contributed over $300,000 to relief efforts in Asia – as well as sponsoring and helping to organize an award winning concert in Halifax for Oxfam’s relief efforts.
- **Montreal Heart Institute** – IGA retailers in Québec helped raise $400,000 for this important institution.
- **Sobeys Culinary Centres** – Combining our focus on food with our emphasis on education and community support, we have funded two major teaching kitchens at community colleges in Toronto and Halifax. These will also serve as test kitchens for Compliments product innovation.

Providing support to Canada’s food banks

We responded to a distribution crisis affecting food banks in New Brunswick by opening a vacant, but well equipped, Sobeys warehouse facility in Moncton, NB.

Our commitment

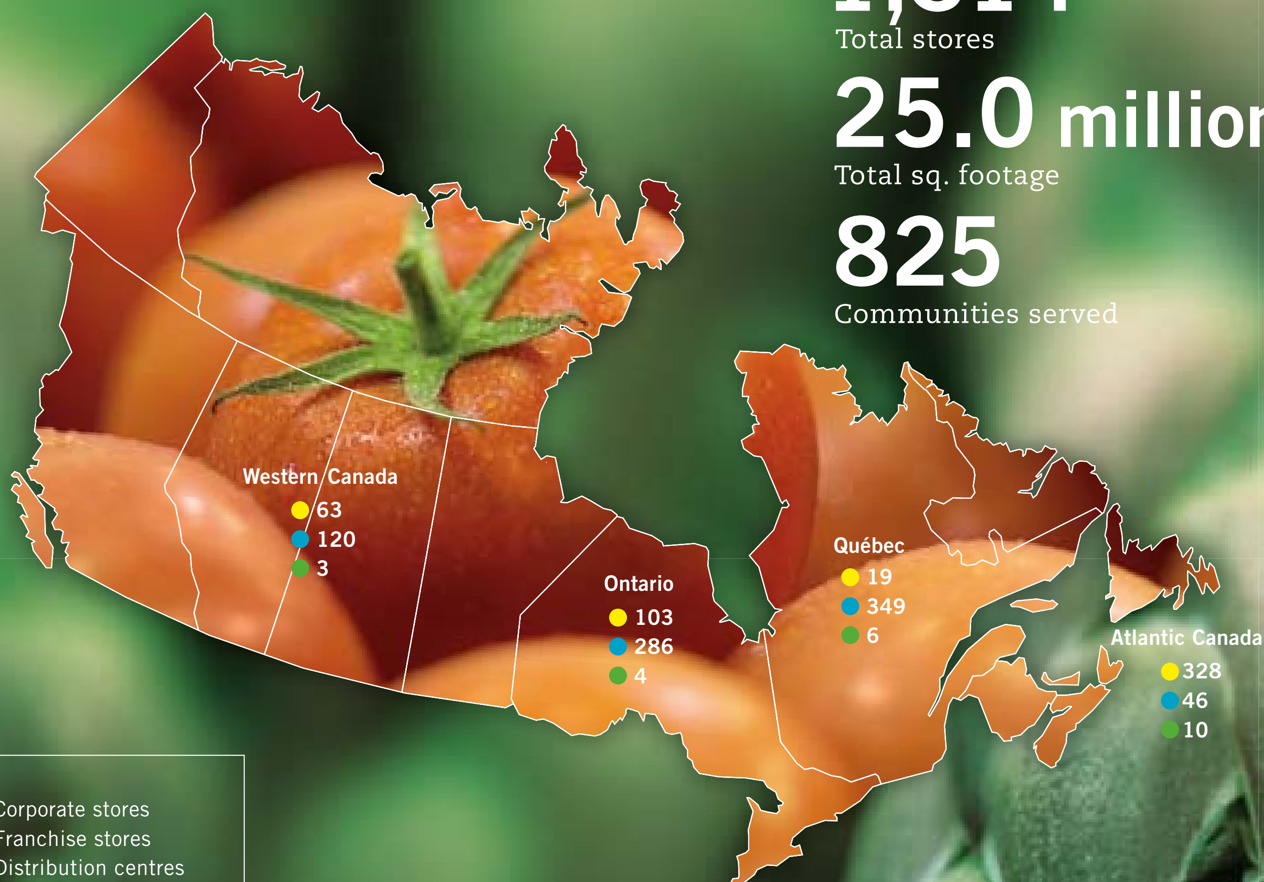
Our markets at-a-glance

Within our four core geographic markets, we have focused on meeting customer needs with the right-sized, right format store for each community we serve.

1,314
Total stores

25.0 million
Total sq. footage

825
Communities served



Corporate stores
Franchise stores
Distribution centres

Western Canada

Store sq. footage:	4,228,081
Store numbers:	
Sobeys	72
Western Cellars	18
IGA	90
Thrifty Foods	2
Price Chopper	1
Total	**183**

Ontario

Store sq. footage:	8,727,603
Store numbers:	
Sobeys	66
Sobeys *express*	2
IGA	115
Price Chopper	83
Foodland	93
Cash & Carry	15
Commisso's	15
Total	**389**

Québec

Store sq. footage:	7,322,860
Store numbers:	
IGA extra	61
IGA	190
Marché Bonichoix	87
Les Marchés Tradition	30
Total	**368**

Atlantic Canada

Store sq. footage:	4,769,477
Store numbers:	
Sobeys	83
Price Chopper	30
Clover Farm	3
Needs	143
Cash & Carry	7
Sobeys *express*	3
Sobeys Fast Fuel	4
Foodland	41
Lawtons	60
Total	**374**

Overview of our company

Sobeys Inc., headquartered in Stellarton, Nova Scotia, is a leading national grocery retailer and food distributor. Founded in Atlantic Canada in 1907, Sobeys owns or franchises more than 1,300 stores in all 10 provinces under various retail banners including: Sobeys, IGA extra, IGA and Price Chopper. Sobeys and its franchisees employ more than 75,000 people and collectively generate more than $12 billion in sales annually.

Sobeys continues to attract new customers and sales by being focused on food, driven by its fresh expertise, supported by superior customer service in the right-sized, right format stores for each individual market it serves.

Our vision

"To be the Most Worthwhile Experience for Everyone Who Touches Our Business"

Our purpose

"To Build Sustainable Worth for Our Customers, Our Employees and Franchise Affiliates, Our Suppliers, and Our Shareholders"

Our values

- Always Place the Customer First
- Get It Done With Passion and Integrity
- Stay Real
- Proudly Serve Our Communities

Management's discussion and analysis

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The following Management's Discussion and Analysis ("MD&A") for Sobeys Inc. ("Sobeys" or "the Company") should be read in conjunction with the Company's audited annual consolidated financial statements and the accompanying notes for the 53 weeks ended May 7, 2005, as compared to the 52 weeks ended May 1, 2004. Additional information about the Company, including the Company's Annual Information Form, can be found on SEDAR at www.sedar.com.

The implementation of Emerging Issues Committee Abstract 144, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor" ("EIC-144") resulted in a restatement of certain prior periods' information, as outlined in the section entitled "EIC-144, Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor" included in this MD&A.

In the fourth quarter of fiscal 2005, the Company adopted Accounting Guideline 15 "Consolidation of Variable Interest Entities" ("AcG-15"). These consolidated financial statements include the accounts of Sobeys Inc. and its subsidiaries and variable interest entities ("VIEs") which the Company is required to consolidate. Please review the section entitled "AcG-15, Consolidation of Variable Interest Entities" included in this MD&A for more information.

Also, in the fourth quarter of fiscal 2005, the Company reviewed its accounting practices in relation to leases, as a result of recent clarification by the office of the Chief Accountant of the U.S. Securities and Exchange Commission ("SEC"). Adjustments were required and further information can be found in the section entitled "Lease Accounting" included in this MD&A.

This discussion may contain forward-looking statements about future performance of Sobeys. These statements are based on Sobeys management's assumptions and beliefs in light of the information currently available to them. These forward-looking statements are subject to uncertainties and other factors that could cause actual results to differ materially from such statements. When relying on forward-looking statements to make decisions, the Company cautions readers not to place undue reliance on these statements, as a number of important factors could cause actual results to differ materially from any estimates or intentions expressed in such forward-looking statements. The Company does not undertake to update any forward-looking statements that may be made from time to time by, or on behalf, of the Company.

Management's analysis of operations

Sobeys and its subsidiaries conduct business in four operating regions: Sobeys West, Sobeys Ontario, Sobeys Québec, and Sobeys Atlantic.

Sobeys' strategy is focused on delivering the best food shopping experience to its customers in the right-sized, right format stores, supported by superior customer service. The five specific store formats deployed by the Company to satisfy its customers' principal shopping requirements are the full service, fresh service, convenience service, community service and price service formats. The Company remains focused on improving the product, service and merchandising offerings within each format by realigning and renovating its current store base, while continuing to build new stores. The Company's four major banners – Sobeys, IGA extra, IGA and Price Chopper – constitute our primary formats.

During the year, the Company opened, replaced, expanded, renovated, acquired and/or converted the banners in 98 stores (2004 – 200).

In fiscal 2005, the Company continued to execute against a number of initiatives in support of its food-focused strategy including productivity initiatives and business process and system upgrades.

In fiscal 2005, the Company continued the roll-out of the Sobeys banner in Western Canada with the introduction of 11 Sobeys stores in Saskatchewan. The Saskatchewan store program combines a traditional full service Sobeys offering with a discount format grocery pricing position. The conversion of the Saskatchewan stores brings the total Sobeys banner stores in Western Canada to 72.

The Company opened Ontario's first two Sobeys *express* stores in conjunction with the new Canadian Tire gasoline retail concept called "Q". These Sobeys *express* stores combine convenience products and service with additional fresh food and "on-the-go" programs.

Sobeys is committed to remaining competitive in increasingly competitive markets as demonstrated by its continued implementation of the "We Serve. You Save." pricing program across the country. The Company's sales growth in fiscal 2005 was partially fuelled by this aggressive pricing posture in addition to continued implementation of sales, merchandising and capital spending initiatives.

Compliments, Sobeys new private label brand, was launched during the year, to contribute to growth of company-wide profitability by earning a greater share of customers' food and grocery shopping requirements. The Compliments brand consists of three tiers: Value, Selection and Sensations. The Company plans to have launched approximately 3,000 Compliments products by October 2005. At the end of fiscal 2005, 1,049 selection tier and 625 value tier items were launched representing 56 percent of the planned total.

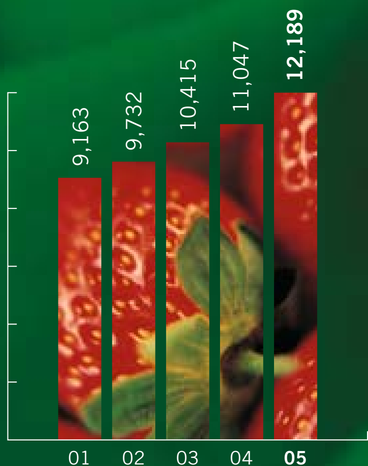
In addition to the above noted sales and merchandising initiatives which have driven sales growth, the Company remains focused on short, medium and long-term productivity and business process optimization initiatives designed to improve its processes and cost structure for the long term.

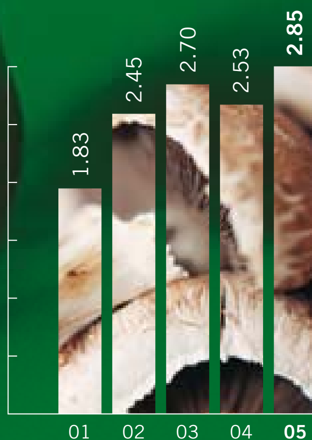
A key productivity focus in fiscal 2005 was the roll-out of the first phase of the Company's SMART Retailing initiative. SMART Retailing focuses on continuous improvement processes that have resulted in improved labour productivity in the handling of back-shop inventories and in the reduction of those inventories as well as shrink (product waste) in the produce, bakery and meat departments. SMART Retailing has been implemented in 397 stores to date with planned completion of the remaining 315 targeted stores in fiscal 2006. The next phase of SMART Retailing will be focused on the implementation of a comprehensive store performance management process supported by a balanced scorecard. This will support the ongoing implementation of SMART Retailing and focus on customer satisfaction, sales growth and margin improvements.

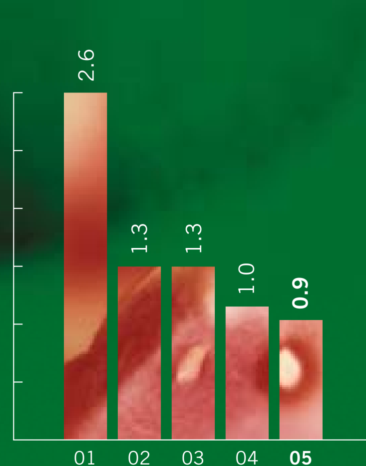
During fiscal 2005, the Company also made significant progress in the implementation of system-wide business process optimization initiatives that are designed to reduce complexity and improve processes throughout the Company.

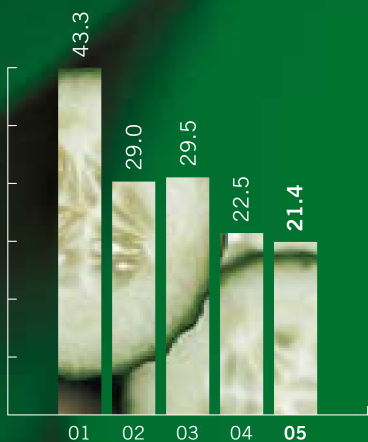
Our performance at-a-glance

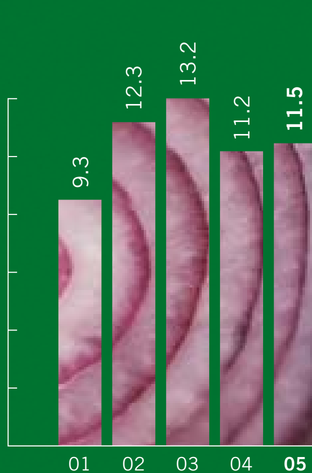
Our strategies for growing sales and earnings reflect our commitment to building a healthy and sustainable retail food business and infrastructure for the long term.

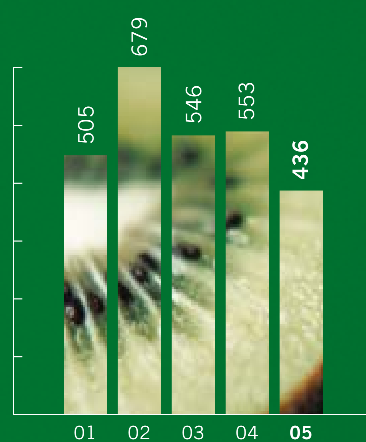












Fiscal 2003 and 2004 are restated.

To this end, Sobeys continued the roll-out of its common point-of-sale (POS) system. This common POS system provides improved customer information and enhanced customer service at store check-outs, and is a key enabler of other business process optimization initiatives currently underway.

The Company is also engaged in the roll-out of a new scale networking solution, which will enable full compliance with the new nutritional labeling requirements that come into effect on December 12, 2005.

As discussed in the fiscal 2004 MD&A, system and process complexities in the Ontario business negatively impacted earnings in that region. In fiscal 2006 Sobeys intends to advance its business process and information systems transformation plan for the Company by focusing on the significant opportunity to upgrade capabilities and improve efficiencies in the Ontario region. The system and processes that are being implemented have been developed over several years and are currently employed in the Company's Atlantic Region.

The Ontario roll-out will simplify, standardize and streamline the "back shop", in support of the Company's food-focused strategy. This move will leverage technology investments, improve efficiencies and lower costs over the long term. The anticipated cost of this roll-out is expected to approximate $0.20 to $0.25 per share in fiscal 2006.

To assess its financial performance and condition, Sobeys' management monitors a set of financial measures, which evaluate sales growth, profitability and financial condition. The primary financial performance and condition measures are set out below.

Primary financial performance and financial condition measures

Sales growth	Funded debt to total capital
Earnings per share (EPS) growth	Funded debt to EBITDA
Return on equity (ROE)	Capital expenditures

Results of fiscal 2005 operations

Summary table of consolidated financial results

	53 weeks ended		52 weeks ended		52 weeks ended	
(in millions, except per share data)	**May 7, 2005**	**% of sales**	May 1, 2004	% of sales	May 3, 2003	% of sales
Sales	**$ 12,189.4**	**100.00%**	$ 11,046.8	100.00%	$ 10,414.5	100.00%
Gain on sale of assets	**–**	**0.00%**	14.6	0.13%	–	0.00%
Earnings before interest and income taxes	**322.6**	**2.65%**	294.3	2.66%	325.6	3.13%
Interest expense	**37.9**	**0.31%**	43.2	0.39%	42.5	0.41%
Income taxes	**98.0**	**0.80%**	84.6	0.77%	105.0	1.01%
Net earnings	**186.7**	**1.53%**	166.5	1.51%	178.1	1.71%
Cash flows from operating activities	**$ 438.2**	**3.59%**	$ 364.6	3.30%	$ 348.4	3.35%
Per share, basic and diluted						
Net earnings	**$ 2.85**		$ 2.53		$ 2.70	
Weighted average number of shares outstanding, basic and diluted	**65.5**		65.9		65.9	
Dividends	**$ 0.50**		$ 0.44		$ 0.36	

Fiscal 2004 and 2003 have been restated to reflect retroactive adjustments related to lease accounting and EIC-144. Please see the sections entitled "Lease Accounting" and "EIC-144" in the fiscal 2005 annual MD&A.

The following is a review of Sobeys' performance for the 53-week period ended May 7, 2005 compared to the 52-week period ended May 1, 2004.

Sales

Fiscal 2005 sales adjusted to eliminate the impact of VIE consolidation and the 53rd week of sales:

($ in millions)	Reported sales fiscal 2005	Growth over fiscal 2004	VIE impact	53rd week impact	Adjusted	Growth over fiscal 2004	Reported sales fiscal 2004
Fiscal 2005	12,189	10.3%	(137)	(241)	11,811	6.9%	11,047

In fiscal 2005, Sobeys achieved sales of $12.2 billion, an increase of $1.1 billion or 10.3 percent over fiscal 2004. Fiscal 2005 contained 53 weeks of operations compared to 52 weeks in fiscal 2004. This additional week accounted for $241 million or 2.2 percentage points of the 10.3 percent fiscal 2005 sales increase. Also impacting sales growth in fiscal 2005 was the consolidation of VIEs in the fourth quarter, which accounted for approximately $137 million or 1.2 percentage points of the increase over fiscal 2004. Finally, the acquisition of substantially all of the assets of Commisso's Food Markets Limited and Commisso's Grocery Distributors Limited (Commisso's) occurred at the beginning of the fourth quarter of fiscal 2004, therefore fiscal 2005 sales growth was positively impacted by a full year of Commisso's sales versus only the fourth quarter sales in fiscal 2004. Excluding the additional selling week and the VIE consolidation sales growth in fiscal 2005 equaled 6.9 percent.

Sales growth was also driven by the Company's continued implementation of sales and merchandising initiatives across the country, coupled with the increased retail selling square footage resulting from the opening of new stores and an ongoing program to enlarge and renovate existing store assets.

Store square footage increased by 2.5 percent in fiscal 2005 as a result of the opening of 41 new stores and the expansion of 19 stores.

Sobeys' same-store sales, sales from stores in the same locations in both reporting periods, increased by 3.7 percent.

The Company expects continued sales growth in fiscal 2006 as a result of ongoing capital investment in its retail store network and continued offering, merchandising and marketing improvements across the country.

Earnings before interest, income taxes, depreciation and amortization

Fiscal 2005 EBITDA (earnings before interest, income taxes, depreciation and amortization) increased $52.0 million or 11.6 percent to $499.0 million from $447.0 million reported in fiscal 2004. EBITDA as a percentage of sales increased to 4.09 percent from 4.05 percent last year.

Included in the previous year EBITDA were one-time pre-tax costs of $20.2 million related to the uninsured cost of the power failure in Ontario ($4.9 million), the adverse outcome in a long-standing real estate lawsuit ($4.0 million), closure costs related to the Grande Prairie and Peace River, Alberta distribution centres ($1.2 million), an increase in the estimate of store closing costs ($5.3 million), and pension and benefit costs for employees on long-term disability ($4.8 million).

Also included in the previous year EBITDA was the $14.6 million pre-tax gain on the sale of several redundant real estate assets.

Earnings before interest, income taxes, depreciation, amortization and rent

Fiscal 2005 earnings before interest, income taxes, depreciation, amortization and rent (EBITDAR) was $774.9 million compared to $698.1 million in fiscal 2004. The Company leases a substantial portion

Customers "Discover the World" through our unique and innovative merchandising programs in produce, deli, cheese, and seafood at our IGA and IGA extra locations in Québec.

In fiscal 2005, Sobeys completed the expansion of our Québec City distribution centre, significantly increasing capacity and flexibility to service our aggressive growth plans for the region.

of its store network. Therefore, to arrive at a measure of operating performance excluding the impact of capital, gross rent expense of $275.9 million in fiscal 2005 and $251.1 million in fiscal 2004 are added to EBITDA to arrive at EBITDAR. EBITDAR as a percent of sales in fiscal 2005 was 6.36 percent compared to 6.32 percent in fiscal 2004.

Earnings before interest and income taxes

EBIT (earnings before interest and income taxes) increased to $322.6 million in fiscal 2005, a 9.6 percent increase from the prior year, with an EBIT margin of 2.65 percent compared to 2.66 percent in fiscal 2004. Included in fiscal 2005 EBIT was a $23.7 million increase in depreciation and amortization expense ($176.4 million current year compared to $152.7 last year), reflecting the Company's continued capital investments. The 53rd week of operations in fiscal 2005 favourably impacted EBIT by approximately $6.1 million or 2.1 percentage points but had no impact on EBIT margin.

The Company will continue to focus on disciplined cost management initiatives, supply chain and retail productivity improvements and migration of best practices across its four regions to continue to fuel and fund investments to drive sales and improve margins over time.

Interest expense

Interest expense declined $5.3 million, in fiscal 2005, to $37.9 million from $43.2 million reported last year, due to lower long-term borrowing levels. Interest coverage, which is EBIT divided by interest expense, improved to 8.5 times compared to 6.8 times last year.

The majority of the Company's debt is long-term and at fixed rates; accordingly there is limited exposure to interest rate volatility. The Company is exposed to interest rate risk when arranging new debt or refinancing existing debt. The Company has locked in the rate on the underlying Government of Canada 15-year yield for refinancing $100 million of the November 2005 Series A Medium Term Note (MTN) maturity.

Income taxes

The annual effective tax rate increased to 34.4 percent from 33.7 percent last year. There was a slight shift in the current year to a greater portion of taxable earnings existing in jurisdictions with higher statutory tax rates.

Net earnings

Fiscal 2005 net earnings per share totalled $2.85 ($186.7 million), an increase of 12.6 percent compared to the $2.53 per share ($166.5 million) recorded during fiscal 2004. Net earnings for fiscal 2005 were favourably impacted by approximately $3.5 million or $0.05 per share as a result of the inclusion of the 53rd week of operations. Fiscal 2005 net earnings include the increased depreciation and amortization expense, while fiscal 2004 earnings were impacted by the net effect of the one-time items and gain on sale of redundant real estate, both referred to above. The consolidation of VIEs resulted in $0.6 million or $0.01 per share reduction in net earnings in fiscal 2005.

Results of fourth quarter fiscal 2005 operations

The following is a summary of selected consolidated financial information from the Company's unaudited interim consolidated financial statements for the 14 and 13-weeks ended May 7, 2005 and May 1, 2004.

Summary table of consolidated financial results for the fourth quarter

	14 weeks ended		13 weeks ended	
($ in millions, except per share data)	May 7, 2005	% of sales	May 1, 2004	% of sales
Sales	$ 3,294.7	100.00%	$ 2,803.1	100.00%
Gain on sale of assets	–	0.00%	14.6	0.52%
EBIT	84.6	2.57%	66.3	2.37%
Interest expense	10.7	0.32%	10.8	0.39%
Income taxes	25.8	0.78%	17.2	0.61%
Net earnings	48.1	1.46%	38.3	1.37%
Cash flows from operating activities	$ 236.7	7.18%	$ 222.5	7.94%
Per share, basic and diluted				
Net earnings	$ 0.74		$ 0.58	
Weighted average number of shares outstanding, basic and diluted	65.3		65.9	
Dividends	$ 0.125		$ 0.110	

Fiscal 2004 has been restated to reflect retroactive adjustments related to lease accounting and EIC-144.
Please see the sections entitled "Lease Accounting" and "EIC-144" in the fiscal 2005 annual MD&A.

Impact of VIEs on sales, EBIT and EBITDA

	Excluding VIEs 14 weeks ended		Including VIEs 14 weeks ended	
($ in millions)	May 7, 2005	% of sales	May 7, 2005	% of sales
Sales	$ 3,157.3	100.00%	$ 3,294.7	100.00%
EBIT	84.8	2.69%	84.6	2.57%
EBITDA	$ 131.5	4.16%	$ 133.1	4.04%

The following is a review of Sobeys' performance for the 14-week period ended May 7, 2005 compared to the 13-week period ended May 1, 2004.

Sales

Fourth quarter of fiscal 2005 sales adjusted to eliminate the impact of VIE consolidation and the 53rd week of sales:

($ in millions)	Reported sales fiscal 2005	Growth over fiscal 2004	VIE impact	53rd week impact	Adjusted	Growth over fiscal 2004	Reported sales fiscal 2004
Quarter 4	3,295	17.5%	(137)	(241)	2,917	4.1%	2,803

Sales increased $492 million or 17.5 percent compared to the fourth quarter of fiscal 2004. The fourth quarter of fiscal 2005 contained 14 weeks of operations compared to 13 weeks in fiscal 2004 and this additional week accounted for approximately $241 million or 8.6 percentage points of the 17.5 percent fourth quarter sales increase. Another significant impact on quarter four sales growth in fiscal 2005 was the consolidation of VIEs in the fourth quarter, which accounted for approximately $137 million or 4.9 percentage points of the increase over fiscal 2004. The acquisition of Commisso's occurred at the beginning of the fourth quarter of fiscal 2004 and, as a result, did not impact the quarter-over-quarter growth. Excluding the additional selling week and the VIE consolidation, fourth quarter sales growth in fiscal 2005 equaled 4.1 percent.

Same-store sales grew 4.5 percent during the fourth quarter of fiscal 2005. The growth in retail sales was a direct result of the Company's aggressive pricing posture, the continued implementation of sales and merchandising initiatives across the Company, increased retail selling square footage of 0.6 million square feet and the Company's ongoing financial commitment to upgrade and renovate existing store assets. Same-store sales growth outpaced overall Company sales growth as there was little growth in the Company's wholesale sales to independent customers in the fourth quarter this year compared to the fourth quarter last year. In particular the Company has experienced a decline in the sale of tobacco products to its independent wholesale customers. Wholesale sales to independent customers are not included in same-store growth.

Earnings before interest, income taxes, depreciation and amortization

EBITDA for the quarter ended May 7, 2005 was $133.1 million, an increase of 20.0 percent or $22.2 million versus the $110.9 million recorded in the same quarter last year. EBITDA as a percentage of sales increased to 4.04 percent from 3.96 percent when compared to fourth quarter fiscal 2004 results. The Company experienced a modest increase in gross margin percentage, excluding the impact of consolidating VIEs, compared to the same quarter last year, as a result of the continued implementation of enhanced merchandising programs and store productivity initiatives.

EBITDA for the fourth quarter of fiscal 2005 was also positively impacted by approximately $6.1 million due to the extra week of operations in the fourth quarter. EBITDA for the fourth quarter of fiscal 2004 was positively impacted by the sale of redundant real estate for a pre-tax gain of $14.6 million and negatively impacted by expenses related to an increase in the estimate of store closing costs of $5.3 million and pension and benefit costs for employees on long-term disability of $4.8 million, both before tax. The net impact from the gain, store closure costs and pension and benefit amounts was $0.06 per share, after tax.

Earnings before interest and income taxes

EBIT for the fourth quarter increased $18.3 million or 27.6 percent to $84.6 million. EBIT margin, which is EBIT divided by sales, for the fourth quarter increased to 2.57 percent from 2.37 percent in the same quarter last year.

Interest expense

Interest expense in the fourth quarter decreased $0.1 million to $10.7 million compared to $10.8 million during the same time period last year. Interest coverage for the fourth quarter improved to 7.9 times, compared to 6.1 times for the same quarter last year due to the increase in EBIT.

Income taxes

The Company's effective income tax rate for the fourth quarter was 34.9 percent (34.7 percent before the consolidation of VIEs) compared to 31.0 percent in quarter four of fiscal 2004. The fiscal 2004 quarterly tax rate was favourably impacted by the lower effective tax rate on the capital gain of $14.6 million recorded in the quarter as well as a shift in the current year to a greater portion of taxable earnings existing in jurisdictions with higher statutory tax rates.

Net earnings

Fourth quarter fiscal 2005 net earnings per share totalled $0.74 ($48.1 million), an increase of 27.6 percent compared to the $0.58 per share ($38.3 million) recorded in the same quarter of fiscal 2004. Net earnings for the fourth quarter of fiscal 2005 were favourably impacted by approximately $3.5 million or $0.05 per share for the 14th week of operations. Compared to the fourth quarter of fiscal 2004, net earnings were positively impacted by strong sales growth and an improvement in gross margin compared to last year.

Financial information by quarter

($ in millions, except per share information)	Q4 (14 weeks)	Q3 (13 weeks)	Q2 (13 weeks)	Q1 (13 weeks)	Q4 (13 weeks)	Q3 (13 weeks)	Q2 (13 weeks)	Q1 (13 weeks)
	May 7, 2005	**Jan. 29, 2005**	**Oct. 30, 2004**	**July 31, 2004**	May 1, 2004	Jan. 31, 2004	Nov. 1, 2003	Aug. 2, 2003
Operations								
Sales	**$3,294.7**	**$2,917.0**	**$2,966.7**	**$3,011.0**	$ 2,803.1	$ 2,741.4	$ 2,741.9	$ 2,760.4
EBITDA	**133.1**	**119.1**	**123.9**	**122.9**	110.9	115.8	110.9	109.4
EBIT	**84.6**	**76.2**	**81.2**	**80.6**	66.3	76.6	75.5	75.9
Net earnings	**$ 48.1**	**$ 44.8**	**$ 47.2**	**$ 46.6**	$ 38.3	$ 43.7	$ 42.9	$ 41.6
Per share information, basic and diluted								
EBIT	**$ 1.30**	**$ 1.17**	**$ 1.24**	**$ 1.22**	$ 1.01	$ 1.16	$ 1.15	$ 1.15
Net earnings	**$ 0.74**	**$ 0.69**	**$ 0.72**	**$ 0.71**	$ 0.58	$ 0.66	$ 0.65	$ 0.63
Weighted average number of shares, basic and diluted	**65.3**	**65.3**	**65.7**	**65.9**	65.9	65.9	65.9	65.9
EBITDA as percent of sales	**4.04%**	**4.08%**	**4.18%**	**4.08%**	3.96%	4.22%	4.04%	3.96%
EBIT as percent of sales	**2.57%**	**2.61%**	**2.74%**	**2.68%**	2.37%	2.79%	2.75%	2.75%

Fiscal 2004 has been restated to reflect retroactive adjustments related to lease accounting and EIC-144. Please see the sections entitled "Lease Accounting" and "EIC-144" in the fiscal 2005 annual MD&A.

The Company's operations are impacted to some degree by certain holiday periods in the year, however business is not materially cyclical or seasonal.

During fiscal 2005, we piloted two Sobeys *express* stores in Ontario in conjunction with Canadian Tire's new "Q" concept. These two stores represent the advancement of our fresh service format. At only 3,900 square feet, these stores offer a broad assortment including fresh offerings at supermarket prices in a convenient shopping environment.

Financial condition

The Company's financial condition at May 7, 2005 continued to strengthen as indicated in the following table:

Capital structure and key financial condition measures

($ in millions)	May 7, 2005	May 1, 2004	May 3, 2003
Shareholders' equity	$ 1,682.1	$ 1,561.3	$ 1,423.6
Total long-term debt[(1)]	$ 457.8	$ 453.1	$ 595.8
Funded debt to total capital	21.4%	22.5%	29.5%
Adjusted debt to total capital[(2)]	48.1%	42.9%	49.8%
Funded debt to EBITDA	0.9x	1.0x	1.3x
EBITDA to interest expense	13.2x	10.3x	10.6x
Current assets to current liabilities	0.86x	0.83x	0.92x
Total assets	$ 3,487.0	$ 3,278.9	$ 3,195.7
Long-term debt[(3)]	$ 262.9	$ 420.0	$ 444.6

(1) Includes current portion of long-term debt.
(2) Adjusted debt includes capitalization of lease obligations based on six times net annual lease payments (gross lease payments net of expected sub-lease income).
(3) Excludes current portion of long-term debt.

Fiscal 2004 and 2003 have been restated to reflect retroactive adjustments related to lease accounting and EIC-144.
Please see the sections entitled "Lease Accounting" and "EIC-144" in the fiscal 2005 annual MD&A.

The ratio of funded debt to total capital improved to 21.4 percent from the 22.5 percent reported for the same time period last fiscal year, as a result of the growth in retained earnings. Excluding the impact of the VIEs the ratio of funded debt to total capital would be 20.5 percent, at May 7, 2005.

The Company also monitors adjusted debt to total capital, where net annual lease payments are capitalized at six times annual lease payments, and this capitalized lease obligation is then added to funded debt. Adjusted debt to capital at year end was 48.1 percent versus 42.9 percent last year. Excluding the impact of VIEs, the adjusted debt to capital would be 40.5 percent, at May 7, 2005.

The Company's long-term debt is comprised of $264.0 million due within the next five years, and $193.8 million with longer maturities, for a total of $457.8 million (2004 – $453.1 million). The fair value of the Company's long-term debt is estimated to be $500.5 million. Long-term debt maturities in fiscal 2006 and 2007 amount to $194.9 million and $15.8 million, respectively. Cash generated from operations, use of the Company's short-term credit facility and the issuance of additional long-term debt will finance these maturities. Management monitors debt markets with a view to replacing maturing debt with longer-term maturities.

The ratio of funded debt to EBITDA also improved from the levels at last fiscal year end, reflecting the growth in EBITDA.

Improvement in the EBITDA to interest expense coverage ratio (13.2 times versus 10.3 times at May 1, 2004) resulted from an improvement in the trailing 12-month EBITDA ($499.0 million compared to $447.0 million for the 12-months ended May 1, 2004) coupled with a 12.3 percent decline in trailing 12-month interest expense ($37.9 million compared to $43.2 million for the 12-months ended May 1, 2004).

Current assets to current liabilities increased to 0.86 times from 0.83 times in the same period last year. Excluding the VIE impact the ratio at May 7, 2005 would be 0.77 times as the consolidation of VIEs increased current assets and current liabilities by $137.9 million and $31.5 million, respectively.

Sobeys' liquidity position remained strong at May 7, 2005, with only nine percent utilization (utilized for letters of credit) of the authorized $300 million revolving bank lines. At May 7, 2005, the Company had cash, and cash equivalents totalling $272.8 million compared to $164.6 million at May 1, 2004. The Company invested $102.7 million in commercial paper as of May 7, 2005.

The Company's Short Form Base Shelf Prospectus, which enables the issuance of MTNs, expired on January 20, 2005. The Company plans to renew the MTN program.

During the fourth quarter the Company received confirmation from Dominion Bond Rating Service (DBRS) that its credit rating was confirmed at BBB (high) negative trend and subsequent to the fourth quarter Standard & Poor's (S&P) confirmed their rating at BBB– stable.

Liquidity and capital resources

The table below highlights major cash flow components for the 14 and 53 weeks ended May 7, 2005 compared to the 13 and 52 weeks ended May 1, 2004.

Major cash flow components

($ in millions)	14 weeks ended May 7, 2005	13 weeks ended May 1, 2004	53 weeks ended May 7, 2005	52 weeks ended May 1, 2004
Net earnings	**$ 48.1**	$ 38.3	**$ 186.7**	$ 166.5
Items not affecting cash	**75.6**	47.8	**235.9**	194.3
	123.7	86.1	**422.6**	360.8
Net change in non-cash working capital	**113.0**	136.4	**15.6**	3.8
Cash flows from operating activities	**236.7**	222.5	**438.2**	364.6
Cash flows used in investing activities	**(113.3)**	(91.7)	**(295.7)**	(339.0)
Cash flows used in financing activities	**(5.8)**	(49.3)	**(67.2)**	(176.8)
Discontinued operations	**–**	–	**–**	1.3
Initial impact of VIEs	**32.9**	–	**32.9**	–
Increase (decrease) in cash and cash equivalents	**$ 150.5**	$ 81.5	**$ 108.2**	$ (149.9)

Fiscal 2004 has been restated to reflect retroactive adjustments related to lease accounting and EIC-144.
Please see the sections entitled "Lease Accounting" and "EIC-144" in the fiscal 2005 annual MD&A.

Operating activities

Cash flows from operating activities amounted to $236.7 million in the fourth quarter of fiscal 2005 compared to $222.5 million in the comparable period last year. This increase of $14.2 million was due to increased net earnings of $9.8 million, an increase in items not affecting cash of $27.8 million and a decline in non-cash working capital of $23.4 million, from a positive $136.4 million in fiscal 2004 to a positive $113.0 million in fiscal 2005. An increase in the change in future tax liabilities of $15.1 million in the current year, compared to an increase of $3.2 million in the comparable period of last year as well as pre-tax gains on disposal of assets of $15.8 million in fiscal 2004, were the contributing factors to the increase in items not affecting cash.

Cash flows from operating activities on an annual basis were $438.2 million compared to $364.6 million in the comparable period last year. This increase of $73.6 million was the result of a $20.2 million improvement in net earnings, an $11.8 million improvement in non-cash working capital and a $41.6 million increase in items not affecting cash, primarily as a result of a $22.3 million increase in depreciation expense and the pre-tax gains on disposal of assets of $15.8 million recorded in fiscal 2004.

The following tables present non-cash working capital changes from the third quarter of fiscal 2005 and from last fiscal year, including and excluding VIEs.

Non-cash working capital (including VIEs)

($ in millions)	Including VIEs as of May 7, 2005	Jan. 29, 2005	Quarter increase (decrease) in cash flows	May 1, 2004	Year-to-date increase (decrease) in cash flows
Receivables	$ 199.8	$ 246.4	$ 46.6	$ 272.4	$ 72.6
Inventories	588.6	485.0	(103.6)	445.7	(142.9)
Prepaid expenses	43.4	31.3	(12.1)	40.9	(2.5)
Accounts payable and accrued liabilities	(1,083.3)	(967.9)	115.4	(1,051.1)	32.2
Income taxes receivable (payable)	21.9	15.7	(6.2)	(3.3)	(25.2)
Business acquisitions and reclassifications	(8.9)	(8.5)	0.4	–	8.9
VIEs	(72.5)	–	72.5	–	72.5
Total	$ (311.0)	$ (198.0)	$ 113.0	$ (295.4)	$ 15.6

Fiscal 2004 has been restated to reflect retroactive adjustments related to lease accounting and EIC-144.
Please see the sections entitled "Lease Accounting" and "EIC-144" in the fiscal 2005 annual MD&A.

Non-cash working capital (excluding VIEs)

($ in millions)	Excluding VIEs as of May 7, 2005	Jan. 29, 2005	Quarter increase (decrease) in cash flows	May 1, 2004	Year-to-date increase (decrease) in cash flows
Receivables	$ 223.4	$ 246.4	$ 23.0	$ 272.4	$ 49.0
Inventories	467.3	485.0	17.7	445.7	(21.6)
Prepaid expenses	39.2	31.3	(7.9)	40.9	1.7
Accounts payable and accrued liabilities	(1,053.7)	(967.9)	85.8	(1,051.1)	2.6
Income taxes receivable (payable)	21.7	15.7	(6.0)	(3.3)	(25.0)
Business acquisitions and reclassifications	(8.9)	(8.5)	0.4	–	8.9
Total	$ (311.0)	$ (198.0)	$ 113.0	$ (295.4)	$ 15.6

Fiscal 2004 has been restated to reflect retroactive adjustments related to lease accounting and EIC-144.
Please see the sections entitled "Lease Accounting" and "EIC-144" in the fiscal 2005 annual MD&A.

Excluding the impact of VIEs, receivables decreased $23.0 million, inventory levels decreased $17.7 million and accounts payable and accrued liabilities increased $85.8 million compared to the third quarter of fiscal 2005. Contributing to the decrease in accounts receivable during the fourth quarter was the collection of supplier revenue that was outstanding at the end of the third quarter. The increase in accounts payable and accrued liabilities was consistent with the prior year and can be attributed to a combination of higher trade payables and higher accrued liabilities such as construction costs and employee incentives.

Compared to May 1, 2004 year-end levels (excluding the impact of the VIEs), accounts receivable decreased $49.0 million, inventory increased $21.6 million and income taxes payable decreased $25.0 million. The decrease in receivables is primarily attributable to the reclassification of $31.0 million of customer-related payables in the second quarter of fiscal 2005. Historically, some customer receivables were reported at a gross value and the customer payables were reported in accounts payable. During the second quarter of fiscal 2005, the Company began netting the receivables and related payables for these customers. The increase in inventory is required to support the Company's expanded store network and growing sales.

Superior customer service is an integral part of our business strategy. Store training provides employees with the knowledge and skills necessary to deliver a superior shopping experience.

Our ongoing commitment to competitive pricing continued to drive solid sales growth in fiscal 2005, contributing to same store sales improvements and market share gains.

Investing activities

Cash used in investing activities of $113.3 million in the fourth quarter was $21.6 million higher than in the fourth quarter of last fiscal year. In fiscal 2004, proceeds from the sale of redundant assets were partially offset by the cost of the Commisso's acquisition. The increase in cash used in investing activities was largely the result of higher property and equipment purchases and increased deferred costs of $18.3 million, when compared to the same time period last year, reflecting higher capital spending in the fourth quarter of fiscal 2005.

Fiscal 2005 cash used in investing activities decreased $43.3 million to $295.7 million. The investment in property and equipment in the fiscal 2005 of $268.5 million was $47.6 million lower than last year.

Company-wide capital investment includes on-balance sheet capital expenditures, all known capital investments by franchise affiliates and capital investments by third-party landlords. Company-wide capital investment totalled $436 million in fiscal 2005, down from $553 million in the previous year. The Company remains committed to growing and improving its store network. During the quarter, 13 corporate and franchised stores were opened compared to 36 corporate and franchised stores opened, replaced or acquired during the fourth quarter of last year. During the fourth quarter of fiscal 2004, the Company completed the acquisition of 15 stores, six cash and carry outlets and the wholesale business of Commisso's. An additional seven stores were expanded during the quarter. There were 16 stores rebannered in the current quarter compared to 20 for the same quarter last year.

On an annual basis, 41 corporate and franchised stores were opened this fiscal year compared to 76 corporate and franchised stores opened or replaced last year. An additional 19 stores were expanded in the year compared to 18 stores last year and 36 stores were rebannered this year compared to 90 last year.

Net retail store square footage increased during the fourth quarter by 189,516 square feet (327,902 square feet opened, less 138,386 square feet closed). Net retail store additions for the year totalled 578,517 square feet (1,042,599 square feet opened less 464,082 square feet closed). At May 7, 2005, Sobeys' square footage totalled 25.0 million square feet, a 2.5 percent increase over May 1, 2004.

The Company continues to focus on growth through a combination of new store openings, renovations, replacements and enlargements and, where appropriate, through strategic acquisitions. The majority of total company-wide capital spending in fiscal 2006, which will approximate the average spending of the past number of years, will be allocated to the retail store network. During fiscal 2006, the Company plans to open, expand, or renovate approximately 70 corporate and franchised stores across Canada, increasing square footage by approximately four percent.

Financing activities

Financing activities during the fourth quarter used $5.8 million of cash compared to $49.3 million of cash used in the comparable period of fiscal 2004. The Company repaid a bank loan in the fourth quarter of fiscal 2004 of $32.5 million and had a $10.0 million payment on the non-revolving debt which was fully repaid on September 30, 2004.

Financing activities year-to-date decreased cash by $67.2 million compared to a $176.8 million cash decrease for the same period last year. Repayments in fiscal 2004 included the repayment of a $100 million Series B MTN in October, 2003. Also, during fiscal 2005 the Company repurchased 708,700 common shares at an average price per share of $30.76, pursuant to a Normal Course Issuer Bid filed on March 8, 2004, using $21.8 million of cash. As well, the Company purchased 32,305 shares from employees using $1.3 million of cash.

The Company's share capital was comprised of the following at its fiscal year end, May 7, 2005:

	Number of shares
Authorized	
Preferred shares, par value of $25 each, issuable in series as a class	471,000,000
Preferred shares, without par value, issuable in series as a class	500,000,000
Common shares, without par value	498,682,931
Issued	
Common shares, without par value	65,280,415

As of June 22, 2005 the Company had common shares outstanding of 65,280,415.

Accounting policy changes

Accounting policy changes implemented in fiscal 2005

CICA Section 1100, Generally Accepted Accounting Principles
During fiscal 2004, the Canadian Institute of Chartered Accountants (CICA) introduced handbook section 1100 which discusses primary sources of GAAP, what to do when a matter is not dealt with explicitly in the sources of GAAP and identifies other sources to be consulted when a matter is not addressed within the sources of GAAP. The Company has adopted this section prospectively without restatement and as a result the Company now records multi-year real estate lease expense on a straight-line basis. Additional real estate lease expense of $2.7 million was recorded in fiscal 2005 as a result of this policy change.

EIC-144, Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor
In January 2004, the CICA issued a new accounting standard, EIC-144 titled "Accounting by a Customer (Including a Reseller) for Certain Consideration

In fiscal 2005, we opened 41 new corporate and franchised stores, rebannered 36 stores and expanded a further 19 stores – including the West Side Sobeys in New Glasgow, Nova Scotia.

Compliments, our private label brand, introduced www.complimentscanada.ca and *Inspired* magazine, providing Canadians with helpful information on food and entertaining.

Received from a Vendor." EIC-144 provides that cash consideration received from a vendor is presumed to be a reduction in the prices of the vendor's products or services and should, therefore, be characterized as a reduction in cost of sales and related inventory when recognized in the customer's income statement and balance sheet. If the consideration is a payment for assets or services delivered to the vendor, the cash consideration should be characterized as revenue or other income. If it is a reimbursement of costs incurred to sell the vendor's products, the cash consideration should be characterized as a reduction of that cost, provided certain conditions are met. EIC-144 requires retroactive application to all financial statements for annual and interim periods ending after August 15, 2004. The Company adopted EIC-144 in the current fiscal year, adjusting for it retroactively, with restatement of the comparative periods for the current and prior fiscal year.

The Company receives allowances from certain vendors, whose products are purchased for resale. Included in these vendor programs are allowances for volume purchases, exclusivity allowances, listing fees, and other allowances. Due to the retroactive implementation of EIC-144, the timing of recognition of certain vendor allowances has changed, resulting in the Company recording a decrease in opening retained earnings for fiscal 2004 of $5.9 million (net of income taxes receivable of $3.4 million), and a decrease in inventory of $9.3 million. The implementation of EIC-144 did not result in a material change in the annual net earnings for fiscal 2005 or fiscal 2004 or in fiscal 2005 or fiscal 2004 quarterly net earnings.

CICA Section 3870, Stock-Based Compensation and Other Stock-Based Payments

At the beginning of fiscal 2003, the Company adopted, on a prospective basis, the CICA Handbook 3870 "Stock-Based Compensation and Other Stock-Based Payments." There was no effect on the Company upon implementation of this standard. In fiscal 2004, the Company adopted the Emerging Issues Committee Abstract 132 "Share Purchase Financing" which required pro-forma note disclosure of the effect of the stock-based compensation expense for fiscal 2004. The Company did not restate retained earnings for the pro-forma fiscal 2004 stock compensation expense, as the amount was immaterial. The compensation cost relating to the 2005 share purchase loans was determined to be $1.2 million (2004 – $1.5 million) with amortization of the cost over five years.

The total increase in contributed surplus in relation to the share purchase loan compensation for fiscal 2005 was $0.6 million. The contributed surplus was reduced by $0.2 million in relation to shares issued under the share purchase loan that have been treated as stock-based compensation that became fully vested with the employees during the year. Shares become vested when the employees' outstanding loan balance is reduced.

AcG-13, Hedging Relationships
Accounting guideline "Hedging Relationships", ("AcG-13") came into effect during the current fiscal year. This guideline addresses the identification, designation, documentation and effectiveness of hedging relationships for the purpose of applying hedge accounting and provides guidance with respect to the discontinuance of hedge accounting. There was no effect on the Company of prospectively adopting this guideline.

CICA Section 3110, Asset Retirement Obligations
During the current fiscal year, CICA Handbook Section 3110, "Asset Retirement Obligations," was adopted. This section establishes standards for the recognition, measurement, and disclosure of legal obligations associated with the costs to retire long-lived assets. A liability associated with the retirement of long-lived assets is recorded in the period in which the legal asset is capitalized as part of the related asset and depreciated over its useful life. Subsequent to the initial measurement of the asset retirement obligation, the obligation is adjusted to reflect the passage of time and changes in the estimated future costs underlying the obligation. There has been no impact on the Company from the retroactive adoption of this section.

AcG-15, Consolidation of Variable Interest Entities
Effective for the fourth quarter ended May 7, 2005, the Company was required to implement Accounting Guideline 15 "Consolidation of Variable Interest Entities" ("AcG-15") issued by the CICA. AcG-15 requires the Company to consolidate certain entities that are deemed to be subject to control of the Company on a basis other than through ownership of a voting interest in the entity.

Variable interest entities are defined under AcG-15 as entities that do not have sufficient equity at risk to finance their activities without additional subordinated financial support, or where the equity holders lack the overall characteristics of a controlling financial interest. The guideline requires that the VIE be consolidated with the financial results of the entity deemed to be the primary beneficiary of the VIEs expected losses and its expected residual returns.

The Company has implemented AcG-15 retroactively without restatement of prior periods. Entities that have been identified as meeting the characteristics of a VIE have been consolidated in the Company's results for the fourth quarter of fiscal 2005.

The Company has identified the following entities as VIEs:

Franchises
The Company has identified 287 franchisees whose franchise agreements result in the Company being deemed the primary beneficiary of the entity according to AcG-15. The results for these entities were consolidated with the results of the Company.

Warehouse and distribution agreement
The Company has an agreement with an independent entity to provide warehouse and distribution services. The terms of the agreement with this entity require the Company to consolidate its results with those of the Company pursuant to AcG-15.

The Company has consolidated the results of these independent franchisees and the entity providing warehouse and distribution services for the fourth quarter of fiscal 2005.

Impact of the consolidation of VIEs
Balance sheet as at May 7, 2005

(in millions)	Consolidated balance sheet as at May 7, 2005 before AcG-15 impact	Impact of the implementation of AcG-15	Consolidated balance sheet as at May 7, 2005 after AcG-15 impact
Assets			
Current			
Cash and cash equivalents	$ 238.7	$ 34.1	$ 272.8
Receivables	223.4	(23.6)	199.8
Inventories	467.3	121.3	588.6
Prepaid expenses	39.2	4.2	43.4
Future tax assets	5.3	–	5.3
Mortgages and loans receivable	13.8	1.7	15.5
Income taxes receivable	21.7	0.2	21.9
	1,009.4	137.9	1,147.3
Mortgages and loans receivable	152.2	(108.8)	43.4
Deferred costs	150.3	–	150.3
Future tax assets	35.9	–	35.9
Property and equipment	1,427.4	34.5	1,461.9
Assets for realization	11.5	–	11.5
Intangibles (less accumulated amortization of $2.4; May 1/04 $0.5)	21.6	–	21.6
Goodwill	615.1	–	615.1
	$ 3,423.4	$ 63.6	$ 3,487.0
Liabilities			
Current			
Accounts payable and accrued liabilities	$ 1,053.7	$ 29.6	$ 1,083.3
Future tax liabilities	57.7	–	57.7
Long-term debt due within one year	193.0	1.9	194.9
	1,304.4	31.5	1,335.9
Long-term debt	245.1	17.8	262.9
Long-term lease obligation	12.3	–	12.3
Employee future benefit obligation	92.2	–	92.2
Future tax liabilities	69.0	–	69.0
Deferred revenue	3.0	–	3.0
Minority interest	0.2	29.4	29.6
	1,726.2	78.7	1,804.9
Shareholders' equity			
Capital stock	901.4	–	901.4
Contributed surplus	0.4	–	0.4
Retained earnings	795.4	(15.1)	780.3
	1,697.2	(15.1)	1,682.1
	$ 3,423.4	$ 63.6	$ 3,487.0

The impact of implementation of AcG-15 on the consolidated balance sheet of the Company can be explained as follows:

- Accounts receivable and long-term notes receivable from the franchisees were eliminated upon consolidation. Cash, inventories, fixed assets, accounts payable and debt financing of the fixed assets have been consolidated.
- A charge of $14.5 million has been recorded to opening retained earnings to reflect the reduction of inventory values of the franchisees that include charges from the Company for distribution costs and vendor allowances that are not recognized by the Company until final sale to customers.
- Goodwill that is carried on the accounts of the stores determined to be VIEs has been assessed as being impaired with no fair market value, and, as such, has been eliminated.
- Minority interest represents the equity in the VIEs held by the common shareholders.

Income statement

Income statement impact for 53 weeks ended, May 7, 2005:

(in millions)	Consolidated income statement before AcG-15 impact	Impact of the implementation of AcG-15	Consolidated income statement after AcG-15 impact
Sales	$ 12,052.0	$ 137.4	$ 12,189.4
Operating expenses			
Cost of sales, selling and administrative expenses	11,554.6	135.8	11,690.4
Depreciation	172.7	1.8	174.5
Amortization of intangibles	1.9	–	1.9
Earnings before interest and income taxes	322.8	(0.2)	322.6
Interest expense			
Long-term debt	34.6	0.4	35.0
Short-term debt	2.8	0.1	2.9
	37.4	0.5	37.9
Earnings before income taxes	285.4	(0.7)	284.7
Income taxes	98.1	(0.1)	98.0
Net earnings	$ 187.3	$ (0.6)	$ 186.7
Earnings per share basic and diluted	$ 2.86	$ (0.01)	$ 2.85
Basic and diluted weighted average number of common shares outstanding, in millions	65.5		65.5

Our four Fast Fuel locations in Atlantic Canada are driving more traffic to our Sobeys stores through promotional grocery discount rebates offered on gasoline.

In select IGA extra stores in Québec, Natriga boutiques provide customers with specialized natural health, beauty and wellness products.

The impact of implementation of AcG-15 on the consolidated income statement of the Company can be explained as follows:

- Franchise retail sales are recorded and sales from the Company's distribution centres and cost of goods sold to the franchisee have been eliminated. The impact on all other financial statement line items including net earnings is immaterial.

Lease Accounting

On February 7, 2005, the Office of the Chief Accountant of the U.S. Securities and Exchange Commission ("SEC") issued a clarification in respect of accounting for various components of property leases and leasehold improvements on which U.S. and Canadian accounting governing bodies had been largely silent. As a result of the SEC clarification the Company has adopted the following two accounting policies. Lease inducements received as a reimbursement for leasehold improvement costs are amortized over the term of the lease and lease expense related to a store fixturing period is expensed during the fixturing period. A store fixturing period varies by store but is generally considered to be one month prior to the store opening. The Company has adopted this guideline retroactively with restatement.

The Company has reviewed its practices related to lease accounting and has determined that adjustments were required to align to the recent clarification of lease accounting guidelines. The first adjustment relates to lease allowances and incentives. Historically the Company classified lease allowances as a reduction of the related capital assets, which effectively reduced the depreciation expense over the expected life of the asset. The guideline clarification suggests these lease allowances should be recorded as a deferred credit and amortized as a reduction of lease expense over the term of the lease. The second adjustment relates to rent expense to be recorded during a store's fixturing period. The Company is often granted a fixturing period during which rent is not charged. The fixturing period is generally considered to be one month prior to the store opening. Historically, when the Company was granted a fixturing period, rent expense was not recorded as none was being charged and the store was not yet open. The clarification of the accounting guidance however requires that the fixturing period be considered a free-rent period that should be included in the term of the lease. Since lease expense must be recognized on a straight-line basis over the lease term an appropriate portion of the straight-line expense must be recorded for the fixturing period. The third

adjustment relates to the capitalization of long-term leases. An evaluation was completed in the fourth quarter of the current year and certain long-term leases have been identified as capital leases. These changes have been accounted for on a retroactive basis with restatement resulting with the following net impact on the comparative statements for the period ended May 7, 2005.

- As at May 1, 2004 a reduction to retained earnings of $7.4 million.
- A reduction in net income for the 52-week period ended May 1, 2004 of $1.0 million from $167.5 million to $166.5 million, and a reduction in earnings per share from $2.54 per share to $2.53 per share.
- As at May 1, 2004 an increase to capital assets, future taxes, long-term debt and other long-term liabilities of $10.1 million, $4.3 million, $10.3 million and $12.5 million, respectively.

These lease accounting adjustments did not have any material impact on the Company's fiscal 2005 net earnings, historical or future revenues, cash flows or lease payments.

Critical accounting estimates

Pension, post-retirement and post-employment benefits

Certain estimates and assumptions are used in actuarially determining the Company's defined pension and employee future benefit obligations.

Significant assumptions used to calculate the pension and employee future benefit obligations are the discount rate, the expected long-term rate of return on plan assets and expected growth rate of health care costs. These assumptions depend on various underlying factors such as economic conditions, investment performance, employee demographics and mortality rates. These assumptions may change in the future and may result in material changes in the pension and employee benefit plans expense. The magnitude of any immediate impact, however, is mitigated by the fact that net actuarial gains and losses in excess of 10 percent of the greater of the accrued benefit plan obligation and the market value of the benefit plan assets are amortized on a straight-line basis over the average remaining service period of the active employees. Changes in financial market returns and interest rates could also result in changes in funding requirements for the Company's defined benefit pension plans.

The discount rate is based on current market interest rates, assuming a portfolio of Corporate AA bonds with terms to maturity that, on average, match the terms of the obligation. The appropriate discount rate is determined on April 30th every year. For fiscal 2005, the discount rate used for calculation of pension and other benefit plan expense was 5.5 percent compared to 6.0 percent for fiscal 2004. The expected long-term rate of return on plan assets for pension benefit plans for each of fiscal 2005 and 2004 was 7.0 percent. The expected growth rate in health care costs is 10.0 percent for fiscal 2005. The cumulative growth rate to 2012 is expected to be 6.0 percent. The expected future growth rate is evaluated on an annual basis. The table below outlines the sensitivity of the fiscal 2005 key economic assumptions used in measuring the accrued benefit plan obligations and related expenses of the Company's pension and other benefit plans. The sensitivity of each key assumption has been calculated independently. Changes to more than one assumption simultaneously may amplify or reduce the impact on the accrued benefit obligations or benefit plan expenses.

($ in thousands)	Pension plans Benefit obligations	Pension plans Benefit cost[1]	Other benefit plans Benefit obligations	Other benefit plans Benefit cost[1]
Expected long term rate of return on plan assets		7.0%		
Impact of: 1% increase		$ (2,423)		
Impact of: 1% decrease		$ 2,423		
Discount rate	5.5%	5.5%	5.75%	5.75%
Impact of: 1% increase	$ (28,608)	$ 306	$ (14,995)	$ (710)
Impact of: 1% decrease	$ 32,123	$ (639)	$ 18,036	$ 811
Growth rate of health care costs[1]			10.00%	10.00%
Impact of: 1% increase			$ 15,104	$ 1,774
Impact of: 1% decrease			$ (12,371)	$ (1,381)

(1) Reflects the impact on the current service cost, the interest cost and the expected return on assets.

Goodwill and long-lived assets

Goodwill is not amortized and is assessed for impairment at the reporting unit level. This is done, at a minimum, annually. Any potential goodwill impairment is identified by comparing the fair value of a reporting unit to its carrying value. If the fair value of the reporting unit exceeds its carrying value, goodwill is considered not to be impaired. If the carrying value of the reporting unit exceeds its fair value, potential goodwill impairment has been identified and must be quantified by comparing the estimated fair value of the reporting unit's goodwill to its carrying value. Any goodwill impairment will result in a reduction in the carrying value of goodwill on the consolidated balance sheet and in the recognition of a non-cash impairment charge in operating income.

The Company periodically assesses the recoverability of long-lived assets when there are indications of potential impairment. In performing these analyses, the Company considers such factors as current results, trends and future prospects, current market value and other economic factors.

A substantial change in estimated undiscounted future cash flows for these assets could materially change their estimated fair values, possibly resulting in additional impairment. Changes which may impact future cash flows include, but are not limited to, competition and general economic conditions and unrecoverable increases in operating costs.

Income taxes

Future income tax assets and liabilities are recognized for the future income tax consequences attributable to temporary differences between the financial statement carrying values of assets and liabilities and their respective income tax bases. Future income tax assets or liabilities are measured using enacted or substantively enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The calculation of current and future income taxes requires management to make estimates and assumptions and to exercise a certain amount of judgement. The financial statement carrying values of assets and liabilities are subject to accounting estimates inherent in those balances. The income tax bases of assets and liabilities are based upon the interpretation of income tax legislation across various jurisdictions. The current and future income tax assets and liabilities are also impacted by expectations about future operating results and the timing of reversal of temporary differences as well as possible audits of tax filings by the regulatory authorities. Management believes it has adequately provided for income taxes based on current available information.

Changes or differences in these estimates or assumptions may result in changes to the current or future income tax balances on the consolidated balance sheet. A charge or credit to income tax expense may result in cash payments or receipts.

Disclosure controls

Based on an evaluation of the Company's disclosure controls and procedures, the Company's Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures operated effectively as of May 7, 2005.

Related-party transactions

The Company leases certain real property from related parties, at formula determined rates that approximate fair market value over the life of the leases. The rates are determined based primarily on the financing of the actual costs incurred at the time of construction of the leased properties. The aggregate net payments under these leases amounted to approximately $56.8 million (2004 – $52.2 million). The Company was charged administrative expenses of $0.3 million (2004 – $0.4 million).

In the previous fiscal year the Company sold real property to related parties, at fair market value with aggregate proceeds of $3.3 million and a resulting gain of $0.6 million.

At May 7, 2005, mortgage receivables of $1.8 million (2004 – $2.2 million) were owed from related parties.

Related-party transactions are with the parent company, Empire Company Limited, and certain of its subsidiaries. Empire Company Limited is the majority shareholder of Sobeys Inc., holding 68.4 percent of Sobeys Inc. common shares.

Contingencies

During the fourth quarter, Lumsden Brothers Limited ("Lumsden"), a wholesaling subsidiary of the Company, received notice from Canada Revenue Agency ("CRA") that it is proposing a reassessment related to Goods and Services Tax ("GST") for fiscal years 1999 and 2000. The proposed reassessment relates to GST on sales of tobacco products to status Indians. CRA asserts that Lumsden was obliged to collect GST on the sales of these tobacco products to status Indians. The total tax, interest and penalties in the proposed reassessment are approximately $13 million.

On June 21, 2005 the Company received a notice of reassessment from CRA related to the GST matter outlined above. Lumsden has reviewed this matter, has received legal advice, and believes it was not required to collect GST. Lumsden is challenging this reassessment. Accordingly, the Company has not recorded in its financial statements any of the tax, interest or penalties set-out in the notice of reassessment.

The following illustrates the Company's significant contractual obligations.

Contractual obligations

($ in millions)	2006	2007	2008	2009	2010	Onwards	Total
Long-term debt	$ 189.9	$ 12.1	$ 12.3	$ 16.4	$ 16.3	$ 187.6	$ 434.6
Capital lease obligations	5.0	3.7	3.3	2.9	2.1	6.2	23.2
Operating leases	259.1	239.9	212.9	193.7	177.7	1,405.3	2,488.6
Contractual obligations	$ 454.0	$ 255.7	$ 228.5	$ 213.0	$ 196.1	$1,599.1	$2,946.4

We continued to work on improving efficiencies in distribution to our store network. Better delivery schedules partially offset the impact of increased diesel fuel costs.

Implementation of a common Point of Sale (POS) system across our store network will provide improved customer information and enhanced customer service at our store check outs.

Operating Leases, net of expected lease income received by the Company, are as follows:

($ in millions)	2006	2007	2008	2009	2010	Onwards	Total
	$ 183.1	$ 168.3	$ 148.7	$ 135.2	$ 125.7	$1,021.6	$1,782.6

The Company has undertaken to fund any obligations which Sobey Leased Properties Limited ("SLP"), a wholly-owned subsidiary of Empire Company Limited, is unable or fails to meet until all of its debentures have been paid in full in accordance with their terms. Any deficiency payment made by the Company will be by purchase of fully-paid, non-assessable five percent redeemable, non-voting preference shares of that company. The aggregated outstanding principal amount of these debentures as at May 7, 2005 is $36.6 million (2004 – $38.6 million). SLP's principal business relates to leasing real estate locations to Sobeys Capital Incorporated (a subsidiary of Sobeys Inc.) and its subsidiary companies.

The equity holder in SLP, Empire Company Limited, retains full ability to make all decisions respecting SLP with respect to the operations of its business. The current lease between Sobeys Inc. and SLP is at market value, reflective of market rates at the time the lease was entered into. SLP does not provide a guaranteed return to Empire Company Limited, and SLP retains full ownership of the leased property at the expiration of the leases.

The Company has guaranteed certain bank loans contracted by franchisees. As at May 7, 2005, these loans amounted to approximately $2.4 million (2004 – $5.0 million).

At May 7, 2005, the Company was contingently liable for letters of credit issued in the aggregate amount of $26.2 million (2004 – $22.0 million).

Upon entering into the lease of its new Mississauga distribution centre in March 2000, Sobeys Capital Incorporated guaranteed to the landlord the performance by SERCA Foodservice Inc. of all of its obligations under the lease. The remaining term of the lease is 15 years with an aggregate obligation of $46.2 million. At the time of the sale of assets of SERCA Foodservice Inc. to Sysco Corp., the lease of the Mississauga distribution centre was assigned to and assumed by a subsidiary of the purchaser and Sysco Corp. agreed to indemnify and hold Sobeys Capital Incorporated harmless from any liability it may incur pursuant to its guarantee.

The Company leases space for certain company-owned and franchised stores. The terms of these leases vary by location with typical renewal options.

Risk management

Sobeys is exposed to a number of risks in the normal course of business that have the potential to affect operating performance.

Competitive

The Company maintains a strong national presence in the Canadian retail food and food distribution industry. The most significant risk to the Company is the potential for reduced revenues and profit margins as a result of increased competition. To mitigate this risk, the Company's strategy is to be geographically diversified with the benefits of national scale, to be customer and market-driven, to be focused on superior execution, and to have efficient, cost-effective operations. The Company reduces its exposure to competitive or economic pressures in any one region of the country by operating in each region of Canada though a network of corporate, franchised, and affiliated stores, and through servicing the needs of thousands of independent, wholesale accounts. The Company approaches the market with a variety of store formats, sizes, and banners, in order to enhance profitability by region and target market.

Financial

Sobeys has adopted a number of key financial policies to manage financial risk. In the ordinary course of managing its debt, the Company utilizes financial instruments to manage the volatility of borrowing costs. Financial instruments are not used for speculative purposes. The majority of Company debt is at fixed rates, accordingly, there is a limited exposure to interest rate risk.

Insurance

Sobeys is self-insured on a limited basis with respect to certain operational risks and also purchases excess insurance coverage from financially stable third-party insurance companies. In addition to maintaining comprehensive loss prevention programs, Sobeys maintains management programs to mitigate the financial impact of operational risks.

Human resources

The Company is exposed to the risk of labour disruption in its operations. Subsequent to year-end, the Company successfully ratified a four-year collective agreement with employees located at its Edmonton, Alberta distribution centre. Labour disruptions pose a moderate operational risk, as the Company operates an integrated network of more than 20 distribution centres across the country. The Company has good relations with its employees and unions and does not anticipate any material labour disruptions in fiscal 2006. However, Sobeys has stated that it will accept the short-term costs of a labour disruption to support a steadfast commitment to maintaining fair and equitable work environments while building and sustaining a competitive cost structure for the long term.

Effective leadership is very important to the growth and continued success of the Company. The Company develops and delivers training programs at all levels across its various operating regions in order to improve employee knowledge and better serve its customers. The ability of Sobeys to properly develop and retain its employees could affect the Company's future performance.

Environmental, health and safety

The Company is continually enhancing its programs in the areas of environmental, health and safety and is in compliance with relevant legislation. Employee awareness and training programs are conducted and environmental, health and safety risks are reviewed on a regular basis.

Any environmental site remediation is completed using appropriate, qualified internal and external resources and health and safety issues are proactively dealt with. The Board of Directors receives regular reports which review outstanding matters, identify new legislation and outline new programs being implemented across the Company to positively impact the environment and employee health and safety. Existing environmental protection regulatory requirements are not expected to have a material

financial or operational effect on the capital expenditures, earnings or competitive position of the Company during the current fiscal year or in future years.

Sobeys has developed programs to promote a healthy and safe workplace, as well as progressive employment policies focused on the well being of the thousands of employees who work in its stores, distribution centres and offices. These policies and programs are reviewed regularly by the Human Resources Committee of the Board.

Foreign operations

Sobeys does not have any material risks associated with foreign operations. Sobeys' foreign operations are limited to a small produce brokerage business based in the State of Florida.

Foreign currency

The Company conducts the majority of its business in Canadian dollars and its foreign exchange risk is limited to currency fluctuations between the Canadian and U.S. dollar. U.S. dollar purchases of product represent approximately two percent of the Company's total annual purchases. The Company uses forward contracts to fix the exchange rate on some of its expected requirements for U.S. dollars for periods of not more than 30 days.

Food safety

The Company is subject to potential liabilities connected with its business operations, including potential liabilities and expenses associated with product defects, food safety and product handling. Such liabilities may arise in relation to the storage, distribution and display of products and, with respect to the Company's private label products, in relation to the production, packaging and design of products.

A large majority of the Company's sales are generated from food products and the Company could be vulnerable in the event of a significant outbreak of food-borne illness or increased public health concerns in connection with certain food products. Such an event could materially affect the Company's financial performance. Procedures are in place to manage food crises, should they occur. These procedures identify risks, provide clear communication to employees and consumers and ensure that potentially harmful products are removed from inventory immediately. Food safety related liability exposures are insured by the Company's insurance program. In addition, the Company has food safety procedures and programs, which address safe food handling and preparation standards. The Company employs best practices for storage and distribution of food products.

Technology

The Company is committed to improving its operating systems, tools and procedures in order to become more efficient and effective. The implementation of major information technology projects carries with it various risks that must be mitigated by disciplined change management and governance processes. The Company has a business process optimization team staffed with knowledgeable internal and external resources that is responsible for implementing the various initiatives. Sobeys' Board of Directors also created an Oversight Committee to ensure appropriate governance of these change initiatives is in place and this committee receives regular reports from the Company's management.

Real estate

The Company is focused on obtaining the most attractive real estate locations for its stores, with direct Company ownership being an important, but not overriding, consideration. The Company develops certain retail store locations on owned sites, however, the majority of its store development is done in conjunction with external developers. The availability of high potential new store sites and/or the ability to expand existing stores is therefore in large part contingent upon successful negotiation of operating leases with these developers and the Company's ability to purchase high potential sites.

Legal, taxation and accounting

Changes to any of the various federal and provincial laws, rules and regulations related to the Company's business could have a material impact on its financial results. Compliance with any proposed changes could also result in significant cost to Sobeys. Failure to

fully comply with various laws, rules and regulations may expose the Company to proceedings which may materially affect its performance.

Similarly, income tax regulations and/or accounting pronouncements may be changed in ways which could negatively affect the Company.

Franchise operations

The success of Sobeys is closely tied to the performance of its retail stores. Franchisees operate approximately 61 percent of these retail stores. The Company relies on the franchisees to successfully execute retail programs and strategies.

To maintain controls over Company brands and the quality and range of products and services offered at its stores, each franchisee agrees to purchase merchandise from the Company. In addition, each franchisee agrees to comply with the policies, marketing plans and operating standards prescribed by the Company. These obligations are specified under franchise agreements which expire at various times for individual franchisees. As well, the Company maintains head lease control, or has long-term buying agreements, to control the vast majority of its retail locations.

Outlook

The Company will continue to invest in infrastructure and productivity improvements in a manner consistent with its expressed intention to build a healthy and sustainable retail business and infrastructure for the long term. In fiscal 2006, Sobeys will advance its business process and information systems transformation plan for the Company by focusing on the significant opportunity to upgrade capabilities and improve efficiencies in Ontario. The system and processes that are being implemented have been developed over several years and are currently employed in the Company's Atlantic Region. The Ontario initiative will simplify, standardize and streamline the "back shop" in support of the Company's food focused strategy. These efforts will leverage technology investments, improve efficiency and lower costs over the long term. The anticipated cost of the Ontario initiative is expected to approximate $0.20 to $0.25 per share in fiscal 2006.

Non-GAAP measures

There are measures included in this Management's Discussion and Analysis that do not have a standardized meaning under Canadian Generally Accepted Accounting Principles (GAAP) and therefore may not be comparable to similarly titled measures presented by other publicly traded companies. The Company includes these measures because it believes certain investors use these measures as a means of measuring financial performance.

- EBIT is calculated as net earnings plus interest expense and income taxes.
- EBITDA is calculated as EBIT plus depreciation and intangible amortization.
- EBITDAR is calculated as EBITDA plus gross rent expense.
- Funded debt is all interest-bearing debt, which includes bank loans, bankers' acceptances and long-term debt.
- Adjusted debt is funded debt plus the capitalized value of net operating lease payments, which is calculated as six times net annual operating lease payments.
- Total capital is funded debt plus shareholders' equity.
- Company-wide capital investment includes on-balance sheet capital expenditures, all known capital investments by franchise affiliates and capital investments by third-party landlords.

Dated: June 22, 2005

Management's responsibility for financial reporting

Preparation of the consolidated financial statements accompanying this annual report and the presentation of all other information in the report is the responsibility of management. The consolidated financial statements have been prepared in accordance with appropriate Canadian Generally Accepted Accounting Principles and reflect management's best estimates and judgments. All other financial information in the report is consistent with that contained in the consolidated financial statements.

Management of the Company has established and maintains a system of internal control that provides reasonable assurance as to the integrity of the consolidated financial statements, the safeguarding of Company assets, and the prevention and detection of fraudulent financial reporting.

The Board of Directors, through its Audit Committee, which is comprised solely of directors who are unrelated to, and independent of, the Company, meets regularly with financial management and external auditors to satisfy itself as to the reliability and integrity of financial information. The Audit Committee reports its findings to the Board of Directors for consideration in approving the annual consolidated financial statements to be issued to the shareholders. The external auditors have full and free access to the Audit Committee.

Bill McEwan
President &
Chief Executive Officer
June 22, 2005

J. Bruce Terry
Executive Vice President &
Chief Financial Officer
June 22, 2005

Auditors' report

To the Shareholders of Sobeys Inc.

We have audited the consolidated balance sheets of Sobeys Inc. as at May 7, 2005 and May 1, 2004, and the consolidated statements of earnings, retained earnings, and cash flows for the 53 and 52 week fiscal years then ended, respectively. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at May 7, 2005 and May 1, 2004, and the results of its operations and its cash flows for the fiscal years then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP
Chartered Accountants
New Glasgow, Canada
June 13, 2005, except for Note 24 which is as of June 17, 2005

Consolidated balance sheets

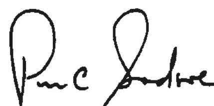
(in millions)	May 7, 2005	May 1, 2004 Restated (Note 1t)
Assets		
Current		
Cash and cash equivalents (Note 2)	$ 272.8	$ 164.6
Receivables	199.8	272.4
Inventories	588.6	445.7
Prepaid expenses	43.4	40.9
Future tax assets (Note 8)	5.3	1.5
Mortgages and loans receivable	15.5	15.4
Income taxes receivable	21.9	–
	1,147.3	940.5
Mortgages and loans receivable (Note 3)	43.4	150.1
Deferred costs (Note 4)	150.3	143.8
Future tax assets (Note 8)	35.9	37.1
Property and equipment (Note 5)	1,461.9	1,360.2
Assets for realization (Note 1s)	11.5	16.3
Intangibles (less accumulated amortization of $2.4; May 1/04 $0.5) (Note 1f)	21.6	13.1
Goodwill	615.1	617.8
	$ 3,487.0	$ 3,278.9
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 1,083.3	$ 1,051.1
Income taxes payable	–	3.3
Future tax liabilities (Note 8)	57.7	47.8
Long-term debt due within one year	194.9	33.1
	1,335.9	1,135.3
Long-term debt (Note 7)	262.9	420.0
Long-term lease obligation (Note 18)	12.3	12.5
Employee future benefit obligation (Note 15)	92.2	88.4
Future tax liabilities (Note 8)	69.0	54.8
Deferred revenue	3.0	6.6
Minority interest (Note 1t)	29.6	–
	1,804.9	1,717.6
Shareholders' equity		
Capital stock (Note 9)	901.4	907.6
Contributed surplus	0.4	–
Retained earnings	780.3	653.7
	1,682.1	1,561.3
	$ 3,487.0	$ 3,278.9

Contingent liabilities (see Note 14)

Subsequent event (see Note 24)

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board



Bill McEwan
Director

Peter C. Godsoe
Director

Consolidated statements of retained earnings

Year ended (in millions)	May 7, 2005	May 1, 2004
		Restated (Note 1t)
Retained earnings, beginning of year as previously reported	$ 667.9	$ 533.4
Adjustment due to adoption of accounting standards prior year	(14.2)	(13.2)
Retained earnings, beginning of year as restated	653.7	520.2
Adjustment due to adoption of accounting standards current year (Note 1t v)	(14.5)	–
Net earnings	186.7	166.5
	825.9	686.7
Dividends declared	(32.8)	(29.0)
Premium on common shares purchased for cancellation (Note 9)	(12.8)	(4.0)
Balance, end of year	$ 780.3	$ 653.7

See accompanying notes to the consolidated financial statements.

Consolidated statements of earnings

	53 weeks ended	52 weeks ended
(in millions except per share amounts)	May 7, 2005	May 1, 2004
		Restated (Note 1t)
Sales	$ 12,189.4	$ 11,046.8
Gain on sale of assets (Note 22)	–	14.6
Operating expenses		
Cost of sales, selling and administrative expenses	11,690.4	10,614.4
Depreciation	174.5	152.2
Amortization of intangibles	1.9	0.5
Earnings before interest and income taxes	322.6	294.3
Interest expense		
Long-term debt	35.0	40.0
Short-term debt	2.9	3.2
	37.9	43.2
Earnings before income taxes	284.7	251.1
Income taxes (Note 8)	98.0	84.6
Net earnings	$ 186.7	$ 166.5
Earnings per share basic and diluted (Note 10)	$ 2.85	$ 2.53
Basic and diluted weighted average number of common shares outstanding, in millions	65.5	65.9

See accompanying notes to the consolidated financial statements.

Consolidated statements of cash flows

(in millions)	53 weeks ended May 7, 2005	52 weeks ended May 1, 2004 Restated (Note 1t)
Operating activities		
Net earnings	$ 186.7	$ 166.5
Items not affecting cash (Note 11)	235.9	194.3
	422.6	360.8
Net change in non-cash working capital	15.6	3.8
Cash flows from operating activities	438.2	364.6
Investing activities		
Property and equipment purchases	(268.5)	(316.1)
Proceeds on disposal of property and equipment	34.9	80.1
Mortgages and loans receivable	(0.3)	(15.5)
Increase in deferred costs	(49.7)	(33.9)
Business acquisitions, net of cash acquired	(12.1)	(53.6)
Cash flows used in investing activities	(295.7)	(339.0)
Financing activities		
Increase (decrease) in long-term lease obligation	(0.2)	0.9
Issue of long-term debt	32.3	14.9
Repayment of long-term debt	(47.3)	(163.8)
Reduction (increase) of share purchase loan	(1.3)	1.3
Issue of capital stock	5.5	5.4
Repurchase of capital stock	(23.4)	(6.5)
Dividends	(32.8)	(29.0)
Cash flows used in financing activities	(67.2)	(176.8)
Increase (decrease) in cash from continuing operations	75.3	(151.2)
Initial impact of variable interest entities	32.9	–
Discontinued operations	–	1.3
Increase (decrease) in cash and cash equivalents	108.2	(149.9)
Cash and cash equivalents, beginning of year	164.6	314.5
Cash and cash equivalents, end of year	$ 272.8	$ 164.6

See accompanying notes to the consolidated financial statements.

1. Summary of significant accounting policies

These consolidated financial statements, have been prepared by management in accordance with Canadian generally accepted accounting principles, and include the accounts of Sobeys Inc. (the Company), all subsidiary companies, and enterprises considered variable interest entities. All of the Company's subsidiaries are wholly owned. The Company has four operating food distribution regions: Western Canada, Ontario, Québec and Atlantic Canada. These regions have been aggregated into one reportable operating segment as they all share similar economic characteristics.

The preparation of consolidated financial statements, in conformity with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future.

(a) Depreciation

Property and equipment are recorded at cost.

Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Equipment and vehicles	3 – 20 years
Buildings	10 – 40 years
Leasehold improvements	7 – 10 years

(b) Cash and cash equivalents

Cash and cash equivalents are defined as cash, treasury bills, and guaranteed investments with a maturity less than 90 days.

(c) Inventories

Warehouse inventories are valued at the lower of cost and net realizable value with cost being determined substantially on a first-in, first-out (FIFO) basis. Retail inventories are valued at the lower of cost and net realizable value. Cost is determined by using FIFO or the retail method. The retail method uses the anticipated selling price less normal profit margins, substantially on an average cost basis.

(d) Leases

Leases meeting certain criteria are accounted for as capital leases. The imputed interest is charged against income and the capitalized value is depreciated on a straight-line basis over the lesser of the lease term and its estimated useful life. Obligations under capital leases are reduced by rental receipts net of imputed interest. All other leases are accounted for as operating leases.

(e) Goodwill

Goodwill represents the excess of the purchase price of the business acquired over the fair value of the underlying net tangible and intangible assets acquired at the date of acquisition.

Goodwill and intangible assets with indefinite useful lives are subject to an annual impairment review. Any permanent impairment in the book value of goodwill or intangible assets (e.g. trademarks) will be written off against earnings.

(f) Intangibles

Intangibles arise on the purchase of new businesses, existing franchises, and the acquisition of pharmacy prescription files. Amortization is on a straight-line basis, over 10 – 15 years.

(g) Stock-based compensation

At the beginning of fiscal 2003, the Company adopted, on a prospective basis, the Canadian Institute of Chartered Accountants (CICA) Handbook section 3870 "Stock-Based Compensation and Other Stock-Based Payments". There was no effect on the Company upon implementation of this standard. In fiscal 2004, the Company adopted the Emerging Issues Committee Abstract 132 "Share Purchase Financing" which required pro-forma note disclosure of the effect of the stock-based compensation expense for fiscal 2004. In the current

fiscal year, the amount of the pro-forma fiscal 2004 stock compensation expense has not been recorded as an adjustment to opening retained earnings as the amount is immaterial.

(h) Revenue recognition

Sales are recognized at the point-of-sale. Sales include revenue from customers through corporate stores operated by the Company, consolidated VIEs and revenue from sales to franchised stores, associated stores and independent accounts. Revenue received from franchise stores, affiliated stores and independent accounts is mainly derived from the sale of product. The Company also collects franchise fees under two types of arrangements. Franchise fees contractually due based on the dollar value of product shipped are recorded as revenue when the product is shipped. Franchise fees contractually due based on the franchisee's retail sales are recorded as revenue weekly upon invoicing based on the franchisee's retail sales.

(i) Interest capitalization

Interest related to the period of construction is capitalized as part of the cost of the related property and equipment. The amount of interest capitalized to construction in progress in the current year was $0.1 (May 1, 2004 – $0.6).

(j) Deferred revenue

Deferred revenue consists of long-term supplier purchase agreements, and rental revenue arising from the sale of subsidiaries. Deferred revenue is being taken into income over the term of the related agreements.

(k) Deferred costs

Deferred costs consist of deferred store marketing, deferred financing, transitional pension assets and deferred purchase agreements.

Deferred costs are amortized as follows:

Deferred store marketing	– seven years
Deferred financing	– over the term of the debt
Deferred purchase agreements	– over the term of the franchise agreement

(l) Store opening expenses

Store opening expenses of new stores and store conversions are written off during the first year of operation.

(m) Financial instruments

The Company uses interest rate instruments to manage exposure to fluctuations in interest rates. The realized gain or loss arising from the instruments is included in interest expense.

(n) Future income taxes

The difference between the tax basis of assets and liabilities and their carrying value on the balance sheet is used to calculate future tax assets and liabilities. The future tax assets and liabilities have been measured using substantively enacted tax rates that will be in effect when the differences are expected to reverse.

(o) Earnings per share

Earnings per share is calculated by dividing the earnings available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined based on the treasury stock method.

(p) Long-lived assets

Effective May 4, 2003, the Company adopted two new CICA Handbook sections prospectively. Section 3063, "Impairment of Long-Lived Assets," provides guidance with regards to the measurement, recognition and disclosure of the impairment of long-lived assets. There was no impact of the application of Section 3063 on the financial statements. Section 3475, "Disposal of Long-Lived Assets and Discontinued Operations," provides guidance with regards to the identification, measurement and disclosure of any long-lived assets not held for use and discontinued operations (see Note 1s).

(q) Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the foreign currency exchange rate in effect at each period end date. Exchange gains or losses arising from the translation of these balances denominated in foreign currencies are recognized in operating income. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at the average foreign currency exchange rate for the period.

(r) Pension benefit plans and other benefit plans

The cost of the Company's pension benefits for defined contribution plans are expensed as contributions are paid. The cost of defined benefit pension plans and other benefit plans is accrued based on actuarial valuations, which are determined using the projected benefit method pro-rated on service and management's best estimate of the expected long-term rate of return on plan assets, salary escalation, retirement ages and expected growth rate of health care costs.

Current market values are used to value benefit plan assets. The obligation related to employee future benefits is measured using current market interest rates, assuming a portfolio of Corporate AA bonds with terms to maturity that, on average, match the terms of the obligation.

The impact of changes in plan amendments is amortized on a straight-line basis over the expected average remaining service life ("EARSL") of active members. For pension benefit plans, the actuarial gains and losses and the impact of changes in the actuarial basis in excess of 10 percent of the greater of the projected benefit obligation and the market value of assets are amortized on a straight-line basis over the EARSL of the active members. For other benefit plans, actuarial gains and losses are recognized immediately. For the Sobeys SERP, the impact of changes in the plan provisions are amortized over five years.

(s) Assets for realization

Certain land and buildings have been listed for sale and reclassified as "Assets for realization" in accordance with CICA Handbook section 3475. These assets are expected to be sold within a twelve-month period and are no longer productive assets and there is no longer an intent to develop for future use. Assets for realization are valued at the lower of cost and fair value less cost of disposal.

(t) New accounting standards adopted during fiscal 2005

(i) Hedging

Accounting guideline (AcG) 13, "Hedging Relationships," came into effect during the current fiscal year. This guideline addresses the identification, designation, documentation and effectiveness of hedging relationships for the purpose of applying hedge accounting and provides guidance with respect to the discontinuance of hedge accounting. The Company adopted this guideline prospectively, and there was no effect on the Company from the adoption of this guideline.

(ii) Asset retirement obligations

Beginning in fiscal 2005 CICA Handbook Section 3110, "Asset Retirement Obligations," was adopted retroactively. This section establishes standards for the recognition, measurement, and disclosure of legal obligations associated with the costs to retire long-lived assets. A liability associated with the retirement of long-lived assets is recorded in the period in which the legal asset is capitalized as part of the related asset and depreciated over its useful life. Subsequent to the initial measurement of the asset retirement obligation, the obligation is adjusted to reflect the passage of time and changes in the estimated future costs underlying the obligation. There has been no impact on the Company from the adoption of this section.

(iii) Real estate leases

Effective May 2, 2004, the Company adopted CICA Handbook section 1100, which discusses primary sources of GAAP, what to do when a matter is not dealt with explicitly in the sources of GAAP and identifies other sources to be consulted when a matter is not addressed within the sources of GAAP. This section was adopted prospectively without restatement and as a result the Company has changed its policy to record real estate lease expense on a straight-line basis (see Note 18).

On February 7, 2005, the Office of the Chief Accountant of the U.S. Securities and Exchange Commission (“SEC”) issued a clarification in respect of accounting for various components of property leases and leasehold improvements on which U.S. and Canadian accounting governing bodies had been largely silent. As a result of the SEC clarification the Company has adopted the following two accounting policies. Lease inducements received as a reimbursement for leasehold improvement costs are amortized over the term of the lease. The total lease expense is amortized straight-line over the entire term of the lease including free rent periods related to store fixturing. A store fixturing period varies by store but is generally considered to be one month prior to the store opening. The Company has adopted this guideline retroactively with restatement (see Note 18).

(iv) Vendor allowances

In January 2004, the CICA issued a new accounting standard, EIC-144 “Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor.” EIC-144 outlines that cash consideration received from a vendor is presumed to be a reduction in the prices of the vendor’s products or services, and should be accounted for as a reduction in cost of sales and related inventory, when recognized in the customer’s income statement and balance sheet. Certain exceptions apply if the consideration is a payment for assets or services delivered to the vendor or for reimbursement of costs incurred to sell the vendor’s products, provided certain conditions are met. The Company adopted EIC-144 in the second quarter, adjusting for it retroactively, with restatement of the comparative periods for the current and prior fiscal year (see Note 19).

(v) Variable interest entities

Effective for the fourth quarter ended May 7, 2005, the Company was required to implement Accounting Guideline 15 “Consolidation of Variable Interest Entities” (“AcG-15”) issued by the CICA. AcG-15 requires the Company to consolidate certain entities that are deemed to be subject to control of the Company on a basis other than through ownership of a voting interest in the entity (see Note 20).

(vi) Stock-based compensation

The Company has a Share Purchase Loan plan for employees. In accordance with Emerging Issues Committee Abstract 132 these loans, which are granted to employees to purchase common stock, are considered to be stock options and are treated as stock-based compensation and recorded at their fair market value. This application is on a prospective basis beginning in 2005 as it was determined that application on a retroactive basis would not result in a material change (see Note 17).

2. Cash and cash equivalents

Included in cash and cash equivalents for fiscal 2004 is restricted cash of $24.9 relating to the sale of assets in the fourth quarter, which was held in trust for 28 days.

3. Mortgages and loans receivable

	May 7, 2005	May 1, 2004
Loans receivable	$ 53.6	$ 156.9
Mortgages receivable	2.1	7.9
Other	3.2	0.7
	58.9	165.5
Less amount due within one year	15.5	15.4
	$ 43.4	$ 150.1

Loans receivable

Loans receivable represent long-term financing to certain retail associates. These loans are primarily secured by inventory, fixtures and equipment, bear various interest rates and have repayment terms up to ten years. The carrying amount of the loans receivable approximates fair value based on the variable interest rates charged on the loans and the operating relationship of the associates with the Company.

Loans receivable have decreased $107.1 as a result of the consolidation of variable interest entities. Amounts due within one year have increased $1.7. The long-term portion has reduced by $108.8 (see Note 20).

4. Deferred costs

	Net book value	
	2005	2004
Deferred store marketing costs	$ 68.6	$ 55.2
Deferred financing costs	2.0	4.5
Deferred purchase agreements	15.9	17.4
Transitional pension asset	31.5	33.9
Other	32.3	32.8
Total	$ 150.3	$ 143.8

5. Property and equipment

	May 7, 2005		
	Cost	Accumulated depreciation	Net book value
Land	$ 94.5	$ –	$ 94.5
Land held for development	85.4	–	85.4
Buildings	532.0	117.6	414.4
Equipment and vehicles	1,662.7	993.6	669.1
Leasehold improvements	309.7	192.7	117.0
Construction in progress	57.4	–	57.4
Assets under capital leases	35.8	11.7	24.1
	$ 2,777.5	$ 1,315.6	$ 1,461.9

	May 1, 2004		
	Cost	Accumulated depreciation	Net book value
Land	$ 72.3	$ –	$ 72.3
Land held for development	81.4	–	81.4
Buildings	492.1	100.6	391.5
Equipment and vehicles	1,573.0	940.9	632.1
Leasehold improvements	279.3	169.1	110.2
Construction in progress	55.4	–	55.4
Assets under capital leases	23.9	6.6	17.3
	$ 2,577.4	$ 1,217.2	$ 1,360.2

6. Bank loans and bankers' acceptances

Under the terms of a credit agreement entered into between the Company and a banking syndicate arranged by the Bank of Nova Scotia, a revolving term credit facility of $300.0 was established. This 364-day revolving unsecured facility will expire on June 22, 2006, however various provisions of the agreement provide the Company with the ability to extend the facility for a minimum period of two years.

Interest payable on this facility fluctuates with changes in the prime interest rate.

7. Long-term debt

	May 7, 2005	May 1, 2004
First mortgage loans, average interest rate 9.5%, due 2008 – 2021	$ 23.9	$ 23.3
Bank loans, average interest rate 6.4%, due September 30, 2004	–	20.0
Medium Term Note, interest rate 7.6%, due November 1, 2005	175.0	175.0
Medium Term Note, interest rate 7.2%, due February 26, 2018	100.0	100.0
Debentures, average interest rate 10.7%, due 2008 – 2013	68.2	73.3
Notes payable and other debt at interest rates fluctuating with the prime rate	67.5	38.6
	434.6	430.2
Capital lease obligations, 2005 – 2011, net of imputed interest	23.2	22.9
	457.8	453.1
Less amount due within one year	194.9	33.1
	$ 262.9	$ 420.0

First mortgage loans are secured by land, buildings, and specific charges on certain assets. Sobeys Group Inc., an indirect subsidiary of Sobeys Inc., has provided the debenture holders with a floating charge over all its assets, subject to permitted encumbrances, a general assignment of book debts, and the assignment of proceeds of insurance policies.

During fiscal 2001, the Company negotiated a new unsecured $550.0 credit facility consisting of $250.0 of non-revolving debt to be repaid over five years, plus a $300.0 revolving line of credit. The balance of $250.0 of the non-revolving debt was retired on September 30, 2004.

During the previous fiscal year, on October 2, 2003 a Medium Term Note of $100.0 was repaid according to the terms of the agreement.

Through a bond forward the Company has locked in the rate on the underlying Government of Canada 15-year yield for refinancing $100.0 of the November 2005 MTN maturity. The fair value of this interest rate forward on May 6, 2005 was negative $1.5 due to a decline in Government of Canada 15-year yields.

Debt retirement payments and capital lease obligations in each of the next five fiscal years are:

	Long-term debt	Capital leases
2006	189.9	5.0
2007	12.1	3.7
2008	12.3	3.3
2009	16.4	2.9
2010	16.3	2.1

Operating leases

The net aggregate, annual, minimum rent payable under operating leases for fiscal 2006 is approximately $183.1 ($259.1 gross less expected sub-lease income of $76.0). The net commitments over the next five fiscal years are:

	Net lease obligation	Gross lease obligation
2006	183.1	259.1
2007	168.3	239.9
2008	148.7	212.9
2009	135.2	193.7
2010	125.7	177.7

8. Income taxes

Income tax expense varies from the amount that would be computed by applying the combined federal and provincial statutory tax rate as a result of the following:

	May 7, 2005	May 1, 2004
Income tax expense according to combined statutory rate of 33.9% (2004 – 33.7%)	$ **96.6**	$ 84.5
Increase (reduction) in income taxes resulting from:		
Non-taxable gains	–	(1.4)
Large corporation tax	**1.4**	1.5
Total income taxes	$ **98.0**	$ 84.6

May 7, 2005 income tax expense attributable to net income consists of:

	Current	Future	Total
Operations	$ 76.5	$ 21.5	$ 98.0

May 1, 2004 income tax expense attributable to net income consists of:

	Current	Future	Total
Operations	$ 64.4	$ 20.2	$ 84.6

The tax effect of temporary differences that give rise to significant portions of the future tax liability are presented below:

	May 7, 2005	May 1, 2004
Employee future benefit obligation	$ 32.2	$ 31.0
Restructuring provisions	5.3	1.5
Pension contributions	(16.0)	(16.2)
Deferred costs	(23.7)	(18.8)
Deferred credits	(57.7)	(47.8)
Goodwill	(6.0)	(6.3)
Fixed assets	(23.0)	(10.4)
Other	3.4	3.0
	$ (85.5)	$ (64.0)
Current future tax assets	$ 5.3	$ 1.5
Non-current future tax assets	35.9	37.1
Current future tax liabilities	(57.7)	(47.8)
Non-current future tax liabilities	(69.0)	(54.8)
	$ (85.5)	$ (64.0)

9. Capital stock

Authorized

	Number of shares	
	May 7, 2005	May 1, 2004
Preferred shares, par value of $25 each, issuable in series as a class	471,000,000	500,000,000
Preferred shares, without par value, issuable in series as a class	500,000,000	500,000,000
Common shares, without par value	498,682,931	499,438,543

Issued and outstanding

	Number of shares		Capital stock (in millions)	
	May 7, 2005	May 1, 2004	May 7, 2005	May 1, 2004
Common shares, without par value	65,280,415	65,860,719	$ 920.7	$ 925.6
Loans receivable from officers and employees under share purchase plan	–	–	(19.3)	(18.0)
Total capital stock	65,280,415	65,860,719	$ 901.4	$ 907.6

During the current fiscal year, the Company cancelled 14,607 common shares in accordance with the plan of arrangement entered into in connection with the acquisition of the outstanding shares of The Oshawa Group Ltd., by the Company. This resulted in a reduction to the common share value of $0.3.

The Company also purchased for cancellation 708,700 common shares as part of a normal course issuer bid announced on March 8, 2004. Additionally, common shares of 32,305 were purchased from employees (May 1, 2004 – 187,572). The purchase price for the shares was $23.1 (May 1, 2004 – $6.5). The excess of the purchase price over the average paid-up value of common shares purchased for cancellation charged to retained earnings in the current fiscal year was $12.8 (May 1, 2004 – $4.0).

During the current fiscal year 175,308 (May 1, 2004 – 155,123) common shares of Sobeys Inc. were issued under the Company's share purchase plan to certain officers and employees for $5.5 (May 1, 2004 – $5.4).

Loans receivable from officers and employees of $19.3 (May 1 2004 – $18.0) under the Company's share purchase plan are classified as a reduction of capital stock. Loan repayments will result in a corresponding increase in capital stock. The individual loans are non-interest bearing, non-recourse, and are secured by the individual's common shares of Sobeys Inc. (630,378 combined total).

10. Net earnings per share

	53 weeks ended	52 weeks ended
	May 7, 2005	May 1, 2004
Net earnings	**$ 186.7**	$ 166.5
Weighted average common shares outstanding	**65,516,219**	65,877,959
Net earnings per common share	**$ 2.85**	$ 2.53

11. Supplementary cash flow information

	53 weeks ended	52 weeks ended
	May 7, 2005	May 1, 2004
a) Items not affecting cash:		
Depreciation	**$ 174.5**	$ 152.2
Future tax provision	**21.5**	20.2
Loss (gain) on disposal of assets	**(0.4)**	(15.7)
Amortization of intangibles	**1.9**	0.5
Stock based compensation	**0.6**	–
Amortization of deferred items	**34.0**	25.5
Employee future benefit obligation	**3.8**	11.6
	$ 235.9	$ 194.3
b) Cash items		
Interest paid	**$ 34.2**	$ 42.4
Taxes paid	**$ 104.8**	$ 111.0

12. Related-party transactions

The Company leased certain real property from related parties, at fair market value, during the year. The aggregate net payments under these leases amounted to approximately $56.8 (2004 – $52.2). The Company was charged expenses of $0.3 (2004 – $0.4) by related parties.

In the previous year the Company sold real property to related parties, at fair market value with aggregate proceeds of $3.3 and a resulting gain of $0.6.

At May 7, 2005, mortgage receivables of $1.8 were owing from related parties.

Related-party transactions are with the parent company Empire Company Limited and any of its subsidiaries. Empire Company Limited is a majority shareholder of Sobeys Inc., holding 68.4% of Sobeys Inc. common shares.

13. Financial instruments

Credit risk

There is no significant concentration of credit risk. The credit risk exposure is considered normal for the business.

Fair value of financial instruments

The book value of cash and cash equivalents, receivables, mortgages and loans receivable, and accounts payable and accrued liabilities approximate fair values at May 7, 2005.

The total fair value of long-term debt is estimated to be $500.5. The fair value of variable rate long-term debt is assumed to approximate its carrying amount. The fair value of other long-term debt has been estimated by discounting future cash flows at a rate offered for debt of similar maturities and credit quality.

Interest rate risk

The majority of the Company debt is at fixed rates. Accordingly, there is limited exposure to interest rate risk.

14. Contingent liabilities

Guarantees and commitments

The Company has undertaken to provide cash to meet any obligations which Sobey Leased Properties Limited (a wholly owned subsidiary of Empire Company Limited) is unable or fails to meet until all of its debentures have been paid in full in accordance with their terms. Any deficiency payment made by the Company will be by purchase of fully-paid non-assessable five percent redeemable, non-voting preference shares of that company. The aggregated outstanding principal amounts of these debentures at May 7, 2005 is $36.6 (2004 – $38.6). Sobey Leased Properties Limited's principal business relates to leasing real estate locations to Sobeys Capital Incorporated (a subsidiary of Sobeys Inc.) and its subsidiary companies.

The equity holder in Sobey Leased Properties Limited (SLP), Empire Company Limited, retains full ability to make all decisions respecting SLP with respect to the operations of its business. The current lease between Sobeys Inc. and SLP is at market value, reflective of market rates at the time the lease was entered into. SLP does not have a guaranteed return to Empire Company Limited, and SLP retains full ownership of the leased property at the expiration of the leases.

At May 7, 2005, the Company was contingently liable for letters of credit issued in the aggregate amount of $26.2 (2004 – $22.0).

The Company has guaranteed certain bank loans contracted by franchisees. As at May 7, 2005, these loans amounted to approximately $2.4 (2004 – $5.0).

Upon entering into the lease of its new Mississauga distribution centre, in March 2000, Sobeys Capital Incorporated guaranteed to the landlord a performance, by SERCA Foodservice Inc., of all its obligations under the lease. The remaining term of the lease is 15 years with an aggregate obligation of $46.2. At the time of the sale of assets of SERCA Foodservice Inc. to Sysco Corp., the lease of the Mississauga distribution centre was assigned to and assumed by the purchaser and Sysco Corp. agreed to indemnify and hold Sobeys Capital Incorporated harmless from any liability it may incur pursuant to its guarantee.

In the fourth quarter of fiscal 2005, Lumsden Brothers Limited (Lumsden), a wholesaling subsidiary of the Company, received notice from Canada Revenue Agency (CRA) that it is proposing a reassessment related to Goods and Services Tax (GST) for fiscal years 1999 and 2000. The proposed reassessment relates to GST on sales of tobacco products to status Indians. CRA asserts that Lumsden was obliged to collect GST on the sales of these tobacco products to status Indians. The total tax, interest and penalties in the proposed reassessment are approximately $13 million. Lumsden has reviewed this matter, has received legal advice, and believes it was not required to collect GST. Lumsden is challenging this proposed reassessment and if necessary will defend against any reassessments to the appropriate judicial bodies. Accordingly, the Company has not recorded any of the proposed tax, interest or penalties in its financial statements.

There are various claims and litigation, which the Company is involved with, arising out of the ordinary course of business operations. The Company's management does not consider the exposure to such litigation to be material, although this cannot be predicted with certainty.

15. Employee future benefits

The Company has a number of defined benefit and defined contribution plans providing pension and other retirement benefits to most of its employees.

Defined contribution pension plans

The contributions required by the employee and the employer are specified. The employee's pension depends on what level of retirement income (for example, annuity purchase) that can be achieved with the combined total of employee and employer contributions and investment income over the period of plan membership, and the annuity purchase rates at the time of the employee's retirement.

Defined benefit pension plans

The ultimate retirement benefit is defined by a formula that provides a unit of benefit for each year of service. Employee contributions, if required, pay for part of the cost of the benefit, but the employer contributions fund the balance. The employer contributions are not specified or defined within the plan text, they are based on the result of actuarial valuations which determine the level of funding required to meet the total obligation as estimated at the time of the valuation.

The Company uses December 31 as an actuarial valuation date, and April 30 as a measurement date for accounting purposes, for its defined benefit pension plans.

	Most recent valuation date	Next required valuation date
Retirement Pension Plan	December 31, 2003	December 31, 2006
Senior Management Pension Plan	December 31, 2004	December 31, 2007

Defined contribution plans

The total expense, and cash contributions, for the Company's defined contribution plans is as follows:

	2005	2004
	11.8	11.2

Defined benefit plans

Information about the Company's defined benefit plans, in aggregate, is as follows:

	Pension benefit plans 2005	Pension benefit plans 2004	Other benefit plans 2005	Other benefit plans 2004
Accrued benefit obligation				
Balance at beginning of year	$ 248.0	$ 231.6	$ 108.1	$ 87.3
New incidence (post-employment benefits)	–	–	0.4	7.7
Current service cost	2.0	2.3	2.3	2.2
Interest cost	14.6	14.8	5.7	6.0
Employee contributions	0.4	0.5	–	–
Past service costs	0.7	–	–	1.3
Special termination benefits	–	1.3	–	–
Benefits paid	(18.3)	(16.5)	(4.3)	(4.4)
Actuarial losses (gains)	15.0	14.0	(7.1)	8.0
Balance at end of year	$ 262.4	$ 248.0	$ 105.1	$ 108.1
Plan assets				
Market value at beginning of year	$ 223.5	$ 199.8	$ –	$ –
Actual return on plan assets	31.3	36.8	–	–
Employer contributions	7.5	2.9	4.3	4.4
Employee contributions	0.4	0.5	–	–
Benefits paid	(18.3)	(16.5)	(4.3)	(4.4)
Market value at end of year	$ 244.4	$ 223.5	$ –	$ –
Funded status				
Surplus (deficit)	$ (18.0)	$ (24.5)	$ (105.1)	$ (108.1)
Unamortized past service cost	0.8	0.3	1.2	1.3
Unamortized actuarial losses (gains)	48.7	52.0	11.7	18.4
Accrued benefit asset (liability)	$ 31.5	$ 27.8	$ (92.2)	$ (88.4)
Expense				
Current service cost	$ 2.0	$ 2.3	$ 2.3	$ 2.2
Interest cost	14.6	14.8	5.7	6.0
Special termination benefits	–	1.3	–	–
Actual return on plan assets	(31.3)	(36.8)	–	–
Actuarial losses (gains)	15.0	14.0	(7.1)	8.0
Past service costs	0.7	–	–	1.3
New incidence (post-employment benefits)	–	–	0.4	7.7
Expense before adjustments	$ 1.0	$ (4.4)	$ 1.3	$ 25.2
Expected vs. actual return on plan assets	$ 16.0	$ 23.3	$ –	$ –
Recognized vs. actual past service costs	(0.5)	–	0.1	(1.3)
Recognized vs. actuarial losses (gains)	(12.7)	(10.6)	6.7	(6.6)
Net expenses	$ 3.8	$ 8.3	$ 8.1	$ 17.3
Classification of accrued benefit asset (liability)				
Other assets	$ 55.2	$ 49.2	$ –	$ –
Accrued liabilities/expected fiscal 2006 contributions	(9.0)	(7.2)	(4.8)	(4.4)
Other long-term liabilities	(14.7)	(14.2)	(87.4)	(84.0)
Accrued benefit asset (liability)	$ 31.5	$ 27.8	$ (92.2)	$ (88.4)

Included in the accrued benefit obligation at year-end are the following amounts in respect of plans that are not funded:

	Pension benefit plans	Pension benefit plans	Other benefit plans	Other benefit plans
	2005	2004	**2005**	2004
Accrued benefit obligation	**$ 16.3**	$ 15.7	**$ 92.2**	$ 88.4

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows (weighted-average assumptions as of May 7, 2005):

	Pension benefit plans	Pension benefit plans	Other benefit plans	Other benefit plans
	2005	2004	**2005**	2004
Discount rate	**5.50%**	6.00%	**5.75%**	6.00%
Expected long-term rate of return on plan assets	**7.00%**	7.00%		
Rate of compensation increase	**4.00%**	4.00%		

For measurement purposes, a 10 percent fiscal 2005 annual rate of increase in the per capita cost of covered health care benefits was assumed. The cumulative rate expectation to 2012 is six percent. The expected average remaining service period of the active employees covered by the pension benefit plans ranges from 11 – 19 years with a weighted average of 11 years at year end. The expected average remaining service period of the active employees covered by the other benefit plans ranges from 13 – 17 years with a weighted average of 16 years at year end.

	Pension plans		Other benefit plans	
	Benefit obligations	Benefit cost[1]	Benefit obligations	Benefit cost[1]
Expected long term rate of return on plan assets		7.0%		
Impact of: 1% increase		$ (2.4)		
Impact of: 1% decrease		$ 2.4		
Discount Rate	5.5%	5.5%	5.75%	5.75%
Impact of: 1% increase	$ (28.6)	$ 0.3	$ (15.0)	$ (0.7)
Impact of: 1% decrease	$ 32.1	$ (0.6)	$ 18.0	$ 0.8
Growth rate of health care costs[1]			10.00%	10.00%
Impact of: 1% increase			$ 15.1	$ 1.8
Impact of: 1% decrease			$ (12.4)	$ (1.4)

(1) Reflects the impact on the current service cost, the interest cost and the expected return on assets.

The asset mix of the defined benefit pension plans as at year-end is as follows:

	2005	2004
Cash and short term investments	**7.06%**	3.21%
Bonds, debentures, fixed income pooled funds and real estate funds	**17.71%**	21.27%
Equities and pooled equities fund	**74.96%**	75.24%
Accrued interest and dividends	**0.27%**	0.28%
Total investments	**100.00%**	100.00%

Within these securities are investments in a related-party, Empire Company. The market value of these shares at year-end are as follows:

	2005	**% of plan assets**	2004	% of plan assets
Empire Company Limited shares	**$ 80.2**	**10.0%**	$ 57.7	8.1%

16. Business acquisitions

The Company acquires franchisee stores, and prescription files as part of its normal course of operations. The results of these acquisitions have been included in the consolidated financial results of the Company, and were accounted for through the use of the purchase method. As illustrated in the table below the acquisition of certain franchise stores resulted in the acquisition of intangible assets.

	53 weeks ended **May 7, 2005**	52 weeks ended May 1, 2004
Franchisees		
Inventory	$ **2.5**	$ 2.4
Property and equipment	**1.1**	3.0
Intangibles	**6.4**	8.0
Other assets	**0.8**	0.1
Cash consideration	$ **10.8**	$ 13.5
Prescription files		
Intangibles	$ **0.8**	$ 0.2
Cash consideration	$ **0.8**	$ 0.2

Commisso's Food Markets Limited and Commisso's Grocery Distributors Limited

During the previous fiscal year, the Company acquired substantially all of the assets and trade liabilities of Commisso's Food Markets Limited and Commisso's Grocery Distributors Limited which are located in Southern Ontario. Fifteen grocery stores, six cash-and-carry outlets, and a wholesale business and distribution centre were acquired. The acquisition was completed February 1, 2004, and was accounted for using the purchase method, with operating results being included in the consolidated financial statements at that date.

Inventory	$ 16.2
Property and equipment	13.6
Goodwill	62.5
Intangibles	5.4
Other assets	3.1
Accounts payable	(32.1)
Long term liabilities	(6.5)
Other liabilities	(21.2)
	$ 41.0
Expenses	(0.8)
Cash consideration	$ 40.2

17. Stock-based compensation

Deferred share units

Members of the Board of Directors may elect to receive all or any portion of their fees in Deferred Share Units (DSUs) in lieu of cash. The number of DSUs received is determined by the market value of Sobeys Inc. common shares on each directors' fee payment date. Additional DSUs are received as dividend equivalents. DSUs cannot be redeemed for cash until the holder is no longer a director of the Company. The redemption value of a DSU equals the market value of a Sobeys Inc. common share at the time of the redemption. On an ongoing basis, the Company values the DSU obligation at the current market value of a common share and records any increase in the DSU obligation as an operating expense. At May 7, 2005 there were 56,215 (May 1, 2004 – 38,813) DSUs outstanding. During the year, the stock-based compensation expense was $0.9 (2004 – $0.6).

Share purchase loans

The Company has a Share Purchase Loan plan for employees of the company whereby loans are granted to purchase common stock. These loans have been treated as stock-based compensation in accordance with Emerging Issues Committee Abstract 132. The application is on a prospective basis beginning in 2005 as it was determined that application on a retroactive basis would not result in a material change.

On a pro-forma basis, if the loans from 2004 had been treated as stock-based compensation in accordance with Emerging Issues Committee Abstract 132, and the compensation cost was amortized on a straight-line basis over the period that the underlying shares are expected to be released to the employees, the effect would have been as follows:

2004 Net earnings	
As reported	$ 166.5
Pro-forma	$ 166.2
2004 Diluted net earnings per share	
As reported	$ 2.53
Pro-forma	$ 2.53

The compensation cost relating to the 2005 Share Purchase Loans was determined to be $1.2 (2004 – $1.5) with amortization of the cost over five years. The total increase in contributed surplus in relation to the Share Purchase Loan compensation cost for 2005 is $0.6. The contributed surplus balance was reduced by $0.2 in relation to shares issued under the Share Purchase Loan that have been treated as stock-based compensation that became fully vested with the employee during the year. Shares become vested when the employees' outstanding loan balance is reduced. The compensation cost was calculated using the Black-Scholes model with the following assumptions:

	2005	2004
Expected life	**5 years**	5 years
Risk-free interest rate	**4.0%**	4.2%
Expected volatility	**22.3%**	26.5%
Dividend yield	**1.6%**	1.2%

18. Real estate leases

The Company adopted CICA Handbook section 1100 prospectively, without restatement, and as a result the Company has changed its policy to record real estate lease expense on a straight-line basis. Additional real estate lease expense of $2.7 was recorded, in fiscal 2005, as a result of this policy change.

The Company has reviewed its practices related to lease accounting and has determined that adjustments were required to align to the recent clarification of lease accounting guidelines. The first adjustment relates to lease allowances and incentives. Historically the Company classified lease allowances as a reduction of the related capital assets, which effectively reduced the depreciation expense over the expected life of the asset. The guideline clarification suggests these lease allowances should be recorded as a deferred credit and amortized as a reduction of lease expense over the term of the lease. The second adjustment relates to rent expense to be recorded during a store's fixturing period. The Company is often granted a fixturing period during which rent is not charged. The fixturing period is generally considered to be one month prior to the store opening. Historically, when the Company was granted a fixturing period rent expense was not recorded as none was being charged and the store was not yet open. The clarification of the accounting guidance however requires that the fixturing period be considered a free-rent period that should be included in the term of the lease. Since lease expense must be recognized on a straight-line basis over the lease term an appropriate

portion of the straight-line expense must be recorded for the fixturing period. The third adjustment relates to the capitalization of long-term leases. An evaluation was completed in the fourth quarter of the current year and certain long-term leases have been identified as capital leases. These changes have been accounted for on a retroactive basis with restatement resulting with the following net impact on the comparative statements for the period ended May 7, 2005:

- As at May 1, 2004 a reduction to retained earnings of $7.4.
- A reduction in net income for the 52-week period ended May 1, 2004 of $1.0 from $167.5 to $166.5, and a reduction in earnings per share from $2.54 per share to $2.53 per share.
- As at May 1, 2004 an increase to capital assets, future taxes, long-term debt and other long-term liabilities of $10.1, $4.3, $10.3 and $12.5, respectively.

These lease accounting adjustments did not have any material impact on the Company's fiscal 2005 net earnings, historical or future revenues, cash flows or lease payments.

19. Vendor allowances

The Company receives allowances from certain vendors, whose products are purchased for resale. Included in these vendor programs are allowances for volume purchases, exclusivity allowances, listing fees, and other allowances. Due to the retroactive implementation of EIC-144, the timing of recognition of certain vendor allowances has changed, resulting in the Company recording a decrease in opening retained earnings for fiscal 2004 of $5.9 (net of income tax affect of $3.4), and a decrease to inventory of $9.3. The implementation of EIC-144 did not result in a material change in the annual net earnings for fiscal 2004 or in the current or prior year's quarterly net earnings. The fiscal 2005 full-year impact of this adoption was not material to net earnings.

20. Variable interest entities

Variable interest entities are defined under AcG-15 as entities that do not have sufficient equity at risk to finance their activities without additional subordinated financial support, or where the equity holders lack the overall characteristics of a controlling financial interest. The guideline requires that the VIE be consolidated with the financial results of the entity deemed to be the primary beneficiary of the VIEs expected losses and its expected residual returns.

The Company has implemented AcG-15 on May 7, 2005 retroactively without restatement of prior periods. Entities that have been identified as meeting the characteristics of a VIE have been consolidated in the Company's results for the fiscal quarter.

The Company has identified the following entities as VIEs:

Franchises

The Company has identified 287 franchisees whose franchise agreements result in the Company being deemed the primary beneficiary of the entity according to AcG-15. The results for these entities were consolidated with the results of the Company.

Warehouse and Distribution Agreement

The Company has an agreement with an independent entity to provide warehousing and distribution services. The terms of the agreement with this entity require the Company to consolidate its results with those of the Company pursuant to AcG-15.

The Company has consolidated the results of these independent franchisees and the entity providing warehouse and distribution services effective at the fourth quarter of fiscal 2005.

Balance sheet as at May 7, 2005

(in millions)	Consolidated balance sheet as at May 7, 2005 before AcG-15 impact	Impact of the implementation of AcG-15	Consolidated balance sheet as at May 7, 2005 after AcG-15 impact
Assets			
Current			
Cash and cash equivalents	$ 238.7	$ 34.1	$ 272.8
Receivables	223.4	(23.6)	199.8
Inventories	467.3	121.3	588.6
Prepaid expenses	39.2	4.2	43.4
Future tax assets	5.3	–	5.3
Mortgages and loans receivable	13.8	1.7	15.5
Income taxes receivable	21.7	0.2	21.9
	1,009.4	137.9	1,147.3
Mortgages and loans receivable	152.2	(108.8)	43.4
Deferred costs	150.3	–	150.3
Future tax assets	35.9	–	35.9
Property and equipment	1,427.4	34.5	1,461.9
Assets for realization	11.5	–	11.5
Intangibles (less accumulated amortization of $2.4; May 1/04 $0.5)	21.6	–	21.6
Goodwill	615.1	–	615.1
	$ 3,423.4	$ 63.6	$ 3,487.0
Liabilities			
Current			
Accounts payable and accrued liabilities	$ 1,053.7	$ 29.6	$ 1,083.3
Future tax liabilities	57.7	–	57.7
Long-term debt due within one year	193.0	1.9	194.9
	1,304.4	31.5	1,335.9
Long-term debt	245.1	17.8	262.9
Long-term lease obligation	12.3	–	12.3
Employee future benefit obligation	92.2	–	92.2
Future tax liabilities	69.0	–	69.0
Deferred revenue	3.0	–	3.0
Minority interest	0.2	29.4	29.6
	1,726.2	78.7	1,804.9
Shareholders' equity			
Capital stock	901.4	–	901.4
Contributed surplus	0.4	–	0.4
Retained earnings	795.4	(15.1)	780.3
	1,697.2	(15.1)	1,682.1
	$ 3,423.4	$ 63.6	$ 3,487.0

The impact of implementation of AcG-15 on the consolidated balance sheet of the Company can be explained as follows:

- Accounts receivable and long-term notes receivable due from the franchisees were eliminated upon consolidation. Cash, inventories, fixed assets, accounts payable and debt financing of the fixed assets have been consolidated.
- A charge of $14.5 has been recorded to opening retained earnings to reflect:
  1) The reduction of inventory values of the franchisees that include charges from the Company for distribution costs and vendor allowances that are not recognized by the Company until final sale to customers.
  2) Goodwill that is carried on the accounts of stores determined to be VIEs has been assessed as being impaired with no fair market value, and, as such, has been eliminated.
- Minority interest represents the equity in the VIEs held by the common shareholder.

Income statement for the 53 weeks ended May 7, 2005

(in millions)	Consolidated income statement before AcG-15 impact	Impact of the implementation of AcG-15	Consolidated income statement after AcG-15 impact
Sales	$ 12,052.0	$ 137.4	$ 12,189.4
Operating expenses			
Cost of sales, selling and administrative expenses	11,554.6	135.8	11,690.4
Depreciation	172.7	1.8	174.5
Amortization of intangibles	1.9	–	1.9
Earnings before interest and income taxes	322.8	(0.2)	322.6
Interest expense			
Long-term debt	34.6	0.4	35.0
Short-term debt	2.8	0.1	2.9
	37.4	0.5	37.9
Earnings before income taxes	285.4	(0.7)	284.7
Income taxes	98.1	(0.1)	98.0
Net earnings	$ 187.3	$ (0.6)	$ 186.7
Earnings per share basic and diluted	$ 2.86	$ (0.01)	$ 2.85
Basic and diluted weighted average number of common shares outstanding, in millions	65.5		65.5

The impact of implementation of AcG-15 on the consolidated income statement of the Company can be explained as follows:

- Franchise retail sales are recorded and sales from the Company's warehouse and cost of goods sold to the franchisee have been eliminated. The impact on all other financial statement line items including net earnings is immaterial.

21. Indemnities

The Company has agreed to indemnify its directors and officers, and particular employees in accordance with the Company's policies. The Company maintains insurance policies that may provide coverage against certain claims.

22. Gain on sale of assets

During the fourth quarter of fiscal 2004, the Company sold several redundant real estate assets. These assets were not considered strategic for the long-term plans of the Company. The gain realized on the sales of these assets was $14.6.

23. Comparative figures

Comparative figures have been reclassified, where necessary, to reflect the current year's presentation and to record the effects of retroactive application of certain new accounting standards.

24. Subsequent event

On June 17, 2005 the Company received notice from Canada Revenue Agency (CRA) that a notice of reassessment was forthcoming related to the Lumsden Brothers Limited (a wholesale subsidiary of the Company) Goods and Services Tax (GST) matter outlined in Note 14 of these annual financial statements and Note 17 of the interim third quarter fiscal 2005 financial statements. Lumsden has reviewed this matter, has received legal advice, and believes it was not required to collect GST. Lumsden is challenging this reassessment. Accordingly, the Company has not recorded in its financial statements any of the tax, interest or penalties expected in the notice of reassessment.

Glossary of terms

Adjusted debt – funded debt plus capitalized value of operating lease payments, which is calculated as six times net annual operating lease payments

Adjusted debt to capital – adjusted debt divided by the sum of adjusted debt and shareholders' equity

Capital expenditure / investment – payments made for the acquisition of property and equipment

Company-wide capital expenditures – total investment in property and equipment, which includes investment financed by the Company, third party operating leases, landlords and franchise affiliates

EBITDA – earnings before interest, taxes, depreciation and amortization

EBITDA margin – EBITDA divided by sales

EBITDAR – earnings before interest, taxes, depreciation, amortization and rent

Expanded stores – stores that undergo construction resulting in square footage increase during the year

Funded debt – all interest bearing debt, which includes bank loans, bankers' acceptances and long-term debt

Hedge – a financial instrument used to manage foreign exchange or interest rate risk by making a transaction which offsets the existing position

Interest coverage – EBITDA divided by interest expense

Letters of credit – financial instruments issued by a financial institution to guarantee the Company's payments to a third party

Managed working capital – the net amount of accounts receivable and inventories less accounts payable and accrued liabilities

On balance sheet investment – the Company's investment in property and equipment that is recorded on the balance sheet

Operating earnings – net earnings before gain on sale of discontinued operations, and net capital loss & other items

Operating Income – earnings before interest and taxes (EBIT)

Operating margin – EBIT divided by sales

Private label – a brand of products that is marketed, distributed and owned by the Company

Renovated stores – stores that undergo construction, resulting in no increase in square footage

Return on equity – operating earnings divided by average shareholders' equity

Same store sales – sales from stores in the same locations in both reporting periods

Total capital – funded debt plus shareholders' equity

VIE (Variable Interest Entity) – an entity that does not have sufficient equity at risk to finance its activities without additional subordinated financial support, or where the equity holders lack the overall characteristics of a controlling financial interest

Weighted average number of shares – number of common shares outstanding adjusted to take into account the time the shares are outstanding in the reporting period

Working capital – total current assets less total current liabilities

Five-year financial review

Year ended May (in millions, except per share data)	2005†	2004*	2003*	2002	2001
Operations					
Sales	**$ 12,189.4**	$ 11,046.8	$ 10,414.5	$ 9,732.5	$ 9,163.0
Gain on sale of assets	**–**	14.6	–	–	–
Cost of sales, selling and administrative expenses	**11,690.4**	10,614.4	9,963.4	9,334.9	8,841.0
Depreciation	**174.5**	152.2	125.5	101.0	90.6
Intangible amortization	**1.9**	0.5	–	–	–
Operating income	**322.6**	294.3	325.6	296.6	231.4
Interest expense	**37.9**	43.2	42.5	57.0	77.5
Income taxes (operating activities)	**98.0**	84.6	105.0	96.5	63.8
Goodwill charges	**–**	–	–	15.4	15.1
Earnings from discontinued operations	**–**	–	–	14.0	16.2
Operating earnings	**186.7**	166.5	178.1	141.7	91.2
Net capital gain (loss) and other items	**–**	–	–	68.9	(49.2)
Net earnings	**186.7**	166.5	178.1	210.6	42.0
Cash flows from operating activities	**438.2**	364.6	348.4	494.7	110.3
Property and equipment purchases	**268.5**	316.1	342.3	424.2	194.6
Financial position					
Net working capital	**(188.6)**	(194.8)	(93.1)	(5.6)	(81.7)
Property and equipment	**1,461.9**	1,360.2	1,253.8	1,072.1	815.5
Total assets	**3,487.0**	3,278.9	3,195.7	2,875.2	2,917.6
Long-term debt	**457.8**	453.1	595.8	523.6	657.0
Shareholders' equity	**1,682.1**	1,561.3	1,423.6	1,283.3	1,089.8
Per share information					
Operating earnings	**2.85**	2.53	2.70	2.15	1.50
Net earnings	**2.85**	2.53	2.70	3.20	0.69
Cash flows from operating activities	**6.69**	5.53	5.29	7.48	1.81
Dividends	**0.50**	0.44	0.36	0.24	0.24
Weighted average number of common shares outstanding	**65.5**	65.9	65.9	65.9	60.8
Closing share price	**37.20**	28.65	36.75	44.25	23.00

† 53 weeks
* Restated

Quarterly information

($ in millions, except per share information)	Q4 (14 weeks)	Q3 (13 weeks)	Q2 (13 weeks)	Q1 (13 weeks)	Q4 (13 weeks)	Q3 (13 weeks)	Q2 (13 weeks)	Q1 (13 weeks)
	May 7, 2005	**Jan. 29, 2005**	**Oct. 30, 2004**	**July 31, 2004**	May 1, 2004	Jan. 31, 2004	Nov. 1, 2003	Aug. 2, 2003
Operations								
Sales	**$3,294.7**	**$2,917.0**	**$2,966.7**	**$3,011.0**	$ 2,803.1	$ 2,741.4	$ 2,741.9	$ 2,760.4
EBITDA	**133.1**	**119.1**	**123.9**	**122.9**	110.9	115.8	110.9	109.4
EBIT	**84.6**	**76.2**	**81.2**	**80.6**	66.3	76.6	75.5	75.9
Net earnings	**$ 48.1**	**$ 44.8**	**$ 47.2**	**$ 46.6**	$ 38.3	$ 43.7	$ 42.9	$ 41.6
Per share information, basic and diluted								
EBIT	**$ 1.30**	**$ 1.17**	**$ 1.24**	**$ 1.22**	$ 1.01	$ 1.16	$ 1.15	$ 1.15
Net earnings	**$ 0.74**	**$ 0.69**	**$ 0.72**	**$ 0.71**	$ 0.58	$ 0.66	$ 0.65	$ 0.63
Weighted average number of shares, basic and diluted	**65.3**	**65.3**	**65.7**	**65.9**	65.9	65.9	65.9	65.9
EBITDA as percent of sales	**4.04%**	**4.08%**	**4.18%**	**4.08%**	3.96%	4.22%	4.04%	3.96%
EBIT as percent of sales	**2.57%**	**2.61%**	**2.74%**	**2.68%**	2.37%	2.79%	2.75%	2.75%

All quarters previous to quarter 4 of fiscal 2005 have been restated to reflect the retroactive adjustment related to lease accounting. Please see the section entitled “Lease Accounting” in the fiscal 2005 annual MD&A.

Officers

Peter C. Godsoe
Chairman

Bill McEwan
President & Chief Executive Officer

Craig T. Gilpin
President Operations, Sobeys Ontario

J. Gary Kerr
President Operations, Sobeys West

Marc Poulin
President Operations, Sobeys Québec

Michael G. Scott
President Operations, Sobeys Atlantic

J. Bruce Terry
Executive Vice President & Chief Financial Officer

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R. Glenn Hynes
Executive Vice President & Chief Development Officer

Karin McCaskill
Senior Vice President, General Counsel & Secretary

Paul A. Jewer
Vice President, Finance & Treasurer

L. Jane McDow
Assistant Secretary

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www.sobeys.com

Shareholders' Annual General Meeting
September 7, 2005, at 10:00 a.m. (ADT)
Aberdeen Cinemas
610 East River Road
New Glasgow, Nova Scotia

Stock exchange listing
Toronto Exchange
Stock Symbol
Common Shares – SBY

Average daily trading volume (TSX)
48,936

Common dividend record and payment dates for fiscal 2006

Record Date	Payment Date
July 15, 2005	July 29, 2005
Oct. 14, 2005*	Oct. 28, 2005*
Jan. 16, 2006*	Jan. 31, 2006*
Apr. 13, 2006*	Apr. 28, 2006*

* subject to approval by Board of Directors

Outstanding shares
As of June 22, 2005
Common shares outstanding 65,280,415

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Investor Correspondence
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Toll free in North America: (800) 387 0825
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Bank of Tokyo Mitsubishi
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National Bank of Canada
Rabobank
TD Canada Trust

Solicitors
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Halifax, Nova Scotia

Auditors
Grant Thornton, LLP
New Glasgow, Nova Scotia

Investor inquiries
For more information on shareholders services or any other inquiries regarding investor records, including stock transfer, address change, lost certificates, tax forms, contact the Company's transfer agent and registrar.

Shareholders, analysts, and investors should direct their financial inquiries or requests to: Paul Jewer, CA, Vice President, Finance & Treasurer.

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