

# FOCUSED ON OUR STRENGTHS

With the privatization of Sobeys Inc. in June 2007, the primary focus of Empire's energy and capital solidified in support of our core food retailing and related real estate operations with a corresponding material reduction in our corporate investments segment.

Our increased focus on food retailing (Sobeys Inc.) and related real estate has enhanced Empire's operating earnings. Empire achieved record financial results in fiscal 2009 largely as a result of continued improvement in operational performance by Sobeys. Revenue grew by 6.8 percent to \$15.02 billion while operating earnings increased by 8.3 percent to \$262.9 million or \$3.99 per share.

This improved operational performance, combined with a modest equity issuance completed in April 2009, strengthened our financial position, with the ratio of funded debt to capital falling to 32.7 percent from 39.8 percent at the start of the fiscal year.

Paul D. Sobey  
President and CEO  
Empire Company Limited



## letter to shareholders



### A passion for food

Sobeys' determination to "out-food", "out-fresh", "out-service" and "out-market" those who choose to compete with us has resulted in solid same-store sales growth and sales per square foot increases.

### Food retailing

Sobeys achieved record operating performance in fiscal 2009 with a sales increase of \$996.7 million or 7.2 percent, same-store sales growth of 5.2 percent and a net earnings increase of \$32.8 million or 16.7 percent. The strong performance of Sobeys is built upon its focus and determination to be widely recognized as the best food retailer in the country.

During the year, Sobeys continued to modernize its retail network, improved operational execution, enhanced productivity and continued to introduce innovative product and service offerings. In fiscal 2009, Sobeys recorded industry leading same-store sales growth and sales per square foot increases, evidence that Sobeys' unwavering focus on food is a winning strategy.

### Real estate

Our consolidated real estate performance is not strictly comparable to last year as last year's performance included Sobey Leased Properties' operations, the principal components of which were sold to Crombie REIT in April 2008, with the remainder transferred to Sobeys. Adjusting for this, there are three components to our real estate business: our commercial property development company, ECL Developments; our 47.4 percent interest in Crombie REIT; and our 35.7 percent interest in Genstar Development Partnership, our residential property operation.

During fiscal 2009, ECL Developments continued to expand its property development pipeline and is on plan with a total of 18 grocery-anchored plazas under development (1.7 million square feet of gross leasable area) at fiscal year-end. We view ECL Developments as an integral component of the ongoing growth of our food retailing business. Through ECL Developments, we intend to continue the internal property development of grocery-anchored plazas and free-standing grocery stores by capitalizing on the knowledge and expertise within our food retailing and real estate businesses.

Crombie REIT recorded solid operating performance in fiscal 2009 with operating income contribution to Empire of \$19.8 million, up 45.6 percent. This increase is the result of purchasing 61 properties from subsidiaries of Empire in April 2008, as well as continued same-property net operating income growth.



### The NBA live in 3D

Fans experienced the first live 3D theatrical event in Canada when Empire Theatres broadcast the NBA All-Star Saturday Night exclusively at its Empress Walk location in Toronto in February, 2009.

With respect to our residential property operation, Genstar contributed \$23.2 million of net earnings in fiscal 2009 versus \$34.7 million last year. This decline was expected and, given the slow down in the housing market, we expect that its contribution will decline further in fiscal 2010. Genstar has a strong management team and is well capitalized. It is in an excellent position to take advantage of new development opportunities and is well positioned for future growth once the cycle improves.

#### **Investments and other operations**

During fiscal 2009, our wholly-owned Empire Theatres business continued to benefit from strong theatre attendance, same theatre revenue growth and enhanced operational improvements. The continued growth in Empire Theatres' revenue and operating income is due to a steady stream of popular movie releases, combined with the dedication and efforts of our people at improving the movie-going experience. The implementation of new technologies such as digital cinema and RealD 3D, along with alternative programming, has enriched the entertainment experience for our customers.

Wajax Income Fund had an excellent start to our fiscal year; however, as the economy weakened the company prudently reduced its monthly distribution. Wajax is a very well managed company with a strong competitive position in its chosen markets. We remain confident that it will prosper as economic conditions improve.

#### **Looking forward**

Our focus in fiscal 2010 will remain centred on operational excellence and prudent capital management. Our actions will continue to support the profitable growth of our core food retailing business and we look forward to capitalizing on real estate opportunities that align with building

long-term value creation. Empire's shareholders have been well-served by the Company's focus on its core businesses and approach to building long-term value and we intend to stay the course.

#### **A key to our success**

Empire's success and sustainability has been made possible by the skill and dedication of our executive and operating management teams and the contributions of more than 90,000 employees at Empire and its related companies, including its franchisees and affiliates. They have been instrumental in creating successful organizations and that success has in turn created winning environments. On behalf of the Board of Directors and our shareholders, we offer a sincere thanks for their ongoing efforts and dedication.

With the valued guidance of our Board, and the continuing patronage of our customers, and support of our affiliates, suppliers and investors, we are confident that Empire will continue to prosper in the years ahead.



**Paul D. Sobey**  
President and CEO  
Empire Company Limited  
June 26, 2009

