

Empire has again reported record annual revenue and earnings from operations before net capital gain (loss) and other items. **Revenue of \$10.62 billion increased by \$698 million or seven percent while operating earnings of \$159.9 million grew by 11 percent to \$2.43 per share.** Most importantly, this financial performance has been achieved without sacrificing longer-term growth in shareholder value for a short-term win. Empire shareholders have been well-served by the Company's approach to growing value and we intend to stay the course.



left: paul d. sobey, president and ceo
right: donald r. sobey, chairman

Empire's continued growth in operating performance reflects our unwavering commitment to enhance the worth of the Company's net assets and ultimately, to have that value reflected in Empire's share price. At the same time, we are committed to maintaining a reliable and increasing dividend. We have been successful in growing both share price and dividends per share over the long-term. Over the last seven years, the total return to Empire shareholders has increased by an average 22.7 percent per year, including dividends which have grown by an average 17.4 percent per year over this same time period.

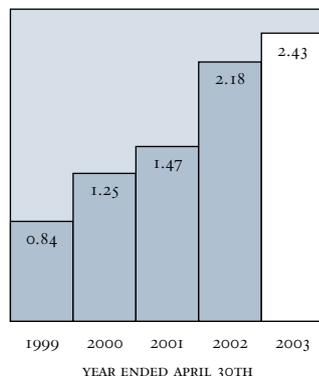
At its June 2003 meeting, the Board approved an annual dividend per share increase of 7 cents, bringing the annual dividend rate to 40 cents per share and marking the eighth consecutive year that the common share dividend has increased. This 21 percent dividend increase on both the Class A and Class B shares reflects the confidence your Board and management have in our operating businesses.

At Empire, we believe that management has three primary responsibilities:

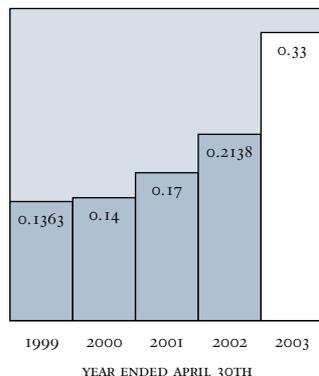
- *First, we must ensure that we have the best management operating the businesses we own or have an interest in.*

The results speak volumes. Sobey's is into its third year of new leadership. They have focused on enhancing the value of the business within their four walls like never before. They have pared the business to focus on the core operations. They set publicly articulated goals and went about the business of achieving them. Sobey's was able to maintain retail store service levels during a labour disruption at their Whitby, Ontario distribution centre, and for all concerned – our employees, franchisees, and customers – we are pleased that this issue was successfully resolved. We are also pleased to report that Empire's real estate and theatre divisions each had another record year.

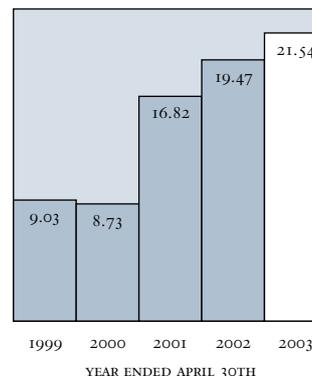
operating earnings per share before amortization of goodwill
(*\$ per share*)



common dividends per share
(*\$ per share*)



book value per share
(*\$ per share*)



- *Our second responsibility is to ensure that the financial structures of Empire and its subsidiaries facilitate growth while maintaining a conservative level of debt.*

Empire's debt to total capital has declined to 45.9 percent from 49.6 percent a year ago. Sobey's has continued its focus on strengthening its balance sheet, a fact recognized by the financial markets. On February 26, 2003, Sobey's became the first BBB rated Canadian company to access the 15-year term Medium Term Note market.

The real estate division has always had higher leverage reflecting the nature of its business with their debt to capital ratio declining from 75.3 percent a year ago to 71.5 percent. This division's debt is primarily self-amortizing through yearly sinking fund payments.

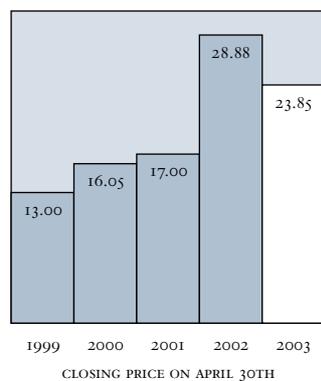
Finally, it is worth noting, that on occasion, we will leverage the Company at higher levels when the strategic and financial value proposition is compelling, as demonstrated with the Oshawa acquisition in 1998.

- *Our third responsibility is to allocate capital in a manner that maximizes longer-term shareholders' value.*

In the past three years, we have re-allocated approximately \$675 million in investment capital to both support the growth and development of our core businesses and to enhance Empire's net asset value. In addition, a significant amount of our operating businesses' cash flow is reinvested.

Of course, the manner in which we exercise these responsibilities also has an important bearing on Empire's long-term prosperity. The last several years have been a tumultuous time for the business world with the excesses and abuses at a few companies threatening to tarnish the reputation of all business leaders. Empire's Board of Directors continues its diligent work to ensure that the Company's corporate governance processes define clearly both the obligations of the Board to all shareholders and of management to the Board. Significant progress has been made over the last several years. For instance, Board and Committee mandates are reviewed regularly, the audit committee meets at least quarterly with the external auditor and without management present, and one Board meeting a year is principally devoted to strategic plans. You can read more about Empire's approach to corporate governance on page 18 of this report.

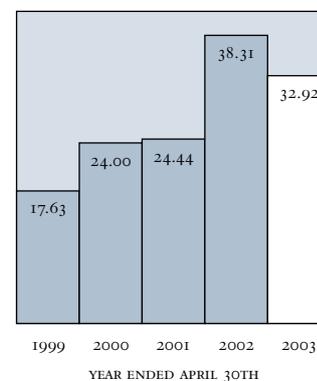
share price
(*\$ per share*)



empire total return*
vs. s&p/tsx composite
index total return



net asset value per share
(*\$ per share*)



Staying the Course

As a diversified holding company, Empire is committed to building sustainable shareholder value through long-term profitability and growth in its core operating businesses. Empire shareholders have been well-served over the long-term by our continued commitment to our core operating companies, while also maintaining a liquid investment portfolio with attractive yield and growth characteristics. Over the years, this portfolio has enabled Empire to take advantage of opportunities to accelerate the profitable growth of our core businesses.

We intend to stay the course by focusing our energies and capital on growing the long-term sustainable value in each of our core businesses - food distribution, real estate, and theatre operations. While each of these operations is attractive in its own right, together they also provide a significant degree of diversification by business line and market area. For Empire, the resultant benefits include an enriched earnings base, lower risk and volatility, and greater consistency in overall earnings growth.

Strength Throughout Our Operating Businesses

We continue to be pleased with the performance of Empire's major holding, Sobeys. Subsequent to year-end, Empire increased its ownership in Sobeys to 42.46 million common shares, approximately a 64.5 percent ownership position. In fiscal 2003, Sobeys sales rose 7 percent to \$10.4 billion, while operating income contribution to Empire increased 10 percent to \$324.7 million. Earnings growth fell marginally short of Sobeys 12 to 16 percent target due to the labour disruption at their Whitby, Ontario distribution centre.

We are pleased with how far our food distribution business has come, and are excited by what lies ahead. Today, Sobeys serves the needs of more than 900 communities across Canada with an increasingly modern retail network, state-of-the-art distribution facilities, an ambitious capital program, and a customer-focused workforce.

Sobeys accounted for \$110.4 million or 69.0 percent of Empire's operating earnings in fiscal 2003, up from \$86.8 million or 65.7 percent of total earnings last year.

the real estate division accounted for \$38.5 million or 24 percent of empire's operating earnings in fiscal 2003, up from a \$34.5 million operating earnings contribution last year.

Empire's real estate operations also enjoyed another record year. Thanks to strong contributions from the commercial real estate property portfolio and our 35 percent interest in Genstar, new records were posted for revenue, operating earnings, and funds from operations.

Real estate division revenues were ahead 7.3 percent to \$198.6 million, while operating income increased \$3.2 million or 3.2 percent to reach \$103.8 million. Occupancy levels during the year remained relatively unchanged and were 92.7 percent at year-end.

The real estate division accounted for \$38.5 million or 24.1 percent of Empire's operating earnings in fiscal 2003, up from \$34.5 million last year.

Wholly-owned Empire Theatres also posted new records for revenue and operating income, reflecting strong product quality during the year, along with management's continued focus on customer satisfaction and operational efficiency.

Fiscal 2003 was a challenging year for the equity markets and our investment portfolio did not escape the negative sentiments in the markets. At fiscal year-end, Empire's investments, consisting primarily of common equities, carried a market value of \$318.7 million against a book value of \$387.4 million. During fiscal 2003, total return on Empire's investments was negative 27 percent, resulting in unrealized losses at year-end of \$68.7 million.

While returns on investments were negative in fiscal 2003, over the last three-years the compounded return on the portfolio has significantly outperformed Canadian and U.S. equity indices and median manager performance. What's more, despite the recent performance of equity markets, we continue to believe that a prudently managed portfolio of high quality and liquid common equity investments will create superior after-tax returns relative to fixed income or money market investments.

Investments and other operations accounted for \$11.0 million or 6.9 percent of Empire's operating earnings in fiscal 2003, compared to \$10.9 million or 8.2 percent of total earnings last year.

Net capital loss and other items amounted to \$6.0 million during the year, primarily associated with the sale of investments. In the prior year, net capital gain and other items was \$63.7 million, including a \$50.0 million gain on the sale of discontinued operations.

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Looking Ahead

We continue to be very satisfied with the performance of each of our operating businesses and, despite economic and competitive challenges, are optimistic that we can continue to enhance our net asset value and earnings growth going forward.

We will remain focused on supporting profitable growth in each of our operating companies while also growing the long-term value of our investments. We believe that our strategy, combined with our proven ability to execute effectively across our core businesses - food distribution, real estate, theatres, and investments - creates a solid foundation for future growth.

Great People

The progress made during the past year is the direct result of the hard work of more than 35,000 employees, franchisees, and affiliates at Empire and its related companies. We offer a sincere thank you for their ongoing support of our strategies to grow value by making the customer our number one focus.

We would also like to acknowledge the contribution of James Moody who has provided distinguished service to the Empire and Sobeys Board of Directors for over the last 20 years. Jim will not be standing for re-election as a Director. We are deeply indebted to Jim for his wise counsel.

Finally, on behalf of the entire Board, we also wish to thank our customers, business partners, and shareholders whose support is so essential to Empire's success.



Paul D. Sobey
President and CEO
July 18, 2003



Donald R. Sobey
Chairman
July 18, 2003