

Steady progress

Empire achieved another record performance in fiscal 2010. Revenues increased 3.3 percent to \$15.5 billion and operating earnings were up 8.7 percent to \$284.5 million or \$4.15 per share. Our ability to sustain growth in the midst of a serious economic downturn was made possible by the important decisions we took over the past few years to trim our investment portfolio and redeploy capital to support our increased focus on food retailing and related real estate. Despite the turbulence in the broader economy, our core businesses delivered stable cash flow and earnings and they continue to represent our best prospects for steady, long-term growth.

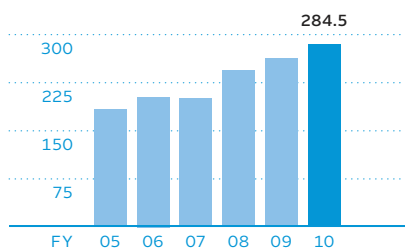
At the same time, we have strengthened our balance sheet which had been leveraged to finance the privatization of Sobeys and other strategic transactions. Over the years, we have accessed credit markets when it made sense to do so in support of compelling growth opportunities. Equally important however, we have prudently retired debt with discipline, when deemed appropriate, and this past year was no exception. Aided by another year of strong cash flow in our food retailing business, Empire improved its ratio of funded debt to total capital from 32.7 percent to 29.3 percent by fiscal year-end. Improvements in Sobeys' financial condition and strong operating performance during fiscal 2010 secured credit rating upgrades from both Standard and Poor's and DBRS credit rating agencies, with each rating Sobeys as investment grade. Sobeys is now well positioned to access longer-term credit at more favourable costs going forward and has done so with its \$150 million Medium Term Note issue completed in June 2010.

Focused on being the best...together

Sobeys posted another record operating performance this past year as the company continues to work towards its goal to be widely recognized as the best food retailer in the country. Sales increased 3.2 percent to \$15.2 billion and net earnings increased 15.3 percent to \$262.8 million. For the fifth consecutive year, Sobeys also achieved strong same-store sales growth.

These results reflect Sobeys' ongoing progress in building a healthy and sustainable retail food business and infrastructure for the long term, including the continued modernization and expansion of its retail store network. During fiscal 2010, Sobeys invested \$341.4 million to enhance its ability to better serve the needs of its customers, opening or relocating 41 stores, expanding 13 stores and closing 52 stores for a net increase of 0.6 million square feet across the country. Over the last five years, Sobeys has invested more than \$2.0 billion in its store network and supporting infrastructure. Today a significant majority of our stores are at a standard we consider current.

Consolidated Operating Earnings (\$ in millions)



Over the last five years, Empire has its grown operating earnings by **more than \$100 million.**



“Moving forward, we will continue to focus our energy and resources on the businesses we know best – food retailing and related real estate.”

Paul D. Sobey
President and CEO
Empire Company Limited

Equally important are the investments Sobeys has made in business process improvements and in the engagement and training of employees. Several years ago, Sobeys began the migration of several legacy information systems to an enterprise wide, integrated SAP platform. This very significant upgrade enabled the implementation of an advanced point-of-sale information system that now serves as the foundation for a growing range of customer information, sales applications and productivity tools. These include Work Force Management, which facilitates better control of the significant cost and service delivery requirements of our business by scheduling our people in closer alignment with customer shopping patterns. Fresh Item Management, another important SAP-enabled productivity tool, allows for better planning, ordering and production of fresh products to reduce waste without compromising quality or consistency. In addition, Computer Automated Ordering, an advanced forecasting system that has improved our ability to manage inventory more precisely to minimize product out-of-stocks, is beginning to roll out across the company.

The standardization of our business systems has also enabled systematic upgrades in our supply chain which have lowered distribution costs while allowing store personnel to spend less time replenishing inventory and more time serving our customers. Our newest distribution centre in Vaughan, Ontario is the latest advancement along a journey of continuous supply chain improvement. The first of its kind in Canada, it incorporates an automated warehouse and picking system that has markedly reduced order selection time, improved selection accuracy and lowered overall distribution costs. We are just beginning to realize the potential of this facility to

assemble and ship tailored assortments on a store-by-store basis, thereby minimizing the need for individual store deliveries by our suppliers.

Another example of Sobeys' continued investment in technology can be found in the Lawtons drugstore division which has successfully implemented Parata Max in its newest location, a next-generation robotic dispensing technology which increases patient safety and decreases customer wait times for prescriptions – the first of its kind in Atlantic Canada. Lawtons also uses robotics for both packaging and content verification to better serve our long-term care customers. These technologies not only enhance efficiency and safety mechanisms, but allow our pharmacy team to provide more consulting and counseling services to our customers.

Over the past several years, Sobeys has begun to shift from mass marketing to a more localized approach that considers the unique characteristics of our customers across Canada. Our business process and systems upgrades will enable the important next stage in this process which is all about customer individualization. Sobeys' industry-leading Customer Insight Solution (“CIS”) is at the heart of our efforts to connect more directly with our customers.

Drawing upon millions of individual customer transactions captured every day through the Club Sobeys, Club Thrifty Foods and AIR MILES® rewards programs, CIS is providing unprecedented insight into the behaviours, motivations and unique shopping occasion requirements of our customers. The combined learning is being used to refine our decision-making processes in marketing, merchandising and throughout the business to create a more intimate, relevant and efficient offering and shopping experience for our customers.



“Our progress and success thus far in pursuit of our goal to be widely recognized as the best food retailer in the country tells us we are on the right course. We will continue to build a healthy infrastructure to support our long-term sustainable growth.”

Bill McEwan
President and CEO
Sobeys Inc.

“Empire’s real estate strategy has increased its focus on supporting the growth of our food retailing business. Our strategy relies firmly on Sobeys’ substantial in-house expertise in site selection and property development and Crombie REIT’s excellence in property management.”

Frank C. Sobey
President
ECL Properties Limited

Sobeys’ customer insight capabilities have also enabled implementation of leading sales productivity tools including Retail Price Optimization and Market Basket Analytics. Retail Price Optimization is an advanced retail modeling and forecasting technology that allows better understanding of the decisions shoppers are making and helps to create a product and pricing mix that will optimize sales and profitability over time. Market Basket Analytics is an associated sales tool that provides the intelligence to more accurately analyze the relationships between items that individual customers place in their shopping baskets and allows improved predictability about what other items they are most likely to purchase. This information is helping our category managers make more informed decisions on product assortment, placement, pricing and promotional activity.

In addition, these new tools and information capabilities have enabled the successful repositioning of our *Compliments* private label program. Re-launched in October 2009 with the benefit of the Club Sobeys, Club Thrifty Foods, and AIR MILES® rewards programs, the support of *Inspired* magazine and distinctive new packaging, our private label

program now more clearly communicates the qualities of Sobeys’ value-oriented, national brand-equivalent and affordable indulgence tiers. The significant enhancements to our *Compliments* and *Sensations* by *Compliments* private label brands as well as the conversion of our value tier to *Signal* are well underway and the response from customers across the country has been extremely positive.

While smart use of new technology is always important, the efforts are not just about providing tools and processes. Equally important is the ability to create a learning culture where employees are afforded the development opportunities to get the job done well, in line with our strategic objectives. There is a powerful winning spirit that has taken root at Sobeys and you can see it in the appearance of our stores, the presentation of our offering, the energy of our employees and most importantly, in the feedback from our customers.

There is no quick or easy path to sustainable success in the food retailing business. Our ongoing success depends on making steady progress along a continuum of change and challenge while prioritizing investments and initiatives, paying attention to details, and executing well and consistently.

We have more work to do in realizing Sobeys' goal of becoming widely recognized as the best food retailer in the country, but our success to date tells us we are well on course.

We are also pleased with the continuing progress of Empire's real estate division. During the past year, wholly-owned ECL Developments Limited worked hand-in-hand with Sobeys' national and regional site selection teams to support the growth of our food retailing operations. In fact, subsequent to year-end, we took this important relationship one step further by internalizing all site selection and development work for our food retailing network within Sobeys itself. During fiscal 2010, eight shopping plazas were completed – representing over 300,000 square feet of gross leasable area. Another 20 properties in our pipeline were in various stages of development at fiscal year-end. Of these properties, 80 percent are anchored by a Sobeys business.

Crombie REIT, in which Empire holds a 47.4 percent interest, has first option on these developments and purchased eight shopping plazas from Empire (75 percent of which are anchored by a Sobeys business) during the fiscal year for net cash proceeds of \$56.7 million. Crombie REIT's operating income contribution to Empire was \$18.6 million in fiscal 2010. We continue to be pleased with Crombie REIT's operating performance during their most recent fiscal year, as they recorded higher total property revenue and occupancy levels remained strong. We were also pleased to see the market price of Crombie REIT units increase by approximately 69 percent in fiscal 2010.

Genstar's operating income contribution to Empire was \$31.0 million compared to \$33.6 million in fiscal 2009. This contribution level was higher than expected, particularly given the weakness in Western Canada's housing market during most of fiscal 2010. Despite being a cyclical business, Genstar has provided attractive returns over time. Since purchasing our initial 35.7 percent stake in Genstar for \$29 million in January 2001, this investment has returned cash to date in excess of \$300 million. During fiscal 2010, we increased our investment interest in Genstar to 40.7 percent from 35.7 percent.

Investments and other operations

Wholly-owned Empire Theatres continued to generate same-theatre revenue growth in fiscal 2010 thanks to a steady stream of high-quality movie releases and ongoing efforts to improve our customers' entertainment experiences. Attendance was positively affected by the continuing roll-out of digital cinema and RealD 3D, and the growing popularity of 3D movie releases.

Wajax Income Fund reported that their financial performance in calendar 2009 was impacted by reduced economic activity which curtailed demand in the company's mobile equipment, industrial components and power systems businesses. We continue to believe Wajax is well managed and is financially well positioned to take advantage of growth opportunities as the economy continues to recover.

The promising road ahead

Moving forward, we will continue to focus our energy and resources on the businesses we know best – food retailing and related real estate. Our significant investment in Sobeys is evidence of not only our passion for food retailing but our belief in its potential for growth.

Sobeys' management team has skillfully directed the modernization of its store and distribution networks. They have continued to grow sales and profitability in a very competitive market by engaging employees and providing them the tools they need to deliver better value to the customer. We are very pleased with Sobeys' progress to date and we are confident the best is yet to come.

A word of thanks

On behalf of our shareholders, management, and our Board, we would like to pay special tribute to John Bragg, who will be retiring from the Board at our September 10, 2010 Annual General Meeting. John's counsel and advice over the past 12 years to our Board, management and the Sobey family, have been invaluable. We are deeply indebted to John for his wise counsel; indeed he has been a mentor to many of us in management and hopefully will continue to be in the future.

As always, the past year's success was made possible through the skill and dedication of our management teams, our franchise partners and affiliates, and the everyday efforts of approximately 90,000 people employed throughout our combined operations. With their support, and the continued loyalty of our suppliers, business partners and investors, I am confident Empire will extend its record of long-term value creation in the years ahead.



Paul D. Sobey
President and CEO
Empire Company Limited
June 25, 2010