

# The Value of Good Governance

Expanding value while maintaining our values.



As well as being an excellent year for the top line and bottom line of Empire, 2006 was an active year for the Board of Directors as we provided oversight for major decisions that will contribute to the long-term value of the Company.

Each of our core businesses proceeded with major strategies affecting their long-term value, and the Board was actively involved with each decision, providing oversight and counsel. Our diverse and highly qualified Board of Directors brought valuable expertise, experience, insight and wisdom to the process, making a strong contribution.

Early in the fiscal year, in recognition of Wajax Limited's significant improvement in its operations, the Board supported Wajax's decision to convert to an income trust and at the time of the conversion in June, 2005 Empire sold 2.875 million units of Wajax reducing its holdings to a 27.6% ownership interest.

In September, we reviewed and affirmed the investment by Empire Theatres in its acquisition of a significant portfolio of theatres across Canada. We share management's commitment to the future of this business, which, while much smaller than our food and real estate businesses, has made a steady contribution to earnings over the long term.

Also during fiscal 2006, the Board provided counsel and supported managements' recommendations around the transformation of our real estate business, with the creation of Crombie REIT, and the sale of extensive commercial real estate assets to the newly formed Crombie REIT. Again, this major step had full Board support, as we saw the opportunity to extract and expand shareholder value.

Throughout the year, we supported Sobeys' food focused growth strategy and commitment of capital to expanding and enhancing its store network, food offerings and infrastructure. A strong indication of our support is indicated by our approval of a further investment in shares of Sobeys, raising our stake to over 70.3% at the end of the fiscal year from 68.4% a year earlier.

Management has done an excellent job in managing the investment portfolio, as clearly demonstrated by both short and long-term performance compared against benchmarks. The financial returns and investment performance has allowed for ongoing reinvestment in core businesses – again, contributing to our long-term value expansion.

It was an eventful year which built on Empire's legacy of value creation and also reinforced the high value we place on strong governance and stewardship. Indeed, with the creation of Crombie REIT, establishing sound governance for the new entity was one of our most important priorities. Crombie REIT has an independent Board, and as a major shareholder, Empire is represented with 2 of 10 Trustees, including the Chair, Frank Sobey.

While seeking fair representation in companies in which we are significant investors, we also seek a balance on our own Board and operating companies. Empire's commitment to excellent governance, within its strong and effective family ownership model, is longstanding. The Sobey family is represented on the Board of Empire and the operating companies as significant stakeholders, but the majority are independent directors – business leaders in their own right – whose counsel is not only welcomed, but sought out.



① **Robert P. Dexter**  
Halifax, Nova Scotia  
Director since 1987.  
Chair and Chief Executive Officer  
of Maritime Travel Inc.

② **John L. Bragg**<sup>3,6</sup>  
Collingwood, Nova Scotia  
Director since 1999.  
Chairman, President and  
Co-Chief Executive Officer  
of Oxford Frozen Foods Ltd.

③ **William T. Brock**<sup>3,5</sup>  
Toronto, Ontario  
Director since 2005.  
Corporate Director

④ **Sir Graham Day**<sup>3,5</sup>  
Hantsport, Nova Scotia  
Director since 1991.  
Counsel to Stewart McKelvey

⑤ **James W. Gogan**<sup>2</sup>  
New Glasgow, Nova Scotia  
Director since 1972.  
Corporate Director

⑥ **Edward C. Harsant**<sup>1</sup>  
Woodbridge, Ontario  
Director since 2003.  
Corporate Director

⑦ **Anna Porter**<sup>1</sup>  
Toronto, Ontario  
Director since 2004.  
Corporate Director

⑧ **E. Courtney Pratt**<sup>4,5</sup>  
Toronto, Ontario  
Director since 1995.  
Corporate Director

⑨ **Stephen J. Savidant**<sup>1</sup>  
Calgary, Alberta  
Director since 2004.  
Chairman,  
ProspEx Resources Limited  
and Corporate Director

⑩ **David F. Sobey**<sup>3</sup>  
New Glasgow, Nova Scotia  
Director since 1963.  
Chair Emeritus of Sobeys Inc.

⑪ **Donald R. Sobey**<sup>3</sup>  
Pictou County, Nova Scotia  
Director since 1963.  
Chair Emeritus of  
Empire Company Limited

⑫ **John R. Sobey**<sup>1</sup>  
Pictou County, Nova Scotia  
Director since 1979.  
Corporate Director

⑬ **Karl R. Sobey**<sup>3</sup>  
Halifax, Nova Scotia  
Director since 2001.  
Corporate Director

⑭ **Paul D. Sobey**  
Pictou County, Nova Scotia  
Director since 1993.  
President and Chief Executive Officer  
of Empire Company Limited

⑮ **Rob G. C. Sobey**  
Stellarton, Nova Scotia  
Director since 1998.  
President and Chief Executive Officer  
of Lawton Drug Stores

1 Audit Committee Member

2 Audit Committee Chairman

3 Human Resources Committee Member

4 Human Resources Committee Chairman

5 Corporate Governance  
and Nominating Committee Member

6 Corporate Governance and Nominating  
Committee Chairman

“We understand that when we invest in businesses we are also making an investment in the communities where we operate.”

Robert P. Dexter,  
Chair,  
Empire Company Limited



As Empire and our businesses have expanded across Canada, the geographic representation and balance on our Board has also evolved, and we have added new directors from Central and Western Canada in recent years. This year, we were pleased to welcome William Brock from Toronto, former Deputy Chairman and Director of the TD Bank Financial group. One of Canada's most respected bankers, Bill brings a profound knowledge of Canadian and international markets and industries to Empire. As we welcome Bill, we extend our great appreciation to Sir Graham Day, who is retiring from the Board this year. Sir Graham has made an extraordinary contribution in his 15 years as a Director of Empire and as past Chairman of Sobeys.

Building and expanding value at Empire has never been at the expense of the core values of the Company, or of the Sobeys family. As indicated by our commitment to excellence in governance, a strong sense of stewardship and corporate citizenship defines Empire. We understand that when we invest in businesses we are also making an investment in the communities where we operate. We feel a particular sense of responsibility in our home base in Atlantic Canada, as one of the largest, oldest and most successful enterprises in the region. On behalf of the Board, I commend employees in our businesses who contribute so much of their time and money to their communities. I also recognize and commend the example of community leadership set by the Sobeys

family, who have a strong tradition of philanthropy and support of the arts, education, health care and culture. A snapshot of this commitment is showcased in the Community Involvement section of this Annual Report on pages 21 to 23.

Next year will be a great milestone for the Company, as we celebrate the 100<sup>th</sup> anniversary of the Sobeys' grocery business – a century of growth. As Empire has grown, expanded and changed over the years, the core values have endured, and we have stayed in touch with our small town, Atlantic Canadian roots. It is a great legacy, and I am proud to be part of it.

A handwritten signature in black ink that reads "Rob Dexter". The signature is written in a cursive, flowing style.

Robert P. Dexter  
Chair,  
Empire Company Limited