

focused on

food

In an environment of intense competition our focus has not wavered and will not waver. Sobeys is focused on food. As a result we have continued to make solid progress along a continuum in our determination to be widely recognized as the best food retailer in the country. We strive to “out-food”, “out-fresh”, “out-service” and “out-market” all those who choose to compete with us in the Canadian food retail marketplace.

At the core of our food-focused strategy are our regional and local market management structures and teams of store operators who, by virtue of their “in the market” presence and knowledge, deploy market-tailored offerings to satisfy the unique occasion based needs of our customers. We capitalize on the diversity across the Canadian retail landscape by deploying our five distinct store formats based on individual market requirements and opportunities: full service, fresh fill-in, community service, convenience and price discount food stores. Our ability to compete for customer patronage and loyalty – and grow sales per square foot – depends on being relevant in each

location with the right-sized store, the right format store, the right price and promotion position, the right range of products and the right balance of services and self serve offerings.

During fiscal 2008, Empire’s privatization of Sobeys served to support the three imperatives that are the tactical foundation of our strategy: operational execution through the engagement and development of our employees;



Bill McEwan (right), President and CEO, Sobeys Inc., with Joan Muise, Administration Clerk and Donald MacLean, Owner/Operator of Foodland Westville, Nova Scotia.

reducing our cost base and improving productivity throughout our organization; and innovation in the products and services offered to our customers. Sustaining a competitive retail price position in each format and every market is a cornerstone commitment that we will not waver from and creating an environment in which our people are empowered with the tools, skills and processes to do their jobs well is fundamental to superior execution and sustained growth.

Continued solid performance

With our focus clear and intact, Sobeys continued to achieve solid

operating and financial performance in what remains an intensely competitive food retail environment. Total revenue for the year reached \$13.77 billion compared to \$13.03 billion in fiscal 2007 as we sustained full year same-store sales growth driven by continued increases in sales per square foot – key indicators of our strategic progress and evidence of improved productivity.



strength in
freshness

Sobeys can “out-food”, “out-fresh” and “out-service” our competitors with innovative initiatives such as SMART retailing. SMART helps store managers like Joe Glover at Sobeys Store 925 in Oshawa achieve operational excellence by providing the tools and processes that allow them to use their local market knowledge to satisfy the unique needs of their customers more effectively.



Growing our store network

In fiscal 2008 we continued to expand and improve the quality of Sobeys' retail square footage, opening or relocating 44 new stores, acquiring 22 stores and expanding 31 stores, while closing 67 stores; a net increase of 127,000 new square feet across the country. We announced the acquisition of British Columbia-based Thrifty Foods in July 2007. Thrifty Foods is a very well respected food-focused retailer with great management, a strategy entirely consistent with ours, and a reputation for exceptional customer service, innovative product development and community service. Building on the great foundation and reputation of Thrifty Foods, we are committed to expanding our business on Vancouver Island and beyond.



strength in communication

Our focus on fresh is just as vibrant on Sobeys.com as it is in our stores. Consumers can create shopping lists as they read our weekly flyer, explore fresh tastes and meal ideas or visit our Countertop Buzz, our chefs' blogs about great food, good fun, and inspirational meal ideas.



Monica Juliao,
Baker, Oshawa Sobeys

Sobeys launched the third wave of SMART retailing in 2008. Fresh Item Management provides store managers with the capability to analyze shopping patterns and determine the quantity of freshly produced items required throughout the day.

Sobeys' pharmacy customers know they can depend on knowledgeable customer service from employees like Rosa Milano.



Sustaining our retail price position

The intimate knowledge of each of our regional management teams has been key to sustaining our competitive retail price position in the face of new competition and, at times, unusual competitive pricing and promotional tactics. It is a position that has been hard earned and one that we will not relinquish.

Sustaining our price position relies significantly on our ability to control and cut our costs and increase productivity in distribution centres, administrative offices and our stores. Initiatives such as SMART retailing, our store-based operational excellence and productivity program, have been critical enablers. This program is all about the details of retail: continuous, incremental improvements that enhance our competitive position, increase productivity and contribute to better top and bottom-line performance.

SMART retailing – the third wave

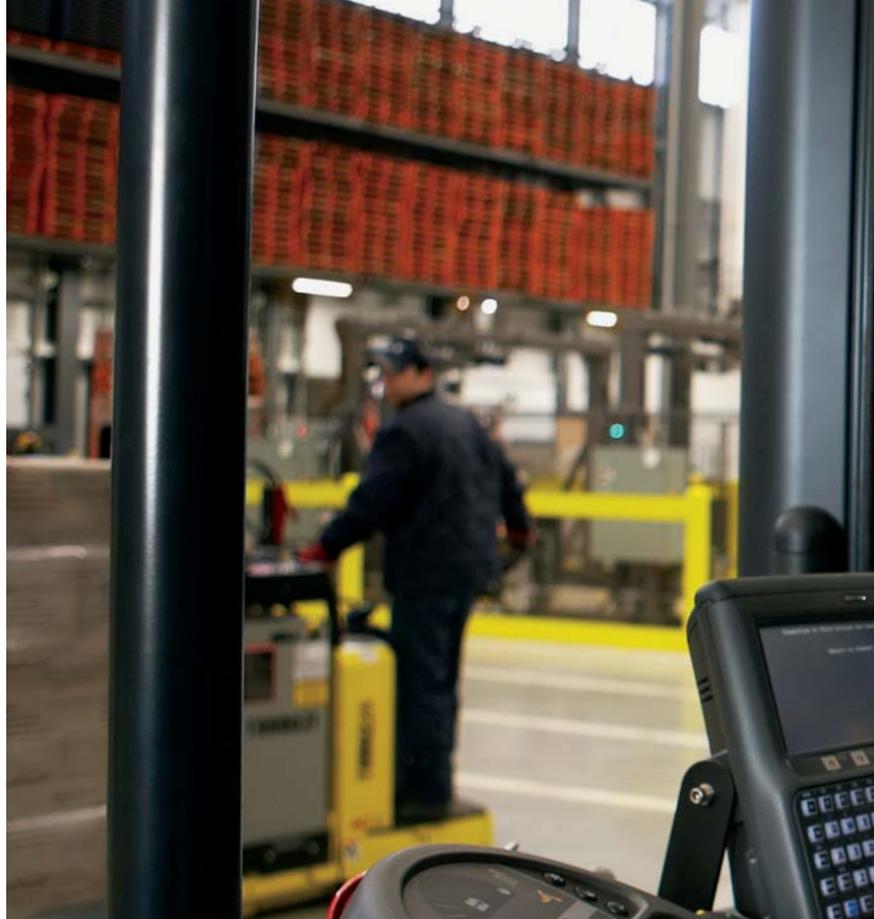
We're now in the third wave of SMART retailing with the launch of Peer-to-Peer management in 2007, which allows stores across our network to share information and best practices. Furthermore, it was a key enabler for the

implementation of two new SMART programs in 2008. These initiatives were also made possible by the powerful information platform that we have implemented in Atlantic Canada, Ontario and the West. The first of our new initiatives in 2008 was Workforce Management. This initiative provides information to support the right levels of service at all times to service the needs of our customers in each store. Simply through more effective scheduling we can improve service at a lower cost and higher productivity to achieve increased customer satisfaction.

The second initiative in 2008 was Fresh Item Management. By analyzing shopping patterns we can determine the quantity of freshly produced items required throughout the day. This ensures freshness while eliminating the waste that inevitably results from over production. In turn, this reduces shrink – a major drain on profitability in food retailing.

Sobeys Québec's new distribution centre is the first in Canada to be built according to the LEED® (Leadership in Energy and Environmental Design) standard, the North American benchmark for green construction.

To ensure our products are meeting the needs of our customers, we've established a number of independent, consumer product appraisal panels that benchmark the quality of every one of our private label products. John Hale (second from right), Director of Product Appraisal, works with one of the panels.



Upstream in the supply chain we are building new distribution facilities and expanding others to ensure optimal service levels to our stores and to reduce errors and out-of-stocks. Our automated distribution centre under construction in Vaughan, Ontario – just north of Toronto – is proceeding on time and on budget. We anticipate opening the facility in early fiscal 2010.

Delicious, nutritious and fun

During 2008 we continued to expand our private label *Compliments* line with the co-branded launch of our new kids' line – *Compliments Junior Disney*. To date we have introduced nearly 100 new products including *Compliments Junior Disney Mickey Burgers*, *Compliments Junior Disney Alpha-Taters* and *Compliments Junior Disney Fruit Pic-Mix* dried fruit snack mix. More than 75 percent of the *Junior Disney* products meet the Heart and Stroke Foundation's nutrient criteria for healthy choices and bear the Health Check™ symbol. In addition, *Compliments Junior Disney* products do not contain any artificial flavours, artificial colours or added hydrogenated oils.

The introduction of *Compliments Junior Disney* builds on our successful launch in 2007 of *Compliments Organics* and *Compliments balance-équilibre*. To sustain our track record of successful product innovation we have established professional in-house talent and independent consumer-based product appraisal panels that benchmark the quality of every one of our products.

Embracing the challenges

The challenge as we move into fiscal 2009 will be to respond effectively to an emerging cost of goods inflationary environment. We must manage the potential increased cost inputs in a way that will continue to provide fair value to the consumer while at the same time not disrupting our earnings position or interrupting our growth potential. Our keen focus on costs and productivity affords us a competitive advantage in this environment and, while we have made progress in line with our expectations, further sales per square foot across our system is achievable and we look forward to continued improvement in fiscal 2009.

But it is our *people* who will execute and sell our way to growth – one customer at a time, one transaction at a time, one store at a time – that makes the greatest difference. In fact, our success resides not in the quality



Josée Rompré, Warehouse Clerk,
Sobeys Québec Trois-Rivières Distribution Centre

of our strategy, but in our ability to provide a workplace where our people can engage to win with tools, training, encouragement, processes and rewards that help them to get the job done well. We are exceptionally fortunate that our franchise affiliates and employees across the Company share our commitment to superior customer service and being the very best food retailer in the country.

The retail food industry has always been challenging and dynamic, but Sobeys has the strategic focus and financial capacity to embrace both the opportunities and challenges that will inspire and confront us in the years ahead. Our performance over the years has proven that we are a company capable of building a healthy and sustainable retail food business and supporting infrastructure for the long term. We will stay the course to earn broader acknowledgement as the very best food retail business in Canada.

Bill McEwan
President and CEO
Sobeys Inc.
June 26, 2008



fun & innovative

During 2008, Sobeys introduced nearly 100 new products under the co-branded *Compliments Junior Disney* line of products for kids. More than 75 percent meet the Heart and Stroke Foundation's nutrient criteria for healthy choices and bear the Health Check™ symbol. *Compliments Junior Disney* products do not contain any artificial flavours, artificial colours or added hydrogenated oils.