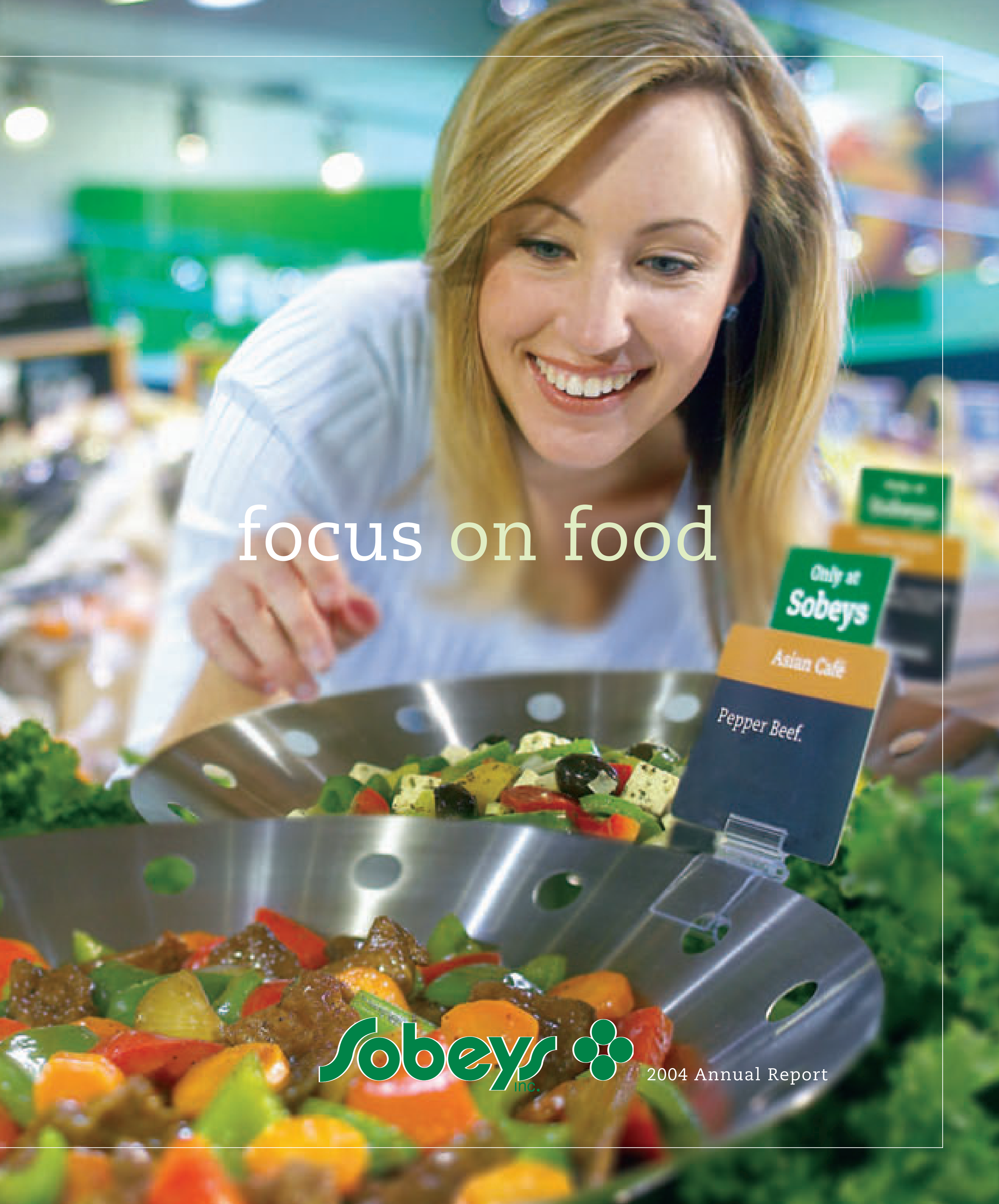


focus on food

Sobeys Inc.

2004 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, Quebec; 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.

6.1%
Sales increase

6.4%
Decrease in operating earnings

52.8%
Increase in share price over last five years

2004 Operating and Financial Highlights

(All amounts expressed in millions)

	May 1, 2004	May 3, 2003	May 4, 2002†
Operating Results			
Sales	**$ 11,046.8**	$ 10,414.5	$ 9,732.5
Operating Income	**295.1**	326.1	296.6
Operating Earnings*	**167.5**	179.0	161.6
Net Earnings	**167.5**	179.0	210.6
Weighted Average Number of Common Shares Outstanding	**65.9**	65.9	65.9
Financial Position			
Cash Flows from Operating Activities	**364.4**	348.1	494.7
Net Working Capital	**(187.7)**	(86.1)	(5.6)
Property and Equipment	**1,350.1**	1,243.9	1,072.1
Total Assets	**3,274.7**	3,192.5	2,875.2
Total Long-term Debt	**442.8**	585.4	523.6
Shareholders' Equity	**1,575.5**	1,436.8	1,283.3

* excludes goodwill amortization
† excludes the discontinued SERCA Foodservice operations

At Sobeys, we are building and growing in one of the most dynamic of all industries – the food business. It's a challenging business – we know it well and we are passionate about it. We are making solid progress – changing and growing as we meet competitive challenges and execute our strategy to differentiate Sobeys within the marketplace.

We are setting Sobeys apart – and we invite you to take a fresh look at our business.

We are focused…

REPORT TO SHAREHOLDERS

Bill McEwan, *President & Chief Executive Officer*

Message from the President & C.E.O.

In 2004, Sobeys Inc. served and satisfied the food needs of more Canadians than ever before – growing sales and market share in a highly competitive and crowded marketplace. While bottom line performance did not mirror top line gains, we made considerable progress on our commitment of *Building Sustainable Worth* for all those who touch our business – our customers, our employees and franchise affiliates, our suppliers and our shareholders.

We are focused

Our sales and earnings in fiscal 2004 reflect our commitment to, and execution of, a more proactive and aggressive retail pricing posture coast-to-coast. This – combined with the ongoing focus on our strategy and initiatives to build our national presence, enhance our store network, improve merchandising execution and build Sobeys' unique food-focused, service-supported differentiation – resulted in strong top-line growth. We endured additional, and unforeseen, one time cost impacts that, together with our aggressive pricing and store investments, reduced earnings from our original expectation. In the face of these pressures, however, we earned $2.54 per share and delivered a return on equity of 11.1 percent.

Our focus is building and sustaining a healthy, differentiated, competitive retail business and infrastructure for the long term. We are confident that we are indeed on track with our strategy for *Building Sustainable Worth* – and creating value for shareholders – by meeting the food shopping requirements of our customers.

Our strategy is clear and unchanged. We have the people, the leadership, the assets and resources to execute our plan. This is a business we know and understand; we are passionate about it and we excel at it. But it is a challenging business with considerable competition, low margins and relatively modest organic growth. We must, and we will, execute our strategy with determination and discipline. As we discuss in this report, we remain constantly aware of and firmly focused on:

- the dynamics, challenges and opportunities of the food marketplace;
- the unique positioning and focus on food that sets Sobeys apart and constitutes our competitive differentiation;

- our progress in achieving that differentiation; and
- our long term perspective, future growth prospects and strategic innovations and opportunities moving forward.

A focused look at food markets

Canada's retail grocery business represents approximately 60 percent of the total $109 billion food industry and Sobeys is a leading player in this large and constantly changing marketplace. With sales of $11.05 billion and a strong presence in each of four geographic regions, Sobeys serves households in approximately 900 communities coast-to-coast.

Over the past decade, we have seen considerable change in food retailing – reflecting new competitive pressures as well as the changing demographics, lifestyle choices and preferences of Canadians. With the aging of the baby boom generation and the rise of dual career families, Canadians have more disposable income but less free time, placing a greater value on service and convenience. This has helped fuel the growth of the restaurant sector and the convenience sector, while driving the increasing popularity and demand for ready to eat, ready to serve products. As well, the multicultural complexion of the country has evolved – as has consumer focus on food safety, health and wellness. All of these trends have been driving demand for greater diversity and choices in food.

At the same time, the entire retail landscape continues to blur, as major retailers across many channels look for a larger share of each customer's wallet and seek to leverage their real estate investments by providing a broader array of non-traditional offerings in their stores.

Canadians have more disposable income but less free time, thus placing a greater value on service and convenience.

We are building our presence in our geographic markets – responding effectively to changing demographic trends, customer needs and opportunities.

Our markets

As we look at our four core geographic markets across Canada, we see new dynamics, driven by competitive factors and by the evolving demographics, needs, lifestyle and preferences of Canadian consumers.

Our markets at-a-glance

1,311
Total stores

24.0 million
Total sq. footage

884
Communities served

Corporate Stores
Franchise Stores
Distribution Centres

Québec

Store sq. footage:	6,723,386
Store numbers:	
IGA extra	51
IGA	200
Marché Bonichoix	92
Les Marchés Tradition	29
Total	**372**

27 345 6

Western Canada

Store sq. footage:	4,387,608
Store numbers:	
Sobeys	43
Garden Market IGA	49
IGA	79
Food Town	42
Thrifty Foods	2
Price Chopper	1
Total	**216**

49 167 3

Ontario

Store sq. footage:	8,268,039
Store numbers:	
Sobeys	65
IGA	117
Price Chopper	81
Foodland	98
Commisso's	15
Total	**376**

62 314 5

Atlantic Canada

Store sq. footage:	4,625,590
Store numbers:	
Sobeys	82
Price Chopper	31
Needs	128
Sobeys *express*	2
Foodland	46
Lawtons	58
Total	**347**

295 52 10

Increasingly, many non-grocers are offering convenience food and grocery products, just as we offer value-added services such as pharmacy in many of our full service format stores. We have also continued to see significant growth in square footage from traditional competitors. In addition, new mass merchandisers have entered Canadian markets in recent years. All of this has resulted in broader consumer choice, increasingly intense competition and growing pressure on gross margins.

As markets shift, identifying and satisfying consumers' requirements, market-by-market, by focusing on what we can do best, is absolutely vital. At Sobeys, our focus on food, driven by our fresh expertise, in the right-sized stores, supported by superior customer service, is our path to sustainable growth.

Our focus on food

At Sobeys, we stand apart in the Canadian retail sector by being focused, first and foremost, on our core business – food. Our infrastructure, logistics, purchasing, store operations, merchandising, marketing and staff training all align with this focus.

Food is not an add-on or loss leader for us as it is for some other businesses – it is our base, our passion, our business – and the principle reason customers choose our stores. We strive to bring together a complete mix of food products and supporting products and services that respect our customers' need for quality, convenience, consistent value and choice.

Identifying and satisfying consumers' requirements, market-by-market, by focusing on what we can do best, is absolutely vital.

We have designed our stores accordingly – with fresh-food departments leading the way. Customers at many of our newer format stores are greeted by unparalleled freshness – fresh bakery, fresh produce, fresh meat, fresh fish, freshly prepared foods, fresh dairy products, fresh flowers – all delivered with an uncompromising focus on quality and service.

Key to our fresh approach is staffing our stores with knowledgeable, helpful specialists serving customers in our different fresh-food departments. In Sobeys' banner stores, we have established the lead in-store role of Customer Experience Manager to interact with customers and provide helpful service and solutions; in IGA extra and IGA in Québec, our popular Aide-Gourmet program, 1,200 employees well trained in food preparation, provide customers with value-added food knowledge and expertise. We know superior service is a key differentiator in retail, and we hire and develop staff whose enthusiasm for food is demonstrated everyday with our customers.

We are focused on satisfying more of our customers' food shopping requirements to earn their continued trust and patronage, which will ultimately result in higher sales and profit per square foot in our stores.

We are not taking a one-size-fits-all approach, with a single format for every market. Rather, we are focused on meeting the diverse needs of our customers' food shopping requirements region by region, community by community and store by store. We have developed our format strategy accordingly. Our portfolio of store formats recognizes the need for different offerings in different markets, based on the varying needs of our customers, as well as local market dynamics – be it our full service or fresh service, community grocery, discount food or convenience format.

By tailoring these store formats on an individual market basis, we are forging Sobeys' unique positioning. No one will surpass us when it comes to food and the total food shopping experience.

We are focused on meeting the diverse needs of our customers' food shopping requirements region by region, community by community and store by store.

Our positioning

The Sobeys difference is clear: we stand apart in Canadian retail by being focused, first and foremost on our core business – food.

At Sobeys, we are focused on food, driven by our fresh expertise, supported by incomparable customer care – in the right sized, right format stores for each unique market we serve. We stand apart.

Our formats at-a-glance

(Based on number of stores)

32%
Community Service Format

- 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

10%
Price Service Format

- Profile: Food stores that are ready to serve customers with low prices everyday, in markets where price is the driving factor for store selection.
- Branding: Price Chopper, Commisso's
- Locations: Atlantic Canada, Ontario, Western Canada

15%
Fresh Service Format

- Profile: Food stores that are ready to serve the "fresh fill-in" and "today's meal" needs of customers with incomparable customer care and customized offerings.
- Branding: Sobeys, IGA (Québec)
- Locations: Ontario, Québec

18%
Full Service Format

- Profile: Food stores that are ready to serve the total food shopping requirements of our customers with incomparable service and customized offerings.
- Branding: Sobeys, IGA extra
- Locations: Atlantic Canada, Québec, Ontario, Western Canada

25%
Others

- Profile: Stores that are ready to serve the convenience needs of our customers.
- Branding: Needs, Sobeys express, Lawtons, Marché Bonichoix, Les Marchés Tradition
- Locations: Atlantic Canada, Québec

Clear focus, steady progress

In 1998, after more than 90 years of leadership in the regional grocery market in Atlantic Canada, Sobeys obtained a national platform for operations and growth with the acquisition of The Oshawa Group Limited. Following that transaction, management's immediate priority was absorbing and integrating the acquisition. Our focus then turned to developing the strategies to set Sobeys apart by building a sustainable plan and infrastructure on the newly established national platform.

Since that time, we have identified opportunities market by market. We have focused on merchandising, identifying and supporting the specific occasion-based food shopping needs of our customers, and have tailored our offerings to meet those needs.

As a result, our store layouts, fixturing, service adjacencies and overall look, feel and flow, have been reviewed, retooled and rolled out.

We have continued to expand, upgrade and enhance our store network to deliver on our fresh food, service-supported focus, with $553 million in Company-wide capital expenditures in fiscal 2004.

We have aggressively consolidated the number of store banners in order to build both critical mass and broad awareness. Where appropriate, we have also closed stores that no longer supported our growth strategies.

We have been expanding, upgrading and enhancing our store network to deliver on our fresh food, service-supported focus.

We maintained the pace in fiscal 2004 with several major initiatives:

- We opened or replaced 61 stores and renovated or expanded another 28 stores.
- We acquired Commisso's – a well respected regional grocery chain operating principally in the Niagara region of Ontario, with 15 grocery stores, six cash and carry outlets, and a wholesale distribution business – boosting our presence and market share in Ontario.
- We successfully launched the Sobeys banner in Western Canada through the rapid introduction of 43 stores. This ambitious project was more than simply a name change; we vastly improved merchandising, pricing and promotional programs as part of the store conversion process. Further conversions continue through fiscal 2005.
- We continued to invest in our distribution network across the country to support optimal store service at lower costs. This work included a $17 million expansion of our Debert, Nova Scotia Distribution Centre. This facility is the central shipping point for meat, produce, bakery, dairy, deli and frozen grocery in Atlantic Canada, and we now deliver to our stores faster and fresher than ever before.

The majority of our capital spending has been on the improvement, expansion and enhancement of our retail store network. As we continue to build, we are committed to improving shareholder returns as we grow.

We continued to invest in our distribution network across the country to support optimal store service at lower costs.

Enhancing support to our store network enables us to deliver on our customer promise in the stores.

Our progress

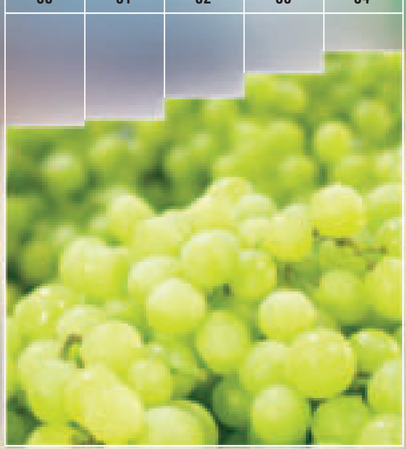
At Sobeys, we continue to advance our customer-centered, food-focused strategy. Our continuous customer research confirms that we are connecting with and satisfying more customers, in more ways, consistent with the long-term goals we have set.

Our performance at-a-glance

Sales

($ in millions)

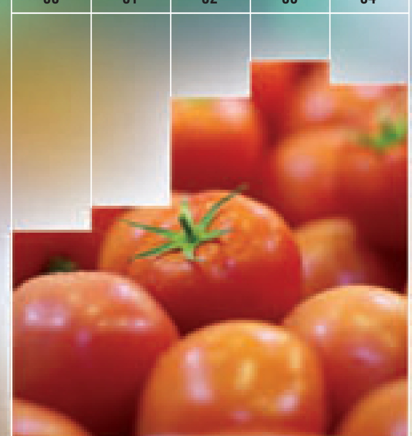
8,942	9,163	9,732	10,415	11,047
00	01	02	03	04



Operating Earnings

($ in millions)

99.8	111.2	161.6	179.0	167.5
00	01	02	03	04



Share Price (TSX: SBY)

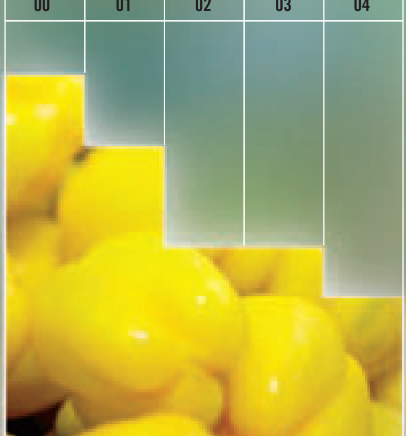
Fiscal Year-end Closing ($ in dollars)

21.00	23.00	44.25	36.75	28.65
00	01	02	03	04

Funded Debt to Total Capital

(percent)

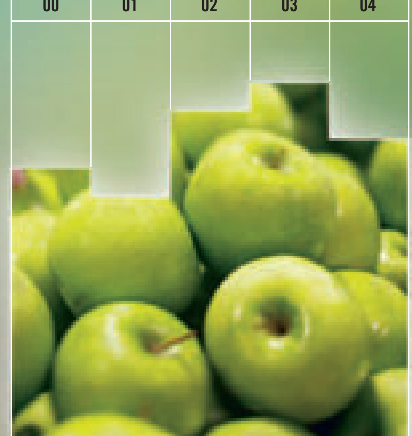
53.1	43.3	29.0	28.9	21.9
00	01	02	03	04



Return on Equity

(percent)

10.0	9.3	12.3	13.2	11.1
00	01	02	03	04



Company-Wide Capital Expenditures

($ in millions)

386	505	679	546	553
00	01	02	03	04

We are focused on tomorrow

Irrespective of competition in our markets, we see many opportunities to build market share further. To this end, we are continuing to realign, renovate and expand our store base, while consolidating and focusing our efforts behind the development of our formats and major banners – Sobeys, IGA extra, IGA and Foodland, Price Chopper and Sobeys *express*.

We also have considerable opportunity to improve sales per square foot in our stores, which lag the industry average. Improved merchandising and marketing plans include stronger price and price communication, a re-tooled and re-energized private label program, continued fresh-food selection and quality enhancements and expanded assortments in key grocery, health, beauty and wellness categories.

We are focused. We have the strategy, the leadership, the national presence, the asset base, financial strength, the infrastructure and the people required to succeed. While our attention to top-line growth has proven effective and will continue, growing the bottom line will require margin improvement through continuous and disciplined productivity and cost management initiatives.

We have established benchmarks and we expect to see progress on all metrics – not all at the same time, not all consistently from month-to-month, but, rather, sustainably over the long term.

Company wide, we recognize the importance of improving productivity in the near term, while streamlining business processes and systems over the longer term, in order to fuel our competitive pricing position, improve margins and drive bottom line growth. We have set out a comprehensive set of initiatives to further improve productivity in distribution and logistics, store operations, merchandising and administration. These efforts are well resourced and well led.

The execution of our differentiation strategy at store level is proving highly effective. But it is our people who are executing our plan – and only through the further support and development of our people will we succeed. We are aligning training, incentives and rewards with customer satisfaction measures.

We have established benchmarks and we expect to see progress on all key metrics – not all at the same time or always from month-to-month, but sustainably over the long term.

Our continued success will require the ongoing commitment and support of our dedicated employees and franchise affiliates, our valued suppliers and our shareholders. We are grateful for that support and we are confident that all stakeholders will benefit as we build sustainable worth as a food-focused industry leader.

Our customers are responding well as we continue to strengthen our offerings. We are confident that by growing customer satisfaction, driven by our focus on food, shareholders will see greater value created.

Bill McEwan
President & Chief Executive Officer

Our future

We aim to be the primary food shopping destination for future generations – when Canadians think about food, our stores will come to mind.

John L. Bragg [3] [5] [7]
Collingwood, Nova Scotia
Director since 1998.
Chairman, President and
Chief Executive Officer,
Oxford Frozen Foods Ltd.

Marcel Côté [1] [4]
Montreal, Québec
Director since 1998.
Senior Partner, Secor Inc.

Christine Cross [1] [9]
Thundridge, Hertfordshire,
United Kingdom
Director since 2003.
President,
Christine Cross Ltd.

(pictured above) Sobeys' Board of Directors

< **Sir Graham Day** [1]
Hantsport, Nova Scotia
Director since 1998. Counsel to Stewart McKelvey
Stirling Scales and Chairman, Sobeys Inc.

Message from the Chairman

In the six years since I joined Sobeys' Board of Directors, your company has changed and grown from a leading regional grocer to a major national enterprise. But Sobeys has never lost touch with its east coast, hometown roots. The sense of community, social responsibility and good corporate citizenship remain strong, and Sobeys' growth and evolution has been true to our core purpose of building sustainable worth for all stakeholders.

Focus on governance

Robert P. Dexter (6)(8)
Halifax, Nova Scotia
Director since 1998.
Chairman and Chief Executive Officer,
Maritime Travel Inc.

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

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

Malen Ng (2)(9)
Toronto, Ontario
Director since 2001.
Chief Financial Officer,
Workplace Safety and Insurance Board of Ontario

Mel Rhinelander (1)
Toronto, Ontario
Director since 2004.
President and Chief Executive Officer,
Extendicare Inc.

Sobeys continues to plan and build for the future while steadily improving execution each day.

Sobeys' focus on quality food and groceries offered at competitive prices, in clean, bright, well stocked and equipped stores, staffed with friendly, well trained employees is being recognized increasingly in each of our markets. More people are shopping at Sobeys each day. Sobeys' mission is, indeed, to serve more of the food shopping needs of our customers, more often.

While all markets across Canada have been, and continue to be, very competitive, your company delivered overall sales growth in excess of six percent for the 2004 fiscal year. We continue to invest in new and re-developed stores, in distribution and logistics, and in systems. Also in 2004, we acquired Commisso's in Southern Ontario. While competitive markets and depreciation costs, which reflect our significant investment programs, combined to put pressure on profits, our overall financial position remains strong and continues to improve.

As Sobeys grows and evolves, we remain focused on our vision of being the most worthwhile experience for everyone who touches our business, and on our purpose of building sustainable worth for all stakeholders. Sobeys' roots are in small-town Nova Scotia where success in business is closely aligned with good community citizenship and respect for the shared environment. Now, on a national basis, together with our franchise affiliates, these attributes continue as essential business goals of your company.

David F. Sobey (3)
New Glasgow, Nova Scotia
Director since 1998.
Chairman Emeritus (11)
Sobeys Inc.

Donald R. Sobey (3)
New Glasgow, Nova Scotia
Director since 1998.
Chairman, Empire Company Limited

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

John R. Sobey (5) (7)
Stellarton, Nova Scotia
Director since 1998.
Corporate Director

Paul D. Sobey (3) (5)
New Glasgow, Nova Scotia
Director since 1998.
President and Chief Executive Officer,
Empire Company Limited

(pictured above) Sobeys' Board of Directors

Strong corporate governance is key to good corporate citizenship and has been a major focus for our Board. Corporate governance has many facets, some mandatory, some discretionary. Among the latter, the evolution of the Board of Directors continues to be of importance to our shareholders. Your Board was strengthened in March with the appointment of Peter Godsoe and, more recently, in June, with the addition of Mel Rhinelander. Mr. Godsoe, a Member of the Order of Canada, retired as Chairman and Chief Executive of the Bank of Nova Scotia in March. Mr. Rhinelander, a Chief Executive with a solid record of success in Canada and the United States, also brings important human resources experience to your Board.

My sincere thanks are due my Board colleagues, the management and staff of Sobeys and our franchise affiliates and their employees. Together they combine to serve our customers, our shareholders and our communities very well.

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

Sir Graham Day
Chairman of the Board

Focus on Corporate Governance

At Sobeys, we are committed to strong corporate governance in the interest of all stakeholders. We believe the cornerstones of good governance include an experienced and independent board of directors, a strict code of business conduct – holding all directors, officers and employees to account – and a comprehensive disclosure policy, ensuring transparency.

There remains considerable focus on governance in Canada and regulatory guidelines continue to evolve rapidly. At Sobeys, we are committed to ensuring we are at the forefront of these developments.

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*. As well, our Code of Business Conduct is available on the website; as is our Disclosure Policy, developed by the Corporate Governance Committee of our Board of Directors.

Ongoing refinements to governance policies and practices

While closely monitoring change and best practices in Canada's rapidly evolving regulatory environment, we strive to achieve compliance in critical areas, such as:

- Sobeys' Board of Directors continues to have a majority of its directors who are independent, as defined by current guidelines and regulations. In addition, Sobeys' Audit Committee is fully comprised of independent directors.
- We are proceeding with the review, and enhancement where necessary, of all internal control policies and procedures required to allow the Company's Chief Executive Officer and Chief Financial Officer to personally certify our interim and annual filings and all other matters, as required by regulations, effective for Sobeys during fiscal 2005.
- In line with our audit committee's responsibility, we have established an Ethics Line - a confidential service to allow employees and other key stakeholders to report any concerns they may have about business practices and ethical behaviour within our company.
- We have strengthened awareness of our Code of Business Conduct and encouraged accountability throughout our workforce by establishing a policy that requires each employee to sign off on the Code on an annual basis as part of their annual performance review.

Board Committees

Governance by our Board of Directors is supported by five key committees. In accordance with regulatory guidelines, membership of all the committees is comprised of outside directors, the majority of whom are also unrelated. In addition, the Audit Committee meets the independence and financial literacy tests set out in policies recently adopted by most 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 external auditor appointment, 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 our 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.

In 2004, Sobeys supported hundreds of charities across the country, including the Kids Help Phone, Canada's only national, bilingual, 24-hour counselling, referral and internet service for children and youth.

Focus on our Communities and Social Responsibility

For close to a century, Sobeys has been a leading corporate citizen in the communities we serve. Today, we are a vital participant in the social and economic well being in close to 900 local communities in all parts of Canada.

We take our responsibility to our communities and to all stakeholders very seriously. It is the basis of our Vision, our Purpose and our Values, and it is reflected in the way we do business. At Sobeys, we are constantly enhancing comprehensive programs in the way we source, handle and store food to ensure food health and safety; programs to promote a healthy and safe environment and workplaces, and progressive employment policies focused on the well being of the over 75,000 Canadians who work in our stores, distribution centres and offices. These policies and programs are reviewed regularly by our Board of Directors.

We believe in giving back to the communities where we do business – as do our franchise affiliates and thousands of employees who generously donate financially as well as volunteering their time to support community causes.

Our corporate philanthropy is focused on major programs that promote the well being and health of families and children, as well as supporting store based initiatives in local communities.

In fiscal 2004, we supported hundreds of charities across Canada, ranging from Kids Help Phone and Children's Wish Foundation to United Way/Centraide and Easter Seals as well as hospitals, sports and recreational programs and community food banks. In addition, the Sobeys scholarship program supports eligible employees, their children and spouses with continuing university education.

OVERVIEW OF OUR BUSINESS

Sobeys Inc. ("Sobeys" or the "Company"), 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 over $11 billion in retail sales annually.

Sobeys continues to attract new customers and sales with a focus on food, driven by its fresh expertise in the right-sized stores, supported by superior customer service. Sobeys' vision is to build sustainable worth by being the most worthwhile experience for its customers, employees, franchisees, suppliers, and shareholders.

It all stacks up

Management's Discussion and Analysis

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 Franchisees, 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

This section provides a discussion and analysis of operations for the year ended May 1, 2004, as compared to the year ended May 3, 2003. This discussion should be read in conjunction with the Company's consolidated financial statements for the same periods, including the notes that accompany them. The information in this MD&A is current to June 7, 2004, unless otherwise noted.

In December 2003, the Canadian securities regulators released National Instrument 51-102 ("NI51-102"), "Continuous Disclosure Obligations." New disclosures have been introduced in this MD&A in compliance with NI51-102.

This discussion also contains forward-looking statements concerning capital expenditures, cost reductions, and operating and financial improvements. Such statements are based on Sobeys' management's assumptions and beliefs in light of the information currently available to them. These statements are subject to inherent uncertainties and risks, including, but not limited to: general business and economic conditions in the Company's operating regions; pricing pressures and other competitive factors; results of the Company's ongoing efforts to reduce costs; and the availability and terms of financing. Consequently, actual results and events may vary significantly from those included in, contemplated or implied by such statements. Sobeys assumes no obligation to update the information herein.

Management's analysis of operations

Sobeys Inc. and its subsidiaries ("Sobeys" or the "Company") conducted business in four retail regions in fiscal 2004: Sobeys West, Sobeys Ontario, Sobeys Quebec, and Sobeys Atlantic.

To be successful, Sobeys believes it must deliver the best food shopping experience to its customers in right-sized stores. The five specific store formats deployed by the Company to satisfy its customers' principal shopping requirements are the full service, fresh service, convenience, community and price 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 are the primary focus of this format development effort.

During the year, the Company opened, replaced, expanded, renovated, acquired and/or converted the banners in approximately 200 stores. Of note, in Western Canada the Sobeys banner was launched with the opening of seven new stores and the conversion of 36 Garden Market IGA stores. Offering improvements were introduced, assortment was expanded in many stores by 1,400 to 1,600 SKUs, and the relative competitive price position was significantly improved and communicated through the "We Serve. You Save" pricing and promotional program. The Company made significant changes to store staffing, training, store layout and signage, instore and external communications and marketing as part of this launch.

The introduction of our "We Serve. You Save" program across most of the Company was one of a number of examples of the Company's determination to be more price competitive than ever before, in increasingly competitive markets. The Company's lower net earnings for Fiscal 2004 reflect the required investment made in lower retail prices and gross margins across the country, which particularly impacted Ontario. The year-over-year decline in net earnings also reflects the short-term impact of the Company's accelerated execution of its plan for store improvements, banner conversions and improved product offerings.

The Company's sales growth in fiscal 2004 was fuelled by this aggressive pricing posture and the continued implementation of sales, merchandising and capital spending initiatives.

During the year, the Company launched the "Hometown Advantage" program in its community format IGA stores in Ontario and Western Canada, with improved pricing and a broader offering in fresh departments. The Company also introduced its new "prototype" Sobeys *express* convenience stores with the opening of locations in Truro, Nova Scotia and Moncton, New Brunswick.

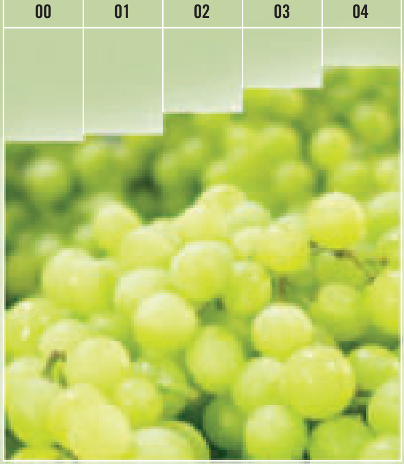
At the beginning of the fourth quarter, the Company completed the purchase of substantially all of the assets of Commisso's Food Markets Limited and Commisso's Grocery Distributors Limited.

The Company added 15 retail grocery stores, six cash and carry locations and a wholesale business to the Sobeys Ontario operations through this acquisition. The impact of Commisso's sales and other financial results are included in the Company's fourth quarter results.

Financial Performance and Financial Condition At-A-Glance

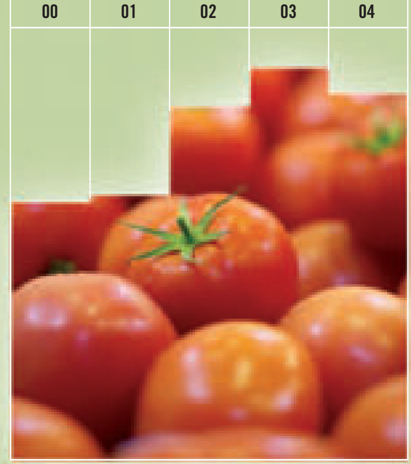
Sales
($ in millions)

00	01	02	03	04
8,942	9,163	9,732	10,415	11,047



Operating Earnings per Share
($ in dollars)

00	01	02	03	04
1.78	1.83	2.45	2.72	2.54

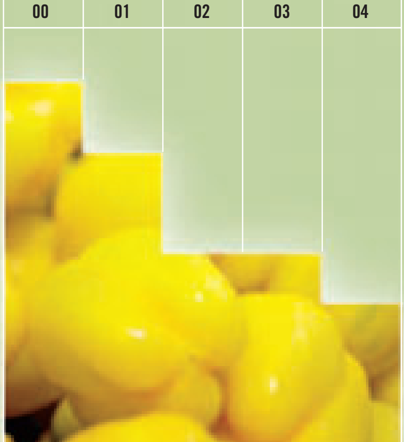


Funded Debt to EBITDA
(times)

00	01	02	03	04
2.8	2.6	1.3	1.3	1.0

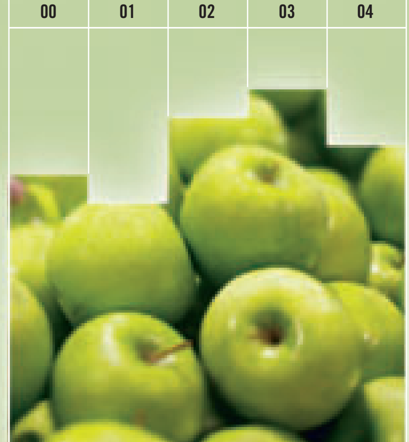
Funded Debt to Total Capital
(percent)

00	01	02	03	04
53.1	43.3	29.0	28.9	21.9



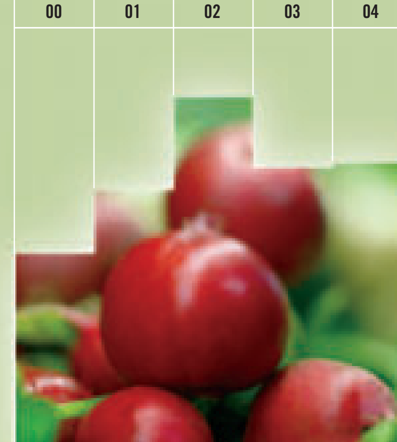
Return on Equity
(percent)

00	01	02	03	04
10.0	9.3	12.3	13.2	11.1



Company-Wide Capital Expenditures
($ in millions)

00	01	02	03	04
386	505	679	546	553



In the future, the Company will increasingly look to fund its investment in its more competitive pricing position, improved merchandising execution and retail store network with productivity improvements in the near term, and business process improvements and best practice initiatives across the Company, over the longer term. The comprehensive set of initiatives the Company has identified to improve productivity in distribution and logistics, store operations, merchandising and administration are critical, well organized and well led components of the Company's performance improvement plans.

Sobeys is committed to achieving results driven through consistent performance management. To assess its financial performance and condition, Sobeys' management monitors a set of primary 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

Summary table of consolidated financial results

(in millions, except per share data)

	2004	**% sales**	2003	% sales	2002	% sales
Sales	**$ 11,046.8**	**100.00%**	$ 10,414.5	100.00%	$ 9,732.5	100.00%
Gain on sale of assets	**14.6**	**0.13%**	–	–	–	–
Operating income	**295.1**	**2.67%**	326.1	3.13%	296.6	3.05%
Interest expense	**42.4**	**0.38%**	41.7	0.40%	57.0	0.59%
Income taxes	**85.2**	**0.77%**	105.4	1.01%	96.5	0.99%
Goodwill charges	**–**	**–**	–	–	15.4	0.16%
Net capital loss & other items, after tax	**–**	**–**	–	–	(11.8)	(0.12%)
Earnings before discontinued operations	**167.5**	**1.52%**	179.0	1.72%	115.9	1.19%
Earnings from discontinued operations	**–**	**–**	–	–	14.0	0.14%
Gain on sale of discontinued operations	**–**	**–**	–	–	80.7	0.83%
Net earnings	**167.5**	**1.52%**	179.0	1.72%	210.6	2.16%
Cash flows from operating activites	**$ 364.4**	**3.30%**	$ 348.1	3.34%	$ 494.7	5.08%
Per share, basic and diluted						
Earnings before discontinued operations	**$ 2.54**		$ 2.72		$ 1.76	
Net earnings	**$ 2.54**		$ 2.72		$ 3.20	
Weighted average number of shares outstanding, basic and diluted	**65.9**		65.9		65.9	
Dividends	**$ 0.44**		$ 0.36		$ 0.24	

Results of fiscal 2004 operations

Sales

In fiscal 2004, Sobeys achieved sales of $11.05 billion, an increase of $632 million or 6.1 percent over fiscal 2003. Sobeys recorded increased sales in all operating regions.

Sobeys' same-store sales increased 1.4 percent, despite little or no food price inflation throughout the fiscal year. Sales growth was the result of the Company's increased retail selling square footage, the fourth quarter impact of the Commisso's acquisition, the Company's aggressive pricing posture, the continued implementation of sales and merchandising initiatives across the country and the Company's ongoing program to upgrade and renovate existing store assets. Sobeys continues to focus on the significant opportunity to increase sales per square foot across its 24.0 million square foot retail network. Increased merchandising intensity, improved marketing, and enhanced in-store promotional programs have targeted a larger share of current customers' requirements in order to increase transaction size with its existing customer base.

Store square footage increased by 6.6 percent in fiscal 2004 as a result of the opening of 61 new stores, the expansion of 18 stores, and the acquisition of 15 Commisso's stores.

The Company expects continued sales growth in fiscal 2005 as a result of on-going capital investment in its retail store network, the full-year benefit of the Commisso's acquisition and continued offering, merchandising and pricing improvements across the Company.

Operating income

Operating income or EBIT (earnings before interest and taxes) decreased to $295.1 million in fiscal 2004, a 9.5 percent decrease from the prior year. In addition to the decline in EBITDA disclosed below, depreciation expense increased by $26.4 million year-over-year, reflecting the Company's continued capital investments.

Fiscal 2004 EBITDA (earnings before interest, taxes, depreciation and amortization) totaled $446.0 million, a decrease of $4.1 million, or 0.9 percent from the $450.1 million recorded last year. As a percentage of sales, EBITDA margin declined 28 basis points to 4.04 percent from 4.32 percent last year.

The decrease in margin percentage was primarily due to the impact of lower retail prices in increasingly competitive markets. The Company invested as necessary to maintain and improve its competitive position while continuing to grow its total retail sales. The margin decline also reflects the short-term impact of the Company's acceleration of planned investments in its stores and offerings during the year.

The combination of lower retail selling prices arising from the Company's investments to remain competitive, and relatively stable cost of goods sold, resulted in lower gross profit percentages compared with the prior year.

Competitive square footage and pricing activity increased significantly throughout fiscal 2004 in all geographic regions of the country. Market-wide, competitive activity was more acute in the Ontario region. Existing system and process complexities in the Ontario business, including franchise and corporate store business management and process inefficiencies, compounded to significantly reduce earnings in the region. As a result, the Ontario region was the primary contributor to the Company's overall earnings decline. The Company has been actively addressing the business model and process complexity issues. In March, the Company announced the appointment of Craig Gilpin, an experienced Ontario retail executive, to the position of President Operations, Sobeys Ontario, to lead the ongoing simplification of the Ontario business. The Company's productivity initiatives and business process optimization efforts will also enable performance improvement and simplification in the near and medium term.

Sobeys offers general merchandise that supports its food-focused strategy and offering.

Value-added services that complement the food shopping experience are provided to customers in many full service format stores across the country.

In addition to the increased competition, a number of factors including a reserve for the uninsured portion of the cost of the August 2003 power failure in Ontario ($4.9 million pre-tax), the adverse outcome in a long-standing real estate lawsuit, currently under appeal ($4.0 million pre-tax), an increase in the estimate of store closing costs ($5.3 million pre-tax), and pension and benefit costs for employees on long-term disability ($4.8 million pre-tax) contributed to the decline in operating income.

The Company undertook a number of specific initiatives during the year intended to offset the impact of lower retail margins going forward. The Company continued to reduce distribution and logistics costs through improved productivity. Voice Pick technology was implemented in the Company's distribution centres to improve both order picking accuracy and productivity. This technology enhances the order selection process, substantially reducing the frequency of selection errors. The Company also closed redundant distribution facilities in Grande Prairie and Peace River, Alberta, recording closure costs of $1.2 million pre-tax in its second quarter.

Also, on January 31, 2004, the unionized employees at the Company's Milton, Ontario distribution centre ratified a new three-year collective agreement. The contract is consistent with the Company's commitment to building and sustaining a fair, equitable and competitive infrastructure and cost base for the long term.

In the future, continued focus on increasing sales per square foot, banner rationalization, disciplined cost management and reduction, distribution and retail productivity improvements and migration of best practices across its four regions, are expected to positively impact operating income.

Gain on sale of assets

During the fourth quarter, the Company sold several redundant real estate assets. These assets were not considered strategic and did not fit within the long-term plans of the Company. The divestiture of these assets generated $31 million in cash that will be utilized in the Company's core business. The pre-tax gain realized on the sales of these assets was $14.6 million.

Interest expense

Interest expense in fiscal 2004 was $42.4 million compared to $41.7 million last year, a 1.7 percent increase. Interest on long-term debt decreased $2.5 million reflecting lower long-term debt levels following the repayment of the $100 million Series B Medium Term Note (MTN) that matured in October, 2003. Interest on short-term debt increased by $3.2 million from the prior fiscal year, as the Company utilized its operating line in the second half of the year to fund operating activities and the acquisition of Commisso's.

The majority of the Company's debt is at fixed rates and at year end the Company was not utilizing its operating line except for letters of credit. Accordingly, there is limited exposure to interest rate fluctuations.

Income taxes

The actual fiscal 2004 effective tax rate was 33.7 percent compared to 37.1 percent in fiscal 2003. The decrease of 3.4 percent was consistent with management's expectations, and was primarily a result of reduced statutory tax rates, the lower effective tax rate on the capital gain recorded in the year, and tax planning initiatives. Sobeys expects its effective tax rate will continue to remain stable absent any future statutory rate changes.

Net earnings

Fiscal 2004 net earnings were $167.5 million compared with $179.0 million last year, a 6.4 percent decrease. Net earnings per share of was $2.54 for fiscal 2004 compared to $2.72 in fiscal 2003.

Net earnings are reflective of our increased competitiveness in the food retail business, the other costs incurred, and investments made in the year as described above.

Results of fourth quarter fiscal 2004 operations

Sales

Sales increased 9.1 percent over the fourth quarter of 2003 as a result of the Company's aggresive pricing posture, the continued implementation of sales and merchandising initiatives across the Company, increased retail selling square footage of 1.2 million additional square feet (inclusive of Commisso's) and the Company's ongoing financial commitment to upgrade and renovate existing store assets. Same store sales grew 1.0 percent during the quarter with little-to-no inflation.

Operating income

Operating income or EBIT in the fourth quarter of fiscal 2004 totaled $65.7 million, a decline of $9.4 million from the fourth quarter of fiscal 2003 EBIT of $75.1 million. During the fourth quarter, the Company sold redundant real estate for a pre-tax gain of $14.6 million. Expenses were impacted by 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. Included in fourth quarter operating income or EBIT for fiscal 2003 was the $11.3 million pre-tax impact of the Whitby, Ontario distribution centre strike.

Fourth quarter EBITDA totaled $109.2 million, an increase of $1.4 million or 1.3 percent over the fourth quarter of 2003. As a percentage of sales, EBITDA equaled 3.90 percent, a decrease of 30 basis points from the 4.20 percent recorded in the fourth quarter last year. EBITDA declines were more significant in the Ontario region, as discussed earlier.

Net earnings

Net earnings for the fourth quarter equaled $38.4 million (fiscal 2003 – $40.7 million) or 58 cents per share, a decrease of $2.3 million or 5.7 percent from the fourth quarter last year. The following table summarizes the financial performance highlights for the fourth quarter.

Summary table of consolidated financial results for the fourth quarter

(in millions, except per share data)

	2004	% sales	2003	% sales
Sales	$ 2,803.1	100.00%	$ 2,568.5	100.00%
Gain on sale of assets	14.6	0.52%	–	–
Operating income	65.7	2.34%	75.1	2.92%
Interest expense	10.0	0.36%	11.2	0.44%
Income taxes	17.3	0.62%	23.2	0.90%
Net earnings	38.4	1.37%	40.7	1.58%
Cash flows from operating activites	$ 221.6	7.91%	$ 234.1	9.11%
Per share, basic and diluted				
Net earnings	$ 0.58		$ 0.62	
Weighted average number of shares outstanding, basic and diluted	65.9		65.9	
Dividends	$ 0.11		$ 0.09	

Financial information by quarter

(in millions, except per share information)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	May 1 2004	Jan. 31 2004	Nov. 1 2003	Aug. 2 2003	May 3 2003	Feb. 1 2003	Nov. 2 2002	Aug. 3 2002
Operations								
Sales	$2,803.1	$2,741.4	$2,741.9	$2,760.4	$ 2,568.5	$ 2,594.9	$ 2,613.4	$ 2,637.7
Operating income	65.7	77.1	76.0	76.3	75.1	82.6	84.1	84.3
Net earnings	$ 38.4	$ 44.0	$ 43.2	$ 41.9	$ 40.7	$ 45.8	$ 46.6	$ 45.9
Per share, basic and diluted								
Operating income	$ 1.00	$ 1.17	$ 1.15	$ 1.16	$ 1.14	$ 1.26	$ 1.28	$ 1.28
Net earnings	$ 0.58	$ 0.67	$ 0.66	$ 0.64	$ 0.62	$ 0.70	$ 0.71	$ 0.70
Weighted average number of shares, basic and diluted	65.9	65.9	65.9	65.9	65.9	65.8	65.8	65.8
Operating income as a percent of sales	2.34%	2.81%	2.77%	2.76%	2.92%	3.18%	3.22%	3.20%
EBITDA as a percent of sales	3.90%	4.22%	4.05%	3.97%	4.20%	4.41%	4.36%	4.32%

Financial condition

The Company strengthened its financial condition in fiscal 2004. Shareholders' equity increased $138.7 million, or 9.7 percent to $1,575.5 million compared to $1,436.8 million in 2003. The increase is attributed primarily to net earnings in 2004 of $167.5 million less dividends declared of $29.0 million. Funded debt (short and long-term debt) decreased by $142.6 million, or 24 percent to $442.8 million, compared to $585.4 million last year. The decrease in funded debt resulted from the repayment of the $100 million Series B MTN due on October 2, 2003, and other regularly scheduled long-term debt repayments.

The Company's primary measures of financial condition remained strong in fiscal 2004. The ratio of funded debt to total capital improved to 21.9 percent compared to 28.9 percent in 2003; funded debt to EBITDA improved to 1.0 times compared to 1.3 times in 2003; interest coverage decreased to 10.5 times from last year's 10.8 times; and the managed working capital position improved by $81.2 million.

The table below summarizes the composition of Sobeys' capital structure and key financial condition measures over the last three years.

Capital Structure and Key Financial Condition Measures

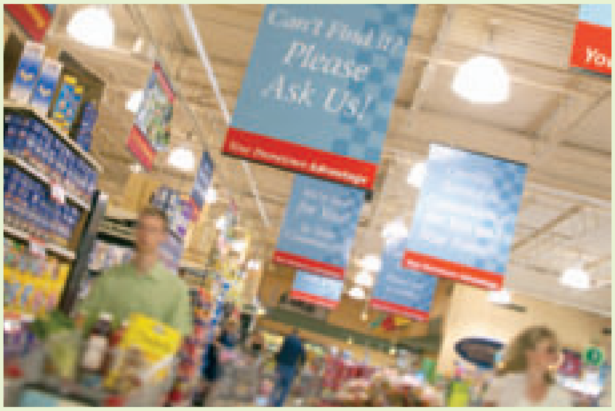
	May 1, 2004	May 3, 2003	May 4, 2002
Shareholders Equity	**$ 1,575.5**	$ 1,436.8	$ 1,283.3
Total Long-term Debt(1)	**$ 442.8**	$ 585.4	$ 523.6
Funded Debt to total Capital	**21.9%**	28.9%	29.0%
Adjusted Debt to total Capital(2)	**42.5%**	49.5%	50.5%
Funded Debt to EBITDA	**1.0x**	1.3x	1.3x
EBITDA to Interest expense	**10.5x**	10.8x	7.0x
Current Assets to Current Liabilities	**0.83x**	0.93x	0.99x
Managed Working Capital Change(3)	**$ (81.2)**	$ 34.8	$ (79.8)
Total Assets	**$ 3,274.7**	$ 3,192.5	$ 2,875.2
Long-term Debt(4)	**$ 410.9**	$ 435.3	$ 474.9

(1) Includes current portion of long-term debt.
(2) Adjusted debt includes capitalization of lease obligations based on six times net annual lease payments (net of expected sub-lease income).
(3) Managed working capital is the year-over-year change in accounts receivable and inventories less accounts payable.
(4) Excludes current portion of long-term debt.

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 total capital at year end was 42.5 percent versus 49.5 percent last year. This improvement was primarily the result of growth in retained earnings, the repayment of the $100 million Series B MTN and other debt repayments during the year.

The Company's long-term debt is comprised of $244.8 million due within the next five years, and $198.0 million with longer maturities, for a total of $442.8 million (2003 – $585.4 million). The fair value of the Company's long-term debt is estimated to be $480.2 million. Long-term debt maturities in fiscal 2005 and fiscal 2006 amount to $31.9 million and $186.8 million, respectively. Cash generated from operations, use of the Company's short-term credit facility, and the issuance of additional MTNs will finance these maturities. Management monitors debt markets with a view to replacing maturing debt with longer-term maturities.

Sobeys continued to enhance its health and beauty offerings with increased product assortments, continued development of full service pharmacies and a renewed focus on wellness products and services for its customers.



The Company introduced its refreshed Hometown Advantage program into the IGA and Foodland community format stores, with improved pricing, broader fresh offerings and updated décor.

Sobeys' liquidity position remains strong with only seven percent utilization (for letters of credit) of the authorized revolving bank lines of $300 million at year end. During fiscal 2004, the Company's managed working capital position improved, decreasing by $81.2 million. The change in managed working capital was primarily the result of strong inventory and payables management, resulting in higher payables as a percent of year-end inventory levels. In fiscal 2005, Sobeys expects short-term fluctuations in managed working capital to be funded predominantly through cash generated from operations or bank lines of credit.

During the third quarter the Company received notice from Dominion Bond Rating Service (DBRS) that its credit rating was confirmed at BBB (high) stable and during the fourth quarter Standard & Poor's (S&P) confirmed its rating of BBB- stable. DBRS subsequently revised its trend to negative from stable on April 26, 2004.

The Company anticipates ready availability of any required longer-term financing due to its investment grade credit rating and previous experience in the capital markets.

Sobeys' financial condition is expected to continue to improve in fiscal 2005.

Liquidity and capital resources

Cash flows from operating activities in fiscal 2004 of $364.4 million were primarily used for investing activities totaling $339.0 million. The table below highlights major cash flow components over the last two years.

Major cash flow components

($ millions)	**2004**	2003
Cash flows from operating activities	**$ 364.4**	$ 348.1
Cash flows from discontinued operations	**1.3**	3.9
Cash flows from (used in) financing activities	**(176.6)**	36.3
Cash flows used in investing activities	**(339.0)**	(348.2)
Net Change in Cash	**$ (149.9)**	$ 40.1

Operating activities

For the year ended May 1, 2004, the Company generated $364.4 million in cash flows from operating activities, an increase of $16.3 million, from the $348.1 million generated in fiscal 2003. The change is primarily the result of an improvement in managed working capital in fiscal 2004 due to strong inventory and payables management, resulting in higher payables as a percent of year-end inventory levels. Cash flows from operating activities are expected to fund the Company's planned cash capital expenditures in fiscal 2005, with any shortfall being funded through bank lines, the existing MTN program, or other long-term debt.

Investing activities

Sobeys continued to strategically invest operating cash flows in fiscal 2004 primarily in the enhancement of its store network. During fiscal 2004, $553 million was invested in company-wide capital investment, of which $316.1 million was on balance sheet, with the balance invested by landlords, franchise affiliates and through other third-party operating leases. The Company continued to use its regional market overview process to identify and prioritize investment opportunities in each of its four regions.

The Company's capital investment program has also contributed to sales growth with 61 new stores opened or replaced during the year (fiscal 2003 – 45), including 19 Sobeys (fiscal 2003 – 7), 18 IGA, which includes Garden Market IGA and IGA extra (fiscal 2003 – 22), 11 Price Chopper (fiscal 2003 – 8), and 13 other banner stores (fiscal 2003 – 8). The capital program included the renovation or expansion of 28 stores (fiscal 2003 – 29), including 8 Sobeys (fiscal 2003 – 5), 11 IGA (2003 – 16), and 9 other banner stores (fiscal 2003 – 8). In addition, the Company acquired 15 stores and 6 cash and carry outlets with the Commisso's acquisition, during the year. In total, Sobeys added an additional 2.4 million square feet (before closures), as compared to 1.5 million square feet added in fiscal 2003. Approximately 87 percent of the total capital spending was directed towards the expansion and modernization of the Company's retail store network. At fiscal year end 2004, the Company operated 1,311 stores (433 corporate stores and 878 franchised stores). The Company's square footage (net of closures) increased by 1.5 million square feet to 24.0 million square feet, an increase of 6.6 percent over the prior year.

Cash flows employed in investing activities amounted to $339.0 million in fiscal 2004 versus $348.2 million in the prior year. The increase related to the acquisition of Commisso's, but was partially offset by the proceeds on the sale of redundant real estate and lower on balance sheet spending for property and equipment ($316.1 million in 2004 versus $342.3 million in 2003).

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 2005, which will approximate the average spend of the past number of years, will be allocated to the retail store network. During fiscal 2005, the Company plans to open, expand, or renovate approximately 100 corporate and franchise stores across Canada, increasing square footage by approximately 4 percent.

Financing activities

Cash flows used in financing activities amounted to $176.6 million in fiscal 2004 compared to a cash flow source of $36.3 million in fiscal 2003. The change from the prior year was largely the result of the Series B MTN repayment of $100 million in fiscal 2004 and the issuance of the $100 million Series C MTN which occurred in fiscal 2003.

The Company meets its short-term financing requirements through internally generated cash flow, cash and cash equivalents on hand, and established bank lines. Longer-term financing is obtained primarily through Canadian public debt markets via the Company's established MTN program pursuant to its amended shelf prospectus filed on February 17, 2003.

Mireille Théberge is one of 1,200 Aide-Gourmets in our IGA extra stores in Quebec. Aide-Gourmets are employees who have trained extensively in food preparation and share their knowledge and expertise with our customers.

The "We Serve. You Save" pricing and promotional program was introduced in the Sobeys banner, reinforcing our commitment to unparalleled customer service at competitive prices.

The Company normally refinances existing long-term debt as it matures, and maintains financial flexibility with access to the capital markets for additional long-term debt or equity financing. The Company anticipates continued ready access to financing sources as a result of its investment grade credit ratings and previous experience in the capital markets. The Company also utilizes capital lease financing for the financing of selected projects and assets.

Dividend payments during the year amounted to $29.0 million (2003 – $23.8 million). The Company's guideline is to maintain a dividend equal to approximately 15 to 20 percent of trailing earnings per share (before net capital gains and any other one-time items), after giving consideration to its cash position, future cash flow requirements, and investment opportunities. At the Board of Directors meeting, held June 23, 2004, the Board of Directors approved a 13.6 percent increase in the dividend per common share to $0.125 quarterly ($0.50 annualized).

The Company's share capital was comprised of the following on July 15, 2004:

Authorized	
Preferred shares, par value of $25 each, issuable in series as a class	500,000,000
Preferred shares, without par value, issuable in series as a class	500,000,000
Common shares, without par value	499,438,543
Issued	
Common shares, without par value	65,860,719

During the year the Company purchased for cancellation 187,572 of its common shares from employees and as part of a Normal Course Issuer Bid which expired on December 13, 2003.

On March 8, 2004, the Company announced its intention to file a Normal Course Issuer Bid with the Toronto Stock Exchange to purchase for cancellation up to 2,000,000 common shares representing approximately 3.0 percent of the shares outstanding. The Board of Directors and management of the Company believe that the repurchase of its shares at recent prevailing market prices is a worthwhile investment and in the best interests of the Company. Shareholders may obtain a copy of the notice of intention without charge, by contacting the Company's Investor Relations department, 115 King Street, Stellarton, NS, B0K 1S0.

Accounting policy changes

Accounting policy changes implemented in fiscal 2004

During the first quarter of fiscal 2004, two new CICA standards were adopted on a prospective basis. Section 3063, “Impairment of Long-lived Assets” provided guidance with regard to the measurement, recognition, and disclosure of long-lived assets. Section 3475, “Disposal of Long-lived Assets and Discontinued Operations” provided guidance with regard to the identification, measurement, and disclosure of any long-lived assets not held for use and any discontinued operations. A write-down of $1.2 million was recognized in income related to the measurement of long-lived assets held for sale.

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 Emerging Issues Committee issued Abstract 132 “Share Purchase Financing”. This Abstract requires Share Purchase Loans that are not treated as assets on the balance sheet to be accounted for as stock-based compensation. Pursuant to this change, the Company must record a compensation cost equal to the fair value of all awards of stock compensation granted since the introduction of section 3870. The Company has chosen to adopt this standard retroactively without restatement. A pro-forma adjustment of $0.3 million would be required to fiscal 2004 net earnings based on fair value calculations but there would be no impact on fiscal 2004 earnings per share. A compensation cost, including the fair value of all awards granted in fiscal 2004 will be recorded in fiscal 2005.

Future accounting policy changes

During the first quarter of fiscal 2004, the CICA issued Accounting Guideline 15 “Consolidation of Variable Interest Entities” which is applicable in the Company's third quarter of fiscal 2005 and subsequently on May 5, 2004 the CICA issued further guidance on this guideline. A Variable Interest Entity (VIE) is any type of legal structure not controlled by voting equity, but rather by contractual and/or other financial arrangements. The Company has identified potential VIEs and is currently reviewing the guidance to determine to what extent consolidation and note disclosure will be required. The company currently services approximately 185 low equity franchisees. These franchisees are required to purchase inventory from the Company and their primary indebtedness is to the Company. In addition, the franchisee agreements contain provisions for the distribution of franchise store operating income and losses. The Company believes it is likely that these low equity franchisees are VIE's and that it is the primary beneficiary. Therefore, the Company believes it will be required to consolidate these entities in fiscal 2005. The consolidation of potential VIEs is not expected to result in any material change in the reported earnings or underlying tax, legal or credit risks facing the Company.

In January 2004, the CICA issued a new accounting standard EIC-144 titled “Accounting by a Customer (Including a Reseller) for Certain Consideration 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 sheets. 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

With less free time, consumers are increasingly looking for easy and convenient meal solutions. Sobeys deli and ready to heat and ready to eat programs fit with more and more of our customers lifestyle needs.

The first two Sobeys *express* prototype stores were opened in Nova Scotia and New Brunswick. These mini markets combine convenience products and service with additional fresh food and "on-the-go" programs.

after August 15, 2004. The Company is currently assessing the impact of these recommen-dations and will implement them in fiscal 2005.

The CICA has also 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 some other sources to be consulted when a matter is not dealt within the sources of GAAP. The new standard is effective for the Company's fiscal year end 2005. The Company is currently assessing the impact of these recommendations.

Critical accounting estimates

Pension, post-retirement and post-employment benefits

Certain estimates and assumptions are used to actuarially determine 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 obligations. The appropriate discount rate is determined on April 30th every year. For 2004, the discount rate used for calculation of pension and other benefit plan expense was 6.0 percent compared to 6.5 percent in 2003. The expected long-term rate of return on plan assets for pension benefit plans for each of 2004 and 2003 was 7.0 percent. The expected growth rate in health care costs is 9 percent for fiscal 2004, declining to 6 percent by 2010. The expected future growth rate is evaluated on an annual basis. The table below outlines the sensitivity of the 2004 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 impact on the accrued benefit obligations or benefit plan expenses.

Sensitivities to discount rate, expected return on assets and health care inflation

($000's)	Pension Plans		Other Benefit Plans	
	Accrued Benefit Obligations	Pension Expense	Accrued Benefit Obligations	Pension Expense
Expected long-term rate of return on plans assets		7.0%		
Impact of: 1% increase		$ (2,190)		
1% decrease		$ 2,190		
Discount Rate	6.0%	6.0%	6.0%	6.0%
Impact of: 1% increase	$ (26,686)	$ (1,836)	$ (14,896)	$ (1,969)
1% decrease	$ 29,926	$ 1,943	$ 17,821	$ 2,123
Growth rate of health care costs(1)			9.0%	9.0%
Impact of: 1% increase			$ 16,627	$ 1,423
1% decrease			$ (14,171)	$ (1,323)

(1) Gradually decreasing to 6.0% in 2010 and remaining at that level thereafter.

Goodwill and long-lived assets

Goodwill is not amortized but is assessed for impairment at the reporting unit level at least annually. Any potential goodwill impairment is identified by comparing the fair value of the 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

In 2004, Sobeys acquired Commisso's, adding 15 stores, six cash and carry outlets and a wholesale business in the important Southern Ontario market.

With "Scan.Pay.Go." check-out lines, Sobeys is testing the use of self check-out technology as a means of providing added convenience to its customers.

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 judgment. 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.

Related-party transactions

The Company continues to lease certain real property from related parties, at formula determined rates that approximate fair market value over the life of the leases and that are 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 $52.2 million (2003 - $49.8 million). The Company was charged administrative expenses of $0.4 million (2003 - $0.5 million).

In the current 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 1, 2004, mortgage receivables of $2.2 million were owed by 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 65 percent of Sobeys Inc. common shares at year end.

Contractual obligations

The following illustrates the Company's significant contractual obligations.

Contractual Obligations

($ millions)	2005	2006	2007	2008	2009	Onwards	Total
Long-term Debt	$ 28.1	$ 183.4	$ 7.8	$ 8.6	$ 5.9	$ 196.4	$ 430.2
Capital Lease Obligations	3.8	3.4	2.1	1.0	0.7	1.6	12.6
Operating Leases	246.0	231.2	211.6	184.7	165.3	1,139.4	2,178.2
Contractual Obligations	$ 277.9	$ 418.0	$ 221.5	$ 194.3	$ 171.9	$ 1,337.4	$ 2,621.0

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

	2005	2006	2007	2008	2009	Onwards	Total
	$ 119.9	$ 112.5	$ 101.4	$ 89.4	$ 87.7	$ 559.0	$ 1,069.9

Other contractual obligations not reflected in the table above are discussed below.

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 aggregate outstanding principal amount of these debentures as at May 1, 2004 is $38.6 million (2003 - $40.6 million). 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.

At May 1, 2004, the Company was contingently liable for letters of credit issued in the aggregate amount of $22.0 million (2003 - $27.4 million).

The Company has guaranteed certain bank loans contracted by franchisees. As at May 1, 2004, these loans amounted to approximately $5.0 million (2003 - $7.3 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 16 years with an aggregate obligation of $48.8 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.

The Company introduced Fast Fuel gas bars at three Sobeys store locations in Atlantic Canada to evaluate customer interest in purchasing gasoline as part of their regular food shopping experience.

The addition of the "Loonies and Toonies" section to many Price Chopper stores provides price-conscious consumers with a variety of household products at great prices.

Risk and risk management

In the normal course of business, Sobeys is exposed to a number of risks that have the potential to affect operating performance. These risks include retail competitive risk, financial risk, and operational risk.

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 its markets with a variety of store formats, sizes, and banners, in order to enhance profitability by region and target market.

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. At year end, the Company had fixed the interest rate on $11.8 million of its funded debt at a rate of 6.4 percent for one year, to mature in 2005. The majority of Company debt is at fixed rates, accordingly, there is a limited exposure to interest rate risk.

Sobeys is self-insured on a limited basis with respect to certain operational risks and also purchases additional 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. Sobeys, as a part of its quality control program, recognizes food safety, particularly in perishable products, is of utmost importance. The Company maintains strict policies in its facilities to ensure food quality and safety are not compromised.

Sobeys' operational risks also include the risk of labour disruption. During the fiscal 2004 year, the Company successfully ratified a three-year collective agreement with employees located at its Milton, Ontario 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 also has good relations with its employees and unions, and does not anticipate any material labour disruptions in fiscal 2005. However, Sobeys has stated that it will accept the short-term costs of a labour disruption to support a steadfast commitment to building and sustaining a competitive infrastructure and cost base for the long term.

Outlook

Sobeys' management remains confident in the Company's strategy. The Company's offerings will continue to improve in each operating region and the Company will remain competitive in increasingly competitive markets. Sales and earnings will grow in fiscal 2005 and beyond in a manner consistent with the Company's intention to build a healthy and sustainable business for the long term.

Sobeys is committed to building sustainable worth for all its constituents.

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.

- Operating Income or EBIT is calculated as net earnings plus interest expense and income taxes.
- EBITDA is calculated as operating income (EBIT) plus depreciation and intangible amortization.
- Managed working capital is accounts receivable plus inventory less accounts payable.
- Funded debt is all interest bearing debt, which includes bank loans, bankers' acceptances and long-term debt.
- Total capital is funded debt plus shareholders' equity.
- Adjusted debt is funded debt plus the capitalized value of operating lease payments, which is calculated as six times net annual operating lease payments.

Additional Information

Additional financial information, including the Company's Annual Information Form, has been filed electronically through the System for Electronic Document Analysis and Retrieval (SEDAR) and is available online at www.sedar.com.

Dated: July 15, 2004

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 judgements. 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 23, 2004

R. Glenn Hynes, C.A.
Executive Vice President &
Chief Financial Officer
June 23, 2004

Auditors' Report

To the Shareholders of Sobeys Inc.

We have audited the consolidated balance sheets of Sobeys Inc. as at May 1, 2004 and May 3, 2003, and the consolidated statements of earnings, retained earnings, and cash flows for the fiscal years then ended. 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 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 1, 2004 and May 3, 2003, 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

Grant Thornton LLP
Chartered Accountants
New Glasgow, Canada
June 7, 2004

Consolidated Balance Sheets

(in millions)

	May 1, 2004	May 3, 2003
Assets		
Current		
Cash and cash equivalents (Note 2)	$ 164.6	$ 123.1
Temporary investments, at cost (quoted market value May 2003 – $191.4)	–	191.4
Receivables	272.4	285.4
Inventories	455.0	444.0
Prepaid expenses	40.9	30.5
Future tax assets (Note 8)	1.5	2.7
Mortgages and loans receivable	15.4	15.4
Assets of discontinued operations (Note 3)	–	1.9
	949.8	1,094.4
Mortgages and loans receivable (Note 4)	150.1	134.6
Deferred costs (Note 5)	143.8	135.5
Future tax assets (Note 8)	33.7	28.5
Property and equipment (Note 6)	1,350.1	1,243.9
Assets for realization (Note 3)	16.3	–
Intangibles (less accumulated amortization of $0.5) (Note 18)	13.1	–
Goodwill	617.8	555.6
	$ 3,274.7	$ 3,192.5
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 1,051.1	$ 971.9
Income taxes payable	6.7	37.4
Future tax liabilities (Note 8)	47.8	21.1
Long term debt due within one year	31.9	150.1
	1,137.5	1,180.5
Long term debt (Note 9)	410.9	435.3
Employee future benefit obligation (Note 17)	88.4	75.5
Future tax liabilities (Note 8)	55.8	57.7
Deferred revenue	6.6	6.7
	1,699.2	1,755.7
Shareholders' equity		
Capital stock (Note 10)	907.6	903.4
Retained earnings	667.9	533.4
	1,575.5	1,436.8
	$ 3,274.7	$ 3,192.5

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board

Bill McEwan
Bill McEwan
Director

Sir Graham Day
Director

Consolidated Statements of Retained Earnings

Year Ended (in millions)

	May 1, 2004	May 3, 2003
Balance, beginning of year	$ 533.4	$ 382.0
Net earnings	167.5	179.0
	700.9	561.0
Dividends declared	29.0	23.8
Premium on common shares purchased for cancellation (Note 10)	4.0	3.8
Balance, end of year	$ 667.9	$ 533.4

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Earnings

Year Ended (in millions)

	May 1, 2004	May 3, 2003
Sales	$ 11,046.8	$ 10,414.5
Gain on sale of assets (Note 11)	14.6	–
Operating expenses		
Cost of sales, selling and administrative expenses	10,615.4	9,964.4
Depreciation	150.4	124.0
Intangible amortization	0.5	–
Operating income	295.1	326.1
Interest expense		
Long-term debt	39.2	41.7
Short-term debt	3.2	–
	42.4	41.7
Earnings before income taxes	252.7	284.4
Income taxes (Note 8)	85.2	105.4
Net earnings	$ 167.5	$ 179.0
Net earnings per share basic and diluted (Note 12)	$ 2.54	$ 2.72
Basic and diluted weighted average number of common shares outstanding, in millions	65.9	65.9

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

Year Ended (in millions)

	May 1, 2004	May 3, 2003
Operations		
Net earnings	**$ 167.5**	$ 179.0
Items not affecting cash (Note 13)	**193.1**	187.6
	360.6	366.6
Net change in non-cash working capital	**3.8**	(18.5)
Cash flows from operating activities	**364.4**	348.1
Investment		
Property and equipment purchases	**(316.1)**	(342.3)
Proceeds on disposal of property and equipment	**80.1**	48.0
Long term investments and advances	**(15.5)**	(9.8)
Increase in deferred costs	**(33.9)**	(41.6)
Business acquisitions, net of cash acquired	**(53.6)**	(2.5)
Cash flows used in investing activities	**(339.0)**	(348.2)
Financing		
Issue of long term debt	**14.9**	118.6
Repayment of long term debt	**(162.7)**	(56.8)
Decrease (increase) of share purchase loan	**1.3**	(2.5)
Issue of capital stock	**5.4**	6.7
Repurchase of capital stock	**(6.5)**	(5.9)
Dividends	**(29.0)**	(23.8)
Cash flows from (used in) financing activities	**(176.6)**	36.3
Increase (decrease) in cash from continuing operations	**(151.2)**	36.2
Discontinued operations (Note 3)	**1.3**	3.9
Increase (decrease) in cash	**(149.9)**	40.1
Cash, beginning of year	**314.5**	274.4
Cash, end of year	**$ 164.6**	$ 314.5

Cash is defined as cash, treasury bills, guaranteed investments, and temporary investments.

See accompanying notes to the consolidated financial statements.

May 1, 2004 (In millions, except share capital)

1. Summary of significant accounting policies

Principles of consolidation

These consolidated financial statements include the accounts of the Company and all subsidiary companies. All of the Company's subsidiaries are wholly owned.

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

Cash and cash equivalents

Cash and cash equivalents are defined as cash, treasury bills, and guaranteed investments.

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 basis. Retail inventories are valued at the lower of cost and net realizable value less normal profit margins as determined by the retail method of inventory valuation.

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 its estimated useful life. Obligations under capital leases are reduced by rental payments net of imputed interest. All other leases are accounted for as operating leases with rental payments being expensed as incurred.

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 will be written off against earnings. The Company has completed its review and has determined the book value of existing goodwill is not impaired.

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.

Stock-based compensation

At the beginning of fiscal 2003, the Company adopted, on a prospective basis, 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 Emerging Issues Committee issued Abstract 132 "Share Purchase Financing". This Abstract requires Share Purchase Loans that are not treated as assets on the balance sheet to be accounted for as stock-based compensation. Accordingly, pro-forma fair-value-based net income and earnings per share information is disclosed in Note 19 for Share Purchase Loans issued in the 2004 fiscal year.

Revenue recognition

Sales are recognized at the point-of-sale. Sales include revenues from customers through corporate stores operated by the Company, and revenue from sales to franchised stores, associated stores and independent accounts.

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 $0.6 (May 3, 2003 $1.3).

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 and leases.

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

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.

Accounting estimates
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.

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 substantially enacted tax rates that will be in effect when the differences are expected to reverse.

Net earnings per share
Net earnings per share is calculated by dividing the earnings available to common shareholders by the weighted average number of common shares outstanding during the year.

Long-lived assets
At the beginning of fiscal 2004, the Company adopted two new CICA Handbook sections. 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 3).

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 year 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.

2. Cash and cash equivalents

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

3. 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.

Cash flow from discontinued operations for the 52 weeks ended May 1, 2004 and May 3, 2003 include cash generated by disposal of assets of discontinued operations of $1.3, and $3.9, respectively.

4. Mortgages and loans receivable

	May 1, 2004	May 3, 2003
Loans receivable	**$ 156.9**	$ 140.4
Mortgages receivable	**7.9**	9.0
Other	**0.7**	0.6
	$ 165.5	$ 150.0
Less amount due within one year	**15.4**	15.4
	$ 150.1	$ 134.6

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.

5. Deferred costs

	2004 Net Book Value	2003 Net Book Value
Deferred store marketing costs	**$ 55.2**	$ 40.1
Deferred financing costs	**4.5**	7.0
Deferred purchase agreements	**17.4**	16.7
Transitional pension asset	**33.9**	38.1
Other	**32.8**	33.6
	$ 143.8	$ 135.5

Deferred costs are amortized as follows:
Deferred store marketing – 7 years
Deferred financing – over the term of the debt
Deferred purchase agreements – over the term of the franchise agreement

6. Property and equipment

	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	1,567.2	937.5	629.7
Leasehold improvements	278.9	169.0	109.9
Construction in progress	55.4	–	55.4
Assets under capital leases	15.7	5.8	9.9
	$ 2,563.0	$ 1,212.9	$ 1,350.1

	May 3, 2003 Cost	Accumulated Depreciation	Net Book Value
Land	$ 83.4	$ –	$ 83.4
Land held for development	81.4	–	81.4
Buildings	451.3	96.3	355.0
Equipment and vehicles	1,320.3	774.7	545.6
Leasehold improvements	263.9	146.7	117.2
Construction in progress	50.9	–	50.9
Assets under capital leases	15.4	5.0	10.4
	$ 2,266.6	$ 1,022.7	$ 1,243.9

7. 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 was renewed on June 1, 2004. 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.

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 1, 2004	May 3, 2003
Income tax expense according to combined statutory rate of 33.7% (2003 – 36.5%)	$ 85.1	$ 103.9
Increase (reduction) in income taxes resulting from:		
Non-taxable gains	(1.4)	(0.3)
Large corporation tax	1.5	1.8
Total income taxes	$ 85.2	$ 105.4

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

	Current	Future	Total
Operations	$ 64.4	$ 20.8	$ 85.2

May 3, 2003 income tax expense attributable to net income consists of:

	Current	Future	Total
	$ 64.6	$ 40.8	$ 105.4

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

	May 1, 2004	May 3, 2003
Employee future benefit obligation	**$ 31.0**	$ 24.3
Restructuring provisions	**1.5**	2.7
Pension contributions	**(16.2)**	(12.3)
Deferred costs	**(18.8)**	(14.9)
Deferred credits	**(47.8)**	(34.9)
Goodwill	**(6.3)**	(4.4)
Fixed assets	**(11.4)**	(5.5)
Other	**(0.4)**	(2.6)
	$ (68.4)	$ (47.6)
Current future tax assets	**$ 1.5**	$ 2.7
Non-current future tax assets	**33.7**	28.5
Current future tax liabilities	**(47.8)**	(21.1)
Non-current future tax liabilities	**(55.8)**	(57.7)
	$ (68.4)	$ (47.6)

9. Long-term debt

	May 1, 2004	May 3, 2003
First mortgage loans, average interest rate 9.8%, due 2008–2021	**$ 23.3**	$ 25.1
Bank loans, average interest rate 6.4%, due September 30, 2004	**20.0**	60.0
Medium Term Note, interest rate of 7.6%, due November 1, 2005	**175.0**	175.0
Medium Term Note, interest rate of 7.0%, due October 2, 2003	**–**	100.0
Medium Term Note, interest rate of 7.2%, February 26, 2018	**100.0**	100.0
Debentures, average interest rate 10.7%, due 2008–2013	**73.3**	78.3
Notes payable and other debt at interest rates fluctuating with the prime rate	**38.6**	37.6
	430.2	576.0
Capital lease obligations, 2004–2011, net of imputed interest	**12.6**	9.4
	442.8	585.4
Less amount due within one year	**31.9**	150.1
	$ 410.9	$ 435.3

The Company has fixed the interest rate on $11.8 of its long-term debt at 6.4% by utilizing interest exchange agreements.

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. As of May 1, 2004, $230.0 of the non-revolving debt had been retired. On December 20, 2002 (amended on February 17, 2003) the Company filed a final short form prospectus providing for the issuance of up to $500.0 of unsecured medium term notes over the next two years.

On October 2, 2003, Medium Term Notes of $100.0 were repaid in accordance with their terms.
Debt retirement payments and capital lease obligations in each of the next five fiscal years are:

	Long-Term Debt	Capital Leases
2005	$ 28.1	$ 3.8
2006	183.4	3.4
2007	7.8	2.1
2008	8.6	1.0
2009	5.9	0.7

Operating leases

The net aggregate, annual, minimum rent payable under operating leases for fiscal 2005 is approximately $119.9 ($246.0 gross less expected sub-lease income of $126.1). The net commitments over the next five fiscal years are:

	Net Lease Obligation
2005	$ 119.9
2006	112.5
2007	101.4
2008	89.4
2009	87.7

10. Capital stock

Authorized

	Number of Shares
Preferred shares, par value of $25 each, issuable in series as a class	500,000,000
Preferred shares, without par value, issuable in series as a class	500,000,000
Common shares, without par value	499,438,543

Issued and outstanding

	Number of Shares		Capital Stock (in millions)	
	May 1, 2004	May 3, 2003	**May 1, 2004**	May 3, 2003
Common shares, without par value	**65,860,719**	65,893,168	**$ 925.6**	$ 922.7
Loans receivable from officers and employees under share purchase plan	–	–	**(18.0)**	(19.3)
Total capital stock	**65,860,719**	65,893,168	**$ 907.6**	$ 903.4

During the current fiscal year, the Company purchased for cancellation 187,572 (2003 – 151,965) of its common shares from employees, and as part of a normal course issuer bid announced on December 13, 2002. The purchase price for the shares was $6.5 (2003 – $5.9) and $4.0 (2003 – $3.8) of the purchase price (representing the excess of the purchase price over the average paid-up value of common shares purchased for cancellation) was charged to retained earnings.

During the year 155,123 (2003 – 169,387) common shares of Sobeys Inc. were issued under the Company's share purchase plan to certain officers and employees for $5.4 (2003 – $6.7).

Loans receivable from officers and employees of $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. (580,782 combined total).

11. Gain on sale of assets

During the fourth quarter, 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.

12. Net earnings per share

	May 1, 2004	May 3, 2003
Net earnings	$ 167.5	$ 179.0
Weighted average common shares outstanding	65,877,959	65,928,308
Net earnings per common share	$ 2.54	$ 2.72

13. Supplementary cash flow information

a) Items not affecting cash:	May 1, 2004	May 3, 2003
Depreciation	$ 150.4	$ 124.0
Future tax provision	20.8	40.8
Loss (gain) on disposal of assets	(15.7)	0.7
Amortization of intangibles	0.5	–
Amortization of deferred items	25.5	17.0
Employee future benefit obligation	11.6	5.1
	$ 193.1	$ 187.6
b) Other items:		
Interest paid	$ 42.4	$ 40.7
Taxes paid	$ 111.0	$ 66.5

14. Related party transactions

The Company leased certain real property from related parties, at formula determined rates that approximate fair market value over the life of the leases. The aggregate net payments under these leases amounted to approximately $52.2 (2003 - $49.8). The Company was charged expenses of $0.4 (2003 - $0.5) by related parties.

In the current 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.

In the prior fiscal year, the Company received $1.6 from the sale of marketable securities to its parent company. The marketable securities were sold at fair market value and resulted in a gain of $1.4.

At May 1, 2004, mortgage receivables of $2.2 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 65% of Sobeys Inc. common shares.

15. 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, temporary investments, receivables, mortgages and loans receivable, and accounts payable and accrued liabilities approximate fair values at May 1, 2004.

The total fair value of long-term debt is estimated to be $480.2. 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.

16. 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 5% redeemable, non-voting preference shares of that company. The aggregated outstanding principal amounts of these debentures at May 1, 2004 is $38.6 (2003 - $40.6). 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.

At May 1, 2004, the Company was contingently liable for letters of credit issued in the aggregate amount of $22.0 (2003 – $27.4).

The Company has guaranteed certain bank loans contracted by franchisees. As at May 1, 2004, these loans amounted to approximately $5.0 (2003 – $7.3).

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 16 years with an aggregate obligation of $48.8. 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.

On March 26, 2003 the Shareholders of IGA Canada Limited approved a resolution terminating the operations of the IGA Canada Buying Group effective December 31, 2003. On April 14, 2003 the members of the Buying Group were notified of the shareholders intention to terminate the operations of the Buying Group. The buying group operations ceased effective December 31, 2003. The cross guarantees for members of the Buying Group have been eliminated with the wind-up of the Buying Group as of December 31, 2003.

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.

17. Employee future benefits

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

Defined contribution plans

The total expense for the Company's defined contribution plans is as follows:

	2004	2003
Defined benefit plans	**$ 11.2**	$ 11.0

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

	Pension Benefit Plans 2004	Pension Benefit Plans 2003	**Other Benefit Plans 2004**	Other Benefit Plans 2003
Accrued benefit obligation				
Balance at beginning of year	**$ 231.6**	$ 204.2	**$ 87.3**	$ 88.0
New incidence (post-employment benefits)	**–**	–	**7.7**	–
Current service cost	**2.3**	2.8	**2.2**	3.1
Interest cost	**14.8**	14.8	**6.0**	6.1
Employee contributions	**0.5**	0.5	**–**	–
Special termination benefits	**1.3**	–	**–**	–
Plan amendments	**–**	–	**1.3**	–
Benefits paid	**(16.5)**	(17.1)	**(4.4)**	(4.6)
Plan merger	**–**	11.8	**–**	–
Actuarial loss	**14.0**	14.6	**8.0**	(5.3)
Balance at end of year	**$ 248.0**	$ 231.6	**$ 108.1**	$ 87.3
Plan assets				
Market value at beginning of year	**$ 199.8**	$ 203.5	**$ –**	$ –
Actual return on plan assets	**36.8**	(13.3)	**–**	–
Employer contributions	**2.9**	15.0	**4.4**	4.6
Employee contributions	**0.5**	0.5	**–**	–
Plan merger	**–**	11.2	**–**	–
Benefits paid	**(16.5)**	(17.1)	**(4.4)**	(4.6)
Market value at end of year	**$ 223.5**	$ 199.8	**$ –**	$ –
Funded status				
Surplus (deficit)	**$ (24.5)**	$ (31.8)	**$ (108.1)**	$ (87.3)
Unamortized past service cost	**0.3**	0.3	**1.2**	–
Unamortized actuarial loss	**52.0**	64.7	**18.5**	11.8
Accrued benefit asset (liability)	**$ 27.8**	$ 33.2	**$ (88.4)**	$ (75.5)
Expense				
Current service cost	**$ 2.3**	$ 2.8	**$ 2.2**	$ 3.1
Interest cost	**14.8**	14.8	**6.0**	6.1
Amortization	**3.5**	0.2	**1.4**	0.5
Special termination benefits	**1.3**	–	**–**	–
New incidence (post-employment benefits)	**–**	–	**7.7**	–
Expected return on plan assets	**(13.6)**	(15.1)	**–**	–
	$ 8.3	$ 2.7	**$ 17.3**	$ 9.7

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

	Pension Benefit Plans 2004	Pension Benefit Plans 2003	**Other Benefit Plans 2004**	Other Benefit Plans 2003
Accrued benefit obligation	**$ 15.7**	$ 14.9	**$ 88.4**	$ 75.5

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows (weighted-average assumptions as of May 1, 2004):

	Pension Benefit Plans 2004	Pension Benefit Plans 2003	**Other Benefit Plans 2004**	Other Benefit Plans 2003
Discount rate	**6.00%**	6.50%	**6.00%**	6.50%
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 9% fiscal 2004 annual rate of increase in the per capita cost of covered health care benefits was assumed. The cumulative rate expectation to 2010 is 6%. The average remaining service period of the active employees covered by the pension benefit plans and other benefit plans is 12 and 18 years, respectively.

18. Business Acquisitions

Other Acquisitions

The Company acquires franchisee stores, and prescription files as part of its normal 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. The method of amortization is on a straight-line basis, over 10–15 years.

Franchisees	
Inventory	$ 2.4
Property and equipment	3.0
Intangibles	8.0
Other Assets	0.1
Cash consideration	$ 13.5
Prescription Files	
Intangibles	$ 0.2
Cash consideration	$ 0.2

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

During the 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. The acquisition included 15 grocery stores, six cash-and-carry outlets, and a wholesale business and distribution centre. 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 this date. Due to the size and complexity of the acquisition, the determination of fair value of certain net assets is still being finalized. To the extent that estimates need to be adjusted, they will be adjusted accordingly.

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

19. 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 (DSU's) in lieu of cash. The number of DSU's received is determined by the market value of Sobeys Inc. common shares on each directors' fee payment date. Additional DSU's are received as dividend equivalents. DSU's 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 1, 2004 there were 38,813 (May 3, 2003 26,617) DSU's outstanding. During the year, the stock-based compensation expense was $0.6 (2003 – $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. On a pro-forma basis, if the loans 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:

Net Earnings	
As reported	$ 167.5
Pro-forma	$ 167.2
Diluted Net Earnings per Share	
As reported	$ 2.54
Pro-forma	$ 2.54

The compensation cost relating to the 2004 Share Purchase Loans was determined to be $1.5 million with amortization of the cost over 5 years. The cost was calculated using the Black-Scholes model with the following assumptions:

Expected life	5 years
Risk-free interest rate	4.2%
Expected volatility	26.5%
Dividend yield	1.2%

20. Comparative figures

Comparative figures have been reclassified, where necessary, to reflect the current year's presentation, including required disclosure for discontinued operations.

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

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

National share of requirements – measurement (percentage) of all Sobeys shopping households' total grocery requirements that are satisfied by the Company's retail stores

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 (EBIT) – earnings before interest and taxes

Operating margin (EBIT) – EBIT divided by sales

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

Retail Brands – a brand of products that is marketed, distributed and owned by the Company

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

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)

	2004	2003	2002	2001	2000
Operations					
Sales	**$ 11,046.8**	$ 10,414.5	$ 9,732.5	$ 9,163.0	$ 8,941.7
Gain on Sale of Assets	**14.6**	–	–	–	–
Cost of Sales, Selling and Administrative Expenses	**10,615.4**	9,964.4	9,334.9	8,841.0	8,613.3
Depreciation	**150.4**	124.0	101.0	90.6	89.2
Intangible Amortization	**0.5**	–	–	–	–
Operating Income	**295.1**	326.1	296.6	231.4	239.2
Interest Expense	**42.4**	41.7	57.0	77.5	88.9
Income Taxes (operating activities)	**85.2**	105.4	96.5	63.8	65.1
Goodwill Charges	**–**	–	15.4	15.1	14.7
Earnings from Discontinued Operations	**–**	–	14.0	16.2	9.7
Operating Earnings	**167.5**	179.0	141.7	91.2	80.2
Net Capital Gain (loss) and Other Items	**–**	–	68.9	(49.2)	–
Net Earnings	**167.5**	179.0	210.6	42.0	80.2
Cash Flows from Operating Activities	**364.4**	348.1	494.7	110.3	283.4
Property and Equipment Purchases	**316.1**	342.3	424.2	194.6	192.6
Financial Position					
Net Working Capital	**(187.7)**	(86.1)	(5.6)	(81.7)	(221.0)
Property and Equipment	**1,350.1**	1,243.9	1,072.1	815.5	841.9
Total Assets	**3,274.7**	3,192.5	2,875.2	2,917.6	2,891.0
Long-term Debt	**442.8**	585.4	523.6	657.0	854.5
Shareholders' Equity	**1,575.5**	1,436.8	1,283.3	1,089.8	817.7
Per Share Information					
Operating Earnings	**2.54**	2.72	2.15	1.50	1.43
Net Earnings	**2.54**	2.72	3.20	0.69	1.43
Cash Flow from Operating Activities	**5.53**	5.28	7.48	1.81	5.06
Dividends	**0.44**	0.36	0.24	0.24	0.24
Weighted Average Number of Common Shares Outstanding	**65.9**	65.9	65.9	60.8	56.0
Closing Share Price	**28.65**	36.75	44.25	23.00	21.00

Quarterly Information

(in millions, except per share information)	Q4 May 1 2004	Q3 Jan. 31 2004	Q2 Nov. 1 2003	Q1 Aug. 2 2003	Q4 May 3 2003	Q3 Feb. 1 2003	Q2 Nov. 2 2002	Q1 Aug. 3 2002
Operations								
Sales	$2,803.1	$2,741.4	$2,741.9	$2,760.4	$ 2,568.5	$ 2,594.9	$ 2,613.4	$ 2,637.7
Operating income	65.7	77.1	76.0	76.3	75.1	82.6	84.1	84.3
Net earnings	$ 38.4	$ 44.0	$ 43.2	$ 41.9	$ 40.7	$ 45.8	$ 46.6	$ 45.9
Per Share Information (basic and diluted)								
Operating income	$ 1.00	$ 1.17	$ 1.15	$ 1.16	$ 1.14	$ 1.26	$ 1.28	$ 1.28
Net earnings	$ 0.58	$ 0.67	$ 0.66	$ 0.64	$ 0.62	$ 0.70	$ 0.71	$ 0.70
Weighted average number of shares (basic and diluted)	65.9	65.9	65.9	65.9	65.9	65.8	65.8	65.8
Operating income as a percent of sales	2.34%	2.81%	2.77%	2.76%	2.92%	3.18%	3.22%	3.20%
EBITDA as a percent of sales	3.90%	4.22%	4.05%	3.97%	4.20%	4.41%	4.36%	4.32%

Officers

Sir Graham Day
Chairman

Bill McEwan
President & Chief Executive Officer

R. Glenn Hynes
Executive Vice President & Chief Financial Officer

James M. Dickson
Executive Vice President, Chief Development Officer & Secretary

Paul A. Jewer
Vice President, Finance & Treasurer

L. Jane McDow
Assistant Secretary

Michael G. Scott
President Operations, Sobeys Atlantic

Marc Poulin
President Operations, Sobeys Quebec

Craig T. Gilpin
President Operations, Sobeys Ontario

J. Gary Kerr
President Operations, Sobeys West

François Vimard
Executive Vice President

Duncan F. Reith
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For additional information please write the Company, c/o Paul Jewer, CA, Vice President, Finance & Treasurer

Web address
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Shareholders' Annual General Meeting
September 8, 2004, 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)
131,600

Common dividend record and payment dates for fiscal 2005*

Record Date	Payment Date
July 15, 2004	July 30, 2004
Oct. 15, 2004	Oct. 29, 2004
Jan. 15, 2005	Jan. 31, 2005
Apr. 15, 2005	Apr. 29, 2005

** subject to approval by Board of Directors*

Outstanding shares
As of June 23, 2004
Common shares outstanding 65,846,112

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Investor Correspondence
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Bankers
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Bank of Nova Scotia
Bank of Tokyo Mitsubishi
Canadian Imperial Bank of Commerce
Laurentian Bank
National Bank of Canada
Rabobank
TD Canada Trust

Solicitors
Stewart McKelvey Stirling Scales
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.

Exemplaire français
Vous pouvez obtenir un exemplaire français de ce rapport annuel en écrivant à :
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