

Food Retailing



“The focus of Sobeys remains where it has always been – on food – as we strive to be the very best food retailer in Canada.”

BILL MCEWAN PRESIDENT AND CEO, SOBEYS INC.



\$13.0 Billion
REVENUE FOR 2007



A REFRESHING NEW LOOK

Over Sobeys' long history, generations of store employees have worked hard to provide superior customer service in the right format, right-sized stores for each market we serve. In 2007, the Sobeys banner introduced new uniforms for its employees, reinforcing its fresh and food-focused image.

The year 2007 represents a significant milestone for Sobeys as we celebrate the 100th anniversary of a true Canadian success story. The drive, determination and focus on serving the needs of customers that began with the entrepreneurial spirit of J.W. Sobeys in Stellarton, Nova Scotia a century ago continues at Sobeys to this day as we strive to be the very best food retailer in Canada. And while much has changed since J.W. Sobeys started the business, the focus of Sobeys remains where it always has been – on food. Our goal is to “out-fool”, “out-fresh”, “out-service” and “out-market” all who choose to compete with us in the Canadian food retail marketplace.

The privatization of Sobeys by Empire firmly reinforces our focus. With the support of Empire and their commitment to our strategy, Sobeys can continue to concentrate on strategic priorities and day-to-day operations with the same passion and determination as ever before.

We will continue to drive our food-focused strategy with our fresh food excellence, innovation and superior customer service, in the right format, right-sized stores for each market we serve. We know and understand the differences from market-to-market and that the needs of individual customers can change from one shopping occasion to the next. With five distinct store formats supported by strong operating and merchandising teams in each of our four geographic regions, we are competing more effectively for the patronage and loyalty of customers.

HIGHLIGHTS OF FISCAL 2007

During 2007, we continued to make progress along our continuum with every initiative aligned and contributing to the achievement of the long-term goals that we established almost five years ago. Company-wide highlights for fiscal 2007 include:

- 32 new stores, including three locations in the highly competitive Toronto market. With right-sized Sobeys and Sobeys *express* stores we are filling the gap for quality fresh foods and convenient shopping in the thriving downtown core.

- Acquisition of Achille de la Chevrotière Ltée, a 25-store chain in the Abitibi-Témiscamingue region of Québec. With this \$80 million transaction, Sobeys further solidified its position as the leading food retailer in Québec with IGA and IGA *extra*.
- Completed the rollout of the *Compliments Organics* and *Compliments balance-équilibre* lines, affording consumers an even wider range of alternative and healthy choices. All *Compliments balance-équilibre* products bear the Heart & Stroke Foundation's Health Check™ symbol.
- Successful implementation of the SAP enterprise-wide information platform in Ontario. The establishment of an enterprise-wide system began in 2005 in Atlantic Canada and the successful implementation in Ontario represents a significant step forward.
- Announcement of an automated distribution centre in Vaughan, Ontario – just north of Toronto – scheduled to open in 2009.

Great products and engaging service come together to meet the needs of our customers.



Compliments

We are continually expanding our product and service offerings to satisfy ever-changing and diverse customer expectations.



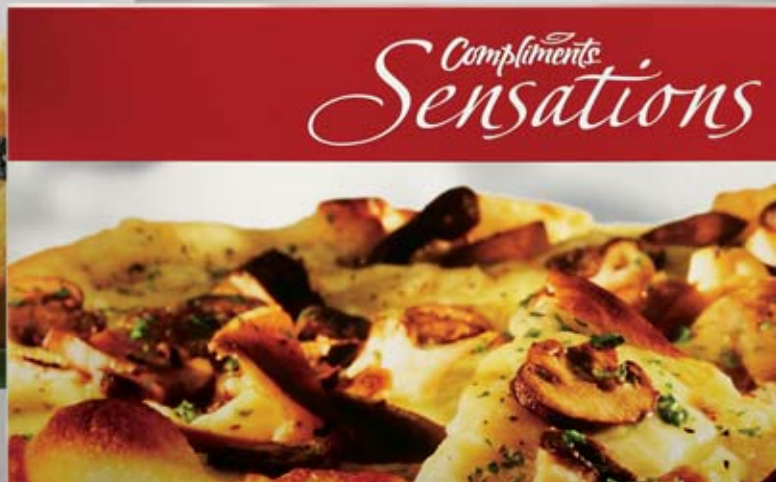
Compliments
Sensations

PETIT DESSERT COLLECTION
COLLECTION DE PETITS DESSERTS



Compliments
Sensations

THAI GOLDEN PURSE HORS D'ŒUVRES
BALUCHONS DORÉS À LA THAÏLANDAISE



Compliments
Sensations



4,400
COMPLIMENTS
BRAND
PRODUCTS



OUR ASSURANCE OF QUALITY

Compliments has become one of Canada's most complete lines of quality products at everyday prices. New products are being introduced almost daily, giving our customers more of what they're looking for – more variety, more value, more information, more everyday inspiration. The *Compliments* name is our assurance of quality that is equal to or better than other national and competitive store brands.

While the food retail marketplace remains highly competitive, particularly in Ontario, Sobeys had a year of solid operational and financial performance. We sustained our competitive retail price position by improving our product mix, reducing our costs and increasing productivity through SMART Retailing and other initiatives. Throughout the year Sobeys achieved industry-leading same-store sales growth, an important indicator of progress overall, while sales per square foot increased in all of its operating regions. Total revenue for the year equalled \$13.03 billion compared to \$12.72 billion in fiscal 2006.

OUR IMPERATIVES

Our progress over the past year resulted from our steadfast commitment to building a differentiated, healthy and competitive retail food business and infrastructure as we pursue our goal to be the very best food retailer in the country. Achieving our goal demands focus on three cornerstone imperatives:

- 1. Maintain our unwavering focus on food: to “out-food”, “out-fresh”, “out-service” and “out-market” those who choose to compete with us for a greater share of Canadian consumers’ food requirements.**

Though pleased with the progress we made in 2007 in a challenging competitive environment, we know that significant opportunities remain. We are continually expanding our product and service offerings to satisfy ever-changing and diverse customer expectations. This year saw the full launch and integration of our two new *Compliments* lines – *Compliments balance-équilibre* and *Compliments Organics* – further enhancing our variety of natural and “wellness” foods, and we are pleased with the early results.

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Our *Inspired* magazine is now recognized as a leading-edge, food ideas, food inspiration and food preparation publication and our suite of innovations includes the “Discover the World of Food” program which has migrated as a best practice from our Québec region.

2. Improve our cost base and productivity.

We continue to streamline our business processes, systems and supply chain. During the year, we announced the construction of an automated distribution centre in Vaughan, Ontario. When operational this facility will serve the diverse requirements of our five formats at substantially lower costs and higher service levels. Numerous upgrades and expansions in our distribution centres across the country will ensure that the demands of our retail network growth can be adequately and efficiently supplied.

SMART Retailing, our store-based operational excellence and productivity program, continues to support our ability to sustain our competitive retail price position. Focus continued in fiscal 2007 on the program's core objectives to reduce shrink and improve production planning, backroom inventory management and shelf-stocking procedures.





Our progress is fueled by our passion for the food business, knowledge of the markets we serve and continued investment in our store network, products and people.



1,332
TOTAL STORE
COUNT
(ALL BANNERS)



TAKING STOCK

At Sobeys, we are distinguishing ourselves by improving every aspect of our business and our stores – inside and out, on the shelf and behind the scene – from products to service to operating excellence. Our goal is to satisfy the needs of our customers in each market we serve.

At the same time, we launched the third component of SMART Retailing with the rollout of Peer-to-Peer Management. Peer-to-Peer allows stores across our network to share information and best practices. Going forward, we will launch several new programs as part of the third phase of SMART Retailing, including initiatives in workforce management and fresh item management.

The success of SMART Retailing – like many of our initiatives – is all about the detail of retail: continuous, incremental improvements that all add up to enhance our competitive position, increase productivity and contribute to better top and bottom-line performance.

3. Invest in and develop our people as we nurture a superior service and high-performance culture.

Over the past 100 years, Sobeys has earned a proud and enviable reputation as an employer that respects its people, fairly and consistently values individual contributions, and supports the communities that have built Sobeys.

Over the past four years we have strengthened the leadership ranks of Sobeys. We have conducted training programs for hundreds of managers and store operators with more to come. Improving food knowledge, fresh food handling skills, customer service capabilities and ability to execute a safe and consistent food shopping experience demands that we educate, reward, recognize and communicate with our people. At the same time, as we search for fresh talent, we are expanding our post-secondary institution recruitment efforts and summer co-op programs.

Our performance management system facilitates a dialogue that allows supervisors and their employees to set specific goals, measure performance and reward achievement. This helps to ensure that our employees can be more engaged in their work, know what is expected of them and have the enabling tools to be successful.

We understand and embrace the industry's opportunities and challenges.

We conduct comprehensive surveys with our employees in our stores, offices and distribution centres. These surveys help guide management as we constantly seek to improve the level of understanding, the quality of communication and the level of engagement with our people.

EMBRACING THE NEXT 100 YEARS

Sobeys is on solid financial and strategic ground as we continue to implement the programs and initiatives that will ensure our long-term growth and sustainability. Franchise affiliates and employees across Sobeys continue to show the commitment and dedication necessary to sustain our success, by executing our food-focused, customer-centric strategy.

At Sobeys we understand and embrace the opportunities and challenges in this very dynamic retail food industry. With the expertise and experience of 100 years and the steadfast commitment to build a healthy and sustainable retail food business and infrastructure for the long term, we will do so with the stability and flexibility afforded by our even stronger relationship with Empire.

We are confident that Sobeys will be able to meet the challenges and exploit our opportunities for growth. We intend to be the very best food retailer in the country, and we will stay our course in that pursuit.



Bill McEwan

Bill McEwan
President and CEO,
Sobeys Inc.
June 28, 2007

