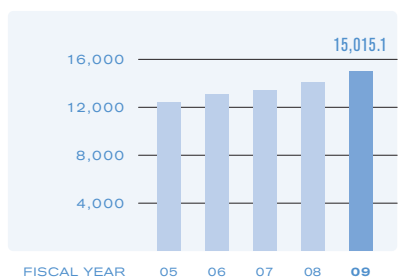


# management's discussion and analysis

## Table of Contents

<b>24 Forward-Looking Information</b>	<b>41 Financial Condition</b>
<b>25 Non-GAAP Financial Measures</b>	Capital Structure and Key Financial Condition Measures
<b>25 Empire's Strategic Direction</b>	Shareholders' Equity
<b>25 Overview of the Business</b>	Liabilities
Food Retailing	Financial Instruments
Real Estate	<b>44 Liquidity and Capital Resources</b>
Investments and Other Operations	Operating Activities
<b>27 Operational Changes</b>	Investing Activities
<b>27 Consolidated Operating Results</b>	Financing Activities
<b>28 Management's Explanation of</b>	Guarantees and Commitments
<b>Fiscal 2009 Annual Consolidated Results</b>	Free Cash Flow
Revenue	<b>49 Accounting Policy Changes</b>
Operating Income	<b>51 Critical Accounting Estimates</b>
Interest Expense	<b>53 Disclosure Controls and Procedures</b>
Income Taxes	<b>53 Internal Controls over Financial Reporting</b>
Earnings before Capital Gains and Other Items	<b>53 Related-Party Transactions</b>
Capital Gains and Other Items	<b>54 Subsequent Events</b>
Net Earnings	<b>54 Other Matters</b>
<b>30 Outlook</b>	<b>55 Designation for Eligible Dividends</b>
<b>31 Fiscal 2009 Operating Performance by Division</b>	<b>55 Contingencies</b>
Food Retailing	<b>55 Risk Management</b>
Real Estate	<b>59 Employee Future Benefit Obligations</b>
Investments and Other Operations	<b>59 Non-GAAP Financial Measures</b>
<b>38 Quarterly Results of Operations</b>	

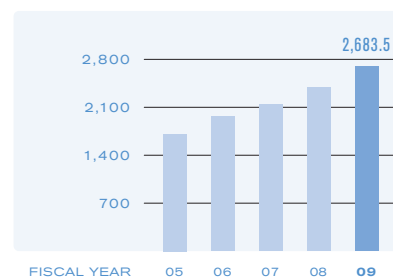
**CONSOLIDATED REVENUE**  
\$ IN MILLIONS



**CONSOLIDATED OPERATING EARNINGS**  
\$ IN MILLIONS



**CONSOLIDATED SHAREHOLDERS' EQUITY**  
\$ IN MILLIONS



# management's discussion and analysis

The following Management's Discussion and Analysis ("MD&A") contains commentary from management on the consolidated financial condition and results of operations of Empire Company Limited ("Empire" or the "Company") for the 52 weeks ended May 2, 2009, as compared to the 52 weeks ended May 3, 2008. Management also provides an explanation of the Company's fourth quarter results, changes in accounting policies, critical accounting estimates and factors that the Company believes may affect its prospective financial condition, cash flows and results of operations. This MD&A also provides analysis of the operating performance of the Company's divisions as well as a discussion of cash flows, the impact of risks and the outlook for the business. Additional information about the Company, including the Company's Annual Information Form, can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

This discussion and analysis is the responsibility of management. The Board of Directors carries out its responsibility for review of this disclosure principally through its Audit Committee,

comprised exclusively of independent directors. The Audit Committee has reviewed and approved this disclosure and it has also been approved by the Board of Directors.

This discussion and analysis should be read in conjunction with the audited annual consolidated financial statements of the Company and the accompanying notes for the 52 weeks ended May 2, 2009, as compared to the 52 weeks ended May 3, 2008. The consolidated financial statements and accompanying notes have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are reported in Canadian dollars.

These consolidated financial statements include the accounts of Empire and its subsidiaries and variable interest entities ("VIEs") which the Company is required to consolidate. Included in the Company's 2009 Annual Report, on page 100, is a glossary of terms used throughout this MD&A. The information contained in this MD&A is current to June 26, 2009, unless otherwise noted.

## Forward-Looking Information

This discussion contains forward-looking statements which reflect management's expectations regarding the Company's objectives, plans, goals, strategies, future growth, financial condition, results of operations, cash flows, performance, business prospects and opportunities. All statements other than statements of historical facts included in this MD&A, including statements regarding the Company's objectives, plans, goals, strategies, future growth, financial condition, results of operations, cash flows, performance, business prospects and opportunities, may constitute forward-looking information. Forward-looking information and statements are identified by words or phrases such as "anticipates", "expects", "believes", "estimates", "intends", "could", "may", "plans", "predicts", "projects", "will", "would", "foresees", "remain confident that" and other similar expressions or the negative of these terms. These statements are based on Empire management's reasonable assumptions and beliefs in light of the information currently available to them. The forward-looking information contained in this MD&A is presented for the purpose of assisting the Company's security holders in understanding its financial position and results of operation as at and for the periods ended on the dates presented and the Company's strategic priorities and objectives and may not be appropriate for other purposes. By its very nature, forward-looking information requires the Company to make assumptions and is subject to inherent risks and uncertainties, which give rise to the possibility that the Company's predictions, forecasts, expectations or conclusions will not prove to be accurate, that the Company's assumptions may not be correct and that the Company's objectives, strategic goals and priorities will not be achieved. Although the Company believes that the predictions, forecasts, expectations or conclusions reflected in the forward-looking information

are reasonable, it can give no assurance that such matters will prove to have been correct. Such forward-looking information is not fact but only reflections of management's estimates and expectations. These forward-looking statements are subject to uncertainties and other factors that could cause actual results to differ materially from such statements. These factors include but are not limited to: changes in general industry, market and economic conditions, competition from existing and new competitors, energy prices, supply issues, inventory management, changes in demand due to seasonality of the business, interest rates, changes in laws and regulations, operating efficiencies and cost saving initiatives. In addition, these uncertainties and risks are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including the Risk Management section of this MD&A.

Empire cautions that the list of important factors is not exhaustive and other factors could also adversely affect our results. Readers are urged to consider the risks, uncertainties and assumptions carefully in evaluating the forward-looking information and are cautioned not to place undue reliance on such forward-looking information. Forward-looking statements may not take into account the effect on the Company's business of transactions occurring after such statements have been made. For example, dispositions, acquisitions, asset write-downs or other changes announced or occurring after such statements are made may not be reflected in forward-looking statements. The forward-looking information in this MD&A reflects the Company's expectations as of June 26, 2009, and is subject to change after this date. The Company does not undertake to update any forward-looking statements that may be made from time to time by or on behalf of the Company other than as required by applicable securities laws.

## Non-GAAP Financial Measures

There are measures included in this MD&A that do not have a standardized meaning under GAAP. Management includes these measures because it believes certain investors use these

measures as a means of assessing relative financial performance. Additional information relating to non-GAAP financial measures is provided at the end of this document.

## Empire's Strategic Direction

Management's primary objective is to maximize the long-term sustainable value of Empire through enhancing the worth of the Company's net assets and in turn, having that value reflected in Empire's share price. This is accomplished through direct ownership and equity participation in businesses that management believes have the potential for long-term growth and profitability.

As an outcome of its strategic review session, the Company is resolved to clearly focus on its core strengths in food retailing and related real estate while continuing to direct its energy and capital towards growing the long-term sustainable value of each of its core operating businesses. While these respective core businesses are well established and profitable in their own right, the diversification they offer Empire by both business line and by market area served is considered by management to be an

additional source of strength. Together, these core businesses reduce risk and volatility, thereby contributing to greater consistency in consolidated earnings growth over the long-term. Going forward, the Company intends to continue to direct its resources towards the most promising opportunities within these core businesses in order to maximize long-term shareholder value.

In carrying out the Company's strategic direction, Empire management defines its role as having four fundamental responsibilities: first, to support the development and execution of sound strategic plans for each of its operating companies; second, to regularly monitor the development and the execution of business plans within each operating company; third, to ensure that Empire is well governed as a public company; and fourth, to prudently manage its capital in order to augment the growth in its core operating businesses.

## Overview of the Business

Empire's key businesses include food retailing, real estate, and investments and other operations. Food retailing is carried out through wholly-owned Sobeys Inc. ("Sobeys"). The real estate business is carried out through a wholly-owned operating subsidiary ECL Properties Limited ("ECL"), which includes a 100.0 percent ownership interest in ECL Developments Limited ("ECL Developments"), as well as a 35.7 percent ownership interest in Genstar Development Partnership and a 43.3 percent interest in Genstar Development Partnership II (collectively referred to as "Genstar") and a 47.9 percent ownership interest in Crombie REIT. Subsequent to year-end, on June 25, 2009, Crombie REIT closed a bought-deal public offering of units at a price of \$7.80 per unit. In satisfaction of its pre-emptive right with respect to the public offering, the Company subscribed for \$30.0 million of Class B Units (which are convertible on a

one-for-one basis into units of Crombie REIT). Consequently the Company's interest in Crombie REIT was reduced from 47.9 percent to 47.4 percent. The results of Sobeys Leased Properties Limited ("Sobeys Leased Properties" or "SLP") until April 22, 2008 were consolidated under real estate business; results after April 22, 2008 were reported under Sobeys. Corporate investment activities and other operations include wholly-owned ETL Canada Holdings Limited ("Empire Theatres"); Kepec Resources Limited ("Kepec"), a party to a joint venture with APL Oil and Gas Limited which has ownership interests in various oil and gas properties in Alberta; and a 27.6 percent ownership position in Wajax Income Fund ("Wajax").

With over \$15 billion in annual revenue and approximately \$5.9 billion in assets, Empire and its related companies employ over 90,000 people, including its franchisees and affiliates.

## Food Retailing

Empire's food retailing division is carried out through its wholly-owned subsidiary, Sobeys.

Sobeys conducts business through more than 1,300 retail grocery stores (corporately owned and franchised) which operate in every province across Canada under retail banners that include Sobeys, IGA, IGA *extra*, Foodland, Price Chopper and Thrifty Foods, as well as Lawtons Drug Stores.

Sobeys' financial contribution to Empire reflects Empire's weighted average ownership of 100.0 percent for fiscal 2009 and weighted average ownership of 96.9 percent for fiscal 2008.

Sobeys' strategy is focused on delivering the best food shopping experience to its customers in the right format, right-sized stores, supported by superior customer service. The five distinct store formats deployed by Sobeys to satisfy its customers' principal

shopping requirements are: full service, fresh service, convenience service, community service and price service. Sobeys remains focused on improving the product, service and merchandising offerings within each format by expanding and renovating its current store base, while continuing to build new stores. Sobeys' six major banners are the primary focus of these format development efforts: Sobeys, IGA, IGA *extra*, Foodland, Price Chopper and Thrifty Foods.

## Real Estate

Empire's real estate division includes commercial and residential operations. Our commercial operations are focused on the development of food-anchored shopping plazas through wholly-owned ECL, which includes wholly-owned ECL Developments and a 47.4 percent ownership interest in Crombie REIT. ECL also owns various commercial properties held for sale or redevelopment. Our residential operations are conducted through our 35.7 percent ownership interest in Genstar. Genstar's business is the development of raw land for residential use primarily carried out in Ontario and Western Canada. Genstar is accounted for on a proportionate consolidation basis. Empire summarizes its real estate division's financial results between commercial property operations consisting of ECL, and residential property operations which consists primarily of Genstar.

The wholly-owned real estate operations are focused on commercial property development. For new commercial property development, management is committed to adhering to a disciplined growth strategy. Specifically, investment decisions are guided by pre-established criteria, including:

- ▶ Great property location;
- ▶ Disciplined cost controls;
- ▶ Beneficial competitive effect for Sobeys; and
- ▶ Satisfactory return on investment.

ECL Developments is focused on the expansion of its development pipeline through the identification of attractive

## Investments and Other Operations

The third component of Empire is investments and other operations, consisting primarily of a 27.6 percent ownership interest in Wajax, wholly-owned Empire Theatres and Kepec.

The market value of Empire's equity accounted investment in Wajax at the end of fiscal 2009 was \$71.3 million (2008 – \$153.4 million), representing an unrealized gain of \$40.3 million (2008 – \$121.8 million).

During the fiscal year, Sobeys opened, replaced, expanded, renovated, acquired and/or converted the banners in 74 stores (2008 – 157 stores). In fiscal 2009, Sobeys continued to execute a number of initiatives in support of its food-focused strategy, including product and service innovations, productivity initiatives and business process, supply chain and system upgrades.

commercial real estate locations to be successfully developed from an economic standpoint, for preferential sale to Crombie REIT or, in absence of their interest, to a third party. ECL Developments has approximately 1.7 million square feet of gross leasable area ("GLA") under development as at fiscal year-end, as compared to approximately 1.2 million square feet at the end of last fiscal year. This increase is due to property acquisitions made in fiscal 2009. Our property pipeline is comprised of 18 properties located in Nova Scotia, New Brunswick, Quebec and Ontario. The properties are primarily retail plazas with approximately 60 percent of the GLA located outside of Atlantic Canada. More than 90 percent of the projects currently under development will be anchored by a Sobeys business. The properties are anticipated to be made available to Crombie REIT over the next one to four years.

Pursuant to a development agreement with Crombie REIT dated March 23, 2006, between ECL and Crombie REIT, ECL provides Crombie REIT with a preferential right to acquire all property developments proposed to be undertaken by ECL Developments. ECL also has a non-competition agreement with Crombie REIT dated March 23, 2006, whereby it will not compete with Crombie REIT in the acquisition, ownership, investment in or development of any grocery-anchored shopping plazas in Canada. These agreements are for an initial 10-year term, subject to an extension reached by mutual agreement. The Empire group of companies will continue to work closely with Crombie REIT to identify development opportunities.

Other operations include wholly-owned Empire Theatres, the second largest movie exhibitor in Canada which, as of May 2, 2009, owned or had an interest in 51 locations representing 377 screens, and Kepec.

## Operational Changes

Listed below is a summary of events that impacted the fiscal year 2009 operating results and which affect the comparability of information for the 13-week and 52-week periods ended May 2, 2009 versus the 13-week and 52-week periods ended May 3, 2008:

- On June 15, 2007, Empire acquired approximately 18.3 million common shares of Sobeys, increasing its ownership position from 72.1 percent at May 5, 2007 to 100.0 percent on June 15, 2007. The privatization of Sobeys resulted in a weighted average ownership interest of 100.0 percent in fiscal 2009 as compared to a weighted average ownership interest of 96.9 percent in fiscal 2008. The weighted average ownership of Sobeys was 100.0 percent in the fourth quarter of fiscal 2009 and the same quarter last year.
- Sobeys' sales in fiscal 2009 were positively influenced by the acquisition of Thrifty Foods, which closed on September 12, 2007. The assets acquired included 20 full service supermarkets, a main distribution centre and a wholesale division, on Vancouver Island and the lower mainland of British Columbia. The acquisition was accounted for using the purchase method with the results of Thrifty Foods being consolidated as of the acquisition date. For additional details of the acquisition, see Note 26 of the audited annual consolidated fiscal 2009 financial statements. Fiscal 2009 included a full year of sales from Thrifty Foods compared to fiscal 2008 which reported Thrifty Foods from when it was acquired on September 12, 2007 until May 3, 2008. This acquisition impacted sales recorded in fiscal 2009 by

\$224.8 million. There was no impact on the comparability of the fourth quarter of fiscal 2009 to the same quarter last year.

- On April 22, 2008, the Company's real estate division, through Sobey Leased Properties, sold 61 properties to Crombie REIT. Included in the proceeds were additional Class B Units of Crombie REIT (which are convertible on a one-for-one basis into units of Crombie REIT). The investment in Class B Units maintained the Company's interest in Crombie REIT at approximately 48 percent. The Company subsequently sold the remaining SLP assets to Sobeys. The Company's investment in Crombie REIT is accounted for using the equity method. Details of the sale are outlined in Note 3 of the audited annual consolidated financial statements of the Company for fiscal 2008. This transaction reduced commercial real estate revenue by \$20.6 million in fiscal 2009 compared to fiscal 2008 and by \$4.9 million in the fourth quarter of fiscal 2009 compared to the same quarter last year.

Also impacting comparability are year-over-year costs related to Sobeys' business process and system initiatives, business rationalization, and privatization costs as outlined under the section titled "Fiscal 2009 Operating Performance by Division – Food Retailing".

The reader should note that management explains the impact of the above events when discussing the operating results for the food retailing division, the real estate division and investments and other operations.

## Consolidated Operating Results

### Highlights

- Sobeys opened, acquired or replaced 47 corporate and franchised stores, expanded 11 stores, rebannered/ redeveloped 16 stores and closed 52 stores.
- Revenue of \$15.02 billion, up \$950.1 million or 6.8 percent.
- Sobeys same-store sales increased 5.2 percent.
- Earnings before capital gains (losses) and other items of \$262.9 million, up \$20.1 million or 8.3 percent.
- Net earnings of \$265.9 million (\$4.04 per share), a \$49.9 million or 15.8 percent decrease.
- Successfully completed the issuance of 2,713,000 Non-Voting Class A shares (including the 200,000 issued under the over-allotment option) at \$49.75 per share for net proceeds of \$129.1 million, which was used to reduce indebtedness at the holding company level.

The consolidated financial overview provided below reports on the financial performance for fiscal 2009 relative to the prior two fiscal years.

#### SUMMARY TABLE OF CONSOLIDATED FINANCIAL RESULTS

(\$ in millions, except per share information)	52 Weeks Ended					
	May 2, 2009	% of Revenue	May 3, 2008	% of Revenue	May 5, 2007 <sup>(1)</sup>	% of Revenue
Revenue	\$ 15,015.1	100.00%	\$ 14,065.0	100.00%	\$ 13,366.7	100.00%
Operating income	468.1	3.12	472.6	3.36	431.1	3.23
Operating earnings	262.9	1.75	242.8	1.73	200.1	1.50
Capital gains (losses) and other items, net of tax	3.0	0.02	73.0	0.52	5.7	0.04
Net earnings	\$ 265.9	1.77%	\$ 315.8	2.25%	\$ 205.8	1.54%
<b>Basic earnings per share</b>						
Operating earnings	\$ 4.00		\$ 3.69		\$ 3.05	
Capital gains (losses) and other items, net of tax	0.05		1.11		0.09	
Net earnings	\$ 4.05		\$ 4.80		\$ 3.14	
Basic weighted average number of shares outstanding (in millions)	65.7		65.6		65.6	
<b>Diluted earnings per share</b>						
Operating earnings	\$ 3.99		\$ 3.69		\$ 3.04	
Capital gains (losses) and other items, net of tax	0.05		1.11		0.09	
Net earnings	\$ 4.04		\$ 4.80		\$ 3.13	
Diluted weighted average number of shares outstanding (in millions)	65.8		65.7		65.7	
Dividends per share	\$ 0.70		\$ 0.66		\$ 0.60	

(1) Amounts have been restated to reflect a change in accounting policy with respect to deferred charges. Please see the section entitled "Accounting Policy Changes – Deferred Charges" in the fiscal 2008 annual MD&A contained on pages 27 to 68 of the fiscal 2008 Annual Report.

## Management's Explanation of Fiscal 2009 Annual Consolidated Results

The following is a review of Empire's consolidated financial performance for the 52-week period ended May 2, 2009 compared to the 52-week period ended May 3, 2008.

Revenue and financial performance of each of the Company's businesses (food retailing, real estate, and investments and other operations) are discussed in detail in the section entitled "Fiscal 2009 Operating Performance by Division" in this MD&A.

### Revenue

The consolidated revenue for fiscal 2009 was \$15.02 billion, an increase of \$950.1 million or 6.8 percent compared to fiscal 2008. Growth in Sobeys' sales of \$996.7 million and in

investments and other operations' revenue of \$8.1 million was offset by a \$54.7 million reduction in revenue from the real estate division. The decline in real estate division revenue was anticipated and reflects a slowdown in residential lot sales and the sale of 61 commercial properties to Crombie REIT in the fourth quarter of last fiscal year. Excluding the impact of the acquisition of Thrifty Foods, Empire's consolidated sales growth would have been 5.2 percent for the fiscal year.

For a list of items that impacted revenue comparability refer to the "Operational Changes" section of this MD&A.

Please refer to the section entitled "Fiscal 2009 Operating Performance by Division" for an explanation of the change in revenue by division.

## Operating Income

For the full fiscal year, Empire recorded operating income of \$468.1 million, a decrease of \$4.5 million or 1.0 percent from the prior year.

The contributors to the change in consolidated operating income from last fiscal year are as follows:

- ▶ Sobeys' operating income contribution to Empire in fiscal 2009 totalled \$401.4 million, an increase of \$42.4 million or 11.8 percent from the \$359.0 million recorded last year. Included in Sobeys' fiscal 2009 operating income contribution to Empire was a \$25.6 million increase in depreciation and amortization expense, reflecting Sobeys' continued capital investment.
- ▶ Residential property operating income contribution in fiscal 2009 was \$33.6 million, a decrease of \$17.1 million from the \$50.7 million recorded last year as a result of lower residential lot sales in Western Canada.
- ▶ Commercial property operating income in fiscal 2009 was \$22.3 million compared to \$49.3 million last fiscal year. The \$27.0 million decline is primarily attributed to the sale of certain Sobeys Leased Properties' assets (61 properties) to Crombie REIT on April 22, 2008, as Sobeys Leased Properties accounted for operating income of \$30.0 million last fiscal year. The reduction in operating income from Sobeys Leased Properties was partially offset through increased equity accounted earnings from Empire's interest in Crombie REIT which contributed \$19.8 million to operating income in fiscal 2009 versus a \$13.6 million contribution last year.
- ▶ Investments and other operations, net of corporate expenses, contributed operating income of \$10.8 million in fiscal 2009 compared to a \$13.6 million contribution last fiscal year. Equity accounted earnings generated from the Company's interest in Wajax amounted to \$18.5 million versus \$19.7 million last year. Operating income generated from other investments and operations, net of corporate expenses, amounted to negative \$7.7 million as compared to negative \$6.1 million last year.

Please refer to the section entitled "Fiscal 2009 Operating Performance by Division" for an explanation of the change in operating income for each division.

## Interest Expense

For the 52 weeks ended May 2, 2009, consolidated interest expense equalled \$80.6 million, versus \$105.8 million in the prior year. The \$25.2 million decrease in fiscal 2009 interest expense compared to last fiscal year is primarily due to lower funded debt levels which are principally related to: (i) cash proceeds of \$373.5 million received on the sale of certain Sobeys Leased Properties' assets in the fourth quarter last fiscal year; (ii) free cash flow generation by Sobeys which served to reduce its funded debt; and (iii) lower average interest rates on unhedged floating rate indebtedness. The proceeds from the \$135 million equity issuance which closed April 24, 2009 also served to reduce funded debt; however, it had a modest impact on lowering annual interest expense as the equity issue closed approximately one week prior to the end of the fiscal year.

Consolidated funded debt decreased \$270.6 million to \$1,302.9 million at the end of fiscal 2009 compared to \$1,573.5 million at the end of fiscal 2008, a 17.2 percent decrease.

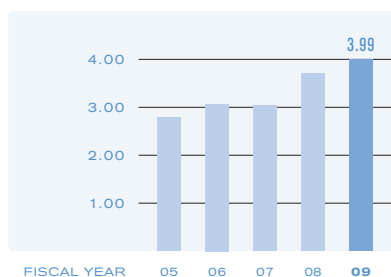
## Income Taxes

The effective income tax rate for fiscal 2009 was 30.0 percent versus 30.3 percent last year. In the third quarter of fiscal 2008, the Canadian Government approved general federal corporate income tax rate reductions ranging from 1.0 percent to 3.5 percent by January 2012. These rate reductions, along with recently enacted changes in certain provincial jurisdictions, lowered both the current year income tax rate and the effective rate applied to future timing differences. This resulted in a lower overall effective income tax rate in fiscal 2009 as compared to fiscal 2008.

**CONSOLIDATED  
OPERATING EARNINGS**  
\$ IN MILLIONS



**CONSOLIDATED  
OPERATING EARNINGS**  
\$ PER SHARE FULLY DILUTED



## Earnings before Capital Gains and Other Items

For the 52 weeks ended May 2, 2009, earnings before capital gains and other items amounted to \$262.9 million (\$3.99 per share) compared to \$242.8 million (\$3.69 per share) in the prior year. The \$20.1 million or 8.3 percent increase is the result of

the \$25.2 million decrease in interest expense and the \$4.5 million decrease in minority interest, partially offset by the \$4.5 million decrease in operating income and the \$5.1 million increase in income taxes.

The table below presents Empire's segmented earnings before capital gains (losses) and other items, by division for the 52 weeks ended May 2, 2009, compared to the 52 weeks ended May 3, 2008.

(\$ in millions)	52 Weeks Ended May 2, 2009	52 Weeks Ended May 3, 2008	Year-over-Year (\$ Change)	Year-over-Year (%) Change
Food retailing <sup>(1)</sup>	\$ 229.1	\$ 191.7	\$ 37.4	19.5%
Real estate	36.7	58.9	(22.2)	(37.7%)
Investments & other operations	(2.9)	(7.8)	4.9	62.8%
Consolidated	\$ 262.9	\$ 242.8	\$ 20.1	8.3%

(1) Adjusted for the impact of the amortization and depreciation of various items related to the privatization of Sobeys in June 2007.

## Capital Gains and Other Items

For the full fiscal year, the Company recorded capital gains and other items, net of tax, of \$3.0 million as compared to \$73.0 million last year. Capital gains and other items, net of tax, in fiscal 2009 were primarily related to the sale of non-core real estate assets for gains of \$5.9 million, net of tax, offset by an increase in the provision on asset backed commercial paper ("ABCP") equal to \$3.1 million, net of tax, taken by Sobeys in the third quarter. Capital gains and other items, net of tax, in fiscal 2008 were largely the result of the sale of marketable securities in the first quarter of fiscal 2008 which generated a capital gain, net of tax, of \$81.9 million, partially offset by an impairment loss provision on certain commercial property and also on ABCP held by Sobeys, as discussed in detail in the section entitled "Other Matters" of this MD&A.

## Net Earnings

Net earnings for the 52 weeks ended May 2, 2009 totaled \$265.9 million (\$4.04 per share) as compared to \$315.8 million (\$4.80 per share) recorded last fiscal year, a decrease of \$49.9 million or 15.8 percent. The decrease in net earnings for fiscal 2009 compared to fiscal 2008 reflects the decrease in capital gains and other items of \$70.0 million, partially offset by the increase in earnings before capital gains and other items of \$20.1 million as discussed.

## Outlook

Management's primary objective continues to be to maximize the long-term sustainable value of Empire through enhancing the Company's net assets and in turn, having that value reflected in Empire's share price.

Management is clearly focused on directing its energy and capital towards growing the long-term sustainable value of its food retailing, real estate and related businesses. In doing so, we remain committed to: a) supporting Sobeys in its goal to be widely recognized as the best food retailer in Canada; b) the profitable growth of our real estate business as it develops new properties to be sold, preferably, to Crombie REIT; and c) capitalizing on opportunities afforded as a result of the existing strong relationships between our food retailing and our real estate businesses.

Finally, Empire intends to further reduce our consolidated funded debt over the coming year through the prudent management of working capital and capital outflows in each operating company.

## Food Retailing Division

Sobeys will continue to invest in infrastructure and productivity improvements in a manner consistent with its expressed intention to build a healthy and sustainable retail business and infrastructure for the long term. This includes continuing to build a strong management team, improving the customers' in-store experience and improving our productivity.

Sobeys plans to focus on its workforce management and merchandising initiatives in fiscal 2010 to further improve store productivity. These key customer-driven initiatives will assist Sobeys' retail store network in delivering the best food shopping experience, building on the strong foundation that has already been put in place.

## Real Estate Division

Empire's real estate management group will continue to maximize and prudently reinvest its cash flow to further strengthen its property portfolio.

With regard to the commercial property development, management looks forward to continuing its strong relationship with Sobeys and to pursuing attractive opportunities to jointly develop locations with Sobeys. Our goal is to accelerate growth in the property pipeline available for sale each year to Crombie REIT which holds the right of first refusal on the sale of any Empire property. Our teams will work closely with all Sobeys regions and divisions to develop properties that expand the growth potential for both food retailing and Crombie REIT.

In fact, the distinguishing advantage inherent in Empire's real estate business today is the combination of strengths brought to the business by Sobeys with its substantial site selection expertise for commercial locations, Crombie REIT with its decades of management expertise, and the robust development expertise within our real estate division.

As a result of our combined real estate knowledge and expertise, we are confident in our ability to steer our investment capital to locations with the greatest opportunity for economic profit and in doing so will adhere to a set of disciplined investment criteria.

In summary, management is confident that the strength of our relationships with Sobeys and Crombie REIT, combined with our strict investment discipline, will prove to be a sustainable competitive advantage and positively correlate to the enhancement of Empire's shareholder value.

With respect to residential real estate, Empire remains committed to its investment in Genstar and is very supportive of its management and strategy. Management does caution that earnings contribution from Genstar is trending substantially lower. Genstar in our view continues to be well capitalized and, with a very capable management team, is favourably positioned to capitalize on new profitable growth opportunities.

## Investments and Other Operations

With respect to Wajax, we expect lower comparative results in calendar 2009. Wajax management advised that they believe their earnings will be lower in calendar 2009 and accordingly reduced monthly distributions to \$0.20 per unit. Wajax in our view continues to be well capitalized and, with a very capable management team, is favourably positioned to capitalize on new profitable growth opportunities.

## Fiscal 2009 Operating Performance by Division

### Food Retailing

#### HIGHLIGHTS

- ▶ Sobeys achieved fiscal 2009 sales growth of \$996.7 million or 7.2 percent and same-store sales growth of 5.2 percent.
- ▶ Total capital expenditures equalled \$382.7 million in fiscal 2009.
- ▶ Opened, acquired or replaced 47 corporate and franchised stores, expanded 11 stores, rebannered/redeveloped 16 stores and closed 52 stores.
- ▶ Funded debt to total capital improved to 31.2 percent at the end of fiscal 2009 compared to the 35.6 percent reported at the end of fiscal 2008.

To assess its financial performance and condition, Sobeys' management monitors a set of financial measures, which evaluate sales growth, profitability and financial condition. The primary financial performance and condition measures for Sobeys are set out below.

52 Weeks Ended	May 2, 2009	May 3, 2008
Sales growth	7.2%	5.6%
Same-store sales growth	5.2%	2.8%
Return on equity	11.3%	10.0%
Funded debt to total capital	31.2%	35.6%
Funded debt to EBITDA	1.4x	1.7x
Property and equipment purchases (\$ in millions)	\$ 383	\$ 489

The table below presents sales, operating income and net earnings contribution to Empire by Sobeys:

(\$ in millions)	52 Weeks Ended May 2, 2009	52 Weeks Ended May 3, 2008	Year-over-Year (\$ Change)	Year-over-Year (%) Change
Sales	\$ 14,764.8	\$ 13,768.1	\$ 996.7	7.2%
Operating income <sup>(1)</sup>	401.4	359.0	42.4	11.8%
Net earnings <sup>(1)</sup>	226.0	186.6	39.4	21.1%

(1) Adjusted for the impact of the amortization and depreciation of various items related to the privatization of Sobeys in June 2007.

## REVENUE

In fiscal 2009, Sobeys achieved sales of \$14.76 billion, an increase of \$996.7 million or 7.2 percent over fiscal 2008. During the fiscal year, same-store sales (sales from stores in the same locations in both reporting periods) increased by 5.2 percent.

Sales growth for the year was driven by Sobeys increased retail selling square footage from new stores and enlargements, coupled with the continued implementation of sales and merchandising initiatives, a full year of sales reported by Thrifty

Foods versus approximately eight months of sales reported last year and retail food inflation.

Sobeys expects sales growth to continue in fiscal 2010 as a result of on-going capital investment in its retail store network, and continued offering, merchandising, pricing and operational execution improvements across the country.

As shown in the table below, excluding the impact of the acquisition of Thrifty Foods on September 12, 2007, Sobeys' sales growth would have been 5.6 percent in fiscal 2009.

(\$ in millions)	52 Weeks Ended May 2, 2009	52 Weeks Ended May 3, 2008	(\$ Change)	(%) Change
Sobeys' financially reported sales	\$ 14,764.8	\$ 13,768.1	\$ 996.7	7.2%
Impact of Thrifty Foods acquisition			(224.8)	
			\$ 771.9	5.6%

Total store square footage increased by 1.1 percent in fiscal 2009 as a result of the opening of 47 new or replacement stores and the expansion of 11 stores. There were 52 stores closed in fiscal 2009.

## BUSINESS PROCESS AND INFORMATION SYSTEMS TRANSFORMATION AND RATIONALIZATION COSTS

Sobeys continues to make significant progress in the implementation of system-wide business process optimization and rationalization initiatives that are designed to reduce complexity and improve processes and efficiency throughout Sobeys.

In fiscal 2006, Sobeys began its business process and information systems transformation plan by focusing on the significant opportunity to upgrade information processing and decision support capabilities. The systems and processes that

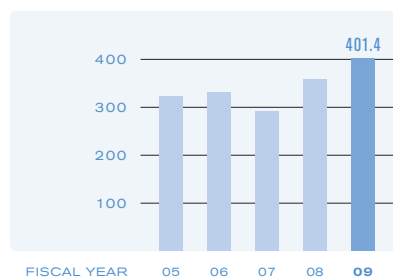
### FOOD RETAILING REVENUE

\$ IN MILLIONS



### FOOD RETAILING OPERATING INCOME

\$ IN MILLIONS



were implemented were developed over several years and were focused on standardizing and streamlining the "back shop" in support of Sobeys' food-focused strategy. These changes allow Sobeys to leverage technology investments, improve efficiencies and are expected to lower costs over the long term.

Sobeys completed the implementation of this system in Ontario during the third quarter of fiscal 2007 and in Western Canada during the second quarter of fiscal 2008. The business process and system initiative costs primarily included labour, implementation and training costs associated with these initiatives. There were no costs incurred in the fourth quarter of the current or prior year related to these initiatives. For the 52 weeks ended May 2, 2009, there were no pre-tax costs incurred related to these initiatives (\$8.6 million in the 52 weeks ended May 3, 2008).

The implementation of these initiatives support all aspects of the business including operations, merchandising, distribution, human resources and finance. They are important enablers of further initiatives including a new distribution facility in Ontario that was announced on November 21, 2006.

When it begins operations in the first quarter of fiscal 2010, the new distribution centre, located in Vaughan, Ontario, will utilize automation technology and equipment, and significantly increase Sobeys' warehouse and distribution capacity while reducing overall distribution costs and improving service to its store network and customers.

During fiscal 2009, Sobeys recognized \$6.9 million of severance costs (2008 – \$0.5 million) related to the development of this automated facility, which included the severance costs associated with a resulting rationalization of certain administrative functions in Ontario. The new distribution centre is expected to provide annual distribution savings in excess of these costs and any additional business rationalization or restructuring costs incurred leading up to its opening.

During the first quarter of fiscal 2008, Sobeys also performed a rationalization of administrative functions in its national and regional departments. An additional \$3.8 million of rationalization costs were incurred in fiscal 2009 (2008 – negative \$1.8 million). The reversal in fiscal 2008 was the result of changes in management's estimate of expected costs.

The total pre-tax costs of the above initiatives can be summarized as follows:

(\$ in millions)	13 Weeks Ended May 2, 2009	13 Weeks Ended May 3, 2008	52 Weeks Ended May 2, 2009	52 Weeks Ended May 3, 2008
Business process and system initiative costs	\$ –	\$ –	\$ –	\$ 8.6
Rationalization costs	1.6	(0.5)	10.7	(1.8)
Total costs	\$ 1.6	\$ (0.5)	\$ 10.7	\$ 6.8

## OPERATING INCOME

Sobeys reported operating income of \$406.1 million during fiscal 2009, an 11.6 percent increase from last year's \$363.8 million. Sobeys' fiscal 2009 operating income includes a \$24.7 million increase in depreciation and amortization expenses, reflecting Sobeys' commitment to continued capital investments. Sobeys recorded operating income margin in the fiscal year was 2.75 percent compared to 2.64 percent in the prior year.

Sobeys will continue to focus on disciplined cost management initiatives, supply chain and retail productivity improvements and migration of best practices across its regions and divisions to continue to fuel and fund investments to drive sales and improve margins over time.

After adjusting for the impact of the amortization and depreciation of various items related to the privatization as discussed, Sobeys' operating income contribution to Empire in fiscal 2009 was \$401.4 million compared to a contribution of \$359.0 million in fiscal 2008. Sobeys' operating income margin for fiscal 2009 after adjusting for the above items equalled 2.72 percent compared to 2.61 percent for fiscal 2008.

## NET EARNINGS

Sobeys reported net earnings of \$229.2 million in fiscal 2009 compared to \$196.4 million last year, a \$32.8 million or 16.7 percent increase. The earnings increase largely reflects the \$42.3 million improvement in operating income which included a \$24.7 million increase in depreciation and amortization, a \$3.1 million provision, net of tax, related to ABCP in fiscal 2009 compared to a \$6.3 million provision, net of tax, in fiscal 2008, and a \$0.2 million decrease in interest expense; partially offset by an increase in income taxes of \$10.9 million and an increase in minority interest expense of \$2.0 million.

Adjusting for the impact of the depreciation and amortization related to the privatization and the related tax impact, as well as for the change in Empire's weighted average ownership position in Sobeys (100.0 percent for fiscal 2009 compared to 96.9 percent for fiscal 2008), the food retailing division contributed net earnings of \$226.0 million to Empire for fiscal 2009, an increase of \$39.4 million or 21.1 percent over the \$186.6 million recorded in fiscal 2008.

## Real Estate

### HIGHLIGHTS

- ▶ The sale of non-core properties for capital gains, net of tax, of \$5.9 million.
- ▶ A 45.6 percent increase in operating income from Crombie REIT compared to fiscal 2008, largely as a result of the acquisition of 61 Sobey Leased Properties assets in the fourth quarter of fiscal 2008.
- ▶ Operating income from Genstar of \$33.6 million in fiscal 2009 compared to \$50.7 million reported in fiscal 2008.

Real estate management assesses its financial performance and condition through monitoring of key financial measures. The primary financial performance and condition measures are set out below.

52 Weeks Ended	May 2, 2009	May 3, 2008
Funds from Operations (\$ in millions)	\$ 38.5	\$ 64.3
Return on Equity <sup>(1)</sup>	17.8%	17.7%
Funded Debt to Total Capital	25.6%	22.4%
Development Pipeline (in millions of square feet)	1.7	1.2

(1) Return on Equity is calculated as earnings available for common shareholders divided by average common shareholders' equity.

The table below presents revenue, operating income, net earnings and funds from operations for the real estate division's commercial operations and residential operations.

52 Weeks Ended (\$ in millions)	May 2, 2009	May 3, 2008	(\$ Change	(%) Change
<b>Revenue</b>				
Residential	\$ 54.6	\$ 85.2	\$ (30.6)	(35.9%)
Sobey Leased Properties <sup>(1)</sup>	–	20.6	(20.6)	(100.0%)
Other Commercial	16.4	19.9	(3.5)	(17.6%)
Inter-segment	2.9	34.9	(32.0)	(91.7%)
	73.9	160.6	(86.7)	(54.0%)
Elimination	(2.9)	(34.9)	32.0	91.7%
	\$ 71.0	\$ 125.7	\$ (54.7)	(43.5%)
<b>Operating income</b>				
Residential	\$ 33.6	\$ 50.7	\$ (17.1)	(33.7%)
Sobey Leased Properties <sup>(1)</sup>	–	30.0	(30.0)	(100.0%)
Crombie REIT <sup>(2)</sup>	19.8	13.6	6.2	45.6%
Other Commercial	2.5	5.7	(3.2)	(56.1%)
	\$ 55.9	\$ 100.0	\$ (44.1)	(44.1%)
<b>Net earnings</b>				
Residential	\$ 23.2	\$ 34.7	\$ (11.5)	(33.1%)
Commercial	19.4	20.1	(0.7)	(3.5%)
	\$ 42.6	\$ 54.8	\$ (12.2)	(22.3%)
<b>Funds from operations<sup>(3)</sup></b>				
Residential	\$ 23.2	\$ 35.3	\$ (12.1)	(34.3%)
Commercial	15.3	29.0	(13.7)	(47.2%)
	\$ 38.5	\$ 64.3	\$ (25.8)	(40.1%)

(1) On April 22, 2008, Sobey Leased Properties sold 61 properties to Crombie REIT with the remaining assets of Sobey Leased Properties transferred to Sobey's.

(2) Equity accounted earnings in Crombie REIT during the fiscal year.

(3) Operating earnings plus depreciation and amortization.

## REVENUE

Real estate division revenues, net of elimination, amounted to \$71.0 million in fiscal 2009 as compared to \$125.7 million in the prior year. The \$54.7 million reduction in revenue from the real estate division was anticipated as a result of an expected slowdown in residential lot sales and the sale of 61 Sobey Leased Properties' assets to Crombie REIT in the fourth quarter of fiscal 2008.

Revenue from residential operations was \$54.6 million in fiscal 2009 compared to \$85.2 million last year, a \$30.6 million or 35.9 percent decrease. Commercial property revenues, net of elimination, for fiscal 2009 equalled \$16.4 million, a decrease of \$24.1 million or 59.5 percent compared to revenues of \$40.5 million reported last year.

## OPERATING INCOME

During fiscal 2009, real estate division operating income declined \$44.1 million or 44.1 percent compared to last year as the result of a \$30.0 million decrease in operating income from Sobey Leased Properties, a \$17.1 million decrease in residential operating income, a \$3.2 million decrease in commercial operating income, partially offset by an increase in equity earnings from Crombie REIT of \$6.2 million. The decline in operating income generated by residential operations was anticipated given management's expectation for a housing market slowdown in Western Canada. The decline in operating income generated by Sobey Leased Properties was expected given the sale of 61 properties to Crombie REIT in the fourth quarter of fiscal 2008.

## CAPITAL GAINS (LOSSES) AND OTHER ITEMS

Capital gains and other items, net of tax, for the real estate division totalled \$5.9 million in fiscal 2009 (fiscal 2008 – capital losses and other items, net of tax, of \$4.1 million). Capital gains in fiscal 2009 relate primarily to the sale of non-core properties while the capital losses in fiscal 2008 relate primarily to the impairment charge taken on one commercial property.

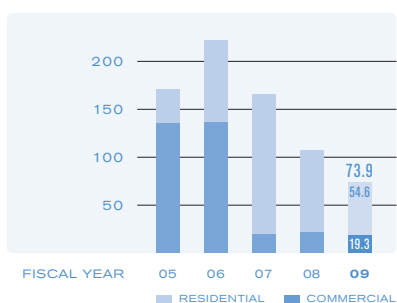
## NET EARNINGS

Real estate division net earnings contribution in fiscal 2009 amounted to \$42.6 million compared to \$54.8 million last year, a \$12.2 million or 22.3 percent decrease. The earnings decline largely reflects the \$44.1 million reduction in operating income as discussed, partially offset by a \$12.6 million reduction in interest expense due to lower long-term debt levels, an increase in capital gains and other items, net of tax, of \$10.0 million, and lower income tax expense of \$9.3 million.

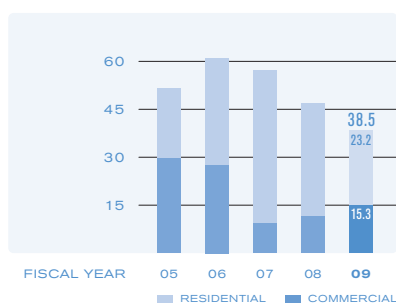
## FUNDS FROM OPERATIONS

Funds from real estate operations in fiscal 2009 of \$38.5 million decreased \$25.8 million or 40.1 percent compared to last year as a result of a decrease in commercial funds from operations of \$13.7 million and a decrease in residential funds from operations of \$12.1 million. The decrease in both residential and commercial funds from operations is due primarily to the decrease in operating income for the reasons previously mentioned.

**REAL ESTATE REVENUE<sup>1</sup>**  
\$ IN MILLIONS



**REAL ESTATE FUNDS FROM OPERATIONS<sup>1</sup>**  
\$ IN MILLIONS



(1) Fiscal 2005–2008 have been restated to exclude Sobey Leased Properties which was sold on April 22, 2008.

## Investments and Other Operations

### HIGHLIGHTS

- ▶ On April 24, 2009, Empire successfully completed the issuance of 2,713,000 Non-Voting Class A shares (including the 200,000 issued under the over-allotment option) at \$49.75 per share for net proceeds of \$129.1 million, which were used to reduce indebtedness at the holding company level.
- ▶ Maintained a 27.6 percent interest in Wajax which contributed \$18.5 million in equity earnings in fiscal 2009.
- ▶ Reduced funded debt by \$156.9 million compared to the end of fiscal 2008.
- ▶ Empire Theatres' revenue in fiscal 2009 increased by 6.1 percent compared to fiscal 2008.

### INVESTMENT VALUE

At the end of fiscal 2009, Empire's total investments, excluding its investment in Genstar U.S. and in Crombie REIT, carried a market value of \$72.4 million (May 3, 2008 – \$155.0 million) on a cost base of \$32.1 million (May 3, 2008 – \$33.2 million), resulting in an unrealized gain of \$40.3 million (May 3, 2008 – \$121.8 million). The decrease in unrealized gain was primarily related to a decrease in Wajax's unit price from \$33.50 per unit as of May 3, 2008 to \$15.58 per unit as of May 2, 2009.

The table below presents a reconciliation of the consolidated balance sheet investments, both equity and cost, to those related to the investment and other operations division:

(\$ in millions)	May 2, 2009			May 3, 2008		
	Market Value	Carrying Value	Unrealized Gain	Market Value	Carrying Value	Unrealized Gain
Investments	\$ 1.1	\$ 1.1	\$ –	\$ 1.6	\$ 1.6	\$ –
Investments, at equity	254.4	18.8	235.6	429.6	41.4	388.2
Total investments	255.5	19.9	235.6	431.2	43.0	388.2
Less: Crombie REIT	175.6	(19.7)	195.3	275.9	9.5	266.4
Less: Genstar U.S. <sup>(1)</sup>	7.5	7.5	–	0.3	0.3	–
	\$ 72.4	\$ 32.1	\$ 40.3	\$ 155.0	\$ 33.2	\$ 121.8

(1) Assumes market value equals book value.

### INVESTMENTS AND OTHER OPERATIONS REVENUE

\$ IN MILLIONS



### INVESTMENTS AND OTHER OPERATIONS OPERATING INCOME\*

\$ IN MILLIONS



## PORTFOLIO COMPOSITION

At fiscal year end, May 2, 2009, Empire's investment portfolio (excluding cash, Crombie REIT and Genstar U.S.) consisted of:

(\$ in millions Cdn.)	Market Value	% of Total	Cost	Unrealized Gain (Loss)		
				May 2, 2009	May 3, 2008	May 5, 2007
Wajax	\$ 71.3	98.5%	\$ 31.0	\$ 40.3	\$ 121.8	\$ 122.4
Other Canadian equities	-	-	-	-	-	92.2
U.S. equities	-	-	-	-	-	1.2
Preferred shares & other	1.1	1.5%	1.1	-	-	-
Hedge value	-	-	-	-	-	3.5
<b>Total</b>	<b>\$ 72.4</b>	<b>100.0%</b>	<b>\$ 32.1</b>	<b>\$ 40.3</b>	<b>\$ 121.8</b>	<b>\$ 219.3</b>

The table below presents investments and other operations' (net of corporate expenses) financial highlights for the 52 weeks ended May 2, 2009 compared to the 52 weeks ended May 3, 2008.

52 Weeks Ended (\$ in millions)	May 2, 2009	May 3, 2008	(\$ Change	(%) Change
Revenue	\$ 179.3	\$ 171.2	\$ 8.1	4.7%
Operating income				
Wajax	18.5	19.7	(1.2)	(6.1%)
Other operations, net of corporate expenses	(7.7)	(6.1)	(1.6)	(26.2%)
Total operating income	10.8	13.6	(2.8)	(20.6%)
Operating earnings	(2.9)	(7.8)	4.9	62.8%
Capital gains (losses) and other items, net of tax	0.2	82.2	(82.0)	(99.8%)
Net earnings	\$ (2.7)	\$ 74.4	\$ (77.1)	(103.6%)

### REVENUE

Investments and other operations' revenue, primarily generated by Empire Theatres, equalled \$179.3 million for fiscal 2009 versus \$171.2 million last year, an increase of \$8.1 million or 4.7 percent.

### INVESTMENT INCOME

Investment income (excluding equity earnings from Crombie REIT and Genstar U.S.) equalled \$19.0 million in fiscal 2009, a decrease of \$1.9 million from the \$20.9 million recorded last year. The decline was the result of a decrease in dividend income of \$0.7 million from fiscal 2008 reflecting the sale of the portfolio investments in the first quarter of fiscal 2008 as mentioned and a decrease in equity earnings from Wajax of \$1.2 million from last year.

### CAPITAL GAINS AND OTHER ITEMS

Capital gains and other items, net of tax, realized from investment sales in fiscal 2009 amounted to \$0.2 million compared to \$82.2 million last year. The bulk of the capital gains, net of tax, in fiscal 2008 relates to the sale of common equity investments in the first quarter to assist in funding the privatization of Sobeys as discussed.

### NET EARNINGS

Investments and other operations, net of corporate expenses, contributed negative \$2.7 million to Empire's consolidated fiscal 2009 net earnings compared to a \$74.4 million net earnings contribution last year. The decrease is primarily the result of the capital gains related to the sale of the liquid portfolio in the first quarter of fiscal 2008 as discussed.

## Quarterly Results of Operations

The following table is a summary of selected financial information from the Company's consolidated financial statements (unaudited) for each of the eight most recently completed quarters.

### Results by Quarter

(\$ in millions, except per share information)	Fiscal 2009				Fiscal 2008			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	(13 Weeks) May 2, 2009	(13 Weeks) Jan. 31, 2009	(13 Weeks) Nov. 1, 2008	(13 Weeks) Aug. 2, 2008	(13 Weeks) May 3, 2008	(13 Weeks) Feb. 2, 2008	(13 Weeks) Nov. 3, 2007	(13 Weeks) Aug. 4, 2007
Revenue	\$ 3,709.0	\$ 3,800.0	\$ 3,727.9	\$ 3,778.2	\$ 3,557.8	\$ 3,503.0	\$ 3,484.8	\$ 3,519.4
Operating income	111.6	115.6	113.4	127.5	136.2	90.7	118.2	127.5
Operating earnings <sup>(1)</sup>	64.4	65.0	63.2	70.3	73.6	48.9	59.9	60.4
Capital gains (losses) and other items, net of tax	(0.8)	(3.5)	2.5	4.8	(7.1)	(0.3)	(1.5)	81.9
Net earnings	\$ 63.6	\$ 61.5	\$ 65.7	\$ 75.1	\$ 66.5	\$ 48.6	\$ 58.4	\$ 142.3
<b>Per share information, diluted</b>								
Operating earnings	\$ 0.97	\$ 0.99	\$ 0.96	\$ 1.07	\$ 1.12	\$ 0.74	\$ 0.91	\$ 0.92
Capital gains (losses) and other items, net of tax	(0.01)	(0.05)	0.04	0.07	(0.11)	–	(0.02)	1.24
Net earnings	\$ 0.96	\$ 0.94	\$ 1.00	\$ 1.14	\$ 1.01	\$ 0.74	\$ 0.89	\$ 2.16
Diluted weighted average number of shares outstanding (in millions)	66.0	65.7	65.7	65.7	65.7	65.7	65.7	65.7

(1) Operating earnings are earnings before capital gains (losses) and other items, net of tax.

Revenue and operating earnings growth have been influenced by the Company's investing activities including the privatization of Sobys, the competitive environment, general industry trends and by other risk factors as outlined in this MD&A.

## Summary Table of Consolidated Financial Results for the Fourth Quarter

(\$ in millions, except per share information)	13 Weeks Ended May 2, 2009	% of Revenue	13 Weeks Ended May 3, 2008	% of Revenue
Revenue	\$ 3,709.0	100.00%	\$ 3,557.8	100.00%
Operating income	111.6	3.01	136.2	3.83
Operating earnings	64.4	1.74	73.6	2.07
Capital gains (losses) and other items, net of tax	(0.8)	(0.02)	(7.1)	(0.20)
Net earnings	\$ 63.6	1.71%	\$ 66.5	1.87%
<b>Basic earnings per share</b>				
Operating earnings	\$ 0.98		\$ 1.12	
Capital gains (losses) and other items, net of tax	(0.01)		(0.11)	
Net earnings	\$ 0.97		\$ 1.01	
Basic weighted average number of shares outstanding (in millions)	65.9		65.6	
<b>Diluted earnings per share</b>				
Operating earnings	\$ 0.97		\$ 1.12	
Capital gains (losses) and other items, net of tax	(0.01)		(0.11)	
Net earnings	\$ 0.96		\$ 1.01	
Diluted weighted average number of shares outstanding (in millions)	66.0		65.7	
Dividends per share	\$ 0.175		\$ 0.165	

The following is a review of financial performance for the 13 weeks ended May 2, 2009 compared to the 13 weeks ended May 3, 2008.

### REVENUE

Revenue for the fourth quarter was \$3.71 billion compared to \$3.56 billion last year, a \$151.2 million or 4.2 percent increase. Revenues for the food retailing division increased by \$170.8 million or 4.9 percent compared to the fourth quarter of fiscal 2008. Same-store sales increased 4.6 percent during the fourth quarter of fiscal 2009. The growth in retail sales was a result of increased retail selling square footage from new stores and enlargements, coupled with the continued implementation of sales and merchandising initiatives, improved consistency of store-level execution and retail food price inflation.

Real estate operations reported fourth quarter revenues, net of elimination, of \$10.5 million, a decrease of \$23.3 million or 68.9 percent compared to the fourth quarter last year. Commercial property revenue decreased by \$6.8 million or 73.9 percent while revenue from residential operations decreased by \$16.5 million or 67.1 percent. The decline in both residential and commercial operations' revenues was expected. Empire management had previously cautioned that residential lot sales in Western Canada, particularly in the Calgary and Edmonton, Alberta markets, were not sustainable at the levels

observed in fiscal 2008. The decline in commercial operations' revenue is due primarily to the sale of 61 properties to Crombie REIT in the fourth quarter of fiscal 2008.

Revenue from investments and other operations in the fourth quarter equalled \$47.1 million, an increase of \$3.7 million or 8.5 percent over the fourth quarter last year. This is primarily related to higher revenue contribution from Empire Theatres.

### OPERATING INCOME

Consolidated operating income in the fourth quarter was \$111.6 million, a decrease of \$24.6 million or 18.1 percent from the \$136.2 million recorded in the fourth quarter last year.

The contributors to the change in consolidated operating income from the fourth quarter last year are as follows:

- Sobeys' operating income contribution to Empire in the fourth quarter totalled \$102.6 million, a decrease of \$1.7 million or 1.6 percent from the \$104.3 million recorded in the fourth quarter last year. Included in Sobeys' fourth quarter fiscal 2009 operating income contribution to Empire was a \$5.4 million increase in depreciation and amortization expense, reflecting Sobeys' continued capital investment.
- Residential property operating income contribution in the fourth quarter was \$3.8 million, a decrease of \$11.8 million from the \$15.6 million recorded in the fourth quarter last year as a result of lower residential lot sales activity in Western Canada.

- ▶ Commercial property operating income for the quarter was \$4.9 million compared to \$11.6 million in the fourth quarter last fiscal year, a decline of \$6.7 million. This decline is primarily attributed to the sale of certain Sobey Leased Properties' assets (61 properties) to Crombie REIT on April 22, 2008, as Sobey Leased Properties accounted for operating income of \$8.2 million in the fourth quarter last fiscal year. The reduction in operating income from Sobey Leased Properties was partially offset by increased equity accounted earnings from Crombie REIT which contributed \$4.9 million to operating income in the fourth quarter versus a \$3.1 million contribution in the fourth quarter last year.
- ▶ Investments and other operations, net of corporate expenses, contributed operating income of \$0.3 million in the fourth quarter compared to \$4.7 million in the fourth quarter last year. Equity accounted earnings generated from the Company's 27.6 percent interest in Wajax amounted to \$2.6 million in the fourth quarter versus \$5.0 million in the fourth quarter last year. Operating income generated from other operations, net of corporate expenses, amounted to negative \$2.3 million as compared to negative \$0.3 million in the fourth quarter last year.

#### **INTEREST EXPENSE**

Interest expense in the fourth quarter amounted to \$18.8 million, a decrease of \$8.7 million or 31.6 percent from the \$27.5 million recorded in the same quarter last year. The decrease in interest expense is primarily due to the lower funded debt for the reasons previously discussed.

#### **INCOME TAXES**

The effective income tax rate for the fourth quarter was 29.7 percent versus 31.1 percent in the fourth quarter last year. Statutory enacted future income tax rate reductions have lowered the overall effective income tax rate for the fourth quarter of fiscal 2009 compared to the fourth quarter of fiscal 2008.

#### **EARNINGS BEFORE CAPITAL GAINS (LOSSES) AND OTHER ITEMS**

For the 13 weeks ended May 2, 2009, Empire recorded earnings before capital gains (losses) and other items of \$64.4 million (\$0.97 per share) versus \$73.6 million (\$1.12 per share) last year, a \$9.2 million or 12.5 percent decrease. The decline in earnings before capital gains (losses) and other items is the result of a \$24.6 million reduction in operating income, partially offset by an \$8.7 million reduction in interest expense, a decrease in income taxes of \$6.2 million and a decrease in minority interest of \$0.5 million.

#### **CAPITAL LOSSES AND OTHER ITEMS**

The Company reported capital losses and other items, net of tax, of \$0.8 million in the fourth quarter compared to capital losses and other items, net of tax, of \$7.1 million last year.

In the fourth quarter of fiscal 2008, it was determined that the carrying value of one commercial property was impaired. Accordingly, the Company recorded an impairment charge of \$6.0 million (\$4.1 million after tax) to reduce the carrying value on this property to estimated fair value.

Also during the fourth quarter of fiscal 2008, Sobey's increased its pre-tax impairment loss provision on ABCP by \$4.5 million (from \$3.0 million previously recorded to \$7.5 million), representing 25 percent of the \$30.0 million of ABCP held by Sobey's. The ABCP is discussed in detail in the section entitled "Other Matters" of this MD&A.

#### **NET EARNINGS**

Consolidated net earnings in the fourth quarter equalled \$63.6 million (\$0.96 per share) as compared to \$66.5 million (\$1.01 per share) last year, a decrease of \$2.9 million or 4.4 percent. The decrease in net earnings is due to the \$9.2 million decrease in earnings before capital losses and other items, offset by the decrease in capital losses and other items, net of tax, of \$6.3 million.

## Financial Condition

### Capital Structure and Key Financial Condition Measures

The Company's financial condition at the end of fiscal 2009 remained healthy as indicated by the following financial condition measures.

(\$ in millions, except per share and ratio calculations)	May 2, 2009	May 3, 2008	May 5, 2007
Shareholders' equity	\$ 2,683.5	\$ 2,382.3	\$ 2,131.1
Book value per share	\$ 39.14	\$ 36.14	\$ 32.31
Bank indebtedness	\$ 45.9	\$ 92.6	\$ 30.1
Long-term debt, including current portion <sup>(1)</sup>	\$ 1,257.0	\$ 1,480.9	\$ 881.9
Funded debt to total capital	32.7%	39.8%	30.0%
Net funded debt to capital ratio <sup>(2)</sup>	28.5%	36.7%	22.5%
Funded debt to EBITDA <sup>(3)</sup>	1.64x	2.02x	1.30x
EBITDA to interest expense <sup>(3)</sup>	9.84x	7.35x	11.65x
Total assets	\$ 5,898.0	\$ 5,732.9	\$ 5,241.5

(1) Includes liabilities related to assets held for sale.

(2) Net funded debt to total capital reduces funded debt by cash and cash equivalents.

(3) Calculation uses trailing 12-month EBITDA and interest expense.

### Shareholders' Equity

Book value per common share was \$39.14 at May 2, 2009, compared to \$36.14 at May 3, 2008 and \$32.31 at May 5, 2007. The increase in book value largely reflects the Company's earnings growth and the \$135 million equity issue on April 24, 2009 as discussed.

The Company's share capital on May 2, 2009 consisted of:

	Authorized Number of Shares	Issued and Outstanding Number of Shares	(\$ in millions)
Preferred shares, par value \$25 each, issuable in series	2,682,100	168,000	\$ 4.2
2002 Preferred shares par value \$25 each, issuable in series	992,000,000	-	-
Non-Voting Class A shares, without par value	259,107,435	34,197,498	316.1
Class B common shares, without par value, voting	40,800,000	34,260,763	7.6
			327.9
Employees' Share Purchase Plan			(3.4)
			\$ 324.5

On April 24, 2009, the Company closed a bought-deal public offering of Non-Voting Class A shares at a price of \$49.75 per share. The underwriters elected to exercise their over-allotment option in full, resulting in a total of 2,713,000 shares being issued for net proceeds of \$129.1 million.

Total Non-Voting Class A and Class B common shares outstanding at May 2, 2009 equalled 68,458,261, an increase of 2,713,000 shares from the previous fiscal year-end, May 3, 2008 as a result of the Non-Voting Class A shares

issued in the fourth quarter of fiscal 2009, as discussed. There were 34,197,498 Non-Voting Class A and 34,260,763 Class B common shares outstanding at May 2, 2009.

During fiscal 2008, 300,000 Class B common shares were exchanged for 300,000 Non-Voting Class A shares of Empire.

During fiscal 2009, 189,967 options (2008 – 92,766 options) were issued under Empire's Long-Term Incentive Plan. The options issued in fiscal 2009 allow the holder to purchase

Non-Voting Class A shares at \$40.26 per share (2008 – \$43.96 per share). Empire had 282,733 options outstanding at May 2, 2009 compared to 92,766 options outstanding at May 3, 2008. The outstanding options expire in June 2015 and in June 2016. There were no options exercised during fiscal 2009 or fiscal 2008.

During fiscal 2009, the Company purchased for cancellation 90,200 Series 2 Preferred shares for \$2.3 million compared to 41,800 preferred shares that were purchased for cancellation in fiscal 2008 for \$1.0 million. The Company plans to purchase, on a best efforts basis, an additional 100,000 Series 2 Preferred shares for cancellation by the end of calendar 2009.

During fiscal 2009, there were no Non-Voting Class A shares issued under Empire's Employee Share Purchase Plan

compared to 10,461 Non-Voting Class A shares issued in fiscal 2008 for \$0.4 million. No Non-Voting Class A shares were purchased for cancellation in either fiscal 2009 or fiscal 2008.

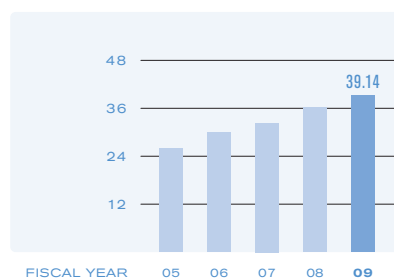
As at July 23, 2009, the Company had total Non-Voting Class A and Class B common shares outstanding of 34,197,498 and 34,260,763, respectively as well as 445,132 options to acquire Non-Voting Class A shares.

Dividends paid to Non-Voting Class A and Class B common shareholders amounted to \$46.1 million in fiscal 2009 (\$0.70 per share) versus \$43.2 million (\$0.66 per share) in fiscal 2008. Subsequent to fiscal year-end, on June 26, 2009 the Company announced an increase in the dividend rate to \$0.74 per share annually.

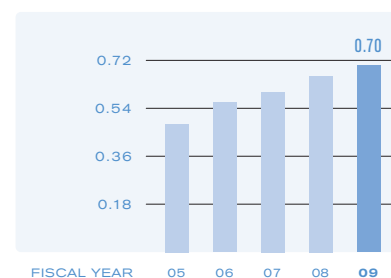
**SHARE PRICE**  
\$ PER SHARE



**BOOK VALUE PER SHARE**  
\$ PER SHARE



**COMMON DIVIDENDS PER SHARE**  
\$ PER SHARE



## Liabilities

At the end of fiscal 2009, the Company's total long-term debt (including the current portion long-term debt) was \$1,257.0 million, representing 96.5 percent of Empire's total funded debt of \$1,302.9 million. Funded debt has decreased by \$270.6 million from the \$1,573.5 million reported at the end of fiscal 2008. The ratio of funded debt to total capital improved to 32.7 percent from 39.8 percent at the end of fiscal 2008. The significant decrease in funded debt over the end of the

previous fiscal year is primarily the result of repaying debt with the net proceeds from the \$135 million equity issue completed on April 24, 2009 along with the use of free cash flow generated by Sobeys to reduce its funded debt.

Historically, Empire has financed a significant portion of its assets through the use of long-term debt. Longer-term assets are generally financed with fixed rate, long-term debt, thereby reducing both interest rate and refinancing risk.

The long-term debt is segmented by division as follows:

Long-term debt (including current portion) (\$ in millions)	May 2, 2009	May 3, 2008	May 5, 2007
Food retailing	\$ 954.0	\$ 1,010.2	\$ 612.7
Real estate	39.6	50.1	228.1
Investments and other operations	263.4	420.6	41.1
<b>Total</b>	<b>\$ 1,257.0</b>	<b>\$ 1,480.9</b>	<b>\$ 881.9</b>

For additional disclosure on Empire's bank indebtedness and long-term debt, see Note 11 and 12 to the Company's annual audited consolidated financials statements for fiscal 2009 as detailed on page 79 of the Company's 2009 Annual Report.

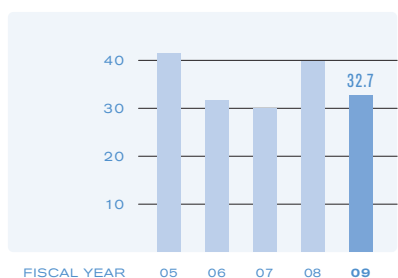
In June 2007, both Standard & Poors ("S&P") and Dominion Bond Rating Service ("DBRS") placed Sobeys' credit ratings under review when the privatization of Sobeys was announced. Upon completion of their reviews in the first quarter of fiscal 2008, S&P and DBRS downgraded Sobeys' credit rating to BB+ with a negative trend and BBB- with a negative trend, respectively. During the first quarter of fiscal 2009, based on Sobeys' improved fundamentals, both agencies changed

their trends from negative to stable. Subsequent to fiscal year-end, both rating agencies improved their trends to positive from stable.

Empire's EBITDA to interest expense ratio in fiscal 2009 was 9.8 times, an improvement from the 7.4 times recorded in fiscal 2008. The increase in the EBITDA to interest expense ratio compared to fiscal 2008 was the result of the decline in interest expense related to the repayment of funded debt as discussed.

Empire and its subsidiaries have provided covenants to its lenders in support of various financing facilities. All covenants were complied with during fiscal 2009 and for fiscal 2008.

**FUNDED DEBT TO TOTAL CAPITAL**  
PERCENTAGE



**EBITDA TO INTEREST EXPENSE**  
TIMES



## Financial Instruments

Empire utilizes interest rate instruments from time to time to prudently manage its exposure to interest rate volatility and also to fix future long-term debt maturities that are expected to be refinanced. At May 2, 2009, there were four interest rate hedges in place with Empire and its operating companies. On June 18, 2007, Empire entered into two delayed fixed rate interest swaps. The first swap in an amount of \$200.0 million is three years in duration and carries a fixed interest rate of 4.998 percent. The second swap in an amount of \$200.0 million is for a period of five years at a fixed interest rate of 5.051 percent. Both swaps became effective on July 23, 2007. Empire later transferred the second swap to Sobeys. Empire Theatres entered into two interest rate swaps on December 27, 2006, which fixed the interest rate on \$20.0 million of the floating rate debt at 4.28 percent, plus a stamping fee for a five-year term. The fair value of these four interest rate swaps at May 2, 2009 was negative \$36.3 million.

The Company also uses forward contracts to fix the exchange rate on some of its expected requirements for Euros and U.S. dollars ("USD"). As of May 2, 2009, due to an appreciation of the Euro relative to the Canadian dollar ("CAD"), Sobeys had recognized an asset of \$0.4 million representing the fair value of one Euro denominated forward currency contract.

In July 2008, Sobeys entered into a floating-for-floating currency swap with a fixed rate of \$1.015 CAD/USD to mitigate the currency risk associated with a USD denominated variable rate lease. The terms of the swap match the lease terms. As of May 2, 2009, Sobeys recognized an asset of \$1.3 million relating to this instrument.

To mitigate the risk of changes in the market price of electricity, Sobeys uses financial derivative swap contracts with varying maturities as hedges against the rising costs. As of May 2, 2009, Sobeys recognized a liability of \$3.5 million relating to these instruments.

Empire and its subsidiaries utilize hedging instruments as deemed appropriate to mitigate risk exposure, not for speculative purposes.

## Liquidity and Capital Resources

Empire's liquidity remained strong at May 2, 2009 as a result of the following sources:

- Cash and cash equivalents on hand;
- Unutilized bank credit facilities; and
- Cash generated from operating activities.

The Company anticipates that these sources of liquidity will be sufficient to meet expected cash outflows over the next year. At May 2, 2009, consolidated cash and cash equivalents were \$231.6 million versus \$191.4 million at the prior fiscal year-end on May 3, 2008.

At the end of the fourth quarter of fiscal 2009, on a non-consolidated basis, Empire maintained an authorized bank line for operating, general and corporate purposes of \$650 million, of which approximately \$248 million or 38 percent was utilized. Empire's non-consolidated credit facility of

\$650 million matures on June 8, 2010. It is Empire's intention to renew or replace this credit facility prior to its maturity. However, given the current credit environment, the terms of the renewed or replacement credit facility may not be as favourable as those of the in-place facility.

On a consolidated basis, Empire's authorized bank credit facilities exceeded borrowings by approximately \$930 million at May 2, 2009 compared to \$691 million at May 3, 2008.

Given the recent developments in the financial markets, the Company's access to new avenues of credit, both short-term and long-term, may be limited for the foreseeable future. The Company anticipates that the above mentioned in-place sources of liquidity will adequately meet its short-term and long-term financial requirements. The Company mitigates potential liquidity risk by ensuring its various sources of funds are diversified by term to maturity and source of credit.

The following table highlights major cash flow components for the 13 and 52 weeks ended May 2, 2009 compared to the 13 and 52 weeks ended May 3, 2008.

(\$ in millions)	13 Weeks Ended May 2, 2009	13 Weeks Ended May 3, 2008	52 Weeks Ended May 2, 2009	52 Weeks Ended May 3, 2008
Earnings for common shareholders	\$ 63.6	\$ 66.5	\$ 265.8	\$ 315.5
Items not affecting cash	94.7	105.7	346.1	360.1
	158.3	172.2	611.9	675.6
Net change in non-cash working capital	42.1	93.0	46.3	(45.7)
Cash flows from operating activities	200.4	265.2	658.2	629.9
Cash flows (used in) from investing activities	(135.1)	210.7	(404.1)	(1,353.9)
Cash flows (used in) from financing activities	(58.0)	(407.6)	(213.9)	620.5
Increase (decrease) in cash and cash equivalents	\$ 7.3	\$ 68.3	\$ 40.2	\$ (103.5)

### Operating Activities

Fourth quarter cash flows from operating activities equalled \$200.4 million compared to \$265.2 million in the comparable period last year. The decrease of \$64.8 million is due to a decline in the net change in non-cash working capital of \$50.9 million, a decline in the items not affecting cash of \$11.0 million and a decline in net earnings available for common shareholders of \$2.9 million.

In fiscal 2009, cash flows from operating activities equalled \$658.2 million compared to \$629.9 million last year. The increase of \$28.3 million is attributed to an increase in the net change in non-cash working capital of \$92.0 million, partially offset by a decrease in net earnings available for common shareholders of \$49.7 million and a decrease in items not affecting cash of \$14.0 million.

The following tables present non-cash working capital changes on a quarter-over-quarter basis and on a year-over-year basis.

#### NON-CASH WORKING CAPITAL (QUARTER-OVER-QUARTER)

(\$ in millions)	May 2, 2009	Jan. 31, 2009	13 Weeks Ended	13 Weeks Ended
			May 2, 2009 Increase (Decrease) in Cash Flows	May 3, 2008 Increase (Decrease) in Cash Flows
Receivables	\$ 318.7	\$ 294.5	\$ (24.2)	\$ (2.3)
Inventories	842.8	860.7	17.9	26.8
Prepaid expenses	70.8	37.1	(33.7)	(0.3)
Accounts payable and accrued liabilities	(1,487.1)	(1,391.7)	95.4	76.7
Income taxes receivable (payable)	4.9	(12.2)	(17.1)	14.8
Impact of reclassifications on working capital <sup>(1)</sup>	(3.8)	–	3.8	(22.7)
<b>Total</b>	<b>\$ (253.7)</b>	<b>\$ (211.6)</b>	<b>\$ 42.1</b>	<b>\$ 93.0</b>

(1) Reclassifications primarily relate to business acquisitions and rationalization costs and the adoption of the new inventory policy further explained on page 49 of this annual report.

#### NON-CASH WORKING CAPITAL (YEAR-OVER-YEAR)

(\$ in millions)	May 2, 2009	May 3, 2008	52 Weeks Ended
			May 2, 2009 Increase (Decrease) in Cash Flows
Receivables	\$ 318.7	\$ 291.1	\$ (27.6)
Inventories	842.8	820.2	(22.6)
Prepaid expenses	70.8	62.0	(8.8)
Accounts payable and accrued liabilities	(1,487.1)	(1,348.4)	138.7
Income taxes receivable (payable)	4.9	(15.5)	(20.4)
Impact of reclassifications on working capital <sup>(1)</sup>	13.0	–	(13.0)
<b>Total</b>	<b>\$ (236.9)</b>	<b>\$ (190.6)</b>	<b>\$ 46.3</b>

(1) Reclassifications primarily relate to business acquisitions and rationalization costs and the adoption of the new inventory policy further explained on page 49 of this annual report.

The net change in non-cash working capital of \$42.1 million in the fourth quarter was largely due to a \$95.4 million increase in payables, a \$17.9 million decrease in inventories and the impact of reclassifications on working capital of \$3.8 million, partially offset by an increase in prepaid expenses of \$33.7 million, an increase in receivables of \$24.2 million and an increase in income taxes receivable of \$17.1 million. The increased accounts payable and accrued liabilities largely reflects higher accounts payable and accrued liabilities at Sobeys due to a general increase as a result of increased operations. The increase in prepaid expenses largely reflects the increase recorded in the food retailing division as a result of the prior quarter ending before the first of the month. The increase in taxes receivable compared to the third quarter reflects the timing of tax remittances.

Year-over-year non-cash working capital increased \$46.3 million. This is primarily the result of a \$138.7 million increase in accounts payable and accrued liabilities, partially offset by a \$27.6 million increase in receivables, a \$22.6 million increase in inventories, an increase in income taxes receivable of \$20.4 million, a \$13.0 million impact of reclassifications on working capital and a \$8.8 million increase in prepaid expenses compared to the prior year. The increase in inventories and related accounts payable and accrued liabilities is necessary to support Sobeys' higher sales volumes due to the increased amount of square footage in its expanded store network. The increase in inventory is partially offset by the adoption of the new inventory policy as explained in the "Accounting Policy Changes" section of this MD&A. The impact of this policy on cash flow is reflected in the impact of reclassifications on working capital.

## Investing Activities

Cash used in investing activities of \$135.1 million in the fourth quarter compares to cash flows generated from investing activities of \$210.7 million in the fourth quarter last fiscal year. The change in cash from investing activities of \$345.8 million was largely the result of proceeds of \$373.5 million from the sale of 61 properties to Crombie REIT in the fourth quarter last year, an increase in cash used in business acquisitions of \$21.3 million and an increase in loans and other receivables of \$15.5 million, partially offset by a decline in the cash used for investments of \$57.9 million and a decrease in the purchase of property and equipment of \$22.9 million.

For the 52 weeks ended May 2, 2009, cash used in investing activities of \$404.1 million was \$949.8 million lower than last fiscal year. The decrease in cash used in investing activities was largely the result of the privatization of Sobeys in the first quarter of last fiscal year for \$1,065.7 million, the decrease in cash used for business acquisitions by \$221.8 million (primarily the acquisition of Thrifty Foods

in the second quarter of last year for \$243.4 million), the decrease of \$119.7 million in property and equipment purchases, a decrease in cash invested in other assets by \$54.9 million and an increase in proceeds on disposal of property and equipment by \$25.8 million, partially offset by proceeds of \$373.5 million from the sale of 61 properties to Crombie REIT in the fourth quarter last fiscal year, the decrease in cash from investments of \$135.5 million and a decrease in cash from loans and other receivables of \$29.1 million.

Consolidated purchases of property and equipment totalled \$126.6 million in the fourth quarter of fiscal 2009 compared to \$149.5 million in the fourth quarter last year. Consolidated purchases of property and equipment totalled \$431.0 million in fiscal 2009 compared to \$550.7 million in the same period last year. The decline in both the current quarter and the fiscal year is largely associated with fewer stores opened, acquired or expanded relative to the prior year.

The table below outlines the number of stores Sobeys invested in during the fourth quarter of fiscal 2009 compared to the same quarter of fiscal 2008, as well as for the 52 weeks ended May 2, 2009 compared to the 52 weeks ended May 3, 2008.

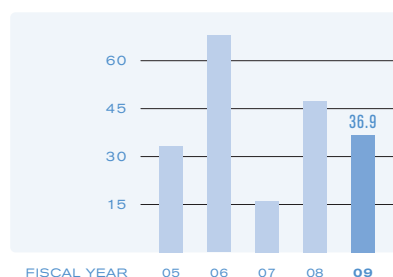
### SOBEYS' CORPORATE AND FRANCHISED STORE CONSTRUCTION ACTIVITY

# of Stores	13 Weeks Ended May 2, 2009	13 Weeks Ended May 3, 2008	52 Weeks Ended May 2, 2009	52 Weeks Ended May 3, 2008
Opened/Acquired/Relocated	13	15	47	66
Expanded	3	10	11	31
Rebannered/Redeveloped	2	9	16	60
Closed	20	17	52	67

#### FOOD RETAILING CAPITAL EXPENDITURES \$ IN MILLIONS



#### REAL ESTATE CAPITAL EXPENDITURES \$ IN MILLIONS



The following table shows Sobeys' square footage changes for the 13 and 52 weeks ended May 2, 2009 by type.

#### SOBEYS' SQUARE FOOTAGE CHANGES

Square Feet (in thousands)	May 2, 2009 vs. Jan. 31, 2009	May 2, 2009 vs. May 3, 2008
Opened	221	773
Relocated	16	82
Acquired	–	33
Expanded	41	103
Closed	(199)	(733)
Net Change	79	258

At May 2, 2009, Sobeys' square footage totalled 27.5 million square feet, a 1.1 percent increase over the 27.2 million square feet in operation at the end of the fourth quarter of last year.

Capital expenditures for the real estate division equalled \$36.9 million in fiscal 2009 (\$47.3 million in fiscal 2008) as a result of ongoing property developments and land additions. Capital spending by investments and other operations equalled \$11.4 million in fiscal 2009 (\$22.2 million in fiscal 2008) primarily as a result of a reduction in expenditures to invest in selected oil and gas properties in Alberta through Kepec. The majority of the capital spending in fiscal 2009 and fiscal 2008 was to modernize and develop various movie theatre locations.

#### Financing Activities

Financing activities during the fourth quarter of fiscal 2009 used \$58.0 million of cash compared to \$407.6 million in the same quarter last year. The reduction of \$349.6 million in cash flows from financing activities when compared to the same quarter last year is primarily the result of: (i) a decrease in the repayment of long-term debt of \$246.4 million; (ii) the issuance of Non-Voting Class A shares in the fourth quarter of fiscal 2009 for net proceeds of \$129.1 million; partially offset by an increase in bank indebtedness of \$7.4 million in the fourth quarter of fiscal 2009 compared to an increase in bank indebtedness of \$35.0 million in the same quarter last year.

Financing activities during the 52 weeks ended May 2, 2009 used \$213.9 million of cash compared to \$620.5 million of cash generated from financing activities in the same period last year. The variance of \$834.4 million in cash flows from financing activities in the 52 weeks ended May 2, 2009 when compared to the same period last year is primarily the result of: (i) a decrease in long-term debt issuance of \$1,033.0 million; (ii) a decrease in bank indebtedness of \$46.7 million during the fiscal year-to-date compared to an increase in bank indebtedness of \$60.9 million in the same period last year; partially offset by (i) a decrease in repayment of long-term debt of \$199.8 million; and (ii) the issuance of Non-Voting Class A shares in the fourth quarter of fiscal 2009 for net proceeds of \$129.1 million.

As discussed above, on April 24, 2009 Empire closed the issuance of 2,713,000 Non-Voting Class A shares (including the 200,000 shares issued under the over-allotment option) on a bought-deal basis with a syndicate of underwriters at a price of \$49.75 per share. The total net proceeds raised of \$129.1 million (gross proceeds of \$135.0 million) were used to repay a portion of Empire's non-consolidated bank facility.

#### Guarantees and Commitments

The following illustrates the Company's significant contractual obligations, over the next five fiscal years and thereafter.

#### GROSS OBLIGATIONS EXCLUDING LEASE INCOME

(\$ in millions)	2010	2011	2012	2013	2014	Thereafter	Total
Long-term debt	\$ 117.8	\$ 305.9	\$ 21.8	\$ 216.8	\$ 25.0	\$ 512.0	\$ 1,199.3
Capital leases	15.2	13.4	10.6	6.6	3.9	11.0	60.7
Operating leases							
Third Parties	270.0	246.2	228.7	215.5	203.9	1,354.3	2,518.6
Related Parties	38.4	37.6	34.5	34.0	35.4	407.0	586.9
Total operating leases	308.4	283.8	263.2	249.5	239.3	1,761.3	3,105.5
Total contractual obligations	\$ 441.4	\$ 603.1	\$ 295.6	\$ 472.9	\$ 268.2	\$ 2,284.3	\$ 4,365.5

#### OPERATING LEASES, NET OF EXPECTED LEASE INCOME RECEIVED BY THE COMPANY

(\$ in millions)	2010	2011	2012	2013	2014	Thereafter	Total
Third Parties	\$ 196.7	\$ 176.3	\$ 162.6	\$ 154.2	\$ 147.7	\$ 965.3	\$ 1,802.8
Related Parties	38.4	37.6	34.5	34.0	35.4	407.0	586.9
	\$ 235.1	\$ 213.9	\$ 197.1	\$ 188.2	\$ 183.1	\$ 1,372.3	\$ 2,389.7

## FRANCHISE AFFILIATES

Sobeys has guaranteed certain bank loans contracted by franchise affiliates. As at May 2, 2009, these loans amounted to \$0.5 million (May 3, 2008 – \$1.3 million).

During fiscal 2008, Sobeys entered into an additional guarantee contract. Under the terms of the guarantee, should a franchise affiliate be unable to fulfill their lease obligation, Sobeys would be required to fund the greater of \$6.0 million or 9.9 percent (2008 – \$5.0 million or 9.9 percent) of the authorized and outstanding obligation. As at May 2, 2009, the amount of the guarantee was \$6.0 million (May 3, 2008 – \$5.0 million).

Sobeys has guaranteed certain equipment leases of its franchise affiliates. Under the terms of the guarantee, should a franchise affiliate be unable to fulfill its lease obligation, Sobeys would be required to fund the difference of the lease commitments up to a maximum of \$70.0 million, reduced from \$100.0 million during the second quarter of fiscal 2008 on a cumulative basis. Sobeys approves each of the contracts.

During the third quarter of fiscal 2009, Sobey entered into an additional credit enhancement in the form of a standby letter of credit for certain independent franchisees for the purchase and installation of equipment. Under the terms of the contract, should a franchisee affiliate be unable to fulfill their lease obligation or other remedy, Sobeys would be required to fund the greater of \$4.0 million or 10 percent of the authorized and outstanding obligation annually. Under the terms of the agreement, Sobeys is required to obtain a letter of credit in the amount of the outstanding guarantee, to be revisited each calendar year. This credit enhancement allows Sobeys to provide favourable financing terms to certain independent franchisees. The contract terms have been reviewed and Sobeys has determined that there were no material implications with

respect to the consolidation of VIEs. As of May 2, 2009, the amount of the guarantee was \$4.0 million.

The aggregate, annual, minimum rent payable under the guaranteed operating equipment leases for fiscal 2010 is approximately \$25.5 million. The guaranteed lease commitments over the next five fiscal years are:

(\$ in millions)	Guaranteed Lease Commitments	
2010	\$	25.5
2011		14.8
2012		16.7
2013		11.4
2014		4.2
Thereafter		2.0

## OTHER

At May 2, 2009, the Company was contingently liable for letters of credit issued in the aggregate amount of \$55.3 million (May 3, 2008 – \$60.3 million).

Upon entering the lease of its new Mississauga, Ontario distribution centre in March 2000, Sobeys guaranteed to the landlord the performance by Serca Foodservice Inc. all of its obligations under the lease. The remaining term of the lease is 11 years with an aggregate obligation of \$34.6 million (May 3, 2008 – \$37.5 million). At the time of the sale of assets of Serca Foodservice Inc. to SYSCO Corp., the lease of the Mississauga distribution centre was assigned to and assumed by a subsidiary of the purchaser and SYSCO Corp. agreed to indemnify and hold Sobeys harmless from any liability it may incur pursuant to its guarantee.

## Free Cash Flow

Free cash flow (see Non-GAAP measures section at the end of this MD&A) is used to measure the change in the Company's cash available for additional investing, dividends and/or debt reduction. The following table reconciles free cash flow to GAAP cash flows used in operating activities for the 13 and 52 week periods ended May 2, 2009 and May 3, 2008.

(\$ in millions)	13 Weeks Ended May 2, 2009	13 Weeks Ended May 3, 2008	52 Weeks Ended May 2, 2009	52 Weeks Ended May 3, 2008
Cash flow from operating activities	\$ 200.4	\$ 265.2	\$ 658.2	\$ 629.9
Less: Property and equipment purchases	126.6	149.5	431.0	550.7
Free cash flow	\$ 73.8	\$ 115.7	\$ 227.2	\$ 79.2

Free cash flow generation in the fourth quarter of fiscal 2009 was \$73.8 million compared to free cash flow of \$115.7 million in the fourth quarter last year. The \$41.9 million decrease in free cash flow from the fourth quarter last fiscal year was due to a \$64.8 million decrease in cash flow from operations, partially offset by a \$22.9 million decrease in property and equipment purchases.

For the 52 weeks ended May 2, 2009, free cash flow equalled \$227.2 million, an increase of \$148.0 million over the free cash flow recorded for the same period last year. The improvement is due to a \$28.3 million increase in cash flow from operating activities and a decrease of \$119.7 million in property and equipment purchases.

## Accounting Policy Changes

### ACCOUNTING STANDARDS ADOPTED DURING FISCAL 2009

In June 2007, the Canadian Institute of Chartered Accountants ("CICA") issued Section 3031 of the CICA Handbook, "Inventories", which has replaced existing Section 3030 with the same title. The new section establishes that inventories should be measured at the lower of cost and net realizable value, with guidance on the determination of cost, including allocation of overheads and other costs incurred in bringing the inventories to their present location and condition. Costs such as storage costs are specifically excluded from the cost of inventories and are expensed in the period incurred. The standard also requires the use of either first-in, first-out or weighted average cost formula to measure the cost of inventories of similar nature and use. Techniques, such as the retail method, used to measure the cost of inventory may be used if the results approximate cost. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The Company applied the standard to the opening inventory for the fiscal year beginning May 4, 2008 and adjusted retained earnings by the difference in the measurement of cost in opening inventory of a similar nature and use (prior periods were not restated).

Following adoption of Section 3031, warehouse inventories are valued at the lower of cost and net realizable value with cost being determined on a weighted average cost basis. Retail inventories are valued at the lower of cost and net realizable value. Cost is determined using a weighted average cost using either the standard cost method or a retail method. The retail method uses the anticipated selling price less normal profit margins, on a weighted average cost basis. Real estate inventory of residential properties is valued at the lower of cost and net realizable value.

The cost of inventories is comprised of directly attributable costs and includes the purchase price plus other costs incurred in bringing the inventories to their present location and condition, such as freight. The cost is reduced by the value of rebates and allowances received from vendors. The Company estimates net realizable value as the amount that inventories are expected to be sold, taking into consideration fluctuations of retail price due to seasonality less estimated costs necessary to make the sale. Inventories are written down to net realizable value when the cost of inventories is estimated to not be recoverable due to obsolescence, damage or declining selling prices. When circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in retail selling price, the amount of the write-down previously recorded is reversed. Costs that do not contribute to bringing inventories to their present location and condition, such as storage and administrative overheads, are specifically excluded from the cost of inventories and are expensed in the period incurred.

The initial impact of measuring inventories under the new standard is a decrease to the carrying amount of opening inventories as at May 4, 2008 of \$27.9 million and a decrease in income taxes payable of \$6.4 million. Opening retained earnings have been adjusted by \$21.5 million, equal to the change in opening inventories, net of tax.

The cost of inventory recognized as an expense during the fourth quarter and fiscal 2009 was \$2,740.7 million and \$11,232.5 million, respectively. The cost of inventories recognized as an expense during the fourth quarter and fiscal 2009 includes \$1.4 million and \$45.5 million respectively for the write-down of inventories below cost to net realizable value. There were no reversals of inventories written down previously.

### Capital Disclosures

In October 2006, the CICA issued Section 1535, "Capital Disclosures". This section establishes standards for disclosing information about an entity's capital and how it is managed. The standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007 and is applicable for the Company's first quarter of fiscal 2009 (see Note 15 to the audited annual consolidated fiscal 2009 financial statements). The adoption of Section 1535 did not have an impact on the Company's financial results or position.

### Financial Instruments – Disclosure and Financial Instruments – Presentation

Section 3862, "Financial Instruments – Disclosure", and Section 3863, "Financial Instruments – Presentation", replace Section 3861, "Financial Instruments – Disclosure and Presentation". These standards are effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007 and are applicable for the Company's first quarter of fiscal 2009 (see Note 22 to the audited annual consolidated fiscal 2009 financial statements). Section 3862 requires increased disclosures regarding the risks associated with financial instruments such as credit risk, liquidity risk and market risks and the techniques used to identify, monitor and manage these risks. In accordance with the transitional provision of Section 3862, comparative information about the nature and extent of risks arising from financial instruments is not required in the year of adoption. Section 3863 carries forward standards for presentation of financial instruments and non-financial derivatives and provides additional guidance for the classification of financial instruments between liabilities and equity and has no significant impact on the Company's financial statements.

### Financial Instruments – Recognition and Measurement

In January 2009, the CICA issued Emerging Issue Committee Abstract 173 ("EIC 173"), "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". EIC 173 requires that

a company take into account its own credit risk and the credit risk of its counterparty in determining the fair value of financial assets and financial liabilities. This Abstract must be applied retrospectively without restatement of prior periods to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after January 20, 2009. The adoption of EIC 173 did not have a significant impact on the Company's financials results, position or disclosures.

The following accounting standards were implemented during fiscal 2008:

On May 6, 2007 the Company adopted CICA Sections 3855, "Financial Instruments – Recognition and Measurement", 3865, "Hedges", 1530, "Comprehensive Income", 3251, "Equity" and 3861, "Financial Instruments – Disclosure and Presentation". These standards were applied without restatement of prior periods and the transitional adjustments resulting from these standards were recognized in the opening balances of retained earnings and accumulated other comprehensive income.

The following table summarizes the transition adjustments recorded upon implementation of financial instruments:

(\$ in millions)	Transition Adjustments
<b>Consolidated Balance Sheet</b>	
Investments	\$ 94.4
Other assets	(4.5)
Other liabilities	2.5
Long-term debt	2.7
Future income taxes	(18.5)
Minority interest	0.6
Accumulated other comprehensive income	(77.2)

Upon adoption of Section 3855, Section 3070 was withdrawn. As a result, the Company reviewed its accounting policy for deferred charges. This change in accounting policy was applied retrospectively resulting in a \$4.3 million decrease in retained earnings at May 3, 2008.

#### **FUTURE CHANGES IN ACCOUNTING POLICIES**

##### **Goodwill and Intangible Assets**

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", which replaced existing Section 3062, "Goodwill and Other Intangible Assets", as well as Section 3450, "Research and Development". The new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008 and is applicable for the Company's first quarter of fiscal 2010. The Company is currently evaluating the impact of this new standard.

##### **Business Combinations, Consolidated Financial Statements and Non-controlling Interests**

In January 2009, the CICA issued three new accounting standards which are based on the International Accounting Standards Board's International Financial Reporting Standard 3 "Business Combinations". Section 1582, "Business Combinations", which replaces Section 1581 with the same title, aims to improve the relevance, reliability and comparability of the information provided in financial statements about business combinations. This Section is to be applied prospectively to business combinations for which the acquisition date is on or after January 1, 2011 and assets and liabilities that arose from business combinations that preceded the adoption of this standard should not be adjusted upon adoption. Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-controlling Interests", replace Section 1600, "Consolidated Financial Statements", and establish standards for the preparation of consolidated financial statements and accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards apply to interim and annual consolidated financial statements beginning on or after January 1, 2011. Earlier adoption of all three standards is permitted as of the beginning of a fiscal year, however if an entity chooses to early adopt all three standards must be adopted concurrently. The Company is currently evaluating the impact of these new standards.

##### **International Financial Reporting Standards**

On February 13, 2008, the Accounting Standards Board of Canada announced that GAAP for publicly accountable enterprises will be replaced by International Financial Reporting Standards ("IFRS"). IFRS must be adopted for interim and annual financial statements related to fiscal years beginning on or after January 1, 2011, with restatement of comparative periods. Accordingly, the conversion from GAAP to IFRS will be applicable to the Company's reporting for the first quarter of fiscal 2012 for which the current and comparative information will be prepared under IFRS.

The Company has launched an internal initiative to govern the conversion process and is currently evaluating the potential impact of the conversion to IFRS on its financial statements. At this time, the impact on the Company's future financial position and results of operations is not reasonably determinable or estimable. The Company expects the transition to IFRS to impact accounting, financial reporting, internal control over financial reporting, information systems and business processes.

The Company has developed a formal project governance structure including a structured steering committee, as well as providing regular progress reports to senior management,

including the Audit Committee. The Company has also completed a diagnostic impact assessment, which involves a high level review of the major differences between current GAAP and IFRS, as well as establishing an implementation guideline. In accordance with this guideline, the Company has established a staff training program and is in the process of completing analysis of the key decision areas and making recommendations on the same.

The Company will continue to assess the impact of the transition to IFRS and to review all of the proposed and ongoing projects of the International Accounting Standards Board to determine their impact on the Company. Additionally, the Company will continue to invest in training and resources throughout the transition period to facilitate a timely conversion.

## Critical Accounting Estimates

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures made in the consolidated financial statements and accompanying notes. Certain of these estimates require subjective or complex judgments by management that may be uncertain. Some of these items include inventories, carrying value of commercial properties, goodwill, employee future benefits, stock based compensation, valuation of ABCP, customer loyalty programs and income taxes. Changes to these estimates could materially impact the financial statements. These estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. Actual results could differ from these estimates.

### **PENSION, POST-RETIREMENT AND POST-EMPLOYMENT BENEFITS**

Certain estimates and assumptions are used in actuarially determining the Company's defined pension and employee future benefits obligation.

Significant assumptions used to calculate the pension and employee future benefits obligation are the discount rate, the expected long-term rate of return on plan assets and expected growth rate of health care costs. These assumptions depend on various underlying factors such as economic conditions, investment performance, employee demographics

and mortality rates. These assumptions may change in the future and may result in material changes in the pension and employee benefit plans expense. The magnitude of any immediate impact, however, is mitigated by the fact that net actuarial gains and losses in excess of ten percent of the greater of the accrued benefit plan obligation and the market value of the benefit plan assets are amortized on a straight-line basis over the average remaining service period of the active employees. Changes in financial market returns and interest rates could also result in changes in funding requirements for the Company's defined benefit pension plans.

The discount rate is based on current market interest rates assuming a portfolio of Corporate AA bonds with terms to maturity that, on average, match the terms of the obligation. The appropriate discount rates are determined on April 30th every year. For fiscal 2009, the discount rate used for calculation of pension and other benefit plan expense was 6.25 percent and 6.00 percent, respectively (fiscal 2008 – 5.25 percent for both plans). The expected long-term rate of return on plan assets for pension benefit plans for each of fiscal 2009 was 7.0 percent (fiscal 2008 – 7.0 percent). The expected growth rate in health care costs was 9.0 percent for fiscal 2009 (fiscal 2008 – 9.0 percent). The cumulative growth rate in health care costs to 2019 is expected to be 5.0 percent. The expected future growth rate is evaluated on an annual basis.

The table below outlines the sensitivity of the 2009 key economic assumptions used in measuring the accrued benefit plan obligation and related expenses of the Company's pension and other benefit plans. The sensitivity of each key assumption has been calculated independently. Changes to more than one assumption simultaneously may amplify or reduce the impact on the accrued benefit obligation or benefit plan expenses.

(\$ in millions)	Pension Plans		Other Benefit Plans	
	Benefit Obligation	Benefit Cost <sup>(1)</sup>	Benefit Obligation	Benefit Cost <sup>(1)</sup>
Expected long-term rate of return on plan assets		7.00%		
Impact of: 1% increase		\$ (2.0)		
Impact of: 1% decrease		\$ 2.0		
Discount rate <sup>(2)</sup>	6.25%	6.25%	6.00%	6.00%
Impact of: 1% increase	\$ (25.9)	\$ 0.2	\$ (15.1)	\$ (0.9)
Impact of: 1% decrease	\$ 29.1	\$ (0.5)	\$ 18.1	\$ 1.0
Growth rate of health care costs <sup>(3)</sup>			9.00%	9.00%
Impact of: 1% increase			\$ 14.5	\$ 1.8
Impact of: 1% decrease			\$ (12.2)	\$ (1.4)

(1) Reflects the impact on the current service cost, the interest cost and the expected return on assets.

(2) 6.00 percent for the Employee Pension Plan and the Post Retirement Benefit Plan.

(3) Gradually decreasing to 5.00 percent in 2019 and remaining at that level thereafter.

#### GOODWILL AND LONG-LIVED ASSETS

Goodwill is not amortized and is assessed for impairment at the reporting unit level. This is done annually at a minimum. Any potential goodwill impairment is identified by comparing the fair value of a reporting unit to its carrying value. If the fair value of the reporting unit exceeds its carrying value, goodwill is considered not to be impaired. If the carrying value of the reporting unit exceeds its fair value, potential goodwill impairment has been identified and must be quantified by comparing the estimated fair value of the reporting unit's goodwill to its carrying value. Any goodwill impairment will result in a reduction in the carrying value of goodwill on the consolidated balance sheet and in the recognition of a non-cash impairment charge in operating income.

The Company periodically assesses the recoverability of long-lived assets when there are indications of potential impairment. In performing these analyses, the Company considers such factors as current results, trends and future prospects, current market value and other economic factors.

A substantial change in estimated undiscounted future cash flows for these assets could materially change their estimated fair values, possibly resulting in additional impairment. Changes which may impact future cash flows include, but are not limited to, competition and general economic conditions and unrecoverable increases in operating costs.

#### INCOME TAXES

Future income tax assets and liabilities are recognized for the future income tax consequences attributable to temporary differences between the financial statement carrying values of assets and liabilities and their respective income tax bases. Future income tax assets or liabilities are measured using enacted or substantively enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The calculation of current and future income taxes requires management to make estimates and assumptions and to exercise a certain amount of judgment. The financial statement carrying values of assets and liabilities are subject to accounting estimates inherent in those balances. The income tax bases of assets and liabilities are based upon the interpretation of income tax legislation across various jurisdictions. The current and future income tax assets and liabilities are also impacted by expectations about future operating results and the timing of reversal of temporary differences as well as possible audits of tax filings by the regulatory authorities. Management believes it has adequately provided for income taxes based on current available information.

Changes or differences in these estimates or assumptions may result in changes to the current or future income tax balances on the consolidated balance sheet.

## VALUATION OF INVENTORIES

Inventories are valued at the lower of cost and estimated net realizable value. Significant estimation or judgment is required in the determination of (i) inventories counted at retail and adjusted to cost and (ii) estimated inventory reductions due to spoilage and shrinkage occurring between the last physical inventory count and the balance sheet date, and (iii) estimated inventory provisions associated with vendor allowances and internal charges. Changes or differences in any of these estimates

may result in changes to inventories on the consolidated balance sheet and a charge or credit to operating income in the consolidated statement of earnings.

Inventory shrinkage, which is calculated as a percentage of the related inventory, is evaluated throughout the year and provides for estimated inventory shortages from the last physical count to the balance sheet date. To the extent that actual losses experienced vary from those estimated; inventories, operating income and consolidated earnings may be impacted.

## Disclosure Controls and Procedures

Management is responsible for establishing and maintaining disclosure controls and procedures ("DC&P"). This is done to provide reasonable assurance that material information relating to Empire is made known to management by others, particularly during the period in which the annual filings are being prepared, and that information required to be disclosed by the Company and its annual filings, interim filings and other reports filed or

submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. The CEO and CFO have evaluated the effectiveness of the Company's DC&P and have concluded as at May 2, 2009 that Empire's DC&P were designed and operating effectively, and that there were no material weaknesses relating to the design or operation of the DC&P.

## Internal Controls over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The control framework management used to design and assess the effectiveness of ICFR is The Internal Control Integrated Framework published by the Committee of Sponsoring Organization of the Treadway Commission ("COSO"). The CEO and CFO have evaluated the effectiveness of Empire's ICFR and have concluded as of May 2, 2009 that Empire's ICFR was designed and operating effectively, and that there were no

material weaknesses relating to the design or operations of the ICFR. There have been no changes in the Company's ICFR during the period beginning on February 1, 2009 and ended on May 2, 2009 that have materially affected, or are reasonably likely to materially affect, Empire's ICFR.

Due to inherent limitations common to all ICFR and DC&P, Management acknowledges that its ICFR and DC&P may not prevent or detect all misstatements. In addition, Management's evaluation of ICFR and DC&P can provide only reasonable, not absolute, assurance, that misstatements will be detected when resulting from fraud or error.

## Related-Party Transactions

The Company rents premises from Crombie REIT. In addition, Crombie REIT provides administrative and management services to the Company. The rental payments are at fair value (\$58.7 million in fiscal 2009) and the charges incurred for administrative and management services are on a cost recovery basis (\$3.0 million in fiscal 2009). The Company has non-interest bearing notes payable to Crombie REIT in the amount of \$10.5 million.

On April 22, 2008, the Company sold 61 commercial properties to Crombie REIT for cash proceeds of \$373.5 million plus additional Class B Units of Crombie REIT totalling \$55.0 million, which was fair market value. In accordance with GAAP, the gain on this transaction of \$144.3 million has been accounted for as a reduction in the carrying value of Crombie REIT because the purchaser is a related party. See Note 3 to the Company's annual audited financial statements for fiscal 2009 as detailed on page 74 of the Company's 2009 Annual Report for more information.

On December 30, 2008, the Company entered into an agreement to provide Crombie REIT with additional financing through a \$20.0 million demand loan facility with substantially the same terms and conditions that govern Crombie REIT's floating rate revolving credit facility. On December 30, 2008, the Company had advanced \$10.0 million to Crombie REIT under this facility. On January 29, 2009, the \$10.0 million advance was repaid in full.

On February 12, 2009, coincident with Crombie REIT completing mortgage financing on eight properties with a Schedule I Canadian bank, Empire provided Crombie REIT with

additional financial support through subordinate mortgages on the eight properties totalling \$6.2 million. The terms and conditions of the subordinate mortgages are substantially the same as those governing the first mortgages from the Schedule I bank with one exception: the interest rate on the second mortgages from the Company will be 50 basis points higher than the interest rate charged on the first mortgages from the Schedule I bank. Concurrent with placing the \$6.2 million in mortgage financing, the authorized amount of the demand loan facility between Empire and Crombie REIT was reduced from \$20.0 million to \$13.8 million.

## Subsequent Events

On June 12, 2009, Sobeys repaid, although did not cancel, the \$75.0 million credit facility which matures on November 8, 2010.

On June 25, 2009, Crombie REIT closed a bought-deal public offering of units at a price of \$7.80 per unit. In satisfaction of its pre-emptive right with respect to the public offering, the Company subscribed for \$30.0 million of Class B Units (which are convertible on a one-for-one basis into units of Crombie REIT). Consequently the Company's interest in Crombie REIT was reduced from 47.9 percent to 47.4 percent.

On July 23, 2009, Sobeys finalized an agreement to sell and leaseback a retail support centre located in Milton, Ontario to a third party. Proceeds on the sale will be \$51.0 million resulting in a pre-tax gain of \$5.6 million. A long-term lease agreement has been agreed to for the use of the property with the gain being amortized over the term of the lease.

## Other Matters

### ASSET BACKED COMMERCIAL PAPER

At the end of fiscal 2009, the Company included in other assets \$30.0 million (2008 – \$30.0 million) of third-party ABCP against which the Company has taken a pre-tax impairment provision in the amount of \$12.2 million (2008 – \$7.5 million). On January 21, 2009, the Company derecognized the existing available for sale assets and received restructured ABCP MAV II notes: A1 – \$7.8 million, A2 – \$17.5 million, B – \$3.2 million, C – \$0.9 million and \$0.6 million of tracking notes (the "restructured notes") as designated in the Montreal Accord as well as accrued interest. The A1 and A2 notes received an A rating from DBRS. The remaining notes have not yet been rated. The restructured notes are floating rate notes with expected payouts in January 2017. Accrued interest owed from August 2007 to the restructuring date is expected in two payments; the first was received on January 23, 2009 for \$1.0 million and a second interest payment for the remainder is expected to be received at a future date. The Company has classified these notes as held for trading and as a result will be calculating the fair value of the notes at each reporting period. The Company updated its analysis of the fair value of the restructured notes, including factors such as estimated cash flow scenarios and risk adjusted discount rates, and an additional pre-tax provision, of \$3.7 million, net of interest

received, was recorded. The total charge for impairment is approximately 41 percent (2008 – 25 percent) of the original value of the ABCP and the Company does not believe the fair value of these restructured notes is materially different.

Discount rates vary depending upon the credit rating of the restructured long-term floating rate notes. Discount rates have been estimated using Government of Canada benchmark rates plus expected spreads for similarly rated instruments with similar maturities and structure. The Company has performed a sensitivity analysis on estimated discount rates used in the fair value analysis and determined that a change of one percent would result in a pre-tax change in the fair value of these investments of approximately \$1.3 million (2008 – \$2.0 million).

Continuing uncertainties regarding the value of assets which underlie the ABCP, the amount and timing of cash flows and the outcome of the restructuring process, could give rise to a further material change in the value of the Company's investment in ABCP which could impact the Company's future earnings. The Company believes it has sufficient credit facilities to satisfy its financial obligations as they come due and does not expect there will be a material adverse impact on its business as a result of this current third-party ABCP liquidity issue.

## Designation for Eligible Dividends

The new dividend regime for the favourable tax treatment of "eligible dividends" came into effect on February 21, 2007 as a result of Bill C-28. Passage of this bill has important implications for corporations paying eligible dividends. To be eligible dividends, dividends paid on or after February 21, 2007, must be designated as such at the time of payment.

## Contingencies

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While the Company believes that its tax filing positions are appropriate and supportable, from time to time certain matters are reviewed and challenged by tax authorities.

On June 21, 2005 Sobeys received a notice of reassessment from CRA for fiscal years 1999 and 2000 related to Lumsden Brothers Limited (a wholesale subsidiary of the Company) and the Goods and Service Tax ("GST"). The reassessment related to GST on sales of tobacco products to status Indians. CRA asserts that Sobeys was obliged to collect GST on the sales of these tobacco products to status Indians. The total tax, interest and penalties in the reassessment amounts to \$13.6 million. Sobeys has reviewed this matter, has received legal advice, and believes it was not required to collect GST. During the second quarter of fiscal 2006, Sobeys filed a Notice of Objection with CRA. Accordingly, Sobeys has not recorded in its statement of earnings any of the tax, interest or penalties in the notice of reassessment. Sobeys has deposited with CRA funds to cover the total tax, interest and penalties in the reassessment and has recorded this amount as an other long-term receivable from CRA pending resolution of the matter.

## Risk Management

Through its operating companies and its equity-accounted investments, Empire is exposed to a number of risks in the normal course of business that have the potential to affect operating performance. The Company has operating and risk management strategies and insurance programs to help minimize these operating risks.

Empire has adopted an annual enterprise risk management assessment which is overseen by the Company's senior management and reported to the Board of Directors and Committees of the Board. The enterprise risk management framework sets out principles and tools for identifying, evaluating, prioritizing and managing risk effectively and consistently across Empire.

Empire has, in accordance with the administrative position of the CRA, included the appropriate language on its website to designate the dividends paid by Empire as eligible dividends unless otherwise designated.

The Company and a subsidiary had been reassessed in respect to the tax treatment of gains realized on the sale of shares in Hannaford Bros. Co. ("Hannaford") in fiscal 2001. The Company had appealed the reassessments in respect of the Hannaford shares. Subsequent to May 2, 2009, the Company and CRA concluded negotiations and jointly requested a court order which, if approved, would result in a reduction of income tax expense of approximately \$17.0 million in the first quarter of fiscal 2010.

The Company entered into an agreement with Crombie REIT to fund certain property redevelopments and originally issued and recorded a note payable to Crombie REIT in the amount of \$39.6 million related thereto. The Company has agreed to pay for all additional costs and expenses required for the redevelopment of those properties. In the event that the redevelopment costs are less than \$39.6 million, the savings will be paid to the Company.

There are various claims and litigation, which the Company is involved with, arising out of the ordinary course of business operations. The Company's management does not consider the exposure to such litigation to be material, although this cannot be predicted with certainty.

### COMPETITION

Empire's food retailing business, through Sobeys, operates in a dynamic and competitive market. Other national and regional food distribution companies along with non-traditional competitors, such as mass merchandisers and warehouse clubs, represent a competitive risk to Sobeys' ability to attract customers and operate profitably in its markets.

Sobeys maintains a strong national presence in the Canadian retail food and food distribution industry through regionally managed operations. The most significant risk to Sobeys is the potential for reduced revenues and profit margins as a result of increased competition. To mitigate this risk, Sobeys' strategy is to be geographically diversified with the

benefits of national scale and regional management deployment, to be customer and market-driven, to be focused on superior execution, and to have efficient, cost effective operations. Sobeys reduces its exposure to competitive or economic pressures in any one region of the country by operating in each region of Canada through a network of corporate, franchised, and affiliated stores, and through servicing the needs of thousands of independent, wholesale accounts. Sobeys approaches the market with five distinct formats, sizes, and banners, to meet anticipated needs of its customers in order to enhance profitability by region and by target market.

Empire's real estate operations, through ECL, compete with numerous other developers, managers, and owners of real estate properties in seeking tenants and new properties for future development. The existence of competing developers, managers and owners could affect our real estate group's ability to: (i) acquire a prospective property in compliance with our investment criteria; (ii) lease space in its properties and (iii) maximize rents charged and minimize concessions granted. Commercial property revenue is also dependent on the renewal of lease arrangements by key tenants. These factors could adversely affect revenues and cash flows.

Continued growth of rental income is dependant on renewing expiring leases and finding new tenants to fill vacancies at market rental rates, thereby ensuring an attractive return on our investment. The success of the real estate portfolio is also subject to general economic conditions, the supply and demand for rental property in key markets served, and the availability of attractive financing to expand the real estate portfolio where deemed prudent. During fiscal 2009, our real estate operations encountered challenging economic conditions. However, real estate operations maintained relatively stable occupancy levels and healthy rental renewal rates. During fiscal 2009, capitalization rates were negatively impacted by general economic slowdown and the tightening in the credit markets which impacted the number of potential properties that generate an attractive return on investment.

Genstar faces competition from other residential land developers in securing attractive sites for new residential lot development. Although Genstar does hold land for future development, it faces significant competition when looking to acquire new land for future development.

## **FINANCIAL**

Empire and its operating companies have adopted a number of key financial policies to manage financial risk. Risks can also arise from changes in the rules or standards governing accounting or financial reporting. The Company employs numerous professionally accredited accountants throughout its finance group.

In the ordinary course of managing its debt, the Company utilizes financial instruments from time to time to manage the volatility of borrowing costs. Financial instruments are not used for speculative purposes.

## **LIQUIDITY RISK**

Liquidity risk is the risk that the Company may not have cash available to satisfy financial obligations as they come due. The Company actively maintains committed credit facilities to ensure that it has sufficient available funds to meet current and foreseeable future financial requirements at a reasonable cost. The Company monitors capital markets and the related economic conditions. Market conditions allowing, the Company will access debt capital markets for various long-term debt maturities and as other liabilities come due or as assessed to be appropriate in order to minimize risk and optimize pricing.

## **INTEREST RATE RISK**

Interest rate risk is the potential for financial loss arising from changes in interest rates. The majority of the Company's long-term debt is at fixed interest rates or hedged with interest rate swaps. Bank indebtedness and approximately 20 percent of the Company's long-term debt is exposed to interest rate risk due to floating rates.

## **INSURANCE**

Empire and its subsidiaries are self-insured on a limited basis with respect to certain operational risks and also purchase excess insurance coverage from financially stable third-party insurance companies. In addition to maintaining comprehensive loss prevention programs, the Company maintains management programs to mitigate the financial impact of operational risks.

## **HUMAN RESOURCES**

Empire is exposed to the risk of labour disruption in its operating companies. Labour disruptions pose a moderate operational risk, as Sobeys operates an integrated network of 23 distribution centres across the country for the food retailing division. Sobeys has good relations with its employees and unions and does not anticipate any material labour disruptions in fiscal 2010. However, Sobeys has stated that it will accept the short-term costs of a labour disruption to support a commitment to building and sustaining a competitive cost structure for the long-term.

Effective leadership is very important to the growth and continued success of the Company. The Company develops and delivers training programs at all levels across its various operating regions in order to improve employee knowledge and to better serve its customers. The ability of the Company to properly develop, train and retain its employees with the appropriate skill set could affect the Company's future performance.

There is always a risk associated with the loss of key personnel. Succession plans have been identified for key roles including the depth of management talent throughout the Company and its subsidiaries which is reviewed annually by the Human Resources Committee.

#### **BUSINESS CONTINUITY**

The Company is subject to unexpected events and natural hazards which could cause sudden or complete cessation of its day-to-day operations. One such unexpected and natural hazard is the risk of a pandemic. Sobeys is working with industry and government sources to develop a pandemic preparedness plan. Responsibility for business continuity planning has been delegated to the Human Resources Committee of Empire's Board of Directors.

#### **ENVIRONMENTAL, HEALTH AND SAFETY**

The Company is continually enhancing its programs in areas of environmental, health and safety and is in compliance with relevant legislation. Employee awareness and training programs are conducted and environmental, health and safety risks are reviewed on a regular basis.

Any environmental site remediation is completed using appropriate, qualified internal and external resources and health and safety issues are proactively dealt with. The Board of Directors receives regular reports which review outstanding matters, identify new legislation and outline new programs being implemented across the Company to positively impact the environment and employee health and safety. Existing environmental protection regulatory requirements are not expected to have a material financial or operational effect on the capital expenditures, earnings or competitive position of the Company during the current fiscal year or in future years.

Empire and Sobeys have developed programs to promote a healthy and safe workplace, as well as progressive employment policies focused on the well being of the thousands of employees who work in its stores, distribution centres and offices. These policies and programs are reviewed regularly by the Human Resources Committee of the Board.

Each operating business conducts an ongoing, comprehensive environmental monitoring process and the Company is unaware of any material environmental liabilities in any of its operating companies. Empire's Board of Directors receives quarterly reports that review any outstanding issues including plans to resolve them.

#### **FOOD SAFETY AND SECURITY**

Sobeys is subject to potential liabilities connected with its business operations, including potential liabilities and expenses associated with product defects, food safety and product handling. Such liabilities may arise in relation to the storage, distribution and display of products and, with respect to Sobeys' private label products, in relation to the production, packaging and design of products.

A large majority of Sobeys' sales are generated from food products and Sobeys could be vulnerable in the event of a significant outbreak of food-borne illness or increased public health concerns in connection with certain food products. Such an event could materially affect financial performance.

Procedures are in place to manage food crises, should they occur. These procedures identify risks, provide clear communication to employees and consumers and ensure that potentially harmful products are removed from inventory immediately. Food safety related liability exposures are insured by the Company's insurance program. In addition, Sobeys has food safety procedures and programs, which address safe food handling and preparation standards. Sobeys employs best practices for the storage and distribution of its food products.

#### **TECHNOLOGY**

The Company and each of its operating companies are committed to improving their respective operating systems, tools and procedures to become more efficient and effective. The implementation of major information technology projects carries with it various risks, including the risk to realization of benefits, that must be mitigated by disciplined change management and governance processes. Sobeys has a business process optimization team staffed with knowledgeable internal and external resources that is responsible for implementing the various initiatives. The Company's Board of Directors has also created an Oversight Committee to ensure appropriate governance of these change initiatives is in place and this committee receives regular reports from the Company's management.

#### **REAL ESTATE**

The Company utilizes a capital allocation process which is focused on obtaining the most attractive real estate locations for its retail grocery stores as well as for its commercial property and residential development operations, with direct Company ownership being an important, but not overriding, consideration. Sobeys develops certain retail store locations on owned sites; however, the majority of its store development is done in conjunction with external developers. The availability of high potential new store sites and/or the ability to expand existing stores is therefore in large part contingent upon successful negotiation of operating leases with these developers and Sobeys ability to purchase these sites.

#### **LEGAL, TAXATION AND ACCOUNTING**

Changes to any of the various federal and provincial laws, rules and regulations related to the Company's business could have a material impact on its financial results. Compliance with any proposed changes could also result in significant cost to the Company. Failure to fully comply with various laws, rules and regulations may expose the Company to proceedings which may materially affect its performance.

Similarly, income tax regulations and/or accounting pronouncements may be changed in ways which could negatively affect the Company. The Company mitigates the risk of not being in compliance with the various laws, rules and regulations by monitoring for newly adopted activities, improving technology systems and controls, improving internal controls to

detect and prevent errors and overall, application of more scrutiny to ensure compliance. In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While the Company believes that its tax filing positions are appropriate and supportable, from time to time certain matters are reviewed and challenged by the tax authorities.

#### **OPERATIONS**

Empire's success is closely tied to the performance of Sobeys' network of retail stores. Franchise affiliates operate approximately 53 percent of Sobeys' retail stores. Sobeys relies on the franchise affiliates and corporate store management to successfully execute retail strategies and programs.

To maintain controls over Sobeys' brands and the quality and range of products and services offered at its stores, each franchisee agrees to purchase merchandise from Sobeys. In addition, each store agrees to comply with the policies, marketing plans and operating standards prescribed by Sobeys. These obligations are specified under franchise agreements which expire at various times for individual franchisees. As well, Sobeys maintains head lease control or has long-term buying agreements to control the vast majority of its retail locations.

#### **SUPPLY CHAIN**

Sobeys is exposed to potential supply chain disruptions that could result in shortages of merchandise in its retail store network. Sobeys mitigates this risk through effective supplier selection and procurement practices along with a reliance on the efficient maintenance and evolution of its supply and logistics chain to sustain and meet growth objectives.

#### **SEASONALITY**

The Company's operations as they relate to food, specifically inventory levels, sales volume and product mix, are impacted to some degree by certain holiday periods in the year.

#### **PRODUCT COSTS**

Sobeys is a significant purchaser of food product which may be at risk of cost inflation given rising commodity prices and other costs of production to food manufacturers. Should rising cost of product materialize in excess of expectations and should Sobeys not be able to offset such cost inflation through higher retail prices and/or other cost savings, there could be a negative impact on sales and margin performance. Sobeys has various procurement and merchandising programs in place to mitigate this risk.

#### **UTILITY AND FUEL PRICES**

The Company is a significant consumer of electricity, other utilities and fuel. Unanticipated cost increases in these items could negatively affect the Company's financial performance. The Company has various consumption and procurement programs in place to minimize utility risk.

#### **FOREIGN OPERATIONS**

Empire does not directly operate outside of Canada, however Sobeys does maintain a small produce brokerage office in the United States. As Empire does not consider this operation to be material, the Company does not have any material risks associated with foreign operations.

#### **FOREIGN CURRENCY**

The Company conducts the majority of its operating business in Canadian dollars and its foreign exchange risk is limited to currency fluctuations between the Canadian dollar, the Euro, and the U.S. dollar. U.S. dollar purchases of product by the food division represent approximately three percent of Sobeys' total annual purchases with Euro purchases limited to specific contracts for capital expenditures. Sobeys has processes in place to use forward contracts with high quality counter-parties to fix the exchange rate on some of its expected requirements for Euros and U.S. dollars.

#### **ETHICAL BUSINESS CONDUCT**

Any failure of the Company to adhere to its policies, the law or ethical business practices could significantly affect its reputation and brands and could therefore negatively impact the Company's financial performance. The Company's framework for managing ethical business conduct includes the adoption of a Code of Business Conduct and Ethics which directors and employees of the Company are required to acknowledge and agree to on a regular basis and, as part of an independent audit and security function, maintenance of a whistle-blowing hotline.

#### **INFORMATION MANAGEMENT**

The integrity, reliability and security of information in all its forms are critical to the Company's daily and strategic operations. Inaccurate, incomplete or unavailable information and/or inappropriate access to information could lead to incorrect financial and/or operational reporting, poor decisions, privacy breaches and/or inappropriate disclosure or leaks of sensitive information.

Information management is identified as a risk in its own right, separate from the technology risk. The Company recognizes that information is a critical enterprise asset. Currently, the information management risk is being managed at the regional and national levels through the development of policies and procedures pertaining to security access, system development, change management and problem and incident management. With a view to enhancing and standardizing the controls to manage the information management risk, the Company is developing corporate operating policies which establish minimum standards for the usage, security and appropriate destruction of information. Furthermore, enterprise metrics are being identified to assist in monitoring significant information management risks.

#### **CAPITAL ALLOCATION**

The risk associated with capital allocation is high for a holding company, especially due to the amount of capital invested in the operating companies. It is important to ensure the capital allocation decisions result in an appropriate return on capital. The Company has a number of strong mitigation strategies in place regarding the allocation of capital, including review by the Board of Directors.

The Company has established prudent hurdle rates for capital investments that are evaluated through a strong due diligence process.

#### **ACCESS TO CAPITAL**

Access to capital risk refers to Empire being unable to obtain required capital at reasonable terms, given the prevailing market conditions. There are several factors that impact the level of inherent risk: the state of the capital markets; the level of capital required; the credit rating assigned by the rating agencies and the availability of credit from the banks. Empire mitigates these risks by maintaining strong relationships with its banks and access to the capital markets.

#### **ECONOMIC ENVIRONMENT**

Management continues to closely monitor economic conditions, including interest rates, inflation, employment rates and capital markets. Management believes that although a weakening economy has an impact on all businesses and industries, the Company has an operational and capital structure that is sufficient to meet its ongoing business needs.

## **Employee Future Benefit Obligations**

Due to recent losses caused by current capital market activities, the Company was required to contribute \$5.8 million (2008 – nil) to its registered defined benefit plans in the fourth quarter of fiscal 2009. The Company expects to contribute approximately

\$4.1 million in fiscal 2010 to these plans. The Company continues to assess the impact of the capital markets on its funding requirement.

## **Non-GAAP Financial Measures**

There are measures included in this MD&A that do not have a standardized meaning under GAAP and therefore may not be comparable to similarly titled measures presented by other publicly traded companies. The Company includes these measures because it believes certain investors use these measures as a means of assessing financial performance. Empire's definition of the non-GAAP terms are as follows:

- ▶ Operating income or earnings before interest and taxes ("EBIT") is calculated as operating earnings before minority interest, interest expense and income taxes.
- ▶ Earnings before interest, taxes, depreciation and amortization ("EBITDA") is calculated as EBIT plus depreciation and amortization.
- ▶ Operating earnings is calculated as net earnings before capital gains (losses) and other items, net of tax.
- ▶ Return on equity is calculated as net earnings divided by average equity for the reporting period.
- ▶ Funds from operations is calculated as operating earnings plus depreciation and amortization.
- ▶ Funded debt is all interest bearing debt, which includes bank loans, bankers' acceptances, long-term debt and debt related to assets held for sale.
- ▶ Total capital is calculated as funded debt plus shareholders' equity.
- ▶ Same-store sales are sales from stores in the same locations in both reporting periods.
- ▶ Free cash flow is calculated as cash flows from operating activities, less property and equipment purchases.

The following table reconciles Empire's funded debt and total capital to GAAP measures reported on the balance sheets as at May 2, 2009, May 3, 2008 and May 5, 2007:

(\$ in millions)	May 2, 2009	May 3, 2008	May 5, 2007
Bank indebtedness	\$ 45.9	\$ 92.6	\$ 30.1
Long-term debt due within one year	133.0	60.4	82.5
Liabilities relating to assets held for sale	–	6.4	6.8
Long-term debt	1,124.0	1,414.1	792.6
Funded debt	1,302.9	1,573.5	912.0
Less: cash and cash equivalents	(231.6)	(191.4)	(294.9)
Net funded debt	1,071.3	1,382.1	617.1
Total shareholders' equity	2,683.5	2,382.3	2,131.1
Total capital under management	\$ 3,754.8	\$ 3,764.4	\$ 2,748.2

Additional financial information relating to Empire, including the Company's Annual Information Form, can be found on the Company's website or on the SEDAR website for Canadian regulatory filings at [www.sedar.com](http://www.sedar.com).

Dated: July 23, 2009  
Stellarton, Nova Scotia, Canada