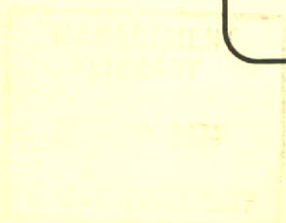


**Annual Report
to the
Shareholders
1974**



28th Annual Report

Directors and Officers

Directors

Merritt G. Crawford
William G. Lumsden
Arthur R. Lundrigan
J. Skiffington Murchie
Henry B. Rhude
David F. Sobey
Donald R. Sobey
Frank H. Sobey
Harold M. Sobey
William M. Sobey
Chas. E. Stanfield
Arthur Steele

*New Glasgow, N.S.
Burlington, Ont.
Corner Brook, Nfld.
New Glasgow, N.S.
Halifax, N.S.
New Glasgow, N.S.
Stellarton, N.S.
Abercrombie, N.S.
New Glasgow, N.S.
Stellarton, N.S.
Truro, N.S.
Middleton, N.S.*

Officers

Frank H. Sobey
William M. Sobey
David F. Sobey
J. Skiffington Murchie
Harold M. Sobey
Merritt G. Crawford
J. Robert MacMillan
D. B. Eddy

*Chairman of the Board
President
Exec. Vice President
Vice President
Vice President
Treasurer
Secretary
Vice President, Personnel & Public Relations*

Head Office:

Stellarton, Nova Scotia
Established 1906
Incorporated 1946

Auditors:

H. R. Doane and Company
New Glasgow, N.S.

Transfer Agent and Registrar:

Montreal Trust Co. Montreal
Toronto — Saint John — Halifax

Bankers:

The Bank of Nova Scotia

Report of the Directors to the Shareholders

Sales and Earnings

The past year has been a difficult one for your company, in that although a continuing strong market program resulted in sales before rental income of \$152,000,000, an increase of 20% over the previous year, earnings failed to keep pace. Continued pressure on gross operating margins in the Atlantic Provinces, inflationary activity in operating expenses and the full write off policy of costs incurred in opening new stores all contributed to the decline.

In addition heavy losses were incurred in Joy and L-Mart divisions and were fully provided for in the accompanying financial statements. The operations of these two divisions have been re-organized, and your company is optimistic that these losses will not re-occur in the current year.

Earnings before extraordinary items amounted to 45¢ per share compared with last year's 85¢. Extraordinary items of \$218,000 contributed an additional 28¢ per share to bring net earnings to 73¢ per share.

Financial

Dividends of 40¢ per Class A Common Share and regular dividends on the company's 6¹/₄% Preference Shares were paid during the year. The regular quarterly dividends of the company's Class B Common Shares were suspended during the fourth quarter.

Although cash flow from operations of \$2.7 million or 3.49¢ per share improved, working capital at the end of the year declined to \$795,000 against last year's \$1,153,000 brought about by heavy expansion.

Steps have been taken to improve the company's working capital position, and several operational changes have recently been completed which should result in improved earnings in the current fiscal year.

Lumsden Brothers Limited

Sales and earnings continued to develop satisfactorily. New marketing programs designed to assist dealers and improved plant and production facilities are assisting in the Company's broadening market penetration.

T.R.A. Foods Limited

On April 29, 1974, a fire destroyed the Company's main warehouse in Middleton — this loss is completely covered by insurance and construction of new modern facilities are underway. Customers are being serviced by other company subsidiary warehouses in Nova Scotia.

Atlantic Shopping Centres Limited

The Company increased its ownership of the Sydney Shopping Centre from 40% to 94%. During this period the centre was expanded and converted into a modern mall centre and public response to this improvement is excellent.

Construction of the Simpsons Mall in Halifax, a joint venture with The Robert Simpson Company Limited, is presently ahead of schedule and will open in the spring of '75. Other shopping centres, also joint ventures, in Summerside, P.E.I. and Stephenville, Newfoundland will open during the first and third quarters of the current fiscal year.

A new Nova Scotia Regional Shopping Centre, Downsview Mall, in Lower Sackville, Halifax County was opened during this period — a number of other centres are in the planning stages.

Expansion

Sobeys Food Village — a 44,000 sq. ft. store was opened in Dartmouth's new Penhorn Mall Shopping Centre. The unique design and merchandising ability of this store and customer acceptance is gratifying.

Other stores were opened in Windsor, N.S.; Downsview Mall, Lower Sackville, N.S.; and in the Moncton Mall regional centre, Moncton N.B.

Three older units were closed during this period, the buildings leased and are providing satisfactory income.

Personnel

The development of Management through personnel training in all phases of the Company's operations and methods of improving productivity are continually being explored and implemented. To continue with this program, Mr. D. B. Eddy was appointed Vice-President, Personnel and Public Relations.

Outlook

While it is expected that the inflationary trend and pressures on retail food markups will continue, we do expect a return to more profitable operations with a continued increase in sales and market penetration.

In Appreciation

The company extends its appreciation to its many employees for their dedication and loyalty during the past year.

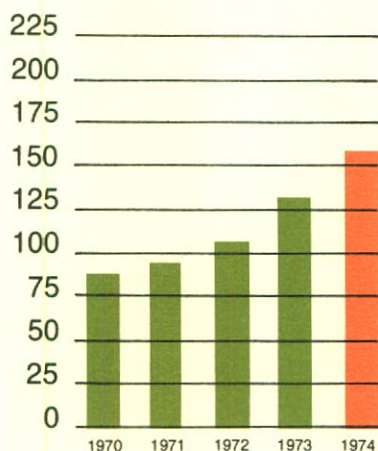
FRANK H. SOBEY
Chairman of the Board

WILLIAM M. SOBEY
President

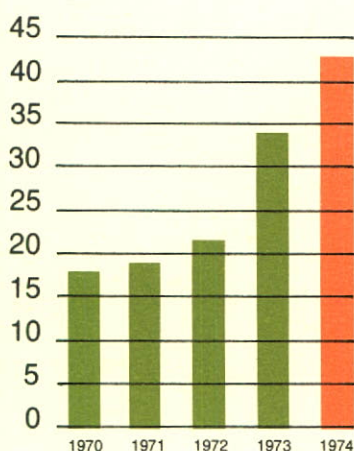
Consolidated Five Year Review

**SOBEYS STORES LIMITED
AND SUBSIDIARY COMPANIES**

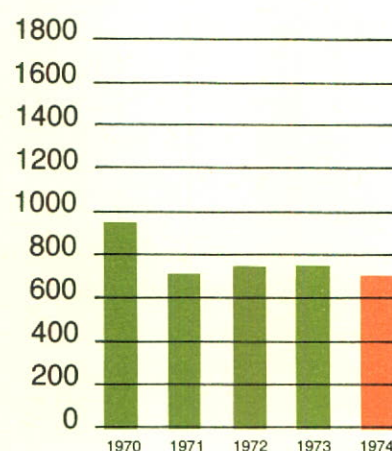
Sales
(millions of dollars)



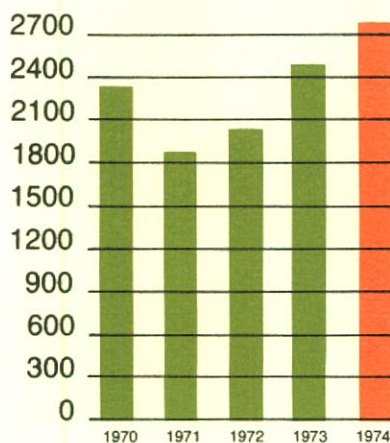
Fixed Assets
(millions of dollars)



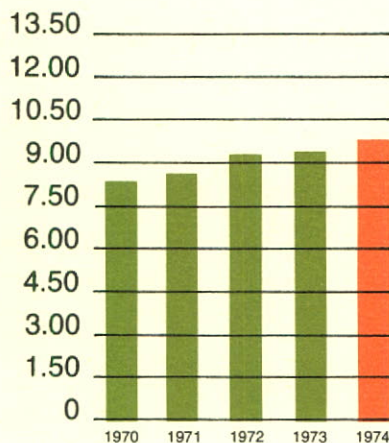
Net Income
(thousands of dollars)



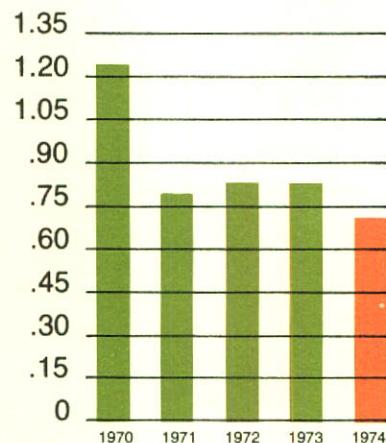
Cash Flow
(thousands of dollars)



Equity Per Share
(dollars)



Earnings Per Common Share
(dollars)



Consolidated Statement of Earnings

**SOBEYS STORES LIMITED
AND SUBSIDIARY COMPANIES**
Year Ended May 4, 1974

	1974	As restated 1973
Revenue		
Sales	\$151,926,711	\$126,840,290
Rentals	5,107,391	2,878,829
	157,034,102	129,719,119
Cost of sales, selling and administrative expenses	151,567,983	125,852,152
	5,466,119	3,866,967
Depreciation	1,629,666	1,244,903
Interest on long term debt	2,278,745	1,140,067
Interest on current debt	562,978	329,892
	4,471,389	2,714,862
Earnings before other items	994,730	1,152,105
Other items (Note 6)	87,050	129,482
Earnings before income taxes and minority interest	1,081,780	1,281,587
Income taxes (Note 7)		
Current	215,427	93,826
Deferred	341,459	418,987
	556,886	512,813
	524,894	768,774
Minority interest	99,696	26,282
Net earnings before extraordinary item	425,198	742,492
Extraordinary item (Note 1)	217,831	
Net earnings	\$ 643,029	\$ 742,492
Earnings per common share before extraordinary item	\$.45	\$.85
Extraordinary item	.28	
Earnings per common share	\$.73	\$.85
Cash flow per share	\$ 3.49	\$ 3.12

Consolidated Statement of Retained Earnings

SOBEYS STORES LIMITED
AND SUBSIDIARY COMPANIES
Year Ended May 4, 1974

	1974	1973
Balance, beginning of year		
As previously reported	\$4,850,627	\$5,850,606
Adjustment of prior years' income taxes	307,610	307,610
As restated	4,543,017	5,542,996
Net earnings	643,029	742,492
	5,186,046	6,285,488
Dividends paid		
Preference	80,174	83,327
Class "A" common	208,344	208,344
Class "B" common	76,200	101,600
Redemption of preference shares	55,500	44,620
Excess of cost of investments over book value on acquisition	(91,501)	1,304,580
	328,717	1,742,471
Balance, end of year	\$4,857,329	\$4,543,017

Consolidated Statement of Source & Application of Funds

**SOBEYS STORES LIMITED
AND SUBSIDIARY COMPANIES**
Year Ended May 4, 1974

	1974	As restated 1973
Source		
Operations		
Net income	\$ 643,029	\$ 742,492
Depreciation	1,629,666	1,244,903
Deferred income taxes	341,459	418,987
Minority interest	91,146	17,732
	2,705,300	2,424,114
Decrease in mortgages, loans and notes receivable	13,404	37,497
Proceeds from long term debt		
Real estate	9,734,948	11,395,596
Merchandising		812,934
Minority interest	464,122	
Excess of net assets acquired over consideration paid	91,501	
	13,009,275	14,670,141
Application		
Net additions to property		
Real estate assets	8,741,972	9,388,297
Merchandising	2,547,106	4,108,393
Repayment of long term debt including current maturities	1,596,970	1,446,270
Redemption of preference shares	55,500	44,620
Dividends	364,718	393,271
Income tax reassessments	60,169	307,610
	13,366,435	15,688,461
Decrease in working capital	357,160	1,018,320
Working capital, beginning of year	1,152,877	2,171,197
Working capital, end of year	\$ 795,717	\$ 1,152,877

Consolidated Balance Sheet

ASSETS

Current

	1974	As restated 1973
Cash	\$ 3,106,843	\$ 2,689,449
Marketable securities, at cost (market value \$2,228,412; 1973 \$1,930,264)	1,670,760	2,027,189
Receivables		
Trade	3,633,496	2,424,916
Loans (Note 2)	2,213,097	1,867,018
Inventories, at cost	11,732,533	9,079,879
Prepaid expenses	562,818	420,598

22,919,547 18,509,049

Mortgages, loans and notes receivable

302,288 315,692

Real estate

Property, at cost		
Land and interest in land leases	2,571,015	1,453,688
Buildings and equipment	28,821,227	21,034,102
	31,392,242	22,487,790
Accumulated depreciation	1,243,973	562,362

30,148,269 21,925,428

Other assets 407,596 147,487

30,555,865 22,072,915

Merchandising property, at cost

Land	2,253,466	2,522,906
Buildings and parking facilities	4,706,256	4,346,541
Equipment	10,063,578	8,908,362
Leasehold improvements	2,068,147	1,384,304

19,091,447 17,162,113

Accumulated depreciation 5,875,609 5,122,737

13,215,838 12,039,376

\$66,993,538 \$52,937,032

The accompanying notes form part of this statement.

**SOBEYS STORES LIMITED
AND SUBSIDIARY COMPANIES**
Year Ended May 4, 1974

LIABILITIES

Current

	1974	As restated 1973
Bank indebtedness (Note 3)	\$ 4,076,595	\$ 2,802,707
Banker's acceptance	1,500,000	1,500,000
Other loans	70,000	465,000
Payables and accruals	15,342,557	11,472,274
Long term debt payable within one year	999,054	798,006
Income taxes payable	135,624	318,185

22,123,830

17,356,172

Long term debt (Note 4)

Real estate	24,649,690	15,848,470
Merchandising	6,208,773	6,872,015

30,858,463

22,720,485

Minority interest

858,000

302,732

Deferred income taxes

4,368,866

4,087,576

SHAREHOLDERS' EQUITY

Capital stock (Note 5)	3,682,530	3,738,030
Capital redemption reserve fund	244,520	189,020
Retained earnings	4,857,329	4,543,017
	8,784,379	8,470,067

\$66,993,538

\$52,937,032

Signed on behalf of the Board

FRANK H. SOBEY
Director

WILLIAM M. SOBEY
Director

Notes to Consolidated Financial Statements

1. Principles of consolidation

The consolidated financial statements include the assets, liabilities and results of operations of all subsidiary companies.

During the year the company, through a subsidiary, increased its interest in Canadian Shopping Centres Limited to 94.39% and acquired 90.3% of Johnson and MacDonald Limited. These acquisitions have been accounted for as purchases and consolidated from their respective dates of acquisition.

Total assets acquired	\$3,600,789
Adjustment to fair value	445,496
	<u>4,046,285</u>
Liabilities assumed	3,031,108
Minority interest	233,586
Consideration paid	690,090
	<u>3,954,784</u>
Excess of net assets acquired over consideration paid, credited to retained earnings	<u>\$ 91,501</u>
Consideration paid	
Cash	\$ 91,800
Capital stock	598,290
	<u>\$ 690,090</u>

The acquisition of Canadian Shopping Centres Limited resulted in a disposition by the company of approximately 8.61% of its interest in Atlantic Shopping Centres Limited. This disposition resulted in a gain which is included in income as an extraordinary item.

2. Short term loans

The company advances cash from time to time on a demand note basis at current bank rates of interest to Sobey Leased Properties Limited and other companies. It also advances funds without interest to these companies for their use in acquiring, constructing and leasing shopping centre properties for and on behalf of the company.

3. Bank loans

The bank loans are secured by an assignment of receivables and marketable securities.

**SOBEYS STORES LIMITED
AND SUBSIDIARY COMPANIES**
May 4, 1974

4. Long term debt

Real estate

Term financing

	1974	1973
9% second mortgage	\$ 1,050,000	\$ 1,050,000
7% note and mortgage payable	395,605	119,605
Construction demand loans and advances (prime rate plus 1 ³ / ₄ % to 2%)	5,671,108	5,214,014
	7,116,713	6,383,619

Permanent financing

10 ¹ / ₂ % first mortgage loan to December 15, 1974	108,433	
9 ³ / ₄ % first mortgage loan to April 15, 1976	236,030	240,841
9 ¹ / ₂ % first mortgage loan to February 15, 1977	3,381,368	3,420,635
7% debentures to April 1, 1980	280,000	
9 ³ / ₄ % debentures to January 15, 1981	500,000	
6 ¹ / ₄ % first mortgage sinking fund bonds to January 2, 1982	511,000	
6 ¹ / ₂ % first mortgage sinking fund bonds to October 1, 1982	167,500	
9% first mortgage loan to October 1, 1987	3,572,000	3,724,000
10% debentures to October 1, 1993	3,250,000	
9 ⁵ / ₈ % first mortgage sinking fund bonds to January 15, 1994	3,700,000	
9% first mortgage loan to July 30, 1997	2,400,000	2,500,000
	18,106,331	9,885,476
	25,223,044	16,269,095
Current maturities	573,354	420,625
	\$24,649,690	\$15,848,470

Debt retirement payments in each of the next five years are:

	Term	Permanent
1975	\$ 124,000	\$ 449,354
1976	1,560,000	491,796
1977	1,917,500	512,396
1978	1,414,635	532,692
1979	750,000	554,480

Notes to Consolidated Financial Statements

4. Long term debt (Cont'd)

Merchandising			1974	1973
Sinking fund debentures				
Series	Maturity			
C	4 ³ / ₄ %	September 1, 1975	\$ 230,000	\$ 245,000
D	6%	May 1, 1977	367,500	390,000
E	6%	March 1, 1981	610,000	640,000
F	6%	April 1, 1984	700,000	730,000
G	5 ³ / ₄ %	April 15, 1985	365,000	380,000
H	6%	November 1, 1985	760,000	790,000
I	7 ¹ / ₄ %	June 15, 1987	820,000	850,000
J	8 ¹ / ₂ %	March 1, 1989	850,000	880,000
			4,702,500	4,905,000
Loans				
9 ³ / ₄ % loan, maturing in equal annual installments to 1975			250,000	500,000
9 ¹ / ₄ % term loan to 1985			880,000	960,000
Bank loan			673,750	700,000
Mortgages, maturing 1973 to 1989 with interest rates at 6 - 10 ¹ / ₂ %			284,119	383,396
			6,790,369	7,448,396
Current maturities (including bonds held for sinking fund purposes)			581,596	576,381
			\$ 6,208,773	\$ 6,872,015

Long term debt retirement payments for the next five years are:
1975-\$581,596; 1976-\$532,700; 1977-\$618,200;
1978-\$296,200; 1979-\$296,700.

5. Capital stock

	1974	1973
Authorized		
250,000 6 1/4% cumulative redeemable preference shares of \$20 par value each, issuable in series		
750,000 Class "A" common shares without nominal or par value		
500,000 Class "B" common shares without nominal or par value		
Issued and outstanding		
62,774 (1973 - 65,549) preference shares, 1966 series	\$1,255,480	\$1,310,980
520,860 Class "A" common shares	1,739,850	1,739,850
254,000 Class "B" common shares	687,200	687,200
	\$3,682,530	\$3,738,030

**SOBEYS STORES LIMITED
AND SUBSIDIARY COMPANIES
May 4, 1974**

5. Capital stock (Cont'd)

The 1966 series preference shares may be called at par at any time. The company is required to provide a \$30,000 fund each year, from which shares may be purchased for redemption. During the year, 2,775 shares were purchased and cancelled, reducing the preference capital to \$1,255,480 and \$55,500 has been transferred to the capital redemption reserve fund.

The company has reserved a maximum of 20,000 unissued Class "A" common shares to satisfy the conditions relating to share purchase warrants issued with the sinking fund debentures, Series J. These share purchase warrants entitle the bearers thereof to purchase 20,000 Class "A" common shares at the subscription price of \$12 per share up to March 1, 1979. If these warrants were exercised, earnings per share would be diluted by \$.02.

6. Other items

	1974	1973
Gain on sale of property and investments	\$234,803	\$129,482
Store opening costs and provision for store closing costs	147,753	
	<u>\$ 87,050</u>	<u>\$129,482</u>

7. Income taxes

As at May 4, 1974 the company and its subsidiaries had accumulated losses of approximately \$1,060,000 which may be applied to reduce future income taxes payable. It is anticipated that these losses will be applied to income in 1975 and the income tax effect will be recorded at that time.

8. Long term leases

During the year the company paid \$2,015,998 in rentals under lease agreements extending beyond five years from the balance sheet date. The company also received \$5,087,577 rental income as lessor under long term leases.

Notes to Consolidated Financial Statements

9. Contingent liabilities

Guarantees

The company has undertaken by separate agreement to provide cash to meet any obligations which Sobey Leased Properties Limited are unable or fail to meet, with respect to their debenture debt, until all of their debentures have been paid in full in accordance with their terms. Any deficiency payment made by the company will be in consideration of the issue to it of an appropriate number of fully paid and non-assessable 6% redeemable, non-voting preference shares of the company. At balance sheet date the aggregate outstanding principal amounts of these debentures is \$1,715,000.

The company has guaranteed bank loans with an outstanding balance of \$2,300,000 to Foord Construction Limited, for the construction of buildings on behalf of the company and its subsidiaries, bank loans of \$239,000 for Sobey Leased Properties Limited and bank loans of \$1,150,000 for Granville Developments Limited, a joint venture for the development of a shopping centre project.

Outstanding contracts

A subsidiary company has contracted for the construction of additional buildings in the amount of \$1,846,787. At May 4, 1974 costs of this project amounted to \$558,403 and are included in the cost of buildings. Medium term financing has been arranged for these projects.

10. Other matters

Subsequent to the year end of a subsidiary company, certain of its inventories, buildings and equipment were destroyed by fire. At the subsidiary's year end the book value of the assets destroyed was \$1,562,000. These assets were insured, business interruption insurance was in effect, and no losses are anticipated.

11. Directors and officers remuneration

Total remuneration to the officers and directors of Sobeys Stores Limited and subsidiary companies for the year was \$382,920.

12. Comparative figures

The figures for the previous year have been reclassified, where necessary, to conform with the current year's presentation.

Auditors' Report

To the Shareholders of
Sobeys Stores Limited

We have examined the consolidated balance sheet of Sobeys Stores Limited as at May 4, 1974 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination of the financial statements of Sobeys Stores Limited and those subsidiaries of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the report of the auditors who examined the financial statements of the subsidiary company, Lumsden Brothers Limited.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at May 4, 1974 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

H. R. Doane and Company
Chartered Accountants

New Glasgow, Nova Scotia
June 28, 1974

Consolidated Ten Year History

SOBEYS STORES LIMITED AND SUBSIDIARY COMPANIES

Operations	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965
Depreciation	\$ 1,629,666	\$ 1,244,903	\$ 1,006,834	\$ 937,992	\$ 759,471	\$ 664,027	\$ 577,885	\$ 528,809	\$ 527,106	\$ 440,469
Interest on long term debt	2,278,745	1,140,067	748,739	805,987	436,941	328,009	312,920	263,076	248,133	191,274
Cash flow	2,705,300	2,424,114	2,074,443	1,826,278	2,347,505	2,105,345	2,016,951	1,579,791	1,336,179	1,058,760
Income taxes	556,886	512,813	389,924	371,031	700,006	640,044	638,715	491,708	431,455	387,988
Gain on sale of fixed assets and investments	234,803	129,482	165,409	165,841	285,377	130,308	106,183	200,411	214,961	50,593
Net income after provision for income taxes	643,029	742,492	742,959	677,503	988,337	829,712	807,764	752,952	664,315	508,179
Shareholders information										
Cash flow per share	3.49	3.12	2.68	2.42	3.20	2.87	2.73	2.20	1.90	1.56
Equity per share*	9.72	9.24	9.15	8.89	8.44	7.73	8.35	7.81	6.76	5.72
Preferred share dividend	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%		
Common share earnings	.73	.85	.85	.78	1.23	1.01	.98	.98	.97	.75
Common A share dividend	.40	.40	.40	.39	.36	.36	.32	.32	.27	.25
Common B Share dividend	.30	.40	.40	.39	.36	.36	.32	.32	.27	.25
Average number of common shares outstanding**	774,860	774,860	774,860	753,860	732,860	732,860	729,860	716,860	693,430	680,000
Financial position										
Working capital	795,717	1,152,877	2,325,738	2,299,736	1,269,225	1,764,079	1,641,712	457,993	1,747,417	1,359,101
Fixed assets	43,364,107	33,964,804	21,860,504	19,160,180	18,240,269	13,695,220	12,686,570	12,111,762	7,870,999	6,637,985
Long term debt	30,858,463	22,720,485	12,409,322	10,050,998	8,747,689	5,875,562	5,056,059	4,384,680	4,416,000	3,619,000
Net tangible assets per \$1,000 debenture	4,114	3,735	3,533	3,300	3,116	2,729	2,908	2,944	2,179	2,203

*1972 and prior years restated for excess of cost of investments over book value on acquisition written off.

**adjusted for stock split

