*April 30, 2004 (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 significant joint ventures are consolidated on a proportionate basis.

**GENERALLY ACCEPTED ACCOUNTING PRINCIPLES** Effective May 1, 2003, the Company adopted two new Canadian Institute of Chartered Accountants (CICA) Handbook Sections. Section 3063, "Impairment of long-lived assets", provides guidance on the recognition, measurement and disclosure of the impairment of long-lived assets. There was no impact of the application of Section 3063 on the consolidated financial statements. Section 3475, "Disposal of long-lived assets and discontinued operations", provides guidance on the recognition, measurement, presentation and disclosure of long-lived assets not held for use and discontinued operations. See "Assets for realization" as described in Note 5.

Effective May 1, 2003, the Company adopted the CICA Handbook Section 3870, "Stock-based compensation and other stock-based payments". 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. The Company has determined there is no impact on the consolidated financial statements.

**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 inventory of residential properties is carried at the lower of cost and net realizable value.

**DEPRECIATION AND AMORTIZATION** The sinking fund method was used to record depreciation of the real estate buildings, calculated as an amount which, compounded annually at the rate of 5 percent, would 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 are 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 – 20 years |
| Buildings | 10 – 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 $0.6 (2003 – $1.3).

**B) COMMERCIAL 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. No amounts were capitalized in fiscal 2003 or 2004.

**C) DEVELOPMENT PROPERTIES AND 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 development properties are expensed as incurred. The amount of real estate taxes capitalized in the current year was $0.1 (2003 – $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.

**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 represent the purchase of existing franchises and the acquisition of prescription files. No transactions occurred until fiscal 2004, with the method of amortization being on a straight-line basis over 10-15 years.

**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** 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, 2004 the liability recorded under the plans is $2.1 (2003 – $1.6).

The Company's stock option plan and share purchase plan are described in Note 8.

**FUTURE INCOME TAXES** The Company accounts for income taxes under the liability method. 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 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 TRANSLATION** Assets and liabilities of self-sustaining foreign investments are translated at exchange rates in effect at the balance sheet date. The revenues and expenses are translated at average exchange rates for the year. Cumulative gains and losses on translation are shown as a separate component of shareholders' equity.

Other assets and liabilities are translated at the currency exchange rate in effect at the balance sheet date. These exchange gains or losses are recognized in operating income. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at the average currency exchange rate for the period.

**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.

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

The Company also uses derivative financial instruments to partially hedge its exposure to foreign exchange in its U.S. dollar denominated investment portfolio. These instruments are accounted for as hedges of anticipated transactions and accordingly, gains and losses on these instruments are included in measurement of the related hedged risk when realized.

**USE OF 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 net 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. Cash and Cash Equivalents

Included in cash and cash equivalents is restricted cash of $30.4 relating to the sale of assets.

## 3. Earnings per Share

Earnings per share amounts are calculated on the weighted average number of shares outstanding (2004 – 65,772,518 shares; 2003 – 65,781,807 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 and share purchase loans were repaid at the beginning of the year. There is no effect as a result of this calculation.

Earnings applicable to common shares is comprised of the following:

| | 2004 | 2003 |
|---|---|---|
| Operating earnings | $ 163.9 | $ 159.9 |
| Capital gain (loss) and other items, net of tax of $2.4 (2003 – tax recovery of $3.9) | 9.2 | (6.0) |
| Net earnings | 173.1 | 153.9 |
| Preferred share dividends | 0.4 | 0.3 |
| Earnings applicable to common shares | $ 172.7 | $ 153.6 |
| Earnings per share is comprised of the following: | | |
| Operating earnings | $ 2.49 | $ 2.43 |
| Capital gain (loss) and other items | 0.14 | (0.09) |
| Basic earnings per share | $ 2.63 | $ 2.34 |
| Diluted earnings per share | $ 2.63 | $ 2.34 |

## 4. Property and Equipment

| | | | 2004 |
|---|---|---|---|
| | Cost | Accumulated Depreciation | Net Book Value |
| Real estate segment | | | |
| Land | $ 144.4 | $ – | $ 144.4 |
| Land held for future development | 11.7 | – | 11.7 |
| Buildings | 887.7 | 161.7 | 726.0 |
| | 1,043.8 | 161.7 | 882.1 |
| Food distribution and other | | | |
| Land | 72.8 | – | 72.8 |
| Land held for future development | 82.0 | – | 82.0 |
| Buildings | 573.0 | 107.4 | 465.6 |
| Equipment | 1,613.6 | 957.0 | 656.6 |
| Leasehold improvements | 293.0 | 173.9 | 119.1 |
| Assets under capital leases | 15.7 | 5.8 | 9.9 |
| | 2,650.1 | 1,244.1 | 1,406.0 |
| Total | $ 3,693.9 | $ 1,405.8 | $ 2,288.1 |

| | | | 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 |

## 5. Other Assets

| | 2004 | 2003 |
|---|---|---|
| Loans and mortgages receivable | $ 147.8 | $ 132.3 |
| Deferred costs | 146.8 | 139.1 |
| Assets for realization | 16.3 | – |
| Intangibles (less accumulated amortization of $0.5) | 13.1 | – |
| | $ 324.0 | $ 271.4 |

**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.

The loans and mortgages receivable are net of current portions of $15.4 (2003 – $15.4).

**DEFERRED COSTS** 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
Transitional pension asset – over the average remaining service period of the active employees

**ASSETS FOR REALIZATION** 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, 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 costs to sell.

## 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 which 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, 2004 the Company had no such instruments in place.

# 7. Long-term Debt

| | 2004 Real Estate Segment | 2004 Food Distribution Segment | 2004 Total | 2003 Total |
|---|---|---|---|---|
| First mortgage loans, average interest rate 9.1%, due 2004 – 2026 | $ 420.3 | $ 23.3 | $ 443.6 | $ 421.8 |
| Bank loans, average interest rate 6.4%, due September 30, 2004 | – | 20.0 | 20.0 | 60.0 |
| 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 |
| Medium term note, interest rate 7.2%, due February 26, 2018 | – | 100.0 | 100.0 | 100.0 |
| Debentures, average interest rate 10.6%, due 2004 – 2016 | 74.3 | 73.3 | 147.6 | 156.9 |
| Notes payable and other debt at interest rates fluctuating with the prime rate | 46.5 | 38.6 | 85.1 | 86.4 |
| | 541.1 | 430.2 | 971.3 | 1,100.1 |
| Construction loans at interest rates fluctuating with the prime rate | 1.5 | – | 1.5 | 2.5 |
| Capital lease obligations, due 2005 – 2011, net of imputed interest | – | 12.6 | 12.6 | 9.4 |
| | 542.6 | 442.8 | 985.4 | 1,112.0 |
| Less amount due within one year | 49.6 | 31.9 | 81.5 | 188.9 |
| | $ 493.0 | $ 410.9 | $ 903.9 | $ 923.1 |

The Company has fixed the interest rate on $29.8 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.

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 April 30, 2004 $230.0 of the non-revolving debt had been retired. 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 |
|---|---|---|
| 2005 | $ 77.7 | $ 3.8 |
| 2006 | $ 222.9 | $ 3.4 |
| 2007 | $ 34.1 | $ 2.1 |
| 2008 | $ 62.7 | $ 1.0 |
| 2009 | $ 71.3 | $ 0.7 |

**OPERATING LEASES** The net aggregate, annual, minimum rent payable under operating leases for fiscal 2005 is approximately $71.7 ($197.8 gross less expected sub-lease income of $126.1). The net commitments over the next five fiscal years are:

| | Net Lease Obligation |
|---|---|
| 2005 | $ 71.7 |
| 2006 | $ 65.6 |
| 2007 | $ 55.2 |
| 2008 | $ 46.7 |
| 2009 | $ 47.5 |

## 8. Capital Stock

| | Number of Shares |
|---|---|
| **AUTHORIZED:** | |
| 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 | 259,235,875 |
| Class B common shares, without par value, voting | 40,800,000 |

| | | 2004 | | 2003 |
|---|---|---|---|---|
| | Number of Shares | | Number of Shares | |
| **ISSUED AND OUTSTANDING:** | | | | |
| Preferred shares, Series 2 | 431,900 | $ 10.8 | 431,900 | $ 10.8 |
| Non-Voting Class A shares | 30,869,585 | 182.5 | 30,861,402 | 181.8 |
| Class B common shares | 34,885,225 | 7.7 | 34,897,456 | 7.7 |
| | | 201.0 | | 200.3 |
| Loans receivable from officers and employees under share purchase plan | | (4.3) | | (4.3) |
| | | $ 196.7 | | $ 196.0 |

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.

During the year, the Company purchased for cancellation 68,477 (2003 – 60,124) Non-Voting Class A shares. The purchase price was $1.8 of which $1.4 of the purchase price (representing the premium on common shares purchased for cancellation) was charged to retained earnings.

During the year, 30,000 (2003 – 27,800) options were exercised resulting in 30,000 (2003 – 27,800) Non-Voting Class A shares being issued for $0.2 (2003 – $0.2). 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 37,074 options outstanding at April 30, 2004.

During the year, 34,429 (2003 – 47,506) Non-Voting Class A shares were issued under the Company's share purchase plan to certain officers and employees for $0.9 (2003 – $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 (2003 – $4.3) 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 255,597 (2003 – 276,219) Non-Voting Class A shares. Market value of the shares at April 30, 2004 was $6.8 (2003 – $6.6).

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.

During the year, 12,231 Class B common shares were exchanged for 12,231 Non-Voting Class A shares.

## 9. Investment Income

| | 2004 | 2003 |
|---|---|---|
| Dividend and interest income | $ 10.7 | $ 14.3 |
| Share of income of companies accounted for by the equity method | 5.1 | 0.6 |
| | $ 15.8 | $ 14.9 |

## 10. Capital Gain (Loss) and Other Items

| | 2004 | 2003 |
|---|---|---|
| Gain (loss) on sale of investments | $ 11.7 | $ (9.7) |
| Other items | (0.1) | (0.2) |
| | $ 11.6 | $ (9.9) |

## 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:

| | 2004 | 2003 |
|---|---|---|
| Income tax expense according to combined statutory rate of 34.6% (2003 – 36.7%) | $ 115.2 | $ 129.0 |
| Increase (decrease) in income taxes resulting from | | |
| Adjustment to future tax assets and liabilities for substantially enacted changes in tax laws | (3.8) | (3.6) |
| Non-taxable gains | (1.4) | (0.4) |
| Non-taxable dividends and equity earnings | (4.1) | (3.0) |
| Other | – | (1.4) |
| Large corporation tax | 3.3 | 3.7 |
| | 109.2 | 124.3 |
| Capital gain (loss) and other items | 2.4 | (3.9) |
| | $ 111.6 | $ 120.4 |

April 30, 2004 income tax expense attributable to net income consists of:

| | Current | Future | Total |
|---|---|---|---|
| Operations | $ 85.0 | $ 24.2 | $ 109.2 |
| Capital gain (loss) and other items | 8.4 | (6.0) | 2.4 |
| | $ 93.4 | $ 18.2 | $ 111.6 |

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

| | Current | Future | Total |
|---|---|---|---|
| Operations | $ 81.0 | $ 43.3 | $ 124.3 |
| Capital gain (loss) and other items | (4.0) | 0.1 | (3.9) |
| | $ 77.0 | $ 43.4 | $ 120.4 |

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

| | 2004 | 2003 |
|---|---|---|
| Property and equipment | $ 91.9 | $ 83.5 |
| Investments | 35.4 | 48.5 |
| Future employee benefit obligation | (31.0) | (24.3) |
| Restructuring provisions | (1.5) | (2.7) |
| Pension contributions | 16.2 | 12.3 |
| Deferred cost | 18.8 | 14.9 |
| Deferred credits | 47.8 | 34.9 |
| Goodwill | 6.3 | 4.4 |
| Other | – | 2.3 |
| | $ 183.9 | $ 173.8 |
| Future income taxes – current | $ 46.3 | $ 18.4 |
| Future income taxes – non-current | 137.6 | 155.4 |
| | $ 183.9 | $ 173.8 |

## 12. Supplementary Cash Flow Information

| | 2004 | 2003 |
|---|---|---|
| a) Items not affecting cash | | |
| Depreciation | $ 171.4 | $ 143.6 |
| Intangible amortization | 0.5 | – |
| Future income taxes | 18.2 | 43.4 |
| Amortization of deferred costs | 25.5 | 17.0 |
| Equity in earnings of other companies, net of dividends received | (4.8) | (0.6) |
| Minority interest | 48.7 | 58.7 |
| Employee future benefit obligation | 12.0 | 5.4 |
| | $ 271.5 | $ 267.5 |
| b) Other information | | |
| Net interest paid | $ 93.2 | $ 95.2 |
| Net income taxes paid | $ 145.6 | $ 100.4 |

## 13. Joint Ventures

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

| | 2004 | 2003 |
|---|---|---|
| Assets | $ 81.4 | $ 76.8 |
| Liabilities | $ 55.1 | $ 54.0 |
| Equity and advances | 26.3 | 22.8 |
| | $ 81.4 | $ 76.8 |
| Revenues | $ 34.4 | $ 30.6 |
| Expenses | 7.0 | 5.1 |
| Income before income taxes | $ 27.4 | $ 25.5 |
| Cash provided (used) | | |
| Operating activities | $ 23.6 | $ 30.7 |
| Investing activities | (18.0) | 0.3 |
| Financing activities | (3.6) | 4.0 |
| | $ 2.0 | $ 35.0 |

## 14. Segmented Information

| | 2004 | 2003 |
|---|---|---|
| Revenue | | |
| Food distribution | | |
| Sales | $ 11,046.8 | $ 10,414.5 |
| Gain on sale of assets | 14.6 | – |
| | 11,061.4 | 10,414.5 |
| Real estate | | |
| Outside | 158.2 | 149.2 |
| Inter-segment | 52.3 | 49.4 |
| | 210.5 | 198.6 |
| Other operations | 64.4 | 60.5 |
| | 11,336.3 | 10,673.6 |
| Elimination | (52.3) | (49.4) |
| | $ 11,284.0 | $ 10,624.2 |

Sobeys Inc. 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 sale of these assets was $14.6.

| | 2004 | 2003 |
|---|---|---|
| Operating income | | |
| Food distribution | $ 294.5 | $ 324.7 |
| Real estate | 111.1 | 103.8 |
| Other operations | 9.8 | 9.0 |
| Investment income | 15.8 | 14.9 |
| Corporate expenses | (7.6) | (7.5) |
| | $ 423.6 | $ 444.9 |
| Identifiable assets | | |
| Food | | |
| Food distribution | $ 2,619.4 | $ 2,601.5 |
| Goodwill | 656.9 | 569.3 |
| Discontinued operations | – | 1.9 |
| | 3,276.3 | 3,172.7 |
| Real estate | 989.8 | 902.0 |
| Investments | 324.6 | 387.3 |
| Other | 91.0 | 54.1 |
| | $ 4,681.7 | $ 4,516.1 |
| Depreciation | | |
| Food distribution | $ 150.4 | $ 124.0 |
| Real estate | 16.3 | 15.2 |
| Corporate and other | 4.7 | 4.4 |
| | $ 171.4 | $ 143.6 |
| Capital expenditure | | |
| Food distribution | $ 384.9 | $ 411.2 |
| Real estate | 34.2 | 25.1 |
| Corporate and other | 11.9 | 5.7 |
| | $ 431.0 | $ 442.0 |

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 Central and Eastern Canada. Inter-segment transactions are at market values.

## 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, loans and mortgages, bank indebtedness, accounts payables and accrued liabilities and income taxes payable approximate fair values at April 30, 2004. The fair value of investments is $405.0.

The total fair value of long-term debt is estimated to be $1,119.8. 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 include $136.9 Canadian that is denominated in U.S. funds. Bank indebtedness includes $77.9 Canadian that is denominated in U.S. funds and it acts as a partial hedge to the foreign exchange fluctuations inherent in the market value of the U.S. investments.

## 16. Contingent Liabilities

At April 30, 2004 the Company was contingently liable for letters of credit issued in the aggregate amount of $42.0 (2003 – $47.5).

The Company has guaranteed certain bank loans contracted by franchisees. As at April 30, 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 (a subsidiary of Sobeys Inc.) guaranteed to the landlord the performance, by SERCA Foodservice, 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 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 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:

| | | |
|---|---|---|
| 2004 | $ | 11.2 |
| 2003 | $ | 11.0 |

**DEFINED BENEFIT PLANS** Information about the Company's defined benefits 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, beginning of year | $ 235.0 | $ 206.8 | $ 90.4 | $ 90.9 |
| New incidence (post-employment benefits) | – | – | 7.7 | – |
| Current service cost | 2.5 | 2.9 | 2.4 | 3.2 |
| Interest cost | 14.9 | 15.0 | 6.2 | 6.3 |
| Employee contributions | 0.5 | 0.5 | – | – |
| Special termination benefits | 1.3 | – | – | – |
| Plan amendments | – | – | 1.3 | – |
| Benefits paid | (16.6) | (17.2) | (4.4) | (4.7) |
| Plan merger | – | 11.8 | – | – |
| Actuarial loss | 14.4 | 15.2 | 8.4 | (5.3) |
| Balance, end of year | $ 252.0 | $ 235.0 | $ 112.0 | $ 90.4 |
| **PLAN ASSETS** | | | | |
| Market value, beginning of year | $ 199.8 | $ 203.5 | $ – | $ – |
| Actual return on plan assets | 36.8 | (13.3) | – | – |
| Employer contributions | 3.0 | 15.1 | 4.5 | 4.7 |
| Employee contributions | 0.5 | 0.5 | – | – |
| Plan merger | – | 11.2 | – | – |
| Benefits paid | (16.6) | (17.2) | (4.5) | (4.7) |
| Market value, end of year | $ 223.5 | $ 199.8 | $ – | $ – |
| **FUNDED STATUS** | | | | |
| Deficit | $ (28.5) | $ (35.2) | $ (112.0) | $ (90.4) |
| Unamortized past service cost | 0.4 | 0.4 | – | – |
| Unamortized actuarial loss | 53.1 | 65.5 | 21.6 | 13.3 |
| Accrued benefit asset (liability) | $ 25.0 | $ 30.7 | $ (90.4) | $ (77.1) |
| **EXPENSE** | | | | |
| Current service cost | $ 2.5 | $ 2.9 | $ 2.3 | $ 3.2 |
| Interest cost | 14.9 | 15.0 | 6.2 | 6.4 |
| Amortization | 3.5 | 0.2 | 1.5 | 0.6 |
| Special termination benefits | 1.3 | – | – | – |
| New incidence (post-employment benefits) | – | – | 7.7 | – |
| Expected return on plan assets | (13.5) | (15.1) | – | – |
| | $ 8.7 | $ 3.0 | $ 17.7 | $ 10.2 |

Included in the above 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 | $ 18.5 | $ 17.5 | $ 90.4 | $ 77.1 |

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows (weighted-average assumptions as of April 30, 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 10 percent 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 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. Business Acquisitions

**SOBEYS INC.** During the year the Company increased its ownership interest in Sobeys Inc. from 62% to 65% by way of purchase of shares on the open market. The acquisition was accounted for using the purchase method with operating results being included in the consolidated financial statements from the date of each share acquisition. The cash consideration paid was $74.2, goodwill increased by $26.2 and minority interest decreased by $48.0.

**COMMISSO'S ACQUISITIONS** During the fiscal year the Company acquired substantially all of the assets and trade liabilities of Commisso's Food Markets Limited, Commisso's Grocery Distributors Limited and Commisso's Properties Inc. which are located in Southern Ontario. Acquired were six grocery stores (and the shopping centres where they are located), nine additional 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 the estimates need to be adjusted, they will be adjusted accordingly.

| | | |
|---|---|---|
| Inventory | $ | 16.2 |
| Property and equipment | | 56.1 |
| Goodwill | | 62.5 |
| Intangibles | | 5.4 |
| Other assets | | 3.1 |
| Accounts payable | | (32.1) |
| Long-term liabilities | | (38.5) |
| Other liabilities | | (21.2) |
| | | 51.5 |
| Expenses | | (0.8) |
| Cash consideration | $ | 50.7 |

**OTHER ACQUISITIONS** Sobeys Inc. acquires franchisee stores and prescription files as part of its normal operations. The purchase method was used to account for these acquisitions and the results are included in the consolidated financial statements.

**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 |

## 19. Comparative Figures

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