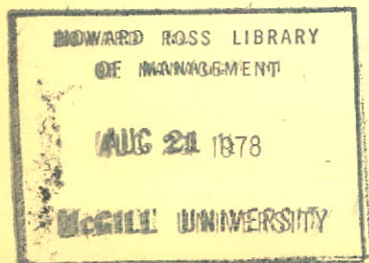


Sobeys Stores Limited
1978 Annual Report





Report to the Shareholders

Sales for the 52 weeks ended May 6, 1978 were \$256.4 million. This represented an 8.3% increase over last year's 53 week period. Labour difficulties in the retail operations was the main contributor to a less than satisfactory sales gain.

Earnings from operations of \$1,061,000 increased slightly over the preceding year. This partly resulted from charges against earnings for expenses incurred in the upgrading, remodelling and opening of new units. Net earnings for the year amounted to \$1.31 per common share.

Cash flow from operations amounted to \$2.8 million. In addition \$3 million was raised through the issue of Series "K" 20 year debentures.

New properties and equipment acquired amounted to \$1.9 million. Investments and advances were \$1.2 million and long term debt repayment totalled \$457 thousand. Dividend payments to shareholders amounted to \$285 thousand. Working capital increased by approximately \$2 million to \$7.9 million.

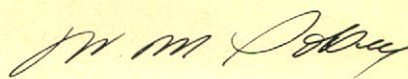
During the year the Company made a major investment in Provigo Inc., a Quebec based food distribution company with operations in Ontario, Western Canada and the Western United States.

Retail operations were active with three new supermarkets opened during the year and two additional units scheduled to open by July, 1978. One unit was closed and four units extensively renovated. By July, 1978, the Company will be operating 67 units with continued expansion planned for the coming year.

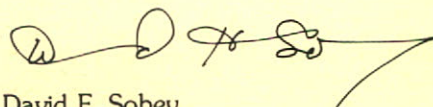
Wholesale operations of the Company continue to grow both in sales and profits. This trend is expected to continue through 1979 with expansion in this area as opportunities arise.

The continued growth and improvement of the Company is wholly dependent on its employees and suppliers. We wish to take this opportunity to extend our sincere appreciation to these people for their contribution to the Company and trust that we will merit their continued efforts and support.

On behalf of the Board,



W. M. Sobey

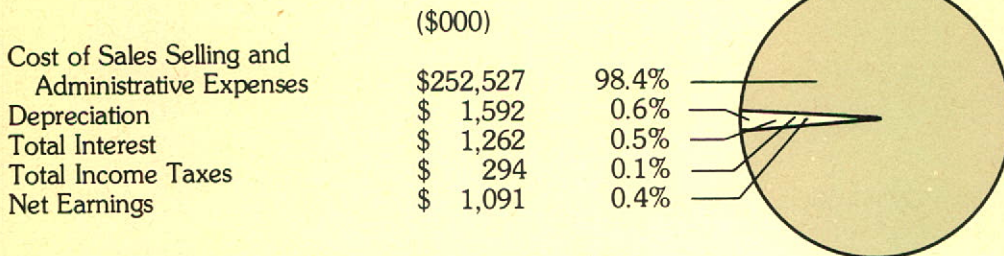


David F. Sobey

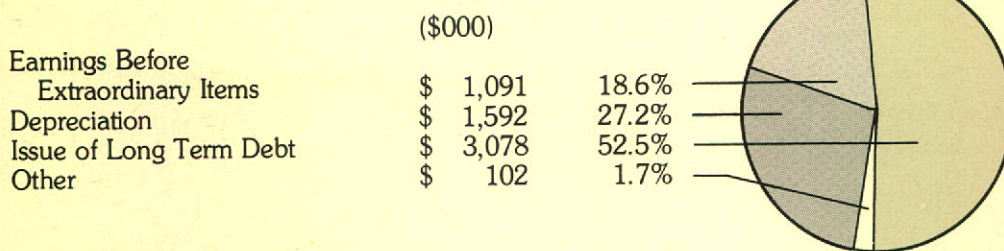


Financial Highlights

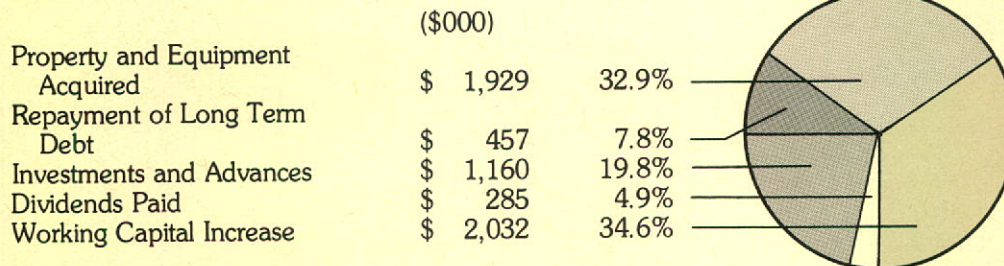
Distribution of Revenue



Source of Working Capital



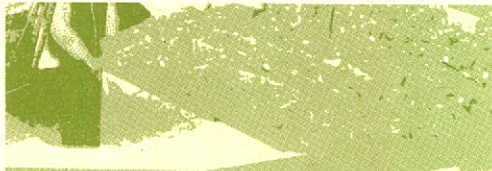
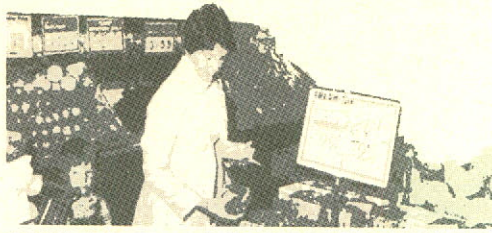
Use of Working Capital



Consolidated Five-Year Summary

	1978	1977	1976	1975	1974
Operations ('000)					
Sales	\$256,389	\$236,806	\$209,369	\$181,337	\$151,927
Depreciation	1,592	1,516	1,695	1,952	1,630
Earnings before Extraordinary Items	1,091	1,087	689	758	425
Cash Flow from Operations	2,785	2,850	2,452	3,108	2,487
Per Common Share					
Earnings before Extraordinary Items	1.31	1.30	.79	.88	.45
Cash Flow from Operations	3.59	3.68	3.16	4.01	3.21
Dividends Paid Class "A"	.40	.40	.40	.40	.40
Net Equity	16.24	15.20	11.20	10.83	9.72
Financial Position ('000)					
Working Capital	7,946	5,914	839	1,044	1,407
Long Term Debt	7,272	4,651	4,461	33,659	31,470
Shareholders' Equity	13,822	13,016	9,924	9,639	8,784
Total Assets	48,444	39,562	37,108	70,319	66,994

The accounts have been reclassified where necessary to conform with current year's presentation.



Sobeys Stores

New stores were opened in Saint John, New Brunswick and Yarmouth, Nova Scotia with an additional unit acquired in Bay Roberts, Newfoundland. Four existing units underwent major modernization including the opening of the Company's tenth full line in-store bakery.

Major contributors to the less than satisfactory sales and earnings result were a 13 week strike in the Cape Breton market and a fire in a large Saint John, New Brunswick unit. Strong competitive activity was experienced throughout the past year and is expected to continue.

Our program of expansion and modernization continues with four new units, one replacement, and several remodellings planned for the new year.

Wholesale Operations

The wholesale operations continue to expand their produce and grocery distribution activities. Management continues emphasis on cost control and development of marketing programs for customers.

Fast Food Operations

Fast food operations have expanded with the opening of two Pizza Huts® and a large cafeteria style unit. The Company now operates eight units, three from licensed premises.

Consolidated Statement of Earnings

Year ended May 6, 1978

	1978 (52 Weeks)	1977 (53 Weeks)
	(In Thousands)	
Sales	\$256,389	\$236,806
Cost of sales, selling and administrative expenses	<u>252,527</u>	<u>232,838</u>
	3,862	3,968
Depreciation	1,592	1,516
Interest on long term debt (Note 7)	266	247
Interest on current debt	<u>286</u>	<u>207</u>
	2,144	1,970
	1,718	1,998
Income taxes (Note 6)	<u>604</u>	<u>1,007</u>
	1,114	991
Minority interest	<u>53</u>	<u>43</u>
Earnings from operations	1,061	948
Investment income (Note 7)	<u>30</u>	<u>139</u>
Net earnings before extraordinary items	1,091	1,087
Extraordinary items		<u>2,229</u>
Net earnings for the year	<u>\$ 1,091</u>	<u>\$ 3,316</u>
Earnings per common share		
Net earnings before extraordinary items	<u>\$ 1.31</u>	<u>\$ 1.30</u>
Net earnings for the year	<u>\$ 1.31</u>	<u>\$ 4.18</u>
Cash flow per common share	<u>\$ 3.59</u>	<u>\$ 3.68</u>

Consolidated Statement of Retained Earnings

Year ended May 6, 1978

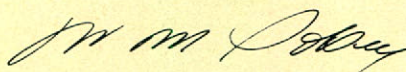
	1978 (52 Weeks)	1977 (53 Weeks)
	(In Thousands)	
Balance, beginning of year	\$ 9,344	\$6,241
Contributed surplus of a subsidiary		71
Net earnings for the year	1,091	3,316
Transfer from capital redemption reserve fund		<u>11</u>
	<u>10,435</u>	<u>9,639</u>
Dividends paid		
Preference shares	77	78
Class "A" common shares	208	208
Redemption of preference shares		<u>9</u>
	<u>285</u>	<u>295</u>
Balance, end of year	<u>\$10,150</u>	<u>\$9,344</u>

	1978 (52 Weeks) (In Thousands)	1977 (53 Weeks)	Consolidated Statement of Changes in Financial Position
Source of working capital			Year ended May 6, 1978
Cash flow from operations consisting of:			
Earnings before extraordinary items	\$1,091	\$1,087	
Depreciation	1,592	1,516	
Deferred income taxes	(66)	166	
Minority interest	42	50	
Other	126	31	
	<u>2,785</u>	<u>2,850</u>	
Reduction of equity in non-consolidated subsidiary		1,687	
Net proceeds on sale of Atlantic Shopping Centres Limited		4,229	
Reduction of income taxes by loss-carry-forward		73	
Contributed surplus of subsidiary		71	
Issue of long term debt	<u>3,078</u>		
	<u>5,863</u>	<u>8,910</u>	
Use of working capital			
Property, equipment and other assets acquired	1,929	2,087	
Repayment of long term debt (including current maturities)	457	252	
Investments and advances	1,160	1,201	
Dividends paid	285	286	
Redemption of preference shares		9	
	<u>3,831</u>	<u>3,835</u>	
Net working capital provided during year	<u>2,032</u>	<u>5,075</u>	
Working capital, beginning of year	<u>5,914</u>	<u>839</u>	
Working capital, end of year	<u>\$7,946</u>	<u>\$5,914</u>	

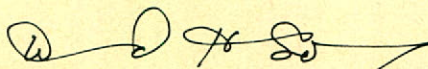
**Consolidated
Balance Sheet**
May 6, 1978

Assets	1978 (In Thousands)	1977
Current		
Cash	\$ 2,702	\$ 2,571
Marketable securities, at cost (market value \$12,512; 1977 \$5,437)	10,389	5,261
Receivables	3,864	3,581
Inventories	15,769	14,242
Prepaid expenses	1,477	1,035
	<u>34,201</u>	<u>26,690</u>
Investments and advances (Note 1)	2,332	1,239
Property and equipment, at cost		
Land	461	394
Buildings and facilities	3,991	4,282
Equipment	13,426	12,489
Leasehold improvements	2,895	2,809
	<u>20,773</u>	<u>19,974</u>
Less: Accumulated depreciation	8,862	8,341
	<u>11,911</u>	<u>11,633</u>
	<u>\$48,444</u>	<u>\$39,562</u>

On behalf of the Board



William M. Sobey Director



David F. Sobey Director

Liabilities

	1978	1977
	(In Thousands)	
Current		
Bank loans (Note 2)	\$ 1,847	\$ 2,500
Bankers' acceptances	4,500	500
Accounts payable and accrued charges	19,268	17,264
Income taxes payable	133	215
Long term debt due within one year	217	158
Current portion of deferred income taxes	290	139
	<u>26,255</u>	<u>20,776</u>
Long term debt (Note 3)	<u>7,272</u>	<u>4,651</u>
Minority interest	<u>454</u>	<u>412</u>
Deferred income taxes	<u>641</u>	<u>707</u>

Shareholders' Equity

Capital stock (Note 4)	3,663	3,663
Capital redemption reserve fund	9	9
Retained earnings	<u>10,150</u>	<u>9,344</u>
	<u>13,822</u>	<u>13,016</u>
	<u>\$48,444</u>	<u>\$39,562</u>

To the Shareholders of
Sobeys Stores Limited

We have examined the consolidated balance sheet of Sobeys Stores Limited as at May 6, 1978, and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended and have obtained all the information and explanations we have required. Our examination of the financial statements of Sobeys Stores Limited and those subsidiaries of which we are the auditors was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the report of the auditors who have examined the financial statements of a subsidiary company.

In our opinion and according to the best of our information and the explanations given to us and as shown by the books of the company, these consolidated financial statements are properly drawn up so as to exhibit a true and correct view of the financial position of the company as at May 6, 1978, and the results of its operations and changes in financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

H. L. Moore and Company

Chartered Accountants

New Glasgow, Nova Scotia
June 22, 1978

Auditors' Report

Notes to Consolidated Financial Statements

May 6, 1978

1. Accounting policies

Principles of consolidation

The consolidated financial statements include the accounts of the company and all subsidiary companies.

The equity method of accounting is used for investments in joint venture companies and in a company in which less than 51% of the voting shares are held.

Depreciation and amortization

Depreciation of buildings and equipment is calculated by the straight line method. The rates used are estimated to be sufficient to

depreciate the cost of the assets to residual value over their useful lives which ranges from three to forty years.

Leasehold improvements are amortized over the term of the related lease for improvements prior to May 3, 1975, and for a term not greater than fifteen years for improvements subsequent to that date.

Inventories

Inventories are valued at the lower of cost and net realizable value.

2. Bank loans

Bank loans are secured by assignment of certain receivables, marketable securities and a specific mortgage and first floating

debenture against assets of a subsidiary company.

3. Long term debt

Sinking fund debentures

Series	Rate	Maturity	1978	1977
E	6%	March 1, 1981	\$ 490,000	\$ 520,000
F	6%	April 1, 1984	580,000	610,000
G	5 ³ / ₄ %	April 15, 1985	305,000	320,000
H	6%	November 1, 1985	640,000	670,000
I	7 ¹ / ₄ %	June 15, 1987	700,000	730,000
J	8 ¹ / ₂ %	March 1, 1989	730,000	760,000
K	10 ¹ / ₂ %	September 30, 1997	3,000,000	
			<u>6,445,000</u>	<u>3,610,000</u>

Less: Debentures held for sinking fund purposes

195,599	219,702
<u>6,249,401</u>	<u>3,390,298</u>

Mortgages

9¹/₄% and 9¹/₂% maturing in 1977 amortized to 1992
10³/₄% maturing in 1980 amortized to 1995

	197,711
659,599	<u>672,737</u>

Term bank loan maturing in 1982 with interest at a rate fluctuating with the prime rate

580,000	547,884
<u>7,489,000</u>	<u>4,808,630</u>

Current maturities (less debentures held for sinking fund purposes)

216,761	157,647
<u>\$7,272,239</u>	<u>\$4,650,983</u>

The sinking fund debentures and mortgages are secured by land and buildings. Annual debt repayment in the next five years is:

1979 - \$329,761;	1980 - \$331,870;	1981 - \$733,276;
1982 - \$645,384;	1983 - \$247,493.	

Annual debt repayments do not include the mortgage maturing in 1980 as it is anticipated that this mortgage will be renewed at that date.

	1978	1977	4. Shareholders' equity
Capital stock			
Authorized			
237,231 cumulative redeemable non-voting preference shares of \$20 par value each, issuable in series			
750,000 Class "A" non-voting common shares without nominal or par value			
500,000 Class "B" voting common shares without nominal or par value			
Issued and outstanding			
61,786 6 ¹ / ₄ % preference shares, 1966 series	\$1,235,720	\$1,235,720	
520,862 Class "A" common shares	1,739,862	1,739,862	
254,000 Class "B" common shares	687,200	687,200	
	<u>\$3,662,782</u>	<u>\$3,662,782</u>	

The 1966 series preference shares may be called at par at any time and the company is required to provide a \$30,000 fund each year from which shares may be purchased for redemption.

The company has reserved a maximum of 20,000 unissued Class "A" common shares for the exercise of share purchase warrants, issued with the Series "J" sinking fund debentures, which provide for the purchase of the reserved shares at a price of \$12 per share up to March 1, 1979. If these warrants were exercised, earnings per share would be diluted by \$.03.

Long term leases	company. The aggregate outstanding principal amounts of these debentures is \$3,070,000.	5. Commitments and contingencies
During the current year, the company paid \$4,560,000 in lease payments under agreements extending beyond five years from the balance sheet date.	The company is contingently liable as guarantor of loans amounting to \$6,150,000. As at May 6, 1978, outstanding loans supported by these guarantees amounted to \$3,834,380.	
Contingent liabilities		
The company has undertaken by separate agreements to provide cash to meet any obligations which Canadian Shopping Centres Limited and Sobey Leased Properties Limited are unable or fail to meet until all of their debentures have been paid in full in accordance with their terms. Any deficiency payment made by the company will be by purchase of fully paid non-assessable 6% redeemable, non-voting preference shares of the applicable	The company has agreed to acquire up to \$1,500,000 of the outstanding cumulative, redeemable, non-voting, preferred shares of a related company in the event that the issuer fails to redeem these preferred shares on January 26, 1983, or under certain circumstances at an earlier date provided for in the subscription agreement.	

Income taxes payable for 1978 have been reduced by \$205,000 as a result of claiming	the 3% inventory allowance permitted for income tax purposes.	6. Income taxes
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	1978 (52 Weeks) (In Thousands)	1977 (53 Weeks) (In Thousands)	7. Investment income
Investment income consists of:			
Income from investments	\$430	\$451	
Interest allocated			
Long term	342	230	
Current	368	194	
	710	424	
Less income taxes	310	112	
	400	312	
	<u>\$ 30</u>	<u>\$139</u>	

The company is subject to the Federal Anti-Inflation Legislation which controls	prices, profits, dividends and compensation in the company.	8. Anti-inflation Legislation
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The accounts for the previous year have been reclassified, where necessary, to	conform with the current year's presentation.	9. Financial statement presentation
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Directors

Merritt G. Crawford
New Glasgow, Nova Scotia

William G. Lumsden
Burlington, Ontario

Arthur R. Lundrigan
Corner Brook, Newfoundland

J. Skiffington Murchie
New Glasgow, Nova Scotia

Henry B. Rhude
Halifax, Nova Scotia

David F. Sobey
New Glasgow, Nova Scotia

Donald R. Sobey
Stellarton, Nova Scotia

Frank H. Sobey
Abercrombie, Nova Scotia

William M. Sobey
Stellarton, Nova Scotia

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Officers

Frank H. Sobey
Honorary Chairman

William M. Sobey
Chairman and Chief Executive Officer

David F. Sobey
President

J. Skiffington Murchie
Executive Vice-President

D.B. Eddy
Vice-President, Personnel

Frank J. Hickey
Vice-President, Merchandising

Nigel F. Byars
Vice-President, Finance

Merritt G. Crawford
Treasurer

J. Robert MacMillan
Secretary

Auditors

H.R. Doane and Company

Transfer Agent and Registrar

Montreal Trust Company
Montreal — Toronto
Saint John — Halifax

Bankers

The Bank of Nova Scotia



