FOCUSED ON FOOD

The strength of Sobeys’ performance in a challenging economic and competitive environment affirms the power and potential of our unwavering focus on food. We remain determined to “out-food”, “out-fresh”, “out-service” and “out-market” those who choose to compete with us for a larger share of Canadian consumers’ food requirements. Our focus allowed us to deliver solid financial and operating results in fiscal 2009, while we continue to build a healthy and sustainable retail food business and infrastructure for the long term.

While our presence as a national grocer continues to grow, our approach remains distinctly local. Across the country we have regional management teams, and affiliate franchise owners and store operators who understand the unique characteristics, cultures and occasion-based needs of our customers. Our employees are trained and encouraged to take an active role in identifying local preferences to optimize store-level merchandising decisions. We take pride in the quality, value and convenience of our meat, deli, seafood, bakery, produce and prepared food offerings and we thrive on serving our customers in ways they value most.
A modern retail network

During fiscal 2009, Sobeys continued to benefit from the significant investments and upgrades made over the past several years in our stores, distributions centres, business systems and processes, and in the engagement and training of our employees, who are the key to our growth and success.

Over the past fiscal year, we have invested more than $382 million to expand and improve the quality of our retail square footage, opening or relocating 47 new stores, expanding 11 stores and closing 52 stores, for a net increase of 258,000 square feet across the country. Our operating results and key performance improvements have been enhanced by the $1.3 billion invested in our store network and infrastructure since the start of fiscal 2007.

We continue to modernize our distribution facilities to support growth in our retail network. The recent opening of our new distribution centre in Vaughan, Ontario is expected to significantly improve Sobeys’ supply chain efficiencies while enhancing service levels to the majority of stores within the province. The new facility incorporates WITRON Integrated Logistics Inc.’s fully automated warehouse and picking system which has been proven to significantly reduce distribution costs, order selection time and errors while increasing load integrity and efficiency.
Improved execution
In fiscal 2009, we continued the transformation of our business process and information systems to support our food-focused strategy. Over several years we have made significant progress standardizing back shop functions. These changes have allowed us to leverage technology investments and significantly improve the efficiency of all facets of our business.

During the past year, the third wave of SMART retailing — our ongoing operational excellence and productivity program — continued to drive incremental improvements. The expansion of our higher-margin fresh departments including prepared meals, deli and bakery, has been effective at increasing customer appeal, transaction size and sales per square foot. The disciplines of SMART retailing have equipped our people with the means to keep labour and product costs under control while carefully monitoring the ever-shifting demand for our fresh and prepared products.

Understanding our customers
We earn the patronage of our shoppers based on the quality, value and consistency of our product and service offerings. Our Club Sobeys and AIR MILES® customer loyalty programs reward our customers’ patronage and serve as a means to collect and gain important insight into their buying habits and preferences. The launch of Club Sobeys and Club Sobeys MasterCard in Ontario and Western Canada combined with the AIR MILES® Reward Program that we have offered to consumers in Atlantic Canada and Québec for a number of years, makes shopping at Sobeys an even more rewarding experience right across the country. Customer response to the new Club Sobeys program has exceeded our expectations with the program meeting its annual objectives within six weeks of its launch in September 2008. Late in fiscal 2009, we expanded our AIR MILES® program to also include Foodland stores in Atlantic Canada.
Solid growth
Today, more of our store network is at a standard of operation that we consider current. Investments in equipment, décor, shelving, point of sale systems and in-store fresh food preparation facilities have improved the selling, productivity and customer service elements within our stores. Consequently more customers are shopping more often and buying more on each trip resulting in a sustained increase in sales per square foot.

Sobeys rewards customers through our recently launched Club Sobeys and Club Sobeys MasterCard in Ontario and Western Canada and our AIR MILES® Reward Program in Atlantic Canada and Québec. These comprehensive rewards programs also serve as a means to gain insight into the buying habits and preferences of our customers.
Inspired to innovate
Operational excellence, cost and productivity improvements and engaging our people are at the very core of our focus and determination to be widely recognized as the best food retailer in the country. Sobeys’ reputation for excellence in prepared meals has proven to be a significant benefit in an uncertain economy as consumers seek alternatives to dining out. In fiscal 2009, we continued to build upon our leadership in this area with the introduction of Compliments and Gourmet Minute prepared meal products produced by a world class manufacturer, Fleury Michon. These premium quality products have been available at grocery stores across Europe for years and we believe the great quality and value will resonate with Canadian shoppers. Customer response has been very positive and we expect to roll out these exceptional products across much of our retail network in the year ahead.

Ready for challenges ahead
Sobeys has been able to continue to grow sales and profitability in an intensely competitive market, but we have no appetite for complacency. We are excited about our opportunities for continued sales, earnings and market share growth. We are aware that today’s business climate will challenge even the best-run companies and that while the retail food business may be recession resistant, it is by no means recession proof. We intend to innovate, execute and grow in a manner consistent with our intention to grow shareholder value by being widely recognized as the best food retailer in the country – period.

Bill M’Ewan
President and CEO
Sobeys Inc.
June 26, 2009
Our five core retail food formats ensure that we have the right offering in the right-sized stores for each community we serve.