

focused on

# our strengths

Our solid operating achievements and financial performance in fiscal 2008 demonstrate the value of Empire's privatization of Sobeys. We have created a solid platform for growth in food retailing and food-anchored shopping plaza development across Canada. With a strong, dedicated team, we see significant opportunity to leverage this model beyond our established presence in Eastern Canada, expanding more aggressively into Central Canada and British Columbia.

Fiscal 2008 was a transformative year. The successful privatization of Sobeys simplified and enhanced our structure and corporate governance and intensified our focus on the return on capital employed. But it represented just one step in the implementation of a strategy designed to realign our activities and renew our focus on our strengths. In 2008, solid strategic progress, including expanded market presence, was made in each of our core businesses. Upon the close of the Sobeys privatization transaction in June 2007, we began negotiations to sell a portfolio of 61 commercial properties representing approximately 3.3 million square feet of gross leaseable area to Crombie REIT.

The transaction closed in April 2008 for \$428.5 million, effectively monetizing the value of our assets and providing Empire with funds to repay bank indebtedness and reduce our consolidated debt to capital ratio to 39.8 percent at the end of fiscal 2008. With an additional equity investment in Crombie REIT, Empire now holds a 47.8 percent ownership



Paul D. Sobey (left), President and CEO, Empire Company Limited; Stewart H. Mahoney, Vice President, Treasury and Investor Relations; and Paul V. Beesley, Executive Vice President and CFO.

interest in the Trust and we look forward to profiting from strong performance going forward. The sale of these properties was not only a sound financial transaction. Just as important, it aligned well with Empire's real estate strategy by supporting significant growth for Crombie REIT and strengthening the solid relationship between our core businesses of food retailing and related real estate. The transaction also confirms our confidence in the Crombie management team and their strategies to sustain the solid operating and financial performance that they have achieved since the REIT's launch in March 2006. We look forward to the

generation of further transaction opportunities as Empire's property development program evolves.

While our real estate division successfully negotiated the sale of properties to Crombie REIT, Sobeys acquired British Columbia-based grocery retailer Thrifty Foods. Thrifty's business includes 21 full-service supermarkets, a main distribution centre and a wholesale division on Vancouver Island and the lower mainland of British Columbia.



Daniel Giroux,  
Meat Counter Manager,  
IGA extra,  
Mascouche, Québec

The similarities between Sobeys and Thrifty Foods were clear to us: an unwavering focus on food, dedicated employees, a great service culture and strong values, including a strong commitment to their communities. Thrifty Foods was not only a great strategic fit for our Company, it also expanded our footprint in British Columbia creating opportunities for future growth within food retailing and real estate development.

#### Financial highlights

We were pleased with Empire's financial results in fiscal 2008. Revenues grew by 5.2 percent to \$14.06 billion while operating earnings increased to another record high, \$242.8 million or \$3.69 per share. Dividends paid to common shareholders increased by 10.0 percent to \$0.66 per annum while book value per share grew by 11.9 percent. Subsequent to fiscal year-end, coinciding with the release of our fourth quarter results on June 26, 2008, we were pleased to announce a further increase in the Empire dividend to \$0.70 on an annualized basis.



Rennie Bugeja, Real Estate Consultant, Sobeys Ontario; Derick Hendricks, Manager Construction Ontario/Québec, Crombie REIT; and Mark Stone, Manager of Real Estate Planning, ECL Developments Ltd., work together in a real estate business model uniquely capable of prospering throughout the traditional real estate cycles.

While the turmoil in the capital markets has had an impact on our share price over the last year, we have still delivered an average annual total return to shareholders of 12.0 percent over the last 10 years.

#### Food retailing

Sobeys achieved a 5.6 percent increase in sales to reach \$13.77 billion and a 17.3 percent increase in net earnings in fiscal 2008. Once again, Sobeys' solid performance was the result of an unwavering commitment to its food-focused strategy. Our strategy is executed through the collective passion of our employees, franchisees and affiliates and their knowledge of the food business in the distinct markets that we serve and our commitment to operational excellence and innovation.



Every initiative that was implemented in fiscal 2008 – from the launch of *Compliments Junior Disney* and the introduction of almost 100 new products for kids to Fresh Item Management, a new SMART retailing program – was aimed at achieving our goal to “out-food”, “out-fresh”, “out-service” and “out-market” those who choose to compete with us. This focus is not only protecting Sobeys’ position in the industry – it’s allowing the Company to grow in an intensely competitive market place.

#### **Real estate**

In fiscal 2008, we made substantial progress in the transformation of our real estate division, which works closely with Sobeys on the development of food-anchored shopping plazas. We now have 1.9 million square feet of property either under development or offered for sale. We also have established new teams in Québec and British Columbia to work with our existing teams in Ontario and Atlantic Canada to expand our development pipeline.

These teams will work closely with Crombie REIT, which has provided an average annual investment return of 12.0 percent since going public in March 2006 and has provided Empire shareholders with a second year of exemplary operating and financial performance.

By combining the development talents that we’re building within our commercial real estate division with

Crombie REIT’s real estate management skills and Sobeys’ regional expertise in identifying superior locations, we have created a strong set of capabilities, assets and access to markets. We’re simply stronger together than apart.

With respect to our residential operations, Genstar continues to be an excellent investment, contributing \$34.7 million in earnings to Empire in fiscal 2008. Genstar’s earnings contribution is expected to decline moderately in fiscal 2009 as a result of an anticipated slowdown in residential lot selling activity. Genstar has a very strong management team and holds an attractive mix of undeveloped land and serviced lots. These properties were acquired at favourable prices and continue to represent very good value, even in a stable or declining market environment.

#### **Empire Theatres and other investments**

As the second largest movie exhibitor in Canada, wholly-owned Empire Theatres owns or has an interest in 53 locations representing 387 screens, operating in eight provinces from coast-to-coast. During fiscal 2008, it opened new theatres in Dartmouth, Nova Scotia and Bolton, Ontario and adopted new technologies such as digital cinema and Real D 3D. Attendance at existing theatres was driven by programming from The Metropolitan Opera, The Royal Opera House, The Royal Ballet and World Wrestling Entertainment in addition to the traditional major studio releases.

Both Empire Theatres and Wajax benefit Empire by providing a steady cash flow, while enhancing our financial flexibility.

Empire Theatres executives (left to right): Kevin J. MacLeod, Executive Vice President; Stuart G. Fraser, President and CEO; and Paul W. Wigginton, Vice President, Finance and CFO.



Our investment in Wajax Income Fund generated solid performance in fiscal 2008, contributing equity earnings of \$20.4 million and unit price appreciation of 14.0 percent over fiscal 2007. Wajax Income Fund is a leading Canadian distributor and service support provider of mobile equipment, industrial components and power systems. This is a very solid business with a superb management team. Wajax is well positioned in the market with substantial ties to Alberta's oil sands.

Both Empire Theatres and Wajax benefit Empire by providing a steady cash flow, while enhancing our financial flexibility.

### Strategic priorities

As we move into fiscal 2009, we will continue to focus on our core strategic priorities. First, we remain committed to supporting Sobeys in its goal to be widely recognized as the best food retailer in Canada in what continues to be an intensely competitive environment. Second, we are committed to the ongoing evolution of our real estate business into a developer of new properties to be vended, preferably, to Crombie REIT.

Finally, we are determined to reduce our leverage over the coming year through prudent working capital management and a renewed focus and scrutiny on capital

expenditures. By reducing our debt and managing our capital prudently, we hope to return the rating assigned to our Company to investment grade by both rating agencies.

### Heartfelt appreciation

We have the financial strength to execute our operating strategies, and we expect our financial capacity to improve throughout fiscal 2009. We have a Board of Directors, corporate management team and leadership in our core businesses that have the experience and expertise to ensure we remain focused on our strengths and that our strategies are executed efficiently and capital is allocated prudently.

It is our people across the Company, however, who build this Company with consistent focus on superior execution as they work together day-to-day with enthusiasm and commitment. With the continued support of our employees, franchisees and affiliates we are confident in our ability to grow our profitability in the years ahead.

A handwritten signature in black ink that reads "Paul D. Sobey".

**Paul D. Sobey**  
President and CEO  
Empire Company Limited  
June 26, 2008