

Financial Highlights

Spartan Stores, Inc. and subsidiaries

(In thousands except per share data and ratio)

	Fiscal Year 2003	Fiscal Year 2002	Fiscal Year 2001
Net sales*	\$ 2,148,067	\$ 2,270,019	\$ 2,360,912
Gross margin	373,717	404,685	380,115
(Loss) earnings before income taxes, discontinued operations and cumulative effect of a change in accounting principle	(52,074)	18,976	23,898
Net (loss) earnings**	(122,332)	9,847	23,442
Basic (loss) earnings per share	(6.15)	0.50	1.35
Shareholders' equity	109,632	231,492	218,413
Total assets	556,306	760,591	801,543
Long-term debt, including current maturities	220,411	321,161	345,983
Working capital	88,507	115,631	82,199
Long-term debt to equity	1.68	1.28	1.41
Shares outstanding	19,999	19,766	19,262

Net Sales*

Dollars in billions



Long-Term Debt

Including current maturities
Dollars in millions



Gross Margin

Dollars in millions



Working Capital

Dollars in millions



* Fiscal 2003 and 2002 consisted of 52 weeks. Fiscal 2001 consisted of 53 weeks.

** Fiscal 2003, 2002 and 2001 include pre-tax asset impairments and exit costs of \$47,711, \$1,030 and \$1,098, respectively. Fiscal 2003 also includes a cumulative effect of a change in accounting principle of \$35,377.

To Our Shareholders:

Although fiscal 2003 began with great promise and high expectations, it was particularly disappointing because our financial and operational performance fell below expectations. Our below-par performance was attributable to a combination of industry, economic and operational factors. The weak economy and competitive market conditions certainly influenced the results, but we also contributed by being unable to mount an effective, cohesive and consistent retail strategy to take advantage of the available market and internal improvement opportunities.

Despite this performance, I believe we have an outstanding collection of assets that can be used to build Spartan Stores into a premier regional grocery distributor and retail operator. For example, our grocery distribution assets include strong customer and supplier relationships, a stellar reputation for service quality and a state-of-the-art information technology system. From a retail perspective, our stores are in good physical condition and offer customers convenient neighborhood locations as an attractive alternative to the big-box retailers. We have also invested more than \$9 million upgrading our retail

information technology systems over the past two years. Most importantly, our associates are dedicated and passionate about the grocery business. I firmly believe these assets provide a strong framework and the right ingredients for us to achieve success.

Notwithstanding our less-than-desired results, we are making meaningful progress narrowing our focus on the core grocery operations. During fiscal 2003, we continued a multi-year effort to divest non-strategic and under-performing assets, which led to the sale of additional non-core property in our real estate subsidiary and the closing of 28 under-performing retail stores. In early fiscal 2004, we sold a substantial portion of our convenience store distribution operation and expect to divest our remaining Toledo, Ohio area Food Town retail grocery stores. These actions have allowed us to direct resources to our most promising value creation opportunities, while improving our focus on the core grocery operations.

PRIORITIES

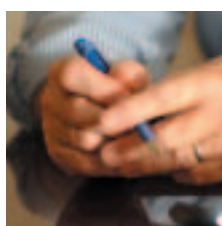
As the newly appointed President and Chief Executive Officer, my immediate priority has been to resolve the operational challenges that led to our

performance shortfalls. Since March, I have met with our board and executive management team, distribution customers and suppliers, and retail store managers. From these meetings, I have realized that significant opportunities exist to improve our performance by making basic changes to our retailing approach and by responding to our distribution customers' most pressing needs. Therefore, we have firmly established these key management priorities:

- Focus the organization on distribution and retail sales growth
- Align operating cost structure with industry standards
- Strengthen financial position by rationalizing under-performing assets
- Restore retail operations to profitability by installing category management as a way of life throughout the entire organization

DISTRIBUTION AND RETAIL SALES GROWTH

Sales growth in our distribution and retail business can be achieved by pushing our organization to be more sales oriented. An initial step towards that goal began by meeting with

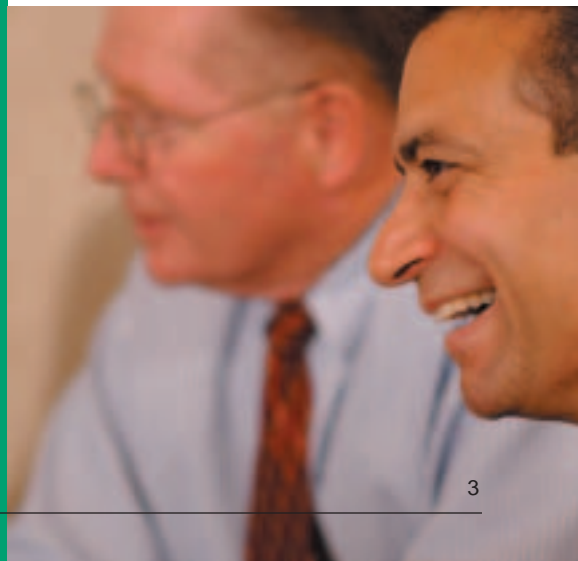




Fresh Thinking



“I believe we have an outstanding collection of assets that can be used to build Spartan Stores into a premier regional grocery distributor and retail operator.”





> Forward Thinking

our existing, former and prospective distribution customers. These meetings have been enlightening and provided us with a much better understanding of how we can improve their service needs. As such, we are progressing toward a new dimension of listening to their needs and responding with tangible service solutions that will help them become more competitive retail operators. Furthermore, additional sales growth can be achieved by making

a fundamental shift in our distribution sales philosophy to emphasize incremental gains rather than our past all-or-nothing approach. We strongly believe that significant opportunities exist to add new customers and to make incremental gains with our existing customers and many are well within reach.

Restoring consistent sales growth in our distribution business is only one dimension of our business objective;



“The many operational and strategic changes already underway combined with tenacity, a more structured business approach, and disciplined execution will help us achieve success.”



restoring sustainable retail sales is also urgently important. Sales growth in this segment can be achieved by also establishing a stronger retail sales culture and by imposing more structured and coordinated marketing programs. We began moving in this direction by separating our marketing and merchandising functions into two groups: one for retail and one for distribution. This allows us to exercise better market segmentation and to capitalize on the distinct needs of each customer group.

We continued this push by appointing a veteran grocery industry executive, Dennis Eidson, as Executive Vice President Marketing and Merchandising. He brings exceptional talent and market-specific insight to a business discipline that is particularly critical for retail success. In this position, Dennis will provide a focal point for evaluating and coordinating company-wide marketing and merchandising programs. The position will also help strengthen program performance by ensuring more effective and efficient use of available resources. Collectively, these changes are just the beginning of a

process to fundamentally change our company's sales approach in order to achieve a more consistent pattern of sales growth.

LOWER OPERATING COSTS

Even though we are more aggressively pursuing sales growth, we must not achieve it by sacrificing profitability. Therefore, we are simultaneously working to lower our operating cost structure. We are pleased to have recently steadily improved our cost structure, but continue to operate with a structure that is unacceptably higher than industry standards. Accordingly, we will continue to lower costs by appropriately reducing overheads and by implementing more stringent budgetary controls. Stricter controls and accountability will help ensure a more efficient allocation of resources by restricting spending to only those projects that meet our financial objectives and produce positive results. Our goal is to create a more cost conscious company culture, where capital is allocated to the programs and facilities that have the best profit and investment return potential.

STRENGTHEN BALANCE SHEET

Strengthening our financial position is also a top priority. During fiscal 2003, we reduced total outstanding debt by \$100.8 million, or 31 percent, through the sale of non-core real estate holdings and underperforming assets, and by improving working capital management. Looking ahead, we will continue to lower our working capital needs and rationalize under-performing assets, while using incremental cash flow gains to further reduce outstanding borrowings.

RESTORE RETAIL PROFITABILITY

Returning our retail operations to profitability is certainly our most pressing near-term objective. In order to achieve this, we must make basic and fundamental changes to our retail operations and strategy. Our first steps have been to install more sophisticated and detailed performance measuring, reporting, and feedback mechanisms. Part of this process required making our very capable information technology system more user-friendly in order to fully utilize its potential. We are also devoting increased resources to gather



“...basic category management changes will drive more store traffic and lift sales volumes across multiple product categories.”

and interpret relative market performance data. For example, we are making much better use of extremely important and critical syndicated market reports. These reports are widely used by the premier retail operators to gauge and benchmark their relative retail performance. The reports are helping us formulate a comprehensive and cohesive retail strategy that will capitalize on our unique market demographics and more general consumer product trends. Our entire management team, from executive level through store level, is analyzing these performance reports with greater frequency, understanding, and enthusiasm. Moreover, this basic operational change is providing the needed feedback that allows our managers to more rapidly identify performance strengths and deficiencies by market and product category. These reports have also significantly increased our ability to spot retail sales growth opportunities because they act as a barometer for consumer product preferences. We are just beginning to use all of our information resources more effectively to manage the basics of retailing and it is already leading to better merchandising decisions that will quickly move our retail operations toward profitability. Establishing better measurement systems alone, however, will not improve our retail performance. Another very important element for success in grocery retailing is the ability to effectively execute category management. From my perspective, our organization has been deficient in the very basics of this

retailing discipline. Consequently, we are substantially changing our category management approach in order to create a stronger bridge to the consumer. Our most striking and initial change has been the use of consumer purchases, rather than supplier rebates, as the primary driver of our merchandising decisions. This renewed consumer orientation is reshaping our retail marketing and merchandising strategy and will serve as the backbone to connect our buying, category management, marketing and operations decisions. As these changes become operational, our product mix will become consumer centric and customers will notice improved product pricing, promotions and assortments. These new merchandising practices will be grounded in sound market research as we use the intelligence to identify and establish store-level “destination categories” that attract customers. Our advertising, a critical element of the category management function, will become more effective as we set stringent performance objectives and focus on promoting the right products in each category. We believe these basic category management changes will drive more store traffic and lift sales volumes across multiple product categories.

Changes to our category management function will be among our company’s most profound and financially beneficial moves. We fully expect the improved practices to have an immediate and sustainable effect on our sales and profit growth. The benefits of better category



Right Thinking



management will also extend to our distribution customers as they will have the opportunity to leverage our market research to improve their own retail product mix, pricing and promotion programs. Developing this retail discipline into a way of life for our entire organization is a cultural challenge that will take hold gradually over time, but we will be relentless in that pursuit.

SUMMARY

In summary, I believe that Spartan Stores has a bright future because of our outstanding collection of assets and tremendous, readily-available performance improvement opportunities. Seizing these opportunities will undoubtedly make Spartan Stores a much more formidable grocery industry competitor. The many operational and strategic changes already underway combined with tenacity, a more structured business approach, and

disciplined execution will help us achieve success. I expect the coming year to be marked by additional changes as we move swiftly to restore retail profitability, while building on the positive momentum evident in our grocery distribution operation. We look forward to a year of steady progress and will be eager to share our results with you throughout the year.

We sincerely appreciate the continued support and patience of our customers, associates, suppliers, and shareholders as we progress through this transitional period.

Craig C. Sturken
President and Chief Executive Officer

Jim Meyer Retires as President and Chief Executive Officer

Jim Meyer, currently Chairman of the Board of Directors of Spartan Stores, announced his retirement as President and Chief Executive Officer in October 2002, after an illustrious career spanning 30 years. After joining Spartan Stores in 1973 as director of retail accounting, Jim progressed through the company ranks to President and Chief Executive Officer in 1997 and Chairman in 2000. As an executive leader for more than 13 years, he has helped guide the company through some of the most profound changes in its 86-year history. His vision and insight were instrumental in steering Spartan Stores back into the retail grocery industry after a seven year absence. The company's strategic move into retailing significantly broadened and diversified its growth opportunities, and positions it to benefit from a consolidating grocery industry environment. Since re-entering the retail grocery industry with its first eight-store purchase in January 1999, the company's retail operations have grown rapidly and now represent approximately 40 percent of the company's consolidated net sales.

One of the most significant events during Jim's tenure as Chairman, President and CEO was the transformation of Spartan Stores from a privately held

grocery distributor into a publicly traded retail grocery and distribution company in August 2000. As part of this transformation, he played a key role in recruiting a talented and impressive board of directors from some of the nation's leading retailers and other industry-leading public companies. Adding a retail and public company dimension challenged Spartan to depart from less efficient legacy business practices in order to improve operational efficiencies and optimize profitability.

As the company leader, Jim has made the often difficult, but necessary, decisions required to improve the company's profitability and competitive position. Managerial structure changes, overhead cost reductions, and the divesting of under-performing retail stores are among the most recent operational changes that will help to improve Spartan's profitability and competitive market position. In addition, the company has significantly narrowed its focus to the core retail grocery and distribution businesses. Spartan Stores operated five business segments, including retail, grocery distribution, insurance, real estate, and the nation's sixth largest convenience store distribution operation the day it

became public. The company has since divested its insurance, real estate, and convenience distribution operations, allowing the management team to better channel its efforts and resources into the company's strongest retail and grocery distribution growth opportunities.

Today, Spartan Stores is the country's ninth largest grocery wholesale operator and the dominate grocery distributor in Michigan, serving more than 330 independent grocery store operators. The Company also enjoys a state-of-the-art information technology system across its entire retail store and distribution network, and an outstanding service reputation in the grocery distribution industry.

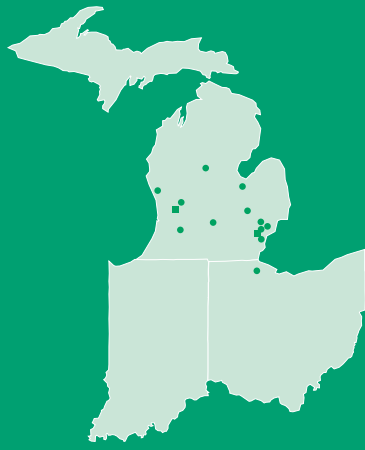
We believe present day Spartan Stores has a solid platform for growth and a bright future that includes opportunities to expand its legacy distribution business and a retail growth dimension born out of Jim's vision of Spartan's future. It stands as a tribute to the profound contributions made by him over the years and we are grateful for his leadership, insight, and dedication. We wish him all the best in his retirement years ahead.



“...Spartan Stores has a solid platform for growth and a bright future that includes opportunities to expand its legacy distribution business and a retail growth dimension born out of Jim's vision of Spartan's future”

COMPANY PROFILE

Spartan Stores is a leading regional grocery distributor that also operates 76 retail stores in Michigan and Ohio. The Company is the largest grocery distributor in the state of Michigan and ranks as the ninth largest distributor in the United States. Spartan's retail stores hold strong market share positions in their primary grocery markets of western and northern Michigan. For fiscal 2003, the distribution operations generated 59 percent of the Company's consolidated net sales with the retail operations accounting for the remaining 41 percent.



2 distribution centers and 12 cash and carry locations.



55 retail stores in Michigan.



21 deep discount drug stores in Michigan and Ohio.

GROCERY DISTRIBUTION

Spartan Stores distributes approximately 40,000 national brand and 1,800 private label grocery products, as well as general merchandise items to more than 400 grocery stores, which includes 330 independently-owned grocery stores and its 76 company-owned stores.

The Company distributes products to its Michigan customers from two distribution centers located in Grand Rapids and Plymouth, Michigan. The distribution facilities consist of approximately 1.6 million square feet of storage space. The Grocery Distribution segment generated net sales of approximately \$1.3 billion in fiscal 2003.

Spartan Stores' cash and carry operations, United Wholesale, serves the needs of retailers and institutions from 12 locations in Michigan and Ohio.



RETAIL STORES

The Company operates 55 stores in Michigan under the banners Ashcraft's Markets, Family Fare Supermarkets, Glen's Markets, Great Day Food Centers, Madison Family Market and Prevo's Family Markets. The stores average approximately 38,000 square feet and have a "neighborhood market" focus that emphasizes personal service and market specific products to distinguish them from super centers and limited assortment stores. The Company's marketing approach stresses its convenient store locations, demographically targeted products, quality perishables, strong customer service, value pricing, and community involvement. The Retail segment, which includes The Pharm deep discount drug stores, generated net sales of \$880.5 million for fiscal 2003. The stores have a strong market share position in each of their primary markets.



THE PHARM DEEP DISCOUNT DRUG STORES

The 21 Pharm stores offer a unique combination of a full-service pharmacy, general merchandise and basic food offerings in stores that average approximately 29,000 square feet. These stores operate under a deep-discount format in contrast to traditional supermarket or drug stores. This distinct format has a more limited product selection, but emphasizes everyday low prices on quality merchandise. The Pharm stores' products and services include high-quality pharmacy services, a large selection of discounted health and beauty aids, cosmetics and expanded grocery items. The grocery section features refrigerated and frozen foods, snacks and a limited range of fresh foods such as packaged meats, produce and dairy items.

