

“Sobeys remains committed to extending its national presence, improving its cost structure and productivity, and enriching the shopping experience of its customers.”

PAUL D. SOBEY
President and CEO
Empire Company Limited



Bill M'Ewan, Paul D. Sobey, Marc Poulin

BUILDING VALUE AS ONE ORGANIZATION

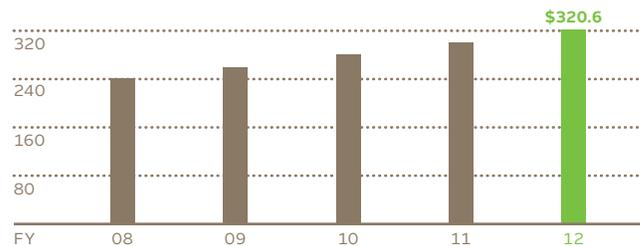
Fiscal 2012 was another year of steady progress as our food retailing and related real estate businesses worked closely together to support Sobeys' goal to be widely recognized as the best food retailer and workplace environment in Canada. The same commitment to excellence was at work within Sobeys, where a series of important initiatives is setting the stage for a higher level of performance.

The decision we made five years ago to focus our business squarely on food retailing and related real estate continued to serve Empire's stakeholders well in fiscal 2012. Amid an intensely competitive food retailing market and an improving but fragile economy, the Company achieved sales of \$16.25 billion, or 3.0 percent growth over last year, after adjusting for the impact of the additional week of operations last year and the acquisition of 236 retail gas locations and related convenience store operations. Net earnings, net of minority interest, were \$339.4 million or \$4.99 per share compared to \$400.6 million or \$5.87 per share for the previous year. Fiscal 2012 net earnings included gains on the disposal of assets of \$17.9 million, while net earnings last fiscal year included \$76.2 million in gains associated with the sale of our interest in the Wajax Income Fund and \$16.4 million in gains on disposal of assets, in addition to the benefit of an additional week of operations. After adjusting net earnings for the impact of the Wajax sale and the additional week of operations last year and for items which are considered not indicative of underlying business operating performance, adjusted net earnings, net of minority interest, were \$320.6 million or \$4.71 per share compared to \$303.2 million or \$4.45 per share in fiscal 2011, a 5.7 percent increase.

FOOD RETAILING

Sobeys' sales reached \$16.0 billion in fiscal 2012, a 1.8 percent increase from fiscal 2011, which contained \$313.6 million in sales from an additional week of operations. Same-store

CONSOLIDATED ADJUSTED NET EARNINGS⁽¹⁾ (\$ in millions)



(1) Adjusted net earnings, net of minority interest.

Consolidated adjusted net earnings have grown at an average annual rate of 9.9 percent over the last five years.

sales were up 1.4 percent, largely driven by merchandising initiatives. Overall industry growth remained modest due to intense promotional activity and a steady increase in retail square footage.

These challenges are nothing new for our food retailing business. During the past five years we have made significant investments in the expansion and modernization of our store and distribution networks, the efficiency of our business processes and the development of compelling product and service offerings in five distinct retail formats that have strengthened the loyalty of our customers. Along the way we've been guided by a passionate, food-focused strategy that's been fuelled by our fresh expertise and supported by an unwavering commitment to superior execution and unrivalled customer service.

As a leading Canadian food retailer Sobeys continues to make progress as demonstrated by growth in adjusted net earnings and continued advancement of its strategic initiatives. But our competitors are not standing still. Creating a healthy and sustainable business for the long term requires continuous progress, particularly in an environment of intense price competition that shows no signs of abating.

In fiscal 2012, Sobeys began a process of organizational realignment that's designed to optimize the company's performance as a more integrated national organization.

\$320.6 MILLION

Empire posted record adjusted net earnings in fiscal 2012.

As part of the organizational realignment, our former regional management structure has been replaced by two business units, both of which employ a format-based management approach. Our Sobeys Multi-Format Operations manages all formats and banners with the exception of Sobeys IGA Operations, which is responsible for the Québec market. Both business units are supported by business functions that are focused on reducing complexities, eliminating redundancies and fully harnessing Sobeys' scale as a \$16 billion company. Many of these initiatives have been made possible by the enterprise-wide implementation of SAP, which will be completed in Québec later this year.

While this realignment is expected to significantly improve the company's cost position in an increasingly competitive market, Sobeys' core food-focused strategy, including the ability to tailor offerings to meet local market preferences, will not change.

At the same time, Sobeys continues to refine their merchandising approach in each retail format, particularly full service, with new product and service offerings that are aimed at creating more intimate and enduring relationships with customers and successfully positioning Sobeys as "champions of the affordable better food movement". You can expect to see some of these enhancements take shape at the Sobeys, IGA *extra* and Thrifty Foods banners over the next year.

Sobeys' commitment to innovation has also led to some other significant growth opportunities with several strategic partnerships that are outside, but complementary to, conventional channels of growth. In September 2011, Sobeys announced a long-term wholesale distribution arrangement to supply Target Canada with select food and grocery products, including private label brands. This mutually beneficial agreement will help Sobeys in many ways – from increased wholesale sales to improved purchasing power and supply chain efficiencies – that will lower our costs.

During the fourth quarter of fiscal 2012, Sobeys completed the acquisition of 236 retail gas locations and related convenience store locations from Shell Canada, of which 189 are located in Québec and 47 are located in Atlantic Canada.

The acquired network includes corporate-owned and dealer-operated locations with annual fuel volumes in excess of 1 billion litres. This transaction increases the market presence of our convenience business while enhancing the growth of our wholesale businesses.

INVESTMENTS AND OTHER OPERATIONS

With the change to IFRS accounting rules in fiscal 2012, this new reporting segment is comprised principally of our 44.3 percent ownership interest in Crombie REIT, our approximate 40.0 percent ownership interest in Genstar and wholly-owned Empire Theatres.

The relationship between Empire and Crombie REIT continues to represent an important strategic partnership that delivers substantial benefits for both companies. For Empire, the creation of Crombie REIT has supported Sobeys' expansion and the value of its commercial real estate assets. Our ownership interest in Crombie REIT also provides the benefits of commercial real estate ownership, including steady income growth and capital appreciation, with a like-minded partner. For Crombie REIT investors, the relationship provides preferred access to high-quality retail properties that serve the everyday needs of consumers in both stable and growing communities across Canada. During fiscal 2012, Crombie REIT purchased seven properties from Sobeys for \$99.0 million with additional planned development in the pipeline going forward.

Crombie REIT posted solid financial results in its fiscal year ending December 31, 2011 with property revenue and net operating income reaching new records. The operating income contribution to Empire reached \$19.7 million in our fiscal year 2012, up from \$18.4 million a year earlier, with an annualized cash flow contribution of \$32.7 million. At fiscal year-end, the market value of our 44.3 percent ownership interest in Crombie REIT equalled \$520.7 million as Crombie REIT's market capitalization increased to more than \$1 billion. At the same time, Crombie REIT's skilled management team has created a foundation for accelerated growth by building their bench strength and profile in the third-party acquisition market. Crombie REIT completed a \$254.6 million third-party acquisition of 22 retail properties on April 10, 2012, adding approximately 850,000 square feet of rentable space to its portfolio and significantly advancing Crombie REIT's geographic diversification strategy.

Genstar's operating income contribution of \$30.0 million exceeded our expectations in fiscal 2012, reflecting an increase in the average residential lot selling price and improvement in its core Western Canada real estate market. Genstar's exceptional management team continues to focus on adding land positions in Western Canada and other

selective North American markets to position the company for future growth.

We also continue to be pleased with the performance of Empire Theatres, which posted higher sales and net income during fiscal 2012. Attendance levels were strong thanks to a steady supply of popular releases, ongoing investment in digital and 3D projection, and online marketing and other promotional initiatives.

OUTLOOK

As always, we will remain focused on long-term value creation in the businesses we know and understand best. Although the Canadian food retailing industry will remain extremely competitive, we expect Sobeys to make continued progress toward its goal of being widely recognized as the best food retailer and workplace environment in Canada. Sobeys remains committed to extending its national presence, improving its cost structure and productivity, and enriching the shopping experience of its customers. We are confident that Sobeys' organizational realignment and ongoing investments bode well for the Company's continued success.

We are similarly optimistic about the prospects for our related real estate business through our investments in Crombie REIT and Genstar. Crombie REIT has succeeded in building a strong platform for growth in what we believe to be the steadiest performing segment in the commercial real estate industry. Our investment in Genstar also continues to provide attractive returns. Given its proven management team and attractive land bank, we feel Genstar is well positioned for future growth, particularly as the residential real estate market strengthens.

Our Empire Theatres' operation and brand has never been stronger. As a result of management's focus on executing operating and marketing initiatives, modernizing facilities and improving technology, we look forward to ongoing growth in this business.

In closing, I would like to extend my sincere appreciation to the employees, franchisees and affiliates of Empire and its related companies for their continued valued contributions to our success during the year. As a result of their enthusiasm, passion and dedication to serving our customers, I am confident that the best is yet to come.

We would like to acknowledge the contribution of Malen Ng who will not be standing for re-election to the Board of Directors. Malen has made a significant contribution to both Empire and Sobeys for the past 11 years. Malen's insight and advice to our Board and management have been invaluable and we thank her for her dedicated service.

On behalf of our employees, franchisees and affiliates, along with the Board and the Sobeys family, we extend our heartfelt appreciation and best wishes to Bill M^cEwan, who stepped down as President and CEO of Sobeys on June 28, 2012. Bill's inspired leadership for more than 11 years has resulted in Sobeys growing sales from \$9.1 billion to \$16.0 billion and has resulted in growth in net earnings by more than 200 percent over that period. We will miss his leadership and insight and sincerely wish him all the best.

We are very excited about the appointment of Marc Poulin as the President and CEO of Sobeys. It is a testament of the depth of our organization that we have an individual of Marc's talent to succeed Bill. We are confident that his knowledge and leadership will serve Sobeys well in the years ahead.



PAUL D. SOBEY
President and CEO
Empire Company Limited
June 28, 2012

“Bill’s vision and commitment propelled the company forward and laid the foundation for sustainable long-term growth.”

