

The value of good governance



Empire has always invested in its business with the aim of maximizing long-term value creation. This philosophy was very much in evidence during fiscal 2014, a truly transformational year for the Company.

Among the responsibilities of Empire's Board, none is more important than understanding potential risks to the Company's future prosperity and ensuring they are reflected in the development and direction of our growth strategies. Such vigilance has never been more important than in today's food retailing market, which remains more competitive than we have seen in many years.

With this in mind, Empire has continued to make the investments that will ensure long-term value creation. Our acquisition of Canada Safeway was a truly transformational event that elevated us to the number one market position in the fastest growing region of the country, while fortifying our position as Canada's second largest food retailer. It has also given us the opportunity to generate substantial earnings growth through \$200 million in planned synergies over the next three years.

We also know that long-term success in our business depends on a differentiated food offering that resonates with our customers. That's why we are investing in Sobeys'

new *Better Food for All* full service format positioning. According to early indications, it has struck a chord with Canadian shoppers and the rollout of the next-generation Sobeys stores has been met with much enthusiasm.

Empire's ability to execute on these major investments has been made possible by earlier long-term investments in Sobeys' infrastructure. The development of a scalable, national business platform and modern distribution infrastructure established the critical foundation required for the successful integration of Safeway. It is also helping Sobeys to deliver its most ambitious full service offering to date at a cost structure that will ensure its success.

Empire has delivered an exceptional record of long-term growth over the years, supported by a Board and senior management that are focused on doing what's best for the business in the long term, rather than the next quarter's financial results.

The events of the past year also signaled the completion of a 15-year transformation in which Empire has evolved from a company with diverse business interests into a geographically diverse food retailer with related real estate holdings. It is no coincidence that this period marked Paul Sobeys' tenure as President and CEO. During this time, Sobeys took its first step toward becoming a national food retailer with the 1998 acquisition of The Oshawa Group. Other acquisitions followed, culminating in the recent purchase of Canada Safeway. Paul also presided over the divestment of non-core assets and the creation of Crombie REIT to help fund Sobeys' growth and

unlock the value of Empire's real estate assets. Many other talented individuals played a key role in ensuring Empire's success over these years, but Paul was very much the driving force behind Empire's transformation. His vision and leadership also created much value for Empire's shareholders as evidenced by a 11.6 percent compound annual total return to shareholders over the past 10 years. We are pleased that Paul will continue to serve on Empire's Board.

I would like to acknowledge two outstanding directors who will not be standing for re-election at this year's AGM: Mel Rhinelander, who has served as Chair of the Human Resource and Compensation Committee, and David Leslie, who has served as Chair of the Audit Committee. Both men have brought strength and leadership to the board since their appointment in 2007 and we sincerely appreciate their valued service to Empire.

Finally, I wish to pay tribute to former Director Marcel Côté, who passed away earlier this year. On behalf of the many friends and colleagues at Empire and Sobeys who had the privilege to know Marcel, we extend our condolences and best wishes to his family.

Sincerely,

(signed) "Robert P. Dexter"

Robert P. Dexter
Chair
Empire Company Limited

June 26, 2014