

## Notes to the Consolidated Financial Statements

April 30, 2003  
(in millions, except share capital)

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

**Principles of consolidation** These consolidated financial statements include the accounts of the Company and all subsidiary companies. Investments in which the Company has significant influence are accounted for by the equity method. Investments in real estate joint ventures are consolidated on a proportionate basis.

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

**Inventories** Warehouse inventories are valued at the lower of cost and net realizable value with cost being substantially determined 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. Real estate inventories, including raw land and development costs, are carried at the lower of cost and net realizable value.

**Depreciation** The sinking fund method is used to record depreciation of the real estate buildings, calculated as an amount which, compounded annually at the rate of 5 percent, will fully amortize the cost of the buildings over their estimated useful lives ranging from 20 to 40 years. Deferred leasing costs are amortized over the terms of the related leases and included in operating expenses.

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

Equipment	3 – 10 years
Buildings	15 – 40 years
Leasehold improvements	7 – 10 years

### Capitalization of costs

**A) Construction projects** Certain subsidiary companies and joint ventures capitalize interest during the construction period until the project opening date. The amount of interest capitalized to construction in progress in the current year was \$1.3 (2002 - \$0.7).

**B) Rental properties** Certain subsidiaries and joint ventures capitalize the direct carrying and operating costs applicable to the unleased areas of each new project for a reasonable period from the project opening date until a certain level of occupancy is reached. The amount of costs capitalized in the current year was \$Nil (2002 - \$Nil).

**C) Land held for future development** A subsidiary company capitalizes interest and real estate taxes to the extent that they relate to properties for immediate development. The carrying costs on the balance of properties held for future development are expensed as incurred. The amount of real estate taxes capitalized to land held for future development in the current year was \$0.2 (2002 - \$0.2).

**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.

## Notes to the Consolidated Financial Statements

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

Effective May 1, 2002, the Company prospectively implemented the recommendation of the new handbook section 3062 issued by the Canadian Institute of Chartered Accountants ("CICA") on goodwill and other intangible assets. Under the new standard, goodwill and intangible assets with indefinite useful lives are no longer amortized but 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.

Goodwill amortization is net of income tax recovery of \$0.6 and minority interest of \$5.9 in fiscal 2002.

**Cost of financing** The direct costs of debt financing are being amortized over the terms of the related debt.

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

**Stock-based compensation plans** Effective May 1, 2002, the Company adopted the CICA's new handbook section 3870 relating to stock-based compensation plans. This section has been implemented retroactively without restatement of the prior period financial statements. No adjustment to retained earnings is required as a result of implementing this section.

The Directors of the Company and its subsidiary, Sobeys Inc., can choose to defer the receipt of their compensation and have the ultimate amount to be received tied to the market value of their respective Company's stock. The deferred amounts are to be repaid when they cease to be a Director. The Company records a liability based on the current market value of the Companies' stock. At April 30, 2003, the liability recorded under the plans is \$1.6 (2002 - \$1.0).

The Company has a stock option plan that allows holders to purchase Non-Voting Class A shares as described in Note 8.

**Future income taxes** CICA Handbook Section 3465 requires the difference between the tax basis of assets and liabilities and their carrying value on the balance sheet be used to calculate future tax assets and liabilities. The future tax assets and liabilities have been measured using the substantially enacted tax rates that will be in effect when the differences are expected to reverse.

**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 agreement and leases.

**Foreign currency** Assets and liabilities of self-sustaining foreign investments are translated at exchange rates prevailing at the balance sheet date. The revenues and expenses are translated at average exchange rates prevailing during the year. The gains and losses on translation are deferred and included as a separate component of shareholders' equity titled "foreign currency translation adjustment".

**Revenue recognition** Food distribution sales are recorded at the point of sale. Food distribution sales include revenues from customers through corporate stores operated by the Company and revenue from sales to franchised stores, associated stores, and independent accounts. Real estate revenue is recognized in accordance with the lease agreements with tenants.

## Notes to the Consolidated Financial Statements

**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.

**Earnings per share** Earnings per share is calculated by dividing the earnings available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated using the treasury stock method. Earnings per share reflect the two-for-one stock split of the Non-Voting Class A shares and Class B common shares as described in Note 8.

## 2. DISCONTINUED OPERATIONS

On March 30, 2002, the Company's subsidiary, Sobeys Inc., completed the sale of substantially all of the assets of its SERCA Foodservice operations. SERCA Foodservice distributed foodservice products to primarily hospitality, institutional, and commercial customers throughout Canada.

The revenues of discontinued operations are \$2,003.6 for the 47 weeks ended March 30, 2002.

Interest on other debt that is not directly attributable to the discontinued operations has not been allocated to the discontinued operations.

Current assets of discontinued operations at April 30, 2003, and April 30, 2002, are comprised of assets for resale.

Cash flow from discontinued operations for the year ended April 30, 2003, include cash generated by asset sales of \$3.9. Cash flow from discontinued operations for the 11 months ended March 30, 2002, include operating cash used by SERCA Foodservice of \$2.2, cash generated by investing activities of \$3.8, and cash used by financing activities of \$0.3.

**Gain on sale** On March 30, 2002, predominately all of the assets of SERCA Foodservice business were sold to Sysco Corp. The components of the gain on sale are:

Cash proceeds	\$ 411.4
Trade and other receivables	(185.7)
Inventory	(97.6)
Property and equipment	(37.1)
Goodwill	(154.0)
Other assets and liabilities	(11.9)
Selling expenses	(3.6)
Trade and other payables	198.7
Net assets	(291.2)
Gain on sale, before tax and minority interest	120.2
Current tax expense	39.5
Gain on sale before minority interest	80.7
Minority interest	30.7
Gain on sale	\$ 50.0

## Notes to the Consolidated Financial Statements

**3. EARNINGS PER SHARE**

Earnings per share amounts are calculated on the weighted average number of shares outstanding (2003 – 65,781,807 shares; 2002 – 65,700,000 shares) after providing for preferred share dividends accrued to the balance sheet date. Diluted earnings per share have been calculated on the assumption that all the outstanding stock options were exercised at the beginning of the year.

Earnings applicable to common shares is comprised of the following:

	<b>2003</b>	2002
Earnings before goodwill amortization	\$ <b>153.9</b>	\$ 146.7
Goodwill amortization	-	9.5
Earnings from continuing operations	<b>153.9</b>	137.2
Capital gain (loss) and other items, net of tax recovery of \$3.9 (2002 - \$12.3) and minority interest of \$Nil (2002 - \$4.5)	<b>(6.0)</b>	13.7
	<b>159.9</b>	123.5
Earnings from discontinued operations, net of goodwill amortization of \$2.2	-	8.7
Operating earnings	<b>159.9</b>	132.2
Capital gain (loss) and other items	<b>(6.0)</b>	13.7
Gain on sale of discontinued operations	-	50.0
	<b>(6.0)</b>	63.7
Net earnings	<b>153.9</b>	195.9
Preferred share dividends	<b>0.3</b>	0.4
Earnings applicable to common shares	\$ <b>153.6</b>	\$ 195.5
Earnings per share is comprised of the following:		
Earnings before goodwill amortization applicable to common shares	\$ <b>2.34</b>	\$ 2.23
Goodwill amortization	-	0.15
Earnings from continuing operations	<b>2.34</b>	2.08
Capital gain (loss) and other items, net of taxes and minority interest	<b>(0.09)</b>	0.21
	<b>2.43</b>	1.87
Earnings from discontinued operations, net of goodwill amortization of \$0.03	-	0.13
Operating earnings	<b>2.43</b>	2.00
Capital gain (loss) and other items	<b>(0.09)</b>	0.21
Gain on sale of discontinued operations	-	0.76
	<b>(0.09)</b>	0.97
Earnings per share	\$ <b>2.34</b>	\$ 2.97
Diluted earnings per share	\$ <b>2.34</b>	\$ 2.97

## Notes to the Consolidated Financial Statements

## 4. PROPERTY AND EQUIPMENT

	2003		
	Cost	Accumulated Depreciation	Net Book Value
Real estate segment			
Land	\$ 118.7	\$ -	\$ 118.7
Land held for future development	16.8	-	16.8
Buildings	828.2	151.5	676.7
	963.7	151.5	812.2
Food distribution and other			
Land	84.0	-	84.0
Land held for future development	81.4	-	81.4
Buildings	523.4	102.7	420.7
Equipment	1,363.3	791.5	571.8
Leasehold improvements	275.6	150.9	124.7
Assets under capital leases	15.4	5.0	10.4
	2,343.1	1,050.1	1,293.0
Total	\$ 3,306.8	\$ 1,201.6	\$ 2,105.2
			2002
	Cost	Accumulated Depreciation	Net Book Value
Real estate segment			
Land	\$ 112.3	\$ -	\$ 112.3
Land held for future development	22.2	-	22.2
Buildings	799.0	142.5	656.5
	933.5	142.5	791.0
Food distribution and other			
Land	75.5	-	75.5
Land held for future development	78.8	-	78.8
Buildings	483.5	100.6	382.9
Equipment	1,235.5	787.2	448.3
Leasehold improvements	258.1	133.9	124.2
Assets under capital leases	17.6	6.7	10.9
	2,149.0	1,028.4	1,120.6
Total	\$ 3,082.5	\$ 1,170.9	\$ 1,911.6

## 5. OTHER ASSETS

	2003	2002
Loans and mortgages receivable	\$ 132.3	\$ 109.0
Goodwill	569.3	565.8
Deferred charges	139.1	121.4
	\$ 840.7	\$ 796.2

**Loans receivable** Loans receivable represent long-term financing to certain retail associates. These loans are primarily secured by inventory, fixtures and equipment, bear interest at rates that fluctuate with prime 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.

The loans and mortgages receivable are net of current portions of \$15.4 (2002 - \$19.3).

## Notes to the Consolidated Financial Statements

**6. BANK INDEBTEDNESS**

As security for certain bank loans, the Company has provided an assignment of certain marketable securities and, in certain divisions and subsidiaries, general assignments of receivables and leases, first floating charge debentures on assets and the assignment of proceeds of fire insurance policies.

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 unsecured facility will expire on June 24, 2004, however, various provisions of the agreement provide the Company with the ability to extend the facility for a minimum period of two years. Interest is payable on this facility at rates that fluctuate with changes in the prime rate.

In the ordinary course of managing its debt, the Company uses various financial instruments, which are not reflected on the balance sheet, to reduce or eliminate exposure to interest rate and foreign currency risks. Interest rate swaps, caps, collars, and forward contracts are used to hedge or reduce the exposure to floating interest rates and foreign currency fluctuations associated with short-term obligations. At April 30, 2003, the Company had no such instruments in place.

**7. LONG-TERM DEBT**

	<b>Real Estate Segment</b>	<b>Food Distribution Segment</b>	<b>2003 Total</b>	2002 Total
First mortgage loans, average interest rate 9.3%, due 2003-2026	\$ 396.7	\$ 25.1	\$ 421.8	\$ 435.0
Bank loans, average interest rate 6.4%, due September 30, 2004	-	60.0	60.0	100.0
Medium term note, interest rate 7.6%, due November 1, 2005	-	175.0	175.0	175.0
Medium term note, interest rate 7.0%, due October 2, 2003	-	100.0	100.0	100.0
Medium term note, interest rate 7.2%, due February 26, 2018	-	100.0	100.0	-
Debentures, average interest rate 10.7%, due 2003-2016	78.6	78.3	156.9	166.2
Notes payable and other debt at interest rates fluctuating with the prime rate	48.8	37.6	86.4	73.4
	<b>524.1</b>	<b>576.0</b>	<b>1,100.1</b>	1,049.6
Construction loans at interest rates fluctuating with the prime rate	2.5	-	2.5	0.4
Capital lease obligations, due 2003-2011, net of imputed interest	-	9.4	9.4	10.6
	<b>526.6</b>	<b>585.4</b>	<b>1,112.0</b>	1,060.6
Less amount due within one year	38.8	150.1	188.9	85.6
	<b>\$ 487.8</b>	<b>\$ 435.3</b>	<b>\$ 923.1</b>	\$ 975.0

The Company has fixed the interest rate on \$63.1 of its long-term debt at rates from 4.0 percent to 6.4 percent by utilizing interest exchange agreements.

Long-term debt is secured by land and buildings, specific charges on certain assets, and additional security as described in Note 6.

## Notes to the Consolidated Financial Statements

During fiscal 2001, a short form prospectus was filed by Sobeys providing for the issuance of up to \$500.0 in unsecured medium term notes. At the same time, Sobeys 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 April 30, 2003, \$190.0 of the non-revolving debt had been retired. The short form prospectus expired on June 22, 2002, in accordance with the terms. On December 20, 2002, (amended on February 17, 2003) Sobeys 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.

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

	Long-term Debt	Capital Leases
2004	\$ 187.5	\$ 1.4
2005	53.0	1.5
2006	222.0	1.5
2007	32.3	1.6
2008	56.1	1.1

**Operating leases** The net aggregate, annual, minimum rent payable under operating leases for fiscal 2003 is approximately \$90.3 (\$185.1 gross less expected sub-lease income of \$94.8). The net commitments over the next five fiscal years are:

	Net Lease Obligation
2004	\$ 90.3
2005	82.0
2006	76.6
2007	65.7
2008	60.3

## 8. CAPITAL STOCK

	2003		2002	
<b>Authorized</b>				Number of Shares
Preferred shares, par value of \$25 each, issuable in series as a class. Series 2 cumulative, redeemable, rate of 75% of prime				1,034,261,305
Non-voting Class A shares, without par value				273,166,734
Class B common shares, without par value, voting				40,800,000
<b>Issued and outstanding</b>	<b>No. of Shares</b>		<b>No. of Shares</b>	
Preferred shares, Series 2	<b>431,900</b>	<b>\$ 10.8</b>	431,900	\$ 10.8
Non-voting Class A	<b>30,861,402</b>	<b>181.8</b>	30,846,220	180.6
Class B common	<b>34,897,456</b>	<b>7.7</b>	34,897,456	7.7
		<b>200.3</b>		199.1
Loans receivable from officers and employees under share purchase plan		<b>(4.3)</b>		(3.5)
		<b>\$ 196.0</b>		\$ 195.6

Effective October 7, 2002, both the Non-Voting Class A shares and Class B common shares were split on the basis of two-for-one. All number of shares and per share amounts have been restated to reflect the stock split.

## Notes to the Consolidated Financial Statements

During the year, the Company purchased for cancellation 60,124 Non-Voting Class A shares. The purchase price was \$1.6, of which \$0.7 of the purchase price (representing the premium on common shares purchased for cancellation) was charged to retained earnings.

During the year 27,800 (2002 – 86,132) options were exercised resulting in 27,800 (2002 – 86,132) Non-Voting Class A shares being issued for \$0.2 (2002 – \$0.6). Options allow holders to purchase Non-Voting Class A shares at \$6.555 per share. Options expire at dates from June 2004 to October 2006. There were 67,074 options outstanding at April 30, 2003.

During the year, 47,506 Non-Voting Class A shares were issued under the Company's share purchase plan to certain officers and employees for \$1.4, which was based on the average trading price of the Non-Voting Class A shares on the Toronto Stock Exchange for the five previous trading days.

Loans receivable from officers and employees of \$4.3 (2002 – \$3.5) under the Company's share purchase plan are classified as a reduction of Shareholders' Equity. Loan repayments will result in a corresponding increase in Share Capital. The loans are non-interest bearing and non-recourse, secured by 273,954 (2002 – 290,144) Non-Voting Class A shares. Market value of the shares at April 30, 2003, was \$6.5 (2002 – \$8.1).

Under certain circumstances, where an offer (as defined in the share conditions) is made to purchase Class B common shares, the holders of the Non-Voting Class A shares shall be entitled to receive a follow-up offer at the highest price per share paid, pursuant to such offer to purchase Class B common shares.

**9. INVESTMENT INCOME**

	<b>2003</b>	2002
Dividend and interest income	<b>\$ 14.3</b>	\$ 15.0
Share of income of companies accounted for by the equity method	<b>0.6</b>	3.0
	<b>\$ 14.9</b>	\$ 18.0

**10. CAPITAL LOSS AND OTHER ITEMS**

	<b>2003</b>	2002
Gain (loss) on sale of investments	<b>\$ (9.7)</b>	\$ 34.3
Foreign currency translation loss	-	(3.1)
Gain (loss) on disposal of properties	<b>(0.2)</b>	15.1
Employee future benefit obligation	-	(9.5)
Reduction of book value of investments	-	(23.2)
Reduction of book value of real estate assets	-	(16.7)
	<b>\$ (9.9)</b>	\$ (3.1)

At the time of the implementation of CICA section 3461, relating to employee future benefits, the liability was estimated to be \$59.1 based on information available at that time. In the prior year, the Company requested an updated actuarial valuation of the liability. This valuation, using current information, indicated that the previous estimate was understated by \$9.5.

In the prior year, as a result of a strategic review, including a review of the carrying value of investments and real estate assets, the Company determined that a write-down was appropriate. Accordingly, the carrying value of Wajax was reduced by \$23.2 and the carrying value of certain real estate properties was reduced by \$16.7.



## Notes to the Consolidated Financial Statements

**11. 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:

	<b>2003</b>	2002
Income tax expense according to combined statutory rate of 36.7% (2002 – 39.9%)	<b>\$ 129.0</b>	\$ 115.2
Increase (decrease) in income taxes resulting from		
Adjustment to future tax assets and liabilities for substantially enacted changes in tax laws	<b>(3.6)</b>	(3.9)
Non-taxable gains	<b>(0.4)</b>	(0.1)
Non-taxable dividends and equity earnings	<b>(3.0)</b>	(5.0)
Non-deductible goodwill amortization	-	5.9
Other	<b>(1.4)</b>	1.1
Large corporation tax	<b>3.7</b>	3.3
Total income taxes (before capital loss and other items)	<b>124.3</b>	116.5
Capital loss and other items	<b>(3.9)</b>	(12.3)
	<b>\$ 120.4</b>	\$ 104.2

April 30, 2003, income tax expense attributable to net income consists of:

	<b>Current</b>	<b>Future</b>	<b>Total</b>
Operations	<b>\$ 81.0</b>	<b>\$ 43.3</b>	<b>\$ 124.3</b>
Capital loss and other items	<b>(4.0)</b>	<b>0.1</b>	<b>(3.9)</b>
	<b>\$ 77.0</b>	<b>\$ 43.4</b>	<b>\$ 120.4</b>

April 30, 2002, income tax expense attributable to net income consists of:

	Current	Future	Total
Operations	\$ 92.5	\$ 24.6	\$ 117.1
Capital loss and other items	4.6	(16.9)	(12.3)
Goodwill	-	(0.6)	(0.6)
	\$ 97.1	\$ 7.1	\$ 104.2

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

	<b>2003</b>	2002
Property and equipment	<b>\$ 83.5</b>	\$ 75.5
Investments	<b>48.5</b>	48.6
Future employee benefit obligation	<b>(24.3)</b>	(26.9)
Restructuring provisions	<b>(2.7)</b>	(5.4)
Pension contributions	<b>12.3</b>	13.8
Deferred cost	<b>14.9</b>	10.2
Deferred credits	<b>34.9</b>	-
Goodwill	<b>4.4</b>	9.2
Other	<b>2.3</b>	5.4
	<b>\$ 173.8</b>	\$ 130.4
Future income taxes – current	<b>\$ 18.4</b>	\$ (5.4)
Future income taxes – non-current	<b>155.4</b>	135.8
	<b>\$ 173.8</b>	\$ 130.4

## Notes to the Consolidated Financial Statements

**12. SUPPLEMENTARY CASH FLOW INFORMATION**

	<b>2003</b>	2002
a) Items not affecting cash		
Depreciation	\$ 143.6	\$ 118.9
Goodwill amortization	-	16.0
Future income taxes	43.4	77.9
Amortization of deferred items	17.0	19.0
Equity in earnings of other companies, net of dividends received	(0.6)	(3.0)
Minority interest	58.7	42.9
Employee future benefit obligation, net of income taxes of \$Nil (2002 - \$3.6) and minority interest of \$Nil (2002 - \$2.3)	5.4	6.5
Reduction of book value of investments, net of income taxes of \$5.0	-	18.2
Reduction of book value of real estate assets, net of income taxes of \$6.9 and minority interest of \$2.2	-	7.6
	<b>\$ 267.5</b>	<b>\$ 304.0</b>
b) Other information		
Net interest paid	\$ 95.2	\$ 114.4
Net income taxes paid	\$ 100.4	\$ 104.3

**13. REAL ESTATE JOINT VENTURES**

The financial statements include the Company's proportionate share of the accounts of incorporated and unincorporated real estate joint ventures. A summary of these amounts is as follows:

	<b>2003</b>	2002
Assets	\$ 76.8	\$ 73.0
Liabilities	\$ 54.0	\$ 41.3
Equity and advances	22.8	31.7
	<b>\$ 76.8</b>	<b>\$ 73.0</b>
Revenues	\$ 30.6	\$ 34.0
Expenses	5.1	2.5
Income before income taxes	\$ 25.5	\$ 31.5
Cash provided (used)		
Operating activities	\$ 30.7	\$ 50.3
Investing activities	0.3	(0.2)
Financing activities	4.0	(5.5)
	<b>\$ 35.0</b>	<b>\$ 44.6</b>

## Notes to the Consolidated Financial Statements

**14. SEGMENTED INFORMATION**

	<b>2003</b>	2002
Revenue		
Food distribution	<b>\$ 10,414.5</b>	\$ 9,732.5
Real estate		
Outside	<b>149.2</b>	137.8
Inter-segment	<b>49.4</b>	47.3
	<b>198.6</b>	185.1
Other operations	<b>60.5</b>	56.2
	<b>10,673.6</b>	9,973.8
Elimination	<b>(49.4)</b>	(47.3)
	<b>\$ 10,624.2</b>	\$ 9,926.5
Operating income		
Food distribution	<b>\$ 324.7</b>	\$ 295.4
Real estate	<b>103.8</b>	100.6
Other operations	<b>9.0</b>	9.0
Investment income	<b>14.9</b>	18.0
Corporate expenses	<b>(7.5)</b>	(6.8)
	<b>\$ 444.9</b>	\$ 416.2
Identifiable assets		
Food		
Food distribution	<b>\$ 2,601.5</b>	\$ 2,273.2
Goodwill	<b>569.3</b>	565.8
Discontinued operations	<b>1.9</b>	5.8
	<b>3,172.7</b>	2,844.8
Real estate	<b>902.0</b>	871.8
Investments	<b>387.3</b>	520.7
Other	<b>54.1</b>	80.7
	<b>\$ 4,516.1</b>	\$ 4,318.0
Depreciation		
Food distribution	<b>\$ 124.0</b>	\$ 101.0
Real estate	<b>15.2</b>	13.7
Corporate and other	<b>4.4</b>	4.2
	<b>\$ 143.6</b>	\$ 118.9
Capital expenditure		
Food distribution	<b>\$ 411.2</b>	\$ 458.9
Real estate	<b>25.1</b>	48.1
Corporate and other	<b>5.7</b>	12.5
	<b>\$ 442.0</b>	\$ 519.5

The Company operates principally in two business segments: food distribution and real estate. The food distribution segment consists of distribution of food products in Canada. The real estate segment consists of development, rental, and management of shopping centres and office buildings located principally in the Atlantic provinces. Inter-segment transactions are at market values.

## Notes to the Consolidated Financial Statements

**15. FINANCIAL INSTRUMENTS**

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

**Other financial instruments** The book value of cash and cash equivalents, receivables, mortgages and loans, bank indebtedness, accounts payables and accrued liabilities, and income taxes payable approximate fair values at April 30, 2003. The fair value of investments is \$318.7.

The total fair value of long-term debt is estimated to be \$1,229.9. The fair value of variable rate 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 for interest rate risk.

**Foreign currency risk** Investments, at cost include \$102.6 Canadian that is denominated in Euros and \$68.9 Canadian that is denominated in U.S. funds.

**16. CONTINGENT LIABILITIES**

At April 30, 2003, the Company was contingently liable for letters of credit issued in the aggregate amount of \$47.5.

The Company has guaranteed certain bank loans contracted by franchisees. As at April 30, 2003, these loans amounted to approximately \$7.3.

Upon entering into the lease of its new Mississauga distribution centre in March 2000, Sobeys Capital Incorporated (a subsidiary of Sobeys Inc.) guaranteed to the landlord a performance, by SERCA Foodservice, of all its obligation under the lease. The remaining term of the lease is 17 years with an aggregate obligation of \$51.5. At the time of the sale of assets of SERCA Foodservice 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.

Sobeys Capital Incorporated (majority equity investor in IGA Canada Limited) is a member of the IGA Canada Buying Group and enjoys all the rights, benefits, and obligations associated with being a member of this Buying Group. Sobeys Capital Incorporated along with other members of the Buying Group have a performance commitment for any and all vendor payable obligations of the Buying Group. Sobeys Capital Incorporated's commitment is approximately \$50.0. After an extensive review, it was determined it was not in Sobeys Capital Incorporated's best long-term interest to remain a member of the Buying Group. 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. Accordingly, all Sobeys Capital Incorporated obligations associated with being a member of the Buying Group will cease to exist approximately thirty days after 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.

## Notes to the Consolidated Financial Statements

**17. EMPLOYEE FUTURE BENEFITS**

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

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

2003	\$ 11.0
2002	\$ 10.1

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

	<b>Pension Benefit Plans</b>	Pension Benefit Plans	<b>Other Benefit Plans</b>	Other Benefit Plans
	<b>2003</b>	2002	<b>2003</b>	2002
<b>Accrued benefit obligation</b>				
Balance, beginning of year	\$ 206.8	\$ 206.4	\$ 90.9	\$ 61.8
Current service cost	2.9	3.8	3.2	1.6
Interest cost	15.0	14.9	6.3	4.3
Employee contributions	0.5	0.4	-	-
Divestiture of SERCA Foodservice	-	-	-	(3.9)
Benefits paid	(17.2)	(23.2)	(4.7)	(4.5)
Plan merger	11.8	-	-	-
Other adjustments	-	2.5	-	-
Actuarial loss	15.2	2.0	(5.3)	31.6
Balance, end of year	\$ 235.0	\$ 206.8	\$ 90.4	\$ 90.9
<b>Plan assets</b>				
Market value, beginning of year	\$ 203.5	\$ 209.5	\$ -	\$ -
Actual return on plan assets	(13.3)	9.2	-	-
Employer contributions	15.1	7.6	4.7	4.5
Employee contributions	0.5	0.4	-	-
Plan merger	11.2	-	-	-
Benefits paid	(17.2)	(23.2)	(4.7)	(4.5)
Market value, end of year	\$ 199.8	\$ 203.5	\$ -	\$ -
<b>Funded status</b>				
Deficit	\$ (35.2)	\$ (3.3)	\$ (90.4)	\$ (90.9)
Unamortized past service cost	0.4	0.5	-	-
Unamortized actuarial loss	65.5	21.3	13.3	19.2
Accrued benefit asset (liability)	\$ 30.7	\$ 18.5	\$ (77.1)	\$ (71.7)
<b>Expense</b>				
Current service cost	\$ 2.9	\$ 3.8	\$ 3.2	\$ 1.6
Interest cost	15.0	14.9	6.4	4.3
Amortization	0.2	0.1	0.6	-
Expected return on plan assets	(15.1)	(16.4)	-	-
	\$ 3.0	\$ 2.4	\$ 10.2	\$ 5.9

## Notes to the Consolidated Financial Statements

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

	<b>Pension Benefit Plans</b>	Pension Benefit Plans	<b>Other Benefit Plans</b>	Other Benefit Plans
	<b>2003</b>	2002	<b>2003</b>	2002
Accrued benefit obligation	\$ 17.5	\$ 16.6	\$ 77.1	\$ 71.7

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows (weighted-average assumptions as of April 30, 2003):

	<b>Pension Benefit Plans</b>	Pension Benefit Plans	<b>Other Benefit Plans</b>	Other Benefit Plans
	<b>2003</b>	2002	<b>2003</b>	2002
Discount rate	<b>6.50%</b>	7.00%	<b>6.50%</b>	7.00%
Expected long-term rate of return on plan assets	<b>7.00%</b>	8.00%		
Rate of compensation increase	<b>4.00%</b>	4.00%		

For measurement purposes, a 10 percent fiscal 2003 annual rate of increase in the per capita cost of covered health care benefits was assumed. The cumulative rate expectation to 2010 is 6 percent. 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. COMPARATIVE FIGURES

Comparative figures have been reclassified, where necessary, to reflect the current year's presentation.