SOBEYS

fiscal 2003 was a year of solid progress in sobeys' ongoing journey of building sustainable worth for its customers, its employees and franchisees, its suppliers and its shareholders. we are pleased with sobeys' accomplishments and know they are clearly focused on the road ahead. sobeys will continue to capitalize on their remarkable opportunity for growth.

Empire's food distribution business consists of its 62.0 percent ownership in Sobeys Inc. (subsequent to year-end the percentage ownership increased to 64.5 percent), one of the country's two national retail grocery and food distribution companies. Sobeys posted another solid performance in fiscal 2003, with sales rising 7.0 percent to $10.41 billion. As in the previous year, operating income contribution to Empire increased at a faster pace, rising by 10 percent to $324.7 million. Operating earnings totalled $179.0 million or $2.72 per share in fiscal 2003 compared to $161.6 million or $2.45 per share last year.

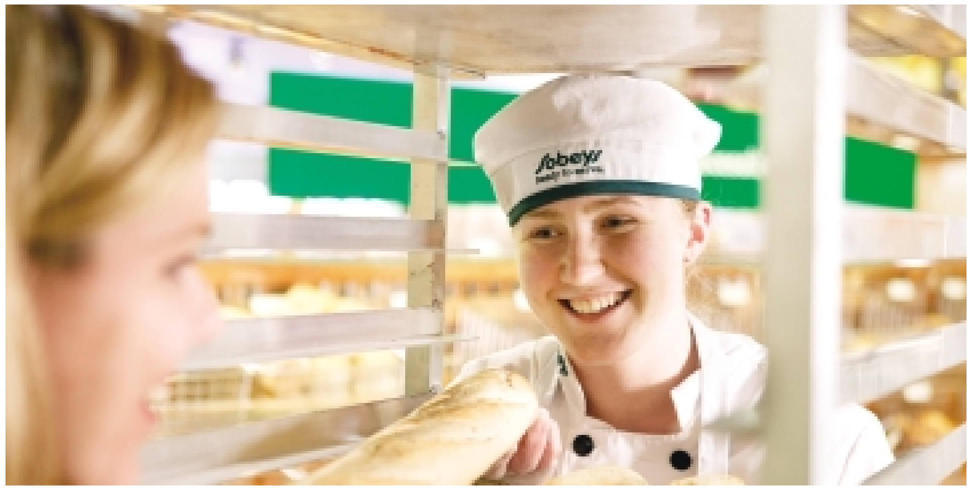
At the same time, rising cash flow from operations allowed Sobeys to continue the expansion and modernization of its retail network while maintaining a strong balance sheet. During the year, Sobeys' company-wide capital spending totalled $546 million while total funded debt increased by 12 percent or $61.8 million. At year-end, Sobeys' funded debt as a percentage of total capital had declined slightly – from 29.0 percent to 28.9 percent and debt to EBITDA remained unchanged at 1.3 times.

These results reflect a year in which Sobeys was able to meet most of its published financial and operating objectives for fiscal 2003, including six to eight percent sales growth. One important area in which the company fell short was operating earnings. On target to reach the high end of its 12 to 16 percent growth range at the end of the third quarter, a five-week strike at the Whitby, Ontario distribution centre that ended on May 6, 2003, adversely affected results. While this temporary disruption in Sobeys progress was unfortunate, detailed contingency planning enabled the company to provide its customers with excellent service during this labour disruption.

Sobeys' strategy for growth

Sobeys fiscal 2003 results reflect the continuing success of the company's efforts to expand the retail store network while satisfying a greater percentage of the requirements of customers in existing stores and markets. At the same time, Sobeys has remained focused on steady margin growth through productivity improvements and selling initiative. Five key strategic thrusts continued to guide management's efforts in each of these areas over the past year.

1. *Customer-centric focus* Since the 1998 acquisition of The Oshawa Group, Sobeys has made steady progress in integrating its operations, generating the synergies made possible by its new scale, optimizing core operations and investing in the modernization of its store and distribution networks. As a result, Sobeys' efforts at building sustainable worth have created a dynamic national retail grocery and food distribution company with a solid foundation for continuing growth. Last year, Sobeys began to embark on the newest stage of its development – the differentiation of the company's retail brands and formats. In fact, as exemplified by Ready to serve™ – a customer-focused range of initiatives that's aimed at more clearly differentiating its stores in the hearts and minds of Canadian consumers – Sobeys is now poised to fully capitalize on its growth opportunities.



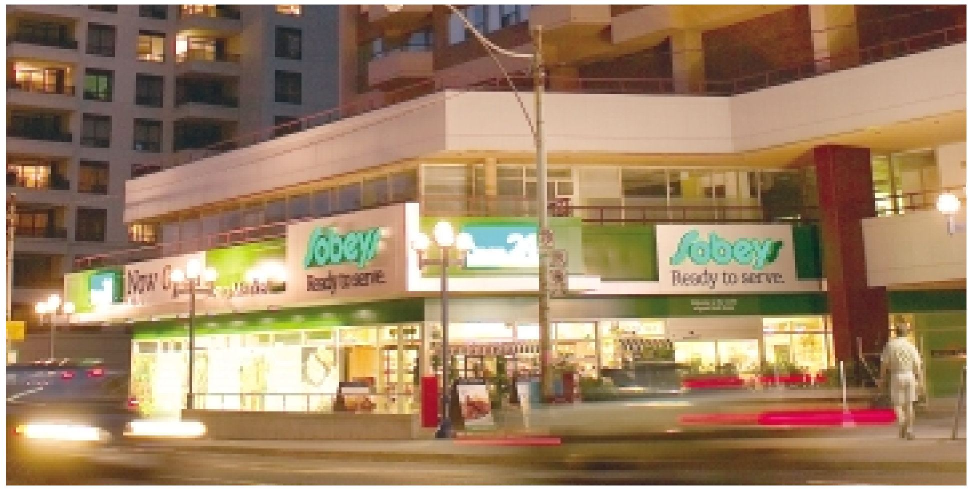
Much more than a new advertising slogan for the company's Sobeys banner stores, Ready to serve™ is an all-encompassing attitude and approach that Sobeys is adopting throughout the organization to create an unprecedented level of commitment to all stakeholders. Working together, the people at Sobeys are focused on creating and executing a service delivery attitude that is superior to anything else found in Canadian retailing. For Sobeys, that means being Ready to serve™ its customers' individual shopping experience expectations; its suppliers' appetites for long-term growth; its employees' and its franchisees' aspirations for a rewarding work and business environment; and our shareholders' expectations of ethical wealth creation. In short, Sobeys will Build Sustainable Worth by being Ready to serve™. In essence, being Ready to serve™ is the means by which Sobeys' overriding purpose of Build Sustainable Worth will continue to bear fruit.

Well-defined, well-communicated, and well-executed banners are an important part of the company's consumer-centric focus. For instance, the Sobeys banner is designed for success in the full-service segment of the market, with a focus on fresh-foods, high quality service and selection, unique regional products and a design and layout that makes shopping easier and more enjoyable for our customers. During the past year, the company strengthened both the positioning and critical mass of the Sobeys banner. In Ontario, 17 Garden Market IGA stores were converted to Sobeys and in Atlantic Canada, several Sobeys stores were refreshed with improvements in fresh merchandizing. Meanwhile, the introduction of Ready to serve™ in both regions has been driving higher operating standards, improved product quality and assortment, and a higher level of customer service in our stores.

A similar customer-centric focus has guided Sobeys' efforts in the full-service segment in Western Canada where the successful Garden Market IGA program was extended to 10 new communities. Sobeys also strengthened its full-service position in Quebec where customer research confirms IGA extra and IGA as the clear market leader for fresh foods, total shopping experience and share of customer requirements satisfied.

The same Ready to serve™ spirit extends to the resurgent Price Chopper format, which delivers everyday low prices and a fast, uncluttered shopping experience to the discount segment of the market. Sobeys continued to build the market presence of this important banner with the conversion of its Lofood stores and a number of both Foodland and Sobeys stores to Price Chopper in Atlantic Canada. We are pleased with the growth and success of the Price Chopper banner, and plan further expansion in the years to come.

Filling each banner with the right mix of products and services is critically important. By working more collaboratively with its suppliers, Sobeys continued to refine its retail product and service offerings during the year while minimizing purchasing costs and exceeding all of its C.O.R.E. national merchandising program objectives.



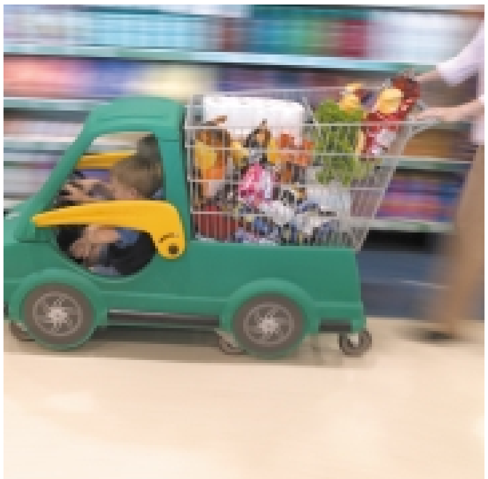
At the same time, Sobeys has maintained its commitment to retail brands, not in accordance with arbitrary volume targets but within the context of satisfying the greatest possible percentage of total customer requirements.

2. *Skilled and dedicated people* Sobeys' second strategic thrust is development of the best-informed and most engaged service people in the business. That's why the company continued to invest in the skills of its people – to demonstrate that Sobeys is Ready to serve™, that Price Chopper is The Smart Choice, that whatever the banner, Sobeys is dedicated to exceeding its customers' expectations for service and value. During the past year, Sobeys significantly increased its total investment in people with comprehensive initiatives in leadership and organizational development, customer service delivery, food handling and product knowledge. Sobeys has strengthened its leadership by redeploying management talent across regions and functions, and by recruiting new people. Sobeys superior franchisee system continues to employ and develop local talent who are uniquely equipped to serve the needs of customers in hundreds of communities across Canada.

3. *Disciplined cost management* Sobeys also remained focused on a series of efficiency initiatives during the past year designed to reduce selling, general and administrative costs. The year's major accomplishments included the implementation of a national distribution centre replenishment system, a best practice adopted from our Western region. Beyond improved service levels and purchase price optimization, Sobeys expects significant annualized working capital improvements as a result of the business process improvements enabled by this replenishment technology.

4. *Intelligent investment* At the same time, Sobeys is committed to balancing steady earnings growth with its determination to harness the full potential of the business over the long-term by modernizing and expanding its store base. During the year, total company-wide capital spending reached $546 million, 85 percent of which was directed at their retail stores. A total of 45 corporate and franchise stores were opened or replaced and another 16 were expanded. This added an additional 1.44 million square feet of retail space and brought the company's total retail space up to 22.6 million square feet, a net 4.0 percent increase over the previous year.

Sobeys has also ensured that the national distribution network keeps pace with the growing demands of its retail operations. During the year, Sobeys completed the expansion of its Edmonton distribution centre, opened a new fresh food distribution centre in Montreal, expanded freezer capacity at its Milton and Whitby, Ontario sites, and commenced expansion of its distribution centres in Debert, Nova Scotia and St. John's, Newfoundland.



5. Results through performance management Sobeys fifth strategic thrust is the ethical achievement of results through consistent performance management. At Sobeys, authority, responsibility and accountability for the ethical achievements of results are mandated clearly and are measured both collectively and individually.

In addition to meeting its published target of six to eight percent revenue growth, Sobeys performed very well against a wide range of financial and operating objectives during the past year.

Outlook

Sobeys continued to make significant progress in fiscal 2003. The company's efforts to build sustainable worth for all of its stakeholders have taken hold and continue to gain momentum. Today, the company serves the needs of more than 900 communities across the country with an increasingly strong retail network, upgraded distribution facilities, a focused capital investment program, and a customer-centered workforce that continues to build upon an enviable reputation for service. With a clear strategy in place, Sobeys is more focused on the marketing and merchandizing programs that will continue to differentiate its formats and banners than ever before. We expect that Sobeys will continue to achieve revenue and earnings growth in the year ahead.

REAL ESTATE

the real estate division continued to strengthen and diversify its asset portfolio in fiscal 2003, resulting in a record financial performance. looking ahead, the real estate business is positioned for continued growth thanks to the strength of its people, high quality, well-located properties, and a clear growth strategy.

Empire's real estate operations are focussed on the development and management of a portfolio of properties primarily located in Atlantic Canada. With 12.2 million square feet under ownership at the end of fiscal 2003, the real estate group owns and operates Crombie Properties Limited ("Crombie") (formerly Atlantic Shopping Centres) and Sobey Leased Properties Limited ("SLP").

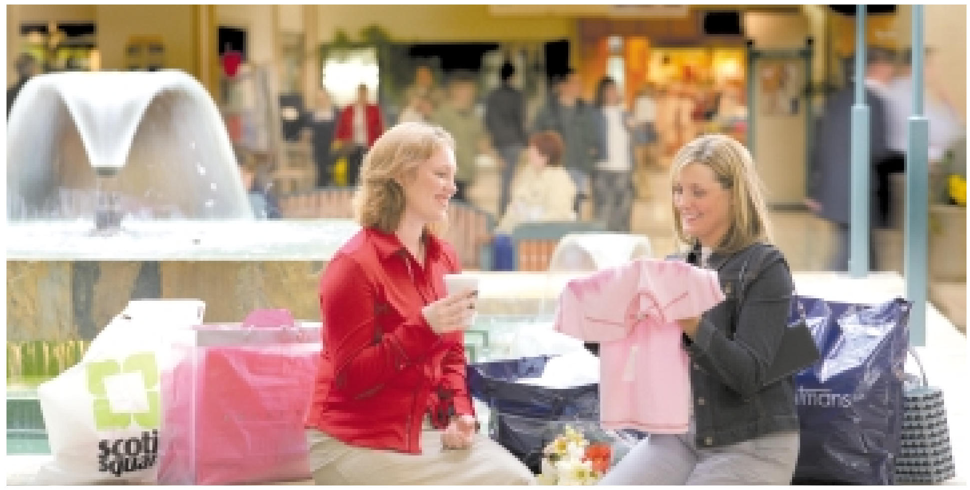
Today, 10.6 million square feet or 87 percent of the gross leasable area in our real estate portfolio is retail space, of which 40 percent is leased to an Empire-affiliated company. The retail segment includes 32 shopping centres owned and managed by Crombie, representing 6.1 million square feet. Crombie also owns and manages 9 office properties representing 1.6 million square feet or 13 percent of gross leaseable area. SLP owns and manages 4.5 million square feet, mainly free-standing food stores and food stores with attached plazas. Crombie also provides storage space, through Atcan self storage, in four locations and has three under development, mostly in Atlantic Canada. The real estate group, through its 35 percent interest in Genstar, participates in the residential property development market through its ownership of approximately 7,000 acres in Vancouver, Calgary, Edmonton, Winnipeg, and parts of Southern Ontario.

The real estate growth strategy is clear: to increase rental operating margin through active management of the existing property portfolio while also pursuing accretive property acquisitions and developments in Ontario and, in the future, Western Canada. The primary goal is to contribute to Empire's long-term growth in shareholder value through meaningful real estate income and cash flow growth and accretive asset appreciation.

Crombie has demonstrated its competency in acquiring and managing anchored strip centres and will continue to grow by developing and buying individual sites and portfolios of anchored strips. When possible, Crombie will develop properties with Sobeys as anchor tenant. SLP has head-leased all of its real estate to Sobeys on a basis that fully amortizes all property debt; growth is built in as the debt is repaid and the underlying real estate appreciates in value, year by year, to the benefit of Empire. Genstar will continue to offer a window on growth in residential development, primarily in Western Canada, and with potential opportunities in the United States.

Empire's real estate division posted record financial performance in fiscal 2003. Revenue totalled $198.6 million, an increase of 7.3 percent over fiscal 2002, while operating income grew by 3.2 percent, to $103.8 million. In fiscal 2003, real estate contributed 23 percent of Empire's consolidated operating income and 24 percent of Empire's operating earnings. Funds from operations – operating earnings plus depreciation – totalled $53.7 million, up 11.4 percent over the same period last year.

The improved real estate financial performance is the direct result of three factors: first, a strong contribution from Genstar; second, successful re-development activity; and third, higher net effective rental rates and ongoing strict cost controls.



We have been very pleased with the contribution in fiscal 2003 from our investment in Genstar. Residential lot sales have been strong throughout the cities where Genstar has land, but particularly in Calgary and Edmonton, where the majority of land is held for development.

With respect to re-development activity, in order to maximize the potential of existing real estate assets, a number of enclosed mall locations have been slated for re-development into strip centres. In these particular locations this conversion provides a more efficient use of space and gives clients better access and marketing visibility. Over the last few years, Crombie has been successful with such conversions; examples include the redevelopment of the Aberdeen Mall in New Glasgow, N.S. into a business centre and conversion of the Loch Lomond Mall in Saint John, N.B. into a call centre. Other retail space has been successfully re-developed into new, state of the art call centre locations. We now have 23 call centres under lease.

In fiscal 2003, major projects included the completion of the re-development of the Carleton Mall in Woodstock, N.B. and the major expansion for Zellers, at the Fredericton Mall in Fredericton, N.B. In addition, we are currently re-developing retail shopping locations in Lower Sackville and Bridgewater, N.S. Management remains committed to the ongoing review and improvement in the portfolio.

While our development activities primarily consist of the re-development of existing properties and the purchase of new properties, we are also pleased with the progress of our new condominium project, the Martello, in downtown Halifax. This project is in the development stage and we have now pre-sold a significant number of the (pre-construction) units.

While our occupancy rate has remained stable at 92.7 percent, renewals have been transacted at higher net effective rates. We are pleased that our office occupancy remains well above the downtown averages for both Halifax and Moncton, two of the major office markets in Atlantic Canada. Our lease profile has been improved through the diligent efforts of our leasing team and a strong tenant relationship with leading Canadian retailers such as Sobeys, Wal-Mart, Canadian Tire, Sears, and Zellers. This combined with continued effective cost control, contributed to the improved financial performance in fiscal 2003.

The real estate group's financial performance has allowed management to continue to diversify and strengthen both the retail and commercial real estate portfolios. Subsequent to fiscal year-end, Crombie completed the purchase of a 114,000 square foot shopping plaza in Hamilton, Ontario. The acquisition of new properties in central Canada, the continued expansion of the self-storage business in Atlantic Canada and Ontario, and projects such as The Martello, will strengthen the stability and growth profile of our cash flow.

We are optimistic about the future of our real estate group and believe we have the strength in our people to continue to improve financial results while acquiring and developing additional assets and further improving the quality of the assets in the existing portfolio.

INVESTMENTS

our investment portfolio provides us with financial flexibility and a ready pool of capital to augment the growth in our core operating companies.

At fiscal year-end, Empire's investments carried a market value of $318.7 million, consisting primarily of common equities valued at $289.0 million and preferred shares and other investments valued at $29.7 million. All of Empire's investments are listed on a recognized public exchange.

Empire continues to be committed to a liquid investment portfolio that offers a combination of yield and attractive growth characteristics. This has been a prudent strategy over the last three years in which equity markets have been generally weak. Over the last three years the compounded return on the portfolio of negative 0.8 percent has significantly outperformed equity indices and median equity manager performance.

The table below presents the return performance for Empire's non-equity accounted common equity investments relative to Canadian and U.S. equity benchmarks over each of the last three fiscal years, as well as on a two and three year compounded basis.

Total Investment Return

	2001	2002	2003	2-year	**3-year**
Empire Portfolio	20.8%	11.9%	-27.8%	-10.1%	**-0.8%**
S&P/TSX Composite Index	-18.6%	4.9%	-17.6%	-7.0%	**-11.1%**
S&P 500 Index	-14.8%	1.4%	-30.7%	-16.2%	**-15.7%**

Fiscal 2003 investment return was negative 27.8 percent as a result of general market volatility and the under performance of our investment in Delhaize Le Lion ("Delhaize") common shares relative to the overall market. Delhaize is a food retailer operating in 10 countries on three continents. Despite the volatility in equity markets we continue to believe that over the long-term, equity market returns will be superior to either fixed income or money market investment returns.

As in the past we will continue to allocate capital from our investment portfolio to support the growth and development of our operating divisions and to enhance shareholder net asset value. Over the past three years we have allocated close to $740 million from the investment portfolio for the following purposes: a) the March 2000 buyback of 13.0 million (split adjusted) Empire Class A common shares for $220 million; b) the purchase of 7.6 million common shares of Sobeys in August through November 2000 for $206 million to maintain Empire's 62 percent interest in Sobeys; c) the purchase in January 2001 of Empire's interest in Genstar for $29 million; d) the redemption of Empire preferred shares in January 2001, totalling $20 million; e) $65 million for tax payments associated with realized gains on investment sales; and f) approximately $200 million for the repayment of bank debt. Subsequent to year-end, in July 2003 Empire increased its ownership in Sobeys to approximately 64.5 percent.

Going forward we remain committed to prudently managing a high quality and liquid common equity investment portfolio. This provides added financial flexibility and a pool of capital that can grow. Our objective will be to generate superior investment return relative to the market indices and the median fund manager.

OTHER OPERATIONS

empire theatres has developed a strong reputation as a quality entertainment destination. continued expansion and upgrading of its facilities has resulted in increased value through consistent growth in cash flow.

Wholly-owned Empire Theatres had another good year, posting new records for revenue and operating income. These strong results were a direct result of management's continued focus on customer satisfaction, the on-going modernization and expansion of existing theatre venues, improved operational efficiency, and most importantly, the availability of strong product quality.

As the largest movie exhibitor in Atlantic Canada with 141 screens in 22 locations, Empire Theatres continued to strengthen its competitive position through the modernization of existing cinemas and the replacement and expansion of smaller facilities.

During fiscal 2003, Empire Theatres opened a new Studio 7 theatre complex in Truro, N.S. and commenced construction of a Studio 7 in Lower Sackville, N.S. Renovations and modernization was completed in three locations: Dartmouth, N.S., Fredericton, N.B. and Bayer's Lake, N.S. As well, the Sydney, N.S. theatre was expanded by two screens. Subsequent to fiscal year-end, construction started on a remodeled Studio 10 in St. John, N.B. and an announcement was made on the development of a Studio 7 in Bridgewater, N.S.

Empire Theatres remains committed to providing its patrons with an enjoyable movie-going experience by offering modern stadium-style seating, exceptional theatre aesthetics, a broad concession assortment, and superior customer service. Since 1995, our movie-theatre operation has doubled its screen count, modernized its circuit, and strengthened its concession offering.

Empire Theatres has also started to diversify its operations outside of Atlantic Canada through a new joint venture with Landmark Cinemas, which has resulted in screen development opportunities in Western Canada.

The theatre industry continues to record steady increases in attendance and revenue. We expect that the industry will continue to grow as a result of a consistent supply of high-quality films, increases in studio marketing for new releases, and the upgrading of movie theatres.