

# EMPIRE

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## GROWING VALUE

Empire Company Limited First Quarter Report / Three Months Ended, July 31, 2002

## **Quarterly Report to Shareholders**

Empire Company Limited is a diversified Canadian Company whose key businesses include food distribution, real estate and corporate investment activities. Guided by conservative business principles, our primary goal is to grow long-term shareholder value through income and cash flow growth and equity appreciation. We accomplish this through direct ownership and equity participation in businesses that have the potential for long-term growth and profitability.

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Copies of this report are available on the Company's website ([www.empireco.ca](http://www.empireco.ca)) or by contacting the Vice President, Investor Relations at (902) 928-1725. A copy has also been filed on SEDAR.

The Company provided additional details concerning its first quarter results on a conference call held on Thursday, September 12, 2002. Replay of the call is available for three months on the Company's website ([www.empireco.ca](http://www.empireco.ca)).

### **Forward Looking Statements**

Certain forward-looking statements may be included in this quarterly report. Such statements are based on management's assumptions and beliefs in light of information currently available. These forward-looking statements are subject to inherent uncertainties and risks, including but not limited to: business and economic conditions generally in the Company's operating regions; pricing pressures and other competitive factors; results of the Company's ongoing efforts to reduce costs; equity price risk; and the availability and terms of financing. Consequently, actual results and events may vary significantly from those included in or contemplated or implied by such statements.

# Quarterly Report for the Three Month Period Ended July 31, 2002

## To The Shareholders

On September 12, 2002, Empire Company Limited announced record quarterly operating results for its first quarter of fiscal 2003. The Company recorded operating earnings (net earnings before net capital gains and other items) of \$39.8 million or \$1.21 per share versus operating earnings before goodwill amortization in the first quarter last year of \$33.2 million or \$1.01 per share, a 20 percent increase. First quarter earnings last year included earnings from the discontinued SERCA Foodservice operations of \$4.0 million or \$0.12 per share.

This is an excellent start to the new fiscal year and results from the continued hard work and leadership from each of our operating companies. Trailing four-quarter earnings before goodwill amortization now equal \$4.57 per share versus \$3.17 per share a year earlier. Empire's fundamentals continue to strengthen as a result of focusing our energies and capital on growing the long-term sustainable value in each of our core businesses. We will continue to work diligently towards continued growth in each of our businesses throughout fiscal 2003.

During the first quarter fiscal 2003, Empire discontinued amortization of goodwill consistent with the new accounting standard issued by the CICA on goodwill and other intangible assets. For comparative purposes, last year operating results highlighted below have also been presented before goodwill amortization.

### *First Quarter Highlights (versus Q1 2002)*

- *Revenue of \$2.68 billion, up \$198 million or 7.9 percent*
- *Earnings before net capital gains and other items of \$39.8 million, up \$6.6 million (with goodwill amortization excluded from last years earnings)*
- *Earnings per share (before net capital gains and other items) of \$1.21 versus \$1.01, a 20 percent increase*
- *There were no capital gains and other items in the quarter versus \$18.3 million last year*
- *Net earnings of \$39.8 million, down \$8.8 million from last year's \$48.6 million*

### **Financial Overview**

Revenue for the first quarter was \$2.68 billion compared to \$2.49 billion last year, a 7.9 percent increase. The food division reported revenue of \$2.64 billion, an increase of 7.9 percent over the first quarter last year. The increase in food distribution revenue is primarily attributed to same-store sales growth of 3.3 percent (4.5 percent including expanded stores) and from additional sales generated by new retail square footage as a consequence of capital spending. Food price inflation remained low in the first quarter at 1.5 percent. Real estate and other operations reported revenue growth of 4.1 percent and 25.5 percent, respectively, over the first quarter last year. The growth in real estate revenues continues to reflect strong performance from our 35 percent interest in Genstar Limited Partnership.

Operating income (earnings before interest and income taxes) in the first quarter totaled \$115.2 million, an increase of \$17.6 million or 18.0 percent compared to the first quarter last year. All operating companies recorded improvement in operating income over last year. The food division contributed operating income of \$84.3 million, an increase of 25.0 percent over the first quarter last year. The increase in food division operating income is attributed to the growth in revenue; more efficient distribution and logistics; planned cost management initiatives; and the execution of significant improvements in regional marketing and merchandising programs. Real estate division operating income of \$22.5 million is up marginally over the \$22.3 million recorded in the first quarter last year. Trailing (last four quarters) funds from operations (net earnings plus depreciation) for the real estate division now equals \$49.9 million. Other operations' operating income equaled \$3.0 million, up \$0.8 million over last year. The improved performance is largely the result of screen expansion, quality product, and effective cost controls at wholly owned Empire Theatres Limited.

Net earnings, including net capital gains and other items totaled \$39.8 million or \$1.21 per share versus \$48.6 million or \$1.48 per share last year. Included in last year net earnings were \$18.3 million (\$0.56 per share) of net capital gains and other items primarily associated with the sale of investments in the first quarter last year. Had goodwill not been amortized in the first quarter last year, net earnings last year would have been \$2.9 million higher or \$51.5 million (\$1.57 per share).

The financial condition of the Company remains strong. The ratio of net debt to capital at the end of the first quarter equalled 27.9 percent and our interest coverage ratio improved to 4.9 times from 3.2 times a year earlier.

Capital investment of \$67.4 million during the quarter reflects the Company's ongoing commitment to invest cash flow back into growth opportunities in each of its core businesses. Investment in Food Distribution property and equipment, primarily related to new store development, accounted for \$51.6 million of total capital investment.

At July 31, 2002, Empire's investment portfolio carried a market value of \$494.6 million on a cost base of \$510.6 million, resulting in an unrealized loss of \$16.0 million. Total return on the portfolio for the three months ended July 31, 2002 was negative 15.2 percent compared to negative 13.4 percent for the S&P/TSX Index and negative 15.0 percent for the S&P 500 Index over the same time period.

The table below presents summary financial performance for the first quarter ended July 31, 2002.

(\$ in millions, except per share data)

	<b>Three Months Ended July 31</b>	
	<b><u>2002</u></b>	<b><u>2001</u></b>
Segmented Revenue (net of elimination entries)		
Food Division	\$2,637.7	\$2,444.4
Real Estate Division	32.9	31.6
Other Operations	16.7	13.3
	<u>\$2,687.3</u>	<u>\$2,489.3</u>
Segmented Operating Income		
Food Division	\$84.3	\$67.4
Real Estate Division	22.5	22.3
Investments & Other Operations	8.4	7.9
	<u>\$115.2</u>	<u>\$97.6</u>
Earnings before net capital gains, other items and goodwill amortization	\$39.8	\$28.6
Goodwill amortization	---	2.3
Earnings from continuing operations before net capital gains and other items	39.8	26.3
Earnings from discontinued operations	---	4.0
Operating earnings	39.8	30.3
Capital gains and other items, net of tax	---	18.3
Net earnings	<u>\$39.8</u>	<u>\$48.6</u>
<u>Per Share</u>		
Earnings before net capital gains, other items and goodwill amortization	\$1.21	\$0.87
Goodwill amortization	---	0.07
Earnings from continuing operations before net capital gains and other items	1.21	0.80
Earnings from discontinued operations	---	0.12
Operating earnings	1.21	0.92
Capital gains and other items, net of tax	---	0.56
Net earnings	<u>\$1.21</u>	<u>\$1.48</u>
Weighted average number of common shares (in millions)	<u>32.90</u>	<u>32.83</u>
Common shares outstanding at July 31, 2002 (in millions)	<u>32.90</u>	

## **Share Split**

A proposed 2 for 1 share split on both the Class A shares and Class B common shares was tabled for vote at the Company's annual general and special meeting. The share split was approved by all classes of shareholders and is now subject to a confirmatory meeting to be held on September 26, 2002.

## **Dividend Declaration**

The Board of Directors declared a quarterly dividend of 16.5¢ per share on both the Class A and Class B common shares which will be payable on October 31, 2002 to shareholders of record on October 15, 2002. Should the shareholders confirm the split of the Class A and Class B common shares prior to the payment date, the dividend per share would be split accordingly such that the payment would be 8.25¢ per share. In addition, the Board declared regular dividends on the Company's outstanding preferred shares.

Paul D. Sobey  
President & Chief Executive Officer

September 20, 2002

**EMPIRE COMPANY LIMITED**  
**CONSOLIDATED BALANCE SHEET**

(Unaudited, in millions)

	<u>July 31 2002</u>	<u>April 30 2002</u>	<u>July 31 2001</u>
<b>ASSETS</b>			
Current			
Cash and cash equivalents	\$ 254.0	\$ 302.6	\$ 124.0
Receivables	317.1	312.8	339.6
Inventories	466.7	425.7	448.1
Prepays	45.9	37.0	51.0
Discontinued operations (Note 2)	3.9	5.8	223.1
	<u>1,087.6</u>	<u>1,083.9</u>	<u>1,185.8</u>
Investments, at cost (quoted market value \$455.8 April 30,2002 \$546.8; July 31,2001 \$501.2)	469.0	479.8	406.9
Investments, at equity (quoted market value \$38.8 April 30,2002 \$41.1; July 31,2001 \$42.1)	41.6	41.1	62.8
Current assets and marketable investments	<u>1,598.2</u>	<u>1,604.8</u>	<u>1,655.5</u>
Property and equipment	1,922.8	1,911.6	1,650.4
Other assets (Note 4)	796.1	796.2	790.3
Discontinued operations (Note 2)	-	-	197.0
	<u>\$ 4,317.1</u>	<u>\$ 4,312.6</u>	<u>\$ 4,293.2</u>
<b>LIABILITIES</b>			
Current			
Bank loans and notes payable	\$ 219.5	\$ 207.2	\$ 212.5
Payables and accruals	972.5	1,006.5	901.0
Income taxes payable	38.9	51.9	-
Future income taxes	11.9	9.6	16.6
Long term debt due within one year	85.4	85.6	87.1
Discontinued operations (Note 2)	-	-	241.3
	<u>1,328.2</u>	<u>1,360.8</u>	<u>1,458.5</u>
Long term debt	962.6	975.0	1,100.5
Deferred revenue	10.2	12.8	13.4
Employee future benefit obligation	72.2	71.7	59.7
Minority interest	498.4	480.9	422.8
Future income taxes	119.0	120.8	71.3
Discontinued operations (Note 2)	-	-	2.7
	<u>2,990.6</u>	<u>3,022.0</u>	<u>3,128.9</u>
<b>SHAREHOLDERS' EQUITY</b>			
Capital stock	196.1	195.6	194.5
Retained earnings	1,129.9	1,094.5	968.6
Foreign currency translation	0.5	0.5	1.2
	<u>1,326.5</u>	<u>1,290.6</u>	<u>1,164.3</u>
	<u>\$ 4,317.1</u>	<u>\$ 4,312.6</u>	<u>\$ 4,293.2</u>

See accompanying notes to the unaudited interim period consolidated financial statements.

**EMPIRE COMPANY LIMITED**  
**CONSOLIDATED STATEMENT OF RETAINED EARNINGS**  
**THREE MONTHS ENDED JULY 31, 2002**  
(Unaudited, in millions)

	<u>2002</u>	<u>2001</u>
Balance, beginning of period	<b>\$ 1,094.5</b>	\$ 923.1
Net earnings	<u>39.8</u>	<u>48.6</u>
	<b>1,134.3</b>	<u>971.7</u>
Refundable taxes recovered	<u>1.1</u>	<u>-</u>
Dividends paid		
Preferred shares	<b>0.1</b>	0.1
Common shares	<u>5.4</u>	<u>3.0</u>
	<b>5.5</b>	<u>3.1</u>
Balance, end of period	<b><u>\$ 1,129.9</u></b>	<b><u>\$ 968.6</u></b>

*See accompanying notes to the unaudited interim period consolidated financial statements.*

**EMPIRE COMPANY LIMITED**  
**CONSOLIDATED STATEMENT OF EARNINGS**  
**THREE MONTHS ENDED JULY 31, 2002**  
(Unaudited, in millions, except per share amounts)

	2002	2001
Revenue	<b>\$ 2,687.3</b>	\$ 2,489.3
Cost of sales, selling and administrative expenses	<b>2,544.7</b>	2,371.1
	<b>142.6</b>	118.2
Depreciation	<b>34.6</b>	28.3
	<b>108.0</b>	89.9
Investment income (Note 5)	<b>7.2</b>	7.7
Operating income	<b>115.2</b>	97.6
Interest expense		
Long term debt	<b>22.3</b>	28.2
Short term debt	<b>1.1</b>	2.3
	<b>23.4</b>	30.5
	<b>91.8</b>	67.1
Capital gains and other items (Note 6)	<b>-</b>	18.0
	<b>91.8</b>	85.1
Income taxes		
Current income taxes	<b>31.3</b>	5.4
Future income taxes	<b>3.2</b>	21.0
	<b>34.5</b>	26.4
	<b>57.3</b>	58.7
Minority interest	<b>17.5</b>	11.8
Earnings before goodwill amortization	<b>39.8</b>	46.9
Goodwill amortization (Note 7)	<b>-</b>	2.3
Earnings from continuing operations	<b>39.8</b>	44.6
Earnings from discontinued operations	<b>-</b>	4.0
Net earnings	<b>\$ 39.8</b>	\$ 48.6
Earnings per share, basic and diluted (Note 3)		
Earnings from continuing operations	<b>\$ 1.21</b>	\$ 1.36
Earnings from discontinued operations	<b>\$ -</b>	\$ 0.12
Net earnings	<b>\$ 1.21</b>	\$ 1.48

*See accompanying notes to the unaudited interim period consolidated financial statements.*

**EMPIRE COMPANY LIMITED**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**THREE MONTHS ENDED JULY 31, 2002**

(Unaudited, in millions, except per share amounts)

	2002	2001
Cash provided by (used for) operations		
Earnings from continuing operations	\$ 39.8	\$ 44.6
Items not affecting cash (Note 8)	53.4	65.5
Payment of preferred dividends	(0.1)	(0.1)
Operating cash flow	93.1	110.0
Net change in other current items	(101.2)	(78.0)
	(8.1)	32.0
Cash provided by (used for) financing		
Net increase (decrease) in bank loans	12.3	(16.7)
Net increase (decrease) in construction loans	0.5	(2.6)
Proceeds from issue of long term debt	3.9	13.2
Revolving securitization of accounts receivable	-	25.0
Repayment of long term debt	(17.0)	(18.8)
Increase in minority interest	2.6	4.5
Issue of Non-Voting Class A shares, net of costs	1.4	0.1
Payment of common dividends	(5.4)	(3.0)
Refundable taxes	1.1	-
	(0.6)	1.7
Total cash available (used)	(8.7)	33.7
Cash provided by (used for) investments		
Net decrease in investments	10.8	59.6
Purchase of property, equipment and other assets	(67.4)	(74.1)
Proceeds from sale of property	14.3	1.2
Increase in employee future benefit obligation	0.5	0.4
Increase in deferred foreign currency translation gains	-	2.7
	(41.8)	(10.2)
Total cash used	(41.8)	(10.2)
Increase (decrease) in cash from continuing operations	(50.5)	23.5
Discontinued operations (Note 2)	1.9	10.3
Cash, beginning of period	302.6	90.2
Cash, end of period	\$ 254.0	\$ 124.0

*See accompanying notes to the unaudited interim period consolidated financial statements.*

**EMPIRE COMPANY LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JULY 31, 2002**

(Unaudited, in millions, except per share amounts)

**1. Significant Accounting Policies**

**Interim financial statements**

Effective during the first quarter of the previous fiscal year, the Company adopted the Canadian Institute of Chartered Accountants handbook section 1751 relating to interim financial statements. The accounting policies used in the preparation of these interim consolidated financial statements conform with those used in the Company's annual consolidated financial statements. These interim consolidated financial statements do not include all of the disclosures included in the Company's annual consolidated financial statements. Accordingly, these interim consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended April 30, 2002, as set out in the Annual Report 2002.

**Goodwill**

Effective May 1, 2002, the Company prospectively implemented the recommendations of the new handbook section 3062 issued by the Canadian Institute of Chartered Accountants on goodwill and other intangible assets. Under the new standard, goodwill and intangible assets with indefinite useful lives are no longer amortized but are subject to an annual impairment review. Any permanent impairment in the book value of goodwill and intangible assets will be written off against earnings. The Company has completed its review and has determined that no adjustment is required to the carrying value of goodwill.

**Stock-based compensation plans**

Effective May 1, 2002, the Company adopted the Canadian Institute of Chartered Accountants new handbook section 3870 relating to stock-based compensation plans. Adopting this standard does not have an effect on Empire's earnings.

The Directors of the Company and its subsidiary, Sobeys Inc., can choose to defer the receipt of their compensation and have the ultimate amount to be received tied to the market value of their respective Company's stock. The deferred amounts are to be paid when they cease to be a Director. The Company records a liability based on the current market value of the Companies' stock. At July 31, 2002 the liability recorded under the plans is \$1.1.

The Company has a stock option plan that allows holders to purchase Non-Voting Class A shares at \$13.11 per share. Options expire at dates from April 2003 to October 2006. At July 31, 2002 41,137 options were outstanding and no new options were granted during the quarter. During the quarter 6,300 options were exercised resulting in 6,300 Non-Voting Class A shares being issued for \$0.1.

**2. Discontinued Operations**

On April 1, 2002 the Company's subsidiary, Sobeys Inc., announced completion of the sale of substantially all of the assets of its SERCA Foodservice operations. SERCA Foodservice distributed foodservice products to primarily hospitality, institutional and commercial customers throughout Canada.

The revenues of the discontinued operations were \$592.5 for the quarter ended July 31, 2001.

Earnings from discontinued operations during the quarter ended July 31, 2001 were \$4.0.

Interest on other debt that is not directly attributable to the discontinued operations was not allocated to the discontinued operations.

Current assets of discontinued operations at April 30, 2002 and July 31, 2002 were comprised of assets for resale. Noncurrent assets of discontinued operations at July 31, 2001 were comprised principally of fixed assets and goodwill.

Cash flow from discontinued operations for the quarter ended July 31, 2002, included cash generated by investing activities of \$1.9. Cash flow from discontinued operations for the quarter ended July 31, 2001, included operating cash generated by SERCA Foodservice of \$7.2, cash generated by investing activities of \$3.2 and cash used by financing activities of \$0.1.

### 3. Net Earnings Per Share

Net earnings per share amounts are calculated on the weighted average number of shares outstanding (2002-32,902,000 shares; 2001-32,832,000 shares) after providing for preference share dividends accrued to the balance sheet date. Diluted earnings per share have been calculated on the assumption that all the outstanding stock options were exercised at the beginning of the period.

Earnings applicable to common shares is comprised of the following:

	<u>2002</u>	<u>2001</u>
Earnings before goodwill amortization	\$ 39.8	\$ 46.9
Goodwill amortization	-	2.3
Earnings from continuing operations	39.8	44.6
Capital gains and other items, net of taxes of (2001 \$(0.3))	-	18.3
	<u>39.8</u>	<u>26.3</u>
Earnings from discontinued operations	-	4.0
Operating earnings	39.8	30.3
Capital gains and other items	-	18.3
Net earnings	39.8	48.6
Preferred share dividends	0.1	0.1
Earnings applicable to common shares	<u>\$ 39.7</u>	<u>\$ 48.5</u>

Earnings per share is comprised of the following:

Earnings before goodwill amortization applicable to common shares	\$ 1.21	\$ 1.43
Goodwill amortization	-	0.07
Earnings from continuing operations	1.21	1.36
Capital gains and other items, net of taxes	-	0.56
	<u>1.21</u>	<u>0.80</u>
Earnings from discontinued operations	-	0.12
Operating earnings	1.21	0.92
Capital gains and other items	-	0.56
Net earnings per share	<u>\$ 1.21</u>	<u>\$ 1.48</u>

### 4. Other Assets

	<u>July 31 2002</u>	<u>April 30 2002</u>	<u>July 31 2001</u>
Mortgages and loans	\$ 108.4	\$ 109.0	\$ 114.5
Goodwill (less accumulated amortization of \$56.1; April 30,2002 \$56.1; July 31,2001 \$43.9)	565.4	565.8	562.4
Deferred charges	122.3	121.4	113.4
	<u>\$ 796.1</u>	<u>\$ 796.2</u>	<u>\$ 790.3</u>

## 5. Investment Income

	<u>2002</u>	<u>2001</u>
Dividend and interest income	\$ 6.7	\$ 6.3
Share of income of companies accounted for by the equity method	<u>0.5</u>	<u>1.4</u>
	<u>\$ 7.2</u>	<u>\$ 7.7</u>

## 6. Capital Gains and Other Items

	<u>2002</u>	<u>2001</u>
Gain on sale of investments	\$ -	\$ 18.5
Loss on disposal of properties	-	(0.5)
	<u>\$ -</u>	<u>\$ 18.0</u>

## 7. Goodwill Amortization

	<u>2002</u>	<u>2001</u>
Amortization of goodwill	\$ -	\$ 4.0
Income taxes	-	(0.2)
Minority interest	-	(1.5)
	<u>\$ -</u>	<u>\$ 2.3</u>

## 8. Supplementary Cash Flow Information

### a.) Items not affecting cash

	<u>2002</u>	<u>2001</u>
Depreciation	\$ 34.6	\$ 28.3
Goodwill amortization	-	4.0
Future income taxes	0.5	21.0
Amortization of deferred items	3.5	4.7
Equity in earnings of other companies, net of dividends received	(0.5)	(1.4)
Minority interest	<u>15.3</u>	<u>8.9</u>
	<u>\$ 53.4</u>	<u>\$ 65.5</u>

### b.) Other cash flow information

Interest paid	<u>\$ 14.8</u>	<u>\$ 24.8</u>
Income taxes paid	<u>\$ 46.6</u>	<u>\$ 45.4</u>

## 9. Segmented Information

	<u>2002</u>	<u>2001</u>
<b>Revenue</b>		
Food distribution	<u>\$ 2,637.7</u>	<u>\$ 2,444.4</u>
Real estate		
Outside	<u>32.9</u>	31.6
Inter-segment	<u>11.9</u>	<u>11.2</u>
	<u>44.8</u>	<u>42.8</u>
Other operations	<u>16.7</u>	<u>13.3</u>
	<u>2,699.2</u>	2,500.5
Elimination	<u>(11.9)</u>	<u>(11.2)</u>
	<u>\$ 2,687.3</u>	<u>\$ 2,489.3</u>
<b>Operating income</b>		
Food distribution	<u>\$ 84.3</u>	\$ 67.4
Real estate	<u>22.5</u>	22.3
Other operations	<u>3.0</u>	2.2
Investment income	<u>7.2</u>	7.7
Corporate expenses	<u>(1.8)</u>	<u>(2.0)</u>
	<u>\$ 115.2</u>	<u>\$ 97.6</u>

## 10. Comparative Figures

Comparative figures have been reclassified, where necessary, to reflect the current period's presentation, including disclosure for discontinued operations.

## **Management's Discussion and Analysis**

Empire Company Limited ("Empire" or the "Company") is a diversified Canadian company headquartered in Stellarton, Nova Scotia. Empire's key businesses are retail food distribution (through majority ownership of Sobeys Inc. ("Sobeys")), real estate (primarily through wholly-owned Atlantic Shopping Centres Limited ("ASC") and Sobey Leased Properties Limited ("SLP") managing 12.1 million square feet of leasable space), and corporate investment activities and other operations (which includes wholly-owned Empire Theatres Limited). With over \$4.3 billion in assets, Empire employs approximately 34,000 people directly and through its subsidiaries.

The following is a discussion and analysis of the interim consolidated financial condition and results of operations of Empire for the three-month period ended July 31, 2002. This discussion may contain forward-looking statements about the future performance of the Company. The statements are based on management's assumptions and beliefs in light of the information herein. These forward-looking statements are subject to uncertainties and other factors that could cause actual results to differ materially from such statements. Additional financial information has been filed electronically with various securities commissions in Canada through SEDAR.

This document should be read in conjunction with: the Interim Consolidated Financial Statements of Empire Company Limited and notes thereto for the three-month period ended July 31, 2002; Management's Discussion and Analysis included in the Annual Report of the Company for the year ended April 30, 2002; and the Consolidated Financial Statements and notes thereto for the year ended April 30, 2002.

The financial information presented in this report includes the contribution of Sobeys Inc.'s retail grocery distribution business. SERCA Foodservice ("SERCA") operations are not reflected in Empire's consolidated sales, cost of sales, selling and administrative expense, depreciation, interest expense or income tax expense. SERCA has been accounted for as a discontinued operation, reflecting the sale of substantially all of the net assets of SERCA on March 30, 2002.

**Consolidated Operating Results**  
**Selected Consolidated Financial Information**

(in millions, except per common share amounts)

<b>For the three months ended July 31</b>	2002	2001	Percent Change
Revenue <i>(net of inter-company elimination)</i>			
Food Distribution	\$2,637.7	\$2,444.4	7.9
Real Estate	32.9	31.6	4.1
Other Operations	16.7	13.3	25.6
	2,687.3	2,489.3	7.9
Operating Income			
Food Distribution	84.3	67.4	25.1
Real Estate	22.5	22.3	0.9
Investments and Other Operations	8.4	7.9	6.3
	115.2	97.6	18.0
Interest expense	23.4	30.5	(23.3)
Income taxes (from operating activities)	34.5	26.7	29.2
Minority interest	17.5	11.8	48.3
Goodwill amortization	-	2.3	
Earnings from continuing operations			
before net capital gains and other items	39.8	26.3	51.3
Earnings from discontinued operations	-	4.0	
Operating earnings	39.8	30.3	31.4
Capital gains and other items, net of tax	-	18.3	
Net earnings	\$ 39.8	\$ 48.6	(18.1)
<b>Per Share</b>			
Earnings from continuing operations			
before net capital gains and other items	\$ 1.21	\$ 0.80	51.3
Earnings from discontinued operations	-	0.12	
Operating earnings	1.21	0.92	31.5
Capital gains and other items, net of tax	-	0.56	
Net earnings	\$ 1.21	\$ 1.48	(18.2)

Empire reported net earnings before net capital gains (“operating earnings”) of \$39.8 million or \$1.21 per share, up 31.4 percent in dollar terms and 31.5 percent on a per share basis over the previous fiscal year. All operating companies recorded improved earnings over the first quarter of fiscal 2002. During the first quarter of fiscal 2003, Empire discontinued amortization of goodwill consistent with the new accounting standard issued by the Canadian Institute of Chartered Accountants (“CICA”) on goodwill and other intangible assets. Had goodwill not been amortized in the first quarter of fiscal 2002, net operating earnings would

have totaled \$33.2 million (\$1.01 per share), resulting in a 20 percent growth in earnings.

First quarter revenue reached \$2.68 billion, an improvement of 7.9 percent over the first quarter of fiscal 2002. The Food Division contributed revenue of \$2.64 billion versus \$2.44 billion contributed in the first quarter last year. Real estate revenues (net of inter-company elimination) improved 4.1 percent and Other Operations reported revenue growth of 25.6 percent.

Operating income for the three month period ended July 31, 2002 totaled \$115.2 million, an increase of \$17.6 million or 18 percent compared to the same period of the previous fiscal year. All operating companies recorded improvement in EBITDA margin over last year. Improved EBITDA dollars more than offset a 22 percent increase in depreciation expense in the quarter. The higher depreciation expense is primarily the result of the food division's capital spending program.

For the quarter ended July 31, 2002, interest expense declined 23 percent to \$23.4 million. Interest on long-term debt amounted to \$22.3 million, down 21 percent from the same period last year, while interest on short-term debt decreased 52 percent from last year. The decrease was due primarily to a reduction in funded debt coincident with the application of a portion of SERCA sale proceeds to reduce indebtedness.

The effective income tax rate for the first quarter was 37.6 percent versus 39.8 percent in quarter one of fiscal 2002. The decrease in rate is primarily the result of statutory tax rate reductions.

The Company generated net capital gains of \$18.3 million in the first quarter of fiscal 2002, primarily from the sale of investments. There were no net capital gains (losses) recorded in the first quarter of fiscal 2003.

Net earnings totaled \$ 39.8 million or \$1.21 per share for the three month period ended July 31, 2002 versus \$48.6 million or \$1.48 for the same period last year. The difference is the result of net capital gains of \$18.3 million generated in quarter one of fiscal 2002, partially offset by stronger operating earnings recorded in quarter one of fiscal 2003 against fiscal 2002.

## **Operating Overview & Performance by Segment**

### **FOOD DISTRIBUTION**

Empire's food distribution business is carried on through its 62 percent ownership in Sobeys. Sobeys recorded first quarter sales of \$2.64 billion, an increase of 7.9 percent or \$193 million over the first quarter of fiscal 2002. Same store sales (excluding expanded stores) grew by 3.3 percent during the quarter and by 4.5 percent when including expanded stores. All regions recorded increases in revenue over the prior year. The growth in revenue is attributed to a number of

strategic initiatives targeted at satisfying the unique needs of each of our customer segments, increased square footage added to Sobeys retail store network during the past twelve months, and food price inflation of 1.5 percent.

Sobeys reported net earnings of \$45.9 million (\$0.70 per share) or 38 percent higher than the \$33.3 million (\$0.51 per share) earned in the same period of fiscal 2002. Effective the first quarter of fiscal 2003 Sobeys discontinued the amortization of goodwill consistent with the new accounting standard issued by the CICA on goodwill and other intangible assets. Had goodwill not been amortized in quarter one of fiscal 2002, net earnings would have increased 20.5 percent from \$38.1 million (\$0.58 per share) in the first quarter last year.

The year-over-year earnings growth in the food division is the result of a number of factors: the growth in revenues (as previously mentioned), EBITDA improvement, lower interest expense, and a decline in the Company's effective tax rate.

Sobeys' earnings before interest, taxes, depreciation, and amortization ("EBITDA") for the three month period ended August 3, 2002, was \$113.9 million, which is 24 percent higher than the \$91.5 million recorded last year. EBITDA as a percentage of sales increased 58 basis points to 4.32 percent. This represents the fourth consecutive quarter of year-over-year margin improvement. The EBITDA margin gain was due to a continuation of the food division's strategic focus on disciplined cost management throughout the entire supply chain. The programs implemented in fiscal 2002 in the areas of national merchandising, distribution and logistics, and selling, general and administrative ("SG&A") cost streamlining were partially responsible for the first quarter EBITDA growth.

Operating income or earnings before interest and taxes ("EBIT") amounted to \$84.3 million, an increase of 25 percent over the first quarter of fiscal 2002. The increase is attributable to the increase in EBITDA dollars partially offset by a \$5.5 million increase in depreciation expense. The increased depreciation expense in the quarter is a result of Sobeys' aggressive capital spending program as approximately \$425 million was invested in fixed asset additions during the past twelve months.

Interest expense declined \$5.7 million versus the same period in the previous fiscal year due to a combination of lower borrowing levels and a decline in borrowing rates. The reduction in borrowing levels was primarily due to the use of a portion of the SERCA sale proceeds.

## **REAL ESTATE**

Empire's real estate operations are primarily conducted through wholly-owned Atlantic Shopping Centres Limited and Sobey Leased Properties Limited, and a 35 percent ownership position in Genstar Development Partnership ("Genstar").

Operating income in the three month period ended July 31, 2002 was \$22.5 million, relatively unchanged from the comparable period last year. Real estate contributed 19.5 percent of Empire's first quarter consolidated operating income.

Real estate operating cash flow in the three month period ended July 31, 2002 reached \$11.3 million versus \$9.7 million last year, an increase of 16.5 percent.

Real estate earnings and cash flow improvements are primarily the result of continued strong financial performance from Genstar and ASC. ASC improved its operating performance through strong leasing activity and the benefits of its ongoing development activity. Total occupancy rate at the end of the quarter was 92.1 percent versus 92.7 percent at the same time last year.

## **INVESTMENTS AND OTHER OPERATIONS**

The third component of Empire's business is its investments, consisting of an investment portfolio of equity investments, and other operations. At July 31, 2002 Empire's total investments at the holding company level carried a market value, excluding cash and cash equivalents, of \$494.6 million on a carrying value of \$510.6 million, resulting in an unrealized loss of \$16.0 million. For the first three months of fiscal 2003, the total return on Empire's portfolio was down approximately 15 percent, relatively consistent with the total return performance of the S&P 500 index (down approximately 15 percent) and the S&P/TSX index (down approximately 13.4 percent) over the same period.

Investment income of \$7.2 million for the quarter was below last year's result of \$7.7 million. The decline of \$0.5 million is attributable to a decrease in equity accounted earnings contribution from Empire's only equity accounted investment, Wajax Limited of \$0.9 million; partially offset by an increase of \$0.4 million in interest and dividend income from other portfolio investments.

Other operation's contribution to Empire's operating income increased by \$0.8 million in the first quarter of fiscal 2003. This increase is primarily the result of strong revenue growth, good film quality and continued expense control at wholly-owned Empire Theatres Limited.

There were no net capital gains or losses realized from the sale of investments during the three month period ended July 31, 2002.

## **Consolidated Financial Position**

### **ASSETS**

Total assets at the end of the first quarter totaled \$4,317.1 million and were relatively unchanged from the \$4,312.6 million reported at April 30, 2002.

### **NET ASSET VALUE**

At July 31, 2002 management calculates Empire's consolidated net asset value ("NAV") at \$2,361.7 million or \$71.78 per share, compared to \$2,516.9 million or \$76.62 per share at the end of the previous fiscal year. On a per share basis, NAV has decreased \$4.84 since April 30, 2002. The decrease is primarily attributable to a decline in the market value of the Company's investment in Sobeys of \$67 million combined with a decline in the market value of Empire's investment portfolio, net of debt, of \$78 million.

### **Capital Resources and Liquidity**

Empire's net debt to capital ratio was 27.9 percent at July 31, 2002 versus 23.3 percent at April 30, 2002. The 4.6 percentage point increase since the previous fiscal year end is the result of reduction in the realizable value of cash and investments, partially offset by a \$35.4 million increase in retained earnings. Outstanding debt was relatively unchanged from April 30, 2002.

Interest coverage (operating income divided by interest expense) improved to 4.9 times at July 31, 2002 from 3.7 times at April 30, 2002 and 3.2 times at July 31, 2001. The improvement is attributable to an 18 percent increase in operating income in the three month period ended July 31, 2002 versus the same period last year, combined with a decrease in interest expense of 23 percent in the first quarter this year. The reduction in interest expense is primarily the result of lower borrowing requirements.

Short-term liquidity remains strong as a result of internally generated cash flow, net cash on hand, and unutilized bank credit lines for operating, general and corporate purposes of \$325 million, of which, 55 percent was utilized at July 31, 2002. The Company's consolidated authorized bank credit facilities exceeded borrowings by \$582.3 million at July 31, 2002.

### **CASH FLOWS**

First quarter cash flows provided by operating activities (before net change in other current items) was \$93.1 million, a decrease of \$16.9 million from the first quarter last year. The primary reason for the decline is a decrease in the add back of non-cash charges (related to Empire's future tax provision) and in the

Company's net earnings (due to \$18.3 million in net capital gains recorded in the first quarter last year); partially offset by increased depreciation expense.

Cash flows from operating activities declined \$40.1 million to result in total cash used from operating activities of \$8.1 million versus cash generated from operating activities of \$32.0 million in quarter one of fiscal 2002.

The decline is attributable to the above mentioned change in cash flow provided by operating activities (before net change in other current items) combined with a decrease in net change in other current items totaling \$23.2 million, resulting primarily from an increase in inventory in the quarter while payables declined. The increase in inventory is largely the result of Sobeys recording higher first quarter inventories as they took advantage of inventory related buying opportunities.

For the three month period ended July 31, 2002, cash flows used for investment activities equaled \$41.8 million versus \$10.2 million in the same period last year. The increase in cash used for investments is largely the result of increased cash provided by the sale of investments last year.

Financing activities during the first quarter of fiscal 2003 used cash of \$0.6 million. In the same period last year financing activities generated \$1.7 million of cash. The year-over-year difference is primarily the result of increased common dividend payments of \$2.4 million over last year. Regularly scheduled long-term debt payments were primarily funded via increased bank loans.

### **Risk and Risk Management**

Risk and uncertainties related to economic and industry factors and Empire's management of this risk, as discussed in detail in the "Management's Discussion and Analysis" section of the Company's fiscal 2002 annual report, remain substantially unchanged.

### **Accounting Policy Changes**

Effective the quarter ended July 31, 2002, the Company has adopted the CICA accounting standard pertaining to goodwill and other intangible assets. Under this standard, goodwill and intangible assets with indefinite useful lives are no longer amortized, but are subject to impairment tests on at least an annual basis. Empire and its operating companies have completed their review and have determined that the book value of existing goodwill is not impaired.

Also effective this quarter, the Company has adopted CICA accounting standard, Section 3870, "Stock-based Compensation and Other Stock-based Payments". While the Company's long-term incentive plan for executives provides for the issuance of stock options, the Company ceased issuing options in 1996, and as

of July 31, 2002 had only 41,137 options outstanding. Adopting this standard does not have an effect on Empire's earnings.

## **Outlook**

As a result of the Company's first quarter results, Empire's trailing (last four quarters) operating earnings (before goodwill amortization) per share now equal \$4.57 per share versus \$3.17 per share last year, a 44 percent increase. Empire remains well positioned to continue its earnings growth through fiscal 2003.

Empire projects stronger financial performance in fiscal 2003, primarily as a result of continued growth in contribution from each of its operating businesses. Management has assumed the continuation of the current competitive environment and has factored in conservative cost of capital assumptions. The Company is committed to growing value in each of its divisions and, thereby growing value in Empire Company Limited on behalf of all shareholders.

## **INVESTOR INFORMATION**

### **EMPIRE COMPANY LIMITED**

Head Office  
115 King Street  
Stellarton, Nova Scotia  
B0K 1S0  
Telephone: (902) 755-4440  
Fax: (902) 755-6477  
Internet: www.empireco.ca

### **INVESTOR RELATIONS**

For additional information  
please write to the company,  
c/o Stewart H. Mahoney, CFA  
Vice President, Treasury and Investor Relations  
E-mail: investor.relations@empireco.ca

### **STOCK EXCHANGE LISTINGS**

The Toronto Stock Exchange

### **STOCK SYMBOLS**

Non-voting Class A shares - EMP.A  
Preferred shares:  
Series 2 - EMP.PR.B

### **AVERAGE DAILY TRADING VOLUME (TSE)**

12,418

### **COMMON DIVIDEND RECORD AND PAYMENT DATES FOR FISCAL 2003**

Record Date	Payment Date
Oct. 15th, 2002	Oct. 31st, 2002
Jan. 15th, 2003*	Jan. 31st, 2003*
Apr. 15th, 2003*	Apr. 30th, 2003*
July 15th, 2003*	July 31st, 2003*

\*subject to approval by Board of Directors

### **OUTSTANDING SHARES**

As of September 23, 2002	
Non-Voting Class A common	15,453,763
Options exercisable with Class A common shares	40,537
Class B common, voting	17,448,728

### **TRANSFER AGENTS**

Computershare Trust Company of Canada  
Telephone: (800) 564-6253  
Non-voting Class A shares

CIBC Mellon Trust Company  
Telephone: (902) 420-3821  
Series 2 Preferred shares

### **MULTIPLE MAILINGS**

If you have more than one account, you may  
receive a separate annual report for each. If  
this occurs, please contact Computershare  
at (902) 420-3557 to eliminate the multiple  
mailings.

### **INVESTOR INQUIRES**

Communications regarding investor records  
including changes of address or ownership,  
should be directed to the Company's  
transfer agent, Computershare Trust Company  
of Canada, at the above contact  
information.

Shareholders, analysts and investors should  
direct their financial inquires or requests to  
Stewart H. Mahoney.

### **EXAMPLAIRE FRANÇAIS**

Vous pouvez obtenir un exemplaire français  
de ce rapport annuel en écrivant à:  
Empire Company Limited  
Investor Relations  
115 King Street  
Stellarton, Nova Scotia  
B0K 1S0