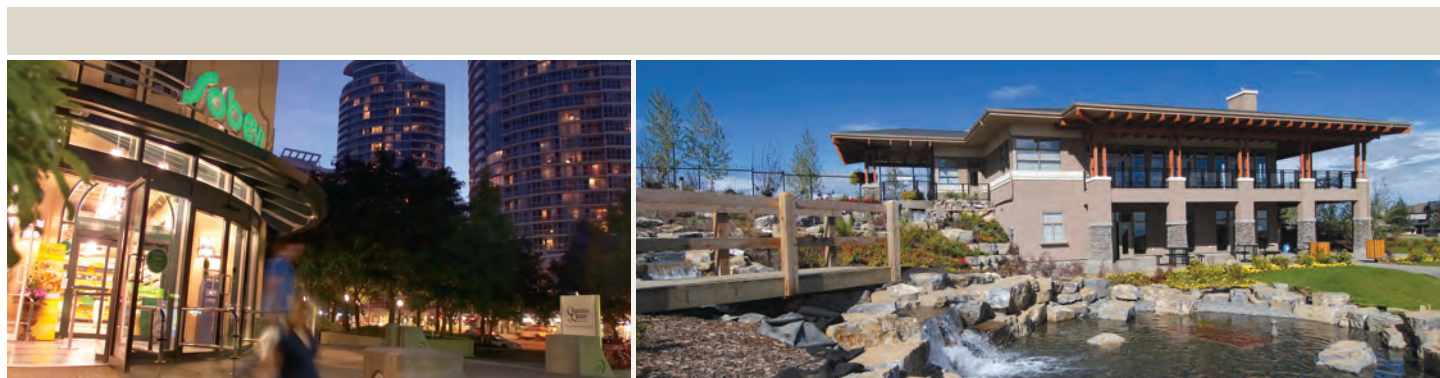


# Expanding Value in 2006

Each of our businesses expanded its horizons in fiscal 2006: in real estate we launched Crombie REIT, Sobeys continued its network expansion – particularly in Ontario and Quebec, Empire Theatres more than doubled in size – and became a coast-to-coast Canadian player – with a major acquisition, and Wajax successfully converted to an income fund.



For Empire, fiscal 2006 was a strong year by every measure – with good returns to shareholders and a solid financial performance by our core businesses. As well, it was a year of change and expansion as we proceeded with major value creation initiatives in each of our businesses:

- in real estate, we saw the creation of Crombie REIT, and the reorganization of our real estate development business to ECL Properties;
- in our theatre business, Empire Theatres more than doubled in size with the acquisition of 28 movie-theatres (206 screens);
- in food retailing, Sobeys continued its aggressive focused on food growth strategy, bringing total investment in its store network and infrastructure to over \$1.6 billion in the past three years; and
- in investments, Wajax converted to an income fund.

Each of these moves represented an investment in the future, which is expected to bring increasing value to shareholders over time. While building for tomorrow, we also significantly expanded value in fiscal 2006.

## Financial highlights of fiscal 2006

For fiscal 2006, Empire posted record results in revenues and operating earnings. Our revenues grew by 5.8% to reach \$13.1 billion, operating earnings grew by 10.4% to reach \$202.0 million or \$3.07 per share. Dividends paid to common shareholders increased by 16.7% and book value per share grew by 15.1%. We are also pleased to see that the returns enjoyed by our shareholders once again reflect the strong underlying performance of the Company, with the total return to shareholders equalling 19.6% in fiscal 2006.

## Expanding our operations

When Empire became a public company in fiscal 1983, our core businesses were centered in Atlantic Canada. As we have grown, we have expanded our geographic horizons and markets – most emphatically when Sobeys acquired the Oshawa Group in 1998, and became a leading national grocer.

Geographic expansion opens up new market opportunities, as well as mitigating risk through market diversification. This is true for Empire as a whole and

# 20%

Total return to shareholders  
in fiscal 2006.



Paul D. Sobey  
President and C.E.O.,  
Empire Company Limited



for each of our core companies. A common thread of the major initiatives mentioned above is that each has facilitated further geographic expansion in Quebec, Ontario and Western Canada. As well, as each of our core businesses expands, all benefit from the depth of local market knowledge acquired.

#### Expanding value and opportunities in real estate

The launch of Crombie REIT was a major undertaking – one that we have considered and weighed for some time. In the final analysis, we saw the creation of a REIT as the best way to extract as well as add value for shareholders. By selling our major commercial property portfolio to Crombie REIT, we benefited shareholders in several ways:

- We freed up capital, for reinvestment in our other businesses;
- We secured long-term cash flow in the form of monthly distributions, through the 48.3% ownership position that we retained in Crombie REIT;

- We provided Crombie REIT with a structure which will enable it to broaden its access to capital markets and focus on expanding its proven anchored strip centre model across Ontario and Western Canada;
- We established ECL Properties as a focused commercial property development company;
- We have continued important strategic alliances and opened up mutually attractive expansion opportunities for Crombie REIT, Sobeys, and for ECL Properties, which will be the property development pipeline for our businesses.

Over time, we have seen the benefit of expanding our real estate presence in Canada. Our equity investment in Genstar – a major residential developer in Western Canada – has delivered outstanding results and provided the opportunity of participating in the real estate boom in that region.

**Bill M'Ewan**  
President and C.E.O.,  
Sobeys Inc.



**Frank C. Sobey**  
President,  
ECL Properties Limited



**Stuart G. Fraser**  
President and C.E.O.,  
Empire Theatres Limited



### Doubling the size and scope of Empire Theatres

With the acquisition of 28 movie-theatres in the second quarter of fiscal 2006, Empire Theatres moved from being primarily in Atlantic Canada to a coast-to-coast national theatre operator, with half of its theatres located in Ontario and Western Canada. The size of Empire Theatres more than doubled, to close to 400 screens. This expansion was as material for our theatre business as the Oshawa Group acquisition was for our grocery business eight years ago.

While expanding geographic markets and long-term growth opportunities, the acquisition has provided Empire Theatres with the opportunity to achieve economies of scale, improve purchasing power and represents a new platform for growth coast-to-coast.

Empire Theatres is well managed with an excellent brand, and is well positioned to accelerate its growth and long-term contribution to shareholder value.

### Ongoing expansion of Sobeys

Three years ago, Sobeys – having integrated its acquisition of the Oshawa Group – embarked on a food focused growth strategy. Sobeys consolidated its banners, improved its food offering, and invested in improving and upgrading its store network and infrastructure.

This has been a major investment – \$1.6 billion in the past three years. The progress has been strong – with the addition of 2.8 million square feet, the opening, and/or expansion and renovation of 372 stores, the introduction of new efficiencies, investment in competitive pricing, the launch of Business Process Optimization, and the launch of the exclusive and unique *Compliments* private label.

Same-store sales rose an industry leading 4.0% in fiscal 2006. Sobeys' sales increased \$664 million and net earnings reached \$189.4 million or \$2.90 per Sobeys' share – both at record levels. Over the years, Sobeys has expanded in its major markets – in Western Canada, Ontario, Quebec and Atlantic Canada. This expansion has been highly focused, with specific strategies for every region and community served. In the highly competitive Ontario market, for example, Sobeys has developed flexible and non-traditional store formats for penetration of Toronto and other urban markets.

### Expanding value in our Investments

Empire's investment portfolio continued to generate strong returns, posting a total investment return of 25.8% for the twelve months ended March 31, 2006. Over the past four years the investment portfolio has generated an annual compound rate of return of 17.6% compared to 13.5% for the S&P/TSX Composite Index and -3.0%

**Paul V. Beesley**  
Executive Vice-President,  
Chief Financial  
Officer and Secretary,  
Empire Company Limited



**John G. Morrow**  
Vice-President and Comptroller,  
Empire Company Limited



**Stewart H. Mahoney**  
Vice-President, Treasury  
and Investor Relations,  
Empire Company Limited



**Carol A. Campbell**  
Vice-President,  
Risk Management,  
Empire Company Limited



for the S&P 500 Index in Canadian dollars over the same time period.

We remain committed to a high quality, liquid investment portfolio. Our goal is that our investment portfolio not only delivers above median return performance but provides added financial flexibility to support and expand value in our core operating businesses. During fiscal 2006, we allocated \$40 million in investment capital to assist in the funding of the acquisition of 28 movie-theatres by Empire Theatres and allocated a further \$50 million in investment capital to purchase 1.3 million additional common shares of Sobeys – increasing Empire’s ownership interest from 68.4% to 70.3%.

#### Capital allocation: a focus on our core businesses

We have had a very disciplined approach to capital allocation – focusing on our core businesses, which are businesses we know and understand – with a particular focus on our primary food business. Over time, the bulk of our investments have been in these businesses, and we allocate capital according to the demonstrated needs and opportunities that each presents.

Our long-term track record and legacy of value creation indicates that our approach to capital allocation is successful, and we have been focused on maintaining the financial flexibility and the resources to build the value of our core businesses.

Empire today is a leading corporation, with over 37,000 employees across Canada. But as we have grown and changed, we have never lost touch with our small town roots in Atlantic Canada. Next year, we will be celebrating the 100<sup>th</sup> anniversary of the Sobeys’ grocery business – an extraordinary achievement. We are very proud of the legacy that has been built over the decades, by generations of dedicated employees, franchisees and affiliates. By building on our legacy, investing in our businesses and always taking a long-term view, we are confident that we will be expanding value for generations to come.

**Paul D. Sobey**  
President and C.E.O.,  
Empire Company Limited