



# International Financial Reporting Standards

2011 Restated Financial Results



# EMPIRE

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COMPANY LIMITED





# Agenda



- Introduction
- Sobeys Results
  - Opening Balance Sheet Adjustments
  - Consolidated Opening Balance Sheet
  - Quarterly Consolidated Statement of Income
- Empire Results
  - Opening Balance Sheet Adjustments
  - Consolidated Opening Balance Sheet
  - Quarterly Consolidated Statement of Income
- Upcoming IFRS Standards



# Introduction

## Forward-Looking Information

- This discussion contains forward-looking financial statement information 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. Forward-looking statements are identified by words or phrases such as "anticipates", "expects", "believes", "estimates", "intends", "could", "may", "plans", "predicts", "projects", "will", "would", "foresees" and other similar expressions or the negative of these terms. This forward-looking information is subject to uncertainties and other factors that could cause actual results to differ materially.
- 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. This forward-looking information does not take into account the effect of transactions occurring after the information has been released.



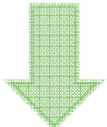
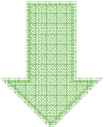
# Introduction (cont.)

## Preliminary Unaudited IFRS Transitional Adjustments

- ➔ The purpose of the presentation is to provide information on the significant changes to financial reporting for Sobeys Inc. (“Sobeys”) and Empire Company Limited (“Empire” or “the Company”) that will arise from the transition to International Financial Reporting Standards (IFRS) from Canadian Generally Accepted Accounting Principals (“CGAAP”)
- ➔ The forward-looking information in this presentation reflects the Company’s expectations as of July 12, 2011, and is subject to change after this date.
- ➔ The significant impacts presented are preliminary and unaudited. These impacts are the result of the current accounting standards and interpretations as of July 12, 2011. The standards are subject to change and the Company will continue to monitor developments in the standards as proposed and issued by the IASB as well as regulatory standards issued by the Canadian Securities Administrators. Accordingly, the financial information could be subject to change when the fiscal 2012 quarterly and annual IFRS consolidated financial statements for Sobeys and Empire are reported.

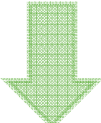
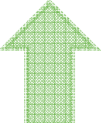


# Impact of IFRS adoption – Sobeys Inc.

IFRS Standard	Employee Benefits (IAS 19 & IFRS 1)	Impairment of Assets (IAS 36)
Major differences for Sobeys Inc.	<ul style="list-style-type: none"> <li>• An IFRS 1 election has been utilized to recognize previously deferred actuarial gains / losses at the transition date</li> <li>• Under IFRS the Company has chosen to recognize actuarial gains/losses immediately in other comprehensive income</li> <li>• Minimum funding requirements and asset ceiling limit are calculated differently under IFRS</li> <li>• Vested past service costs are recognized immediately in income</li> </ul>	<ul style="list-style-type: none"> <li>• Impairment testing of assets performed at a lower level (store level or groups of CGUs) under IFRS</li> <li>• IFRS utilizes a single step impairment testing process based on discounted cash flows.</li> <li>• Impairment losses previously recognized can be reversed for limited life intangible assets and fixed assets</li> </ul>
Impact on Retained Earnings at Opening Balance Sheet	Decrease of <b>\$75.5</b> million net of tax. 	Decrease of <b>\$58.8</b> million net of tax. 
Key impacts for Sobeys Inc.	<ul style="list-style-type: none"> <li>• <u>Transition</u>: The result is a reduction of assets, deferred tax liabilities and equity, and an increase to employee future benefits obligation and other liabilities</li> <li>• <u>Subsequent to transition</u>: Adjustments will be made to assets and liabilities based on vested past service costs and actuarial gains and losses over the period. Adjustments to the pension expense and actuarial gains and losses would result in a change to net earnings and other comprehensive income</li> </ul>	<ul style="list-style-type: none"> <li>• <u>Transition</u>: Impairment testing resulted in a decrease of assets and equity</li> <li>• <u>Subsequent to transition</u>: Further impairments or impairment reversals could result in an increase or decrease to assets and net earnings. Adjustments for the transition period will occur to add back depreciation recorded under Canadian GAAP for assets impaired under IFRS, resulting in an increase to net earnings and other comprehensive income.</li> </ul>

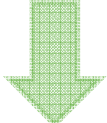
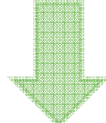


# Impact of IFRS adoption – Sobeys Inc.

IFRS Standard	IFRS 1 Election – Fair value as deemed cost	Leases (IAS 17)
Major differences for Sobeys Inc.	<ul style="list-style-type: none"> <li>The Company has elected to report certain items of property and equipment and investment property in its opening IFRS balance sheet at a deemed cost</li> <li>Deemed cost is determined as either the fair value at the date of transition to IFRS or determined by a previous revaluation under Canadian GAAP</li> </ul>	<ul style="list-style-type: none"> <li>Gains on sale-leaseback transactions, where the lease is classified as 'operating' and the transaction occurs at fair value can be recognized immediately under IFRS</li> <li>Income from sub-leases to a third party or non-SPE franchisee must be recognized on a straight line basis</li> </ul>
Impact on Retained Earnings at Opening Balance Sheet	Decrease of <b>\$21.0</b> million net of tax. 	Increase of <b>\$4.4</b> million net of tax. 
Key impacts for Sobeys Inc.	<ul style="list-style-type: none"> <li><u>Transition</u>: Election resulted in a reduction of assets and equity</li> <li><u>Subsequent to transition</u>: Adjustments will occur during the transition period to add back depreciation recorded under Canadian GAAP for assets adjusted by the IFRS 1 election, resulting in an increase to net earnings</li> </ul>	<ul style="list-style-type: none"> <li><u>Transition</u>: Certain gains on sale-leaseback transactions being deferred under Canadian GAAP have been recognized, increasing retained earnings</li> <li>Straight lining of sub lease income has resulted in an increase to assets and liabilities and a reduction to retained earnings</li> <li><u>Subsequent to transition</u>: Gains from sale-leaseback transactions occurring at fair value will be recognized immediately in net earnings</li> <li>Any new sub-leases will be accounted for on a straight line basis, resulting in an adjustment to other assets and other liabilities</li> </ul>



# Impact of IFRS adoption – Sobeys Inc.

IFRS Standard	Customer Loyalty Programs (IFRIC 13)	Provisions (IAS 37)
Major differences for Sobeys Inc.	<ul style="list-style-type: none"> <li>The fair value of award credits are to be recognized as a separate component of the sales transaction and deferred</li> </ul>	<ul style="list-style-type: none"> <li>New classification for liabilities of uncertain timing and/or amount</li> <li>New line items on the Consolidated Balance Sheet for current and non-current provisions</li> </ul>
Impact on Retained Earnings at Opening Balance Sheet	Decrease of <b>\$1.4</b> million net of tax. 	Decrease of <b>\$0.1</b> million net of tax. 
Key impacts for Sobeys Inc.	<ul style="list-style-type: none"> <li><u>Transition</u>: Deferring a portion of the initial sales transaction results in increased liabilities and a decrease to retained earnings and assets</li> <li><u>Subsequent to transition</u>: Impact on net earnings is not significant</li> </ul>	<ul style="list-style-type: none"> <li><u>Transition</u>: Reclassifications between provisions and other liability line items with a minimal adjustment to retained earnings</li> <li><u>Subsequent to transition</u>: Further balance sheet reclassifications will occur, with minimal impact to net earnings</li> </ul>



# Impact of IFRS adoption (cont.)

## Other Adjustments

- The Company had other minor adjustments that impacted the Consolidated Balance Sheets and Consolidated Statements of Income
  - Other adjustments will increase and decrease various assets and liabilities, and when aggregated will reduce retained earnings by \$5.2 million net of tax at the opening balance sheet date, with minimal impact subsequent to transition on earnings

## Presentation Changes

- Consolidated Balance Sheet
  - New mandatory line items for investment property, provisions (current and non-current), and derivative financial liabilities
  - The asset and liability portions for both current and deferred taxes are separated, under Canadian GAAP netting was permitted
  - Deferred tax assets and liabilities are classified as non-current, under Canadian GAAP a current and non-current portion was required
  - Minority interest is presented within equity versus presented in the liability section under Canadian GAAP



# Impact of IFRS adoption (cont.)

## Presentation Changes (cont.)

- ➔ Consolidated Statement of Income
  - ➔ Cost of sales and selling and administrative expenses are shown separately
  - ➔ Finance income and finance costs are segregated into a single line, finance costs, net
    - ➔ Interest expense and expected returns on assets for defined benefit plans will be presented in finance costs
  - ➔ Depreciation and amortization is no longer shown separately and is included within selling and administrative expenses
- ➔ Statement of Changes in Equity
  - ➔ New statement under IFRS to replace the Statement of Retained Earnings under Canadian GAAP



# Impact of IFRS adoption (cont.)

## Presentation Changes (cont.)

- Statement of Cash Flows
  - Classification of line items have changed resulting in some reclassifications between Operating, Financing and Investing activities
  - Interest, income taxes and dividends paid and received require separate classification
  - Other than the minimal impact at opening balance sheet there will be no impact on cash flows going forward as a result of the transition to IFRS



## Sobeys Consolidated Opening Balance Sheet (unaudited)

### Sobeys Inc. Consolidated Opening Balance Sheet, as at May 2, 2010

(\$ millions)	Reference	Canadian GAAP	Effects of Transition to IFRS	Re-classification Changes	IFRS
<b>ASSETS</b>					
Current					
Cash and cash equivalents	A	\$ 391.4	\$ (1.9)	\$ -	\$ 389.5
Receivables	B	336.9	(0.9)	-	336.0
Inventories	A	780.4	(1.2)	-	779.2
Prepaid expenses	A	68.0	(5.4)	-	62.6
Loans and other receivables		64.0	-	-	64.0
Income taxes receivable		-	-	11.9	11.9
Non-current assets classified as held for sale		36.5	-	-	36.5
		1,677.2	(9.4)	11.9	1,679.7
Non-current					
Loans and other receivables	A	74.4	2.0	-	76.4
Investment in affiliates		48.0	-	-	48.0
Other assets	C	102.7	(61.1)	-	41.6
Property and equipment	D	2,157.2	(95.1)	(67.4)	1,994.7
Investment property	E	-	(7.3)	67.4	60.1
Intangible assets	F	175.3	(4.7)	-	170.6
Goodwill		875.7	-	-	875.7
Deferred tax assets		-	9.2	6.0	15.2
<b>TOTAL ASSETS</b>		<b>\$ 5,110.5</b>	<b>\$ (166.4)</b>	<b>\$ 17.9</b>	<b>\$4,962.0</b>



## Sobeys Consolidated Opening Balance Sheet

### References to the Consolidated Opening Balance Sheet impact (Assets):

<b>A</b>	<b>Impact due to presentation changes and other adjustments</b>	<b>(4.7)</b>
	Provisions	0.8
	Other	(1.7)
<b>B</b>	<b>Receivables</b>	<b>(0.9)</b>
	Employee future benefits	(68.6)
	Straight-lining leases	7.9
	Customer loyalty program	(0.4)
<b>C</b>	<b>Other Assets</b>	<b>(61.1)</b>
	IFRS 1 election – fair value as deemed cost	(18.6)
	Investment property reclassification	(67.4)
	Impairment of assets	(76.4)
	Provisions	(0.4)
	Other	0.3
<b>D</b>	<b>Property and equipment</b>	<b>(162.5)</b>
	Investment property reclassification	67.4
	IFRS 1 election – fair value as deemed cost	(7.3)
<b>E</b>	<b>Investment property</b>	<b>60.1</b>
	Impairment	(4.7)
<b>F</b>	<b>Intangible assets</b>	<b>(4.7)</b>



## Sobeys Consolidated Opening Balance Sheet (unaudited)

(\$ millions)	Reference	Canadian GAAP	Effects of Transition to IFRS	Re-classification Changes	IFRS
<b>LIABILITIES</b>					
Current					
Trade and other payables	G	\$ 1,550.2	\$ (28.3)	\$ -	\$1,521.9
Income taxes payable		10.9	(0.5)	11.9	22.3
Provisions	H	-	23.1	-	23.1
Loans and borrowings	H	46.2	(0.2)	-	46.0
Deferred tax liabilities	A	50.9	-	(50.9)	-
		1,658.2	(5.9)	(39.0)	1,613.3
Non-current					
Provisions	H	-	8.4	-	8.4
Loans and borrowings	H	812.5	(2.2)	-	810.3
Employee future benefits obligation	I	119.7	10.6	-	130.3
Derivative financial liabilities	A	-	-	14.1	14.1
Other liabilities	J	107.1	25.3	(14.1)	118.3
Deferred tax liabilities		66.4	(43.6)	56.9	79.7
		2,763.9	(7.4)	17.9	2,774.4
<b>EQUITY</b>					
Equity attributable to owners of the parent:					
Share capital		958.5	-	-	958.5
Other components of equity		79.5	-	-	79.5
Retained earnings	K	1,273.0	(157.6)	-	1,115.4
		2,311.0	(157.6)	-	2,153.4
Minority interest	A	35.6	(1.4)	-	34.2
		2,346.6	(159.0)	-	2,187.6
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>\$ 5,110.5</b>	<b>\$ (166.4)</b>	<b>\$ 17.9</b>	<b>\$4,962.0</b>



## Sobeys Consolidated Opening Balance Sheet

### References to the Consolidated Opening Balance Sheet impact (Liabilities and Equity):

Provisions	(28.5)
Other	0.2
<b>G Trade and other payables</b>	<b>(28.3)</b>
Reclass of existing liabilities and incremental provisions	31.5
<b>H Current and non-current provisions</b>	<b>31.5</b>
Employee future benefits	10.6
<b>I Employee future benefits obligation</b>	<b>10.6</b>
Employee future benefits	22.7
Leases (sale-leaseback transactions and straight-lining adjustments)	2.6
Presentation changes (Derivative financial liabilities) and other adjustments	(14.1)
<b>J Other liabilities</b>	<b>11.2</b>
Employee future benefits	(75.5)
Impairments	(58.8)
Incremental provisions	(0.1)
Leases adjustments	4.4
Customer loyalty programs	(1.4)
IFRS 1 election – fair value as deemed cost	(21.0)
Other	(5.2)
<b>K Retained earnings</b>	<b>(157.6)</b>



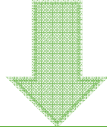
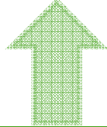
## Sobeys Consolidated Statement of Income (unaudited)

(\$ millions)	Quarter 1		Quarter 2		Quarter 3		Quarter 4		53 Weeks Ended May 7, 2011	
	Canadian GAAP	IFRS	Canadian GAAP	IFRS	Canadian GAAP	IFRS	Canadian GAAP	IFRS	Canadian GAAP	IFRS
Sales	\$3,975.3	\$3,968.6	\$3,853.4	\$3,846.2	\$3,829.9	\$3,824.6	\$4,103.0	\$4,098.6	\$15,761.6	\$15,738.0
Operating income	127.5	135.0	89.3	122.1	96.0	127.6	117.9	114.0	430.7	498.7
EBITDA	207.1	210.4	171.8	199.6	181.3	207.7	202.9	194.5	763.1	812.2
EBIT	127.5	135.0	89.3	122.1	96.0	127.6	117.9	114.0	430.7	498.7
Net earnings	\$ 75.6	\$ 80.0	\$ 51.5	\$ 73.9	\$ 60.7	\$ 84.4	\$ 82.1	\$ 78.3	\$ 269.9	\$ 316.6

- In Quarter 2 Sobeys Inc. realized a gain on sale of properties to Crombie REIT of \$29.0 million as part of a sale-leaseback transaction. Under CGAAP this gain was deferred, whereas IFRS allowed full recognition, leading to a significant increase to 'other income' in the quarter.
- In Quarter 3 there was a modification to the post retirement benefit plan at Sobeys Inc. This was treated as a past service event and resulted in an increase to operating income of \$28.0 million. Previous unamortized actuarial gains and losses were recognized as an adjustment to retained earnings at the opening balance sheet date.

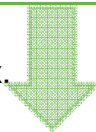


# Impact of IFRS adoption – Empire

IFRS Standard	Equity Accounted Investments (IAS 31)	Investment in Crombie REIT
Major differences for Empire Company Limited	<ul style="list-style-type: none"> <li>Under IFRS, a number of the Company's real estate investments previously accounted for using proportionate consolidation method will be accounted for using the equity method</li> </ul>	<ul style="list-style-type: none"> <li>IFRS allows for the recognition of gains on the unconsolidated portion of an equity accounted investment</li> <li>Previously under Canadian GAAP the gains would not be accounted for in net earnings as they are under IFRS</li> </ul>
Impact on Retained Earnings at Opening Balance Sheet	Decrease of <b>\$1.5</b> million net of tax. 	Increase of <b>\$63.6</b> million net of tax. 
Key impacts for Empire Company Limited	<ul style="list-style-type: none"> <li><u>Transition</u>: The result is a reduction of assets, and liabilities, and an increase to investments, at equity; loans and other receivables; and deferred tax assets</li> <li><u>Subsequent to transition</u>: Although the change from proportionate consolidation to equity accounting will affect various accounts it is not expected to affect net income.</li> </ul>	<ul style="list-style-type: none"> <li><u>Transition</u>: The result is an increase to investments, at equity and a decrease to deferred tax liabilities</li> <li><u>Subsequent to transition</u>: The Company will recognize gains on the sales to Crombie equal to the percentage interest held by external investors. The portion of the gains that relate to the Company will continue to be deferred and reduces the carrying value of the Investment.</li> </ul>



# Impact of IFRS adoption – Empire

IFRS Standard	IFRS 1 Election – Fair value as deemed cost
Major differences for Empire Company Limited	<ul style="list-style-type: none"> <li>• The Company has elected to report certain items of property and equipment and investment property in its opening IFRS balance sheet at a deemed cost</li> <li>• Deemed cost is determined as either the fair value at the date of transition to IFRS or determined by a previous revaluation under Canadian GAAP</li> </ul>
Impact on Retained Earnings at Opening Balance Sheet	Decrease of <b>\$37.7</b> million net of tax. 
Key impacts for Empire Company Limited	<ul style="list-style-type: none"> <li>• <u>Transition</u>: Election resulted in a reduction of assets and equity. In comparison to the IFRS 1 Election taken by Sobeys, the main difference is the Company recorded an additional impairment related to Kepec Resources of \$15.9 million net of tax</li> <li>• <u>Subsequent to transition</u>: Adjustments will occur during the transition period to add back depreciation recorded under Canadian GAAP for assets adjusted by the IFRS 1 election, resulting in an increase to net earnings</li> </ul>



## Empire Consolidated Opening Balance Sheet (unaudited)

### Empire Company Limited Consolidated Opening Balance Sheet, as at May 2, 2010

(\$ millions)	Canadian GAAP	Effects of Transition to IFRS	Re-classification Changes	IFRS
<b>ASSETS</b>				
Current				
Cash and cash equivalents	\$ 401.0	\$ (3.7)	\$ -	\$ 397.3
Receivables	336.9	(0.9)	-	336.0
Income taxes receivable	-	-	14.3	14.3
Inventories	880.3	(90.5)	-	789.8
Prepaid expenses	70.1	(5.7)	-	64.4
Loans and other receivables	105.8	(31.3)	-	74.5
Non-current assets classified as held for sale	36.5	-	-	36.5
	1,830.6	(132.1)	14.3	1,712.8
Non-current				
Loans and other receivables	79.2	2.9	2.9	85.0
Investments	10.9	-	-	10.9
Investments, at equity	56.8	167.6	-	224.4
Other assets	94.5	(52.9)	-	41.6
Property and equipment	2,548.7	(135.6)	(97.9)	2,315.2
Investment property	-	(7.3)	97.9	90.6
Intangible assets	455.0	(4.8)	-	450.2
Goodwill	1,172.6	-	-	1,172.6
Deferred tax assets	-	20.4	12.4	32.8
<b>TOTAL ASSETS</b>	<b>\$ 6,248.3</b>	<b>\$ (141.8)</b>	<b>\$ 29.6</b>	<b>\$ 6,136.1</b>



## Empire Consolidated Opening Balance Sheet (unaudited)

(\$ millions)	Canadian GAAP	Effects of Transition to IFRS	Re-classification Changes	IFRS
<b>LIABILITIES</b>				
Current				
Trade and other payables	\$ 1,621.6	\$ (49.2)	\$ -	\$ 1,572.4
Provisions	-	28.6	-	28.6
Derivative financial liabilities	-	-	2.1	2.1
Income taxes payable	19.5	(0.5)	14.2	33.2
Loans and borrowings	397.2	(14.3)	-	382.9
Deferred tax liabilities	50.9	-	(50.9)	-
	2,089.2	(35.4)	(34.6)	2,019.2
Non-current				
Provisions	-	19.7	-	19.7
Loans and borrowings	829.0	(7.4)	-	821.6
Employee future benefits obligation	125.1	8.1	-	133.2
Other liabilities	130.6	21.6	(17.1)	135.1
Derivative financial liabilities	-	-	15.0	15.0
Deferred tax liabilities	86.4	(30.5)	63.4	119.3
	3,260.3	(23.9)	26.7	3,263.1
<b>EQUITY</b>				
Equity attributable to owners of the parent:				
Share capital	325.1	-	2.9	328.0
Other components of equity	(24.9)	2.3	-	(22.6)
Retained earnings	2,652.2	(118.8)	-	2,533.4
	2,952.4	(116.5)	2.9	2,838.8
Minority interest	35.6	(1.4)	-	34.2
	2,988.0	(117.9)	2.9	2,873.0
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 6,248.3</b>	<b>\$ (141.8)</b>	<b>29.6</b>	<b>\$ 6,136.1</b>



## Empire Consolidated Opening Balance Sheet

### Empire Company Limited Reconciliation of R/E's:

	<b>May 2, 2010</b>
Employee benefits	\$ (68.3)
Impairments	(68.4)
Provisions	(5.6)
Leases	4.4
Customer loyalty programs	(1.4)
Fair value as deemed cost	(35.4)
Equity accounting	(1.5)
Investment in Crombie – Recognition of gains	63.6
Cumulative Translation Adjustment	(2.3)
Presentation changes and other adjustments	(3.9)
Net change in retained earnings*	<u>\$ (118.8)</u>

\*All adjustments are 'net of tax'



## Empire Consolidated Statement of Income (unaudited)

(\$ millions)	Quarter 1		Quarter 2		Quarter 3		Quarter 4		53 Weeks Ended May 7, 2011	
	Canadian GAAP	IFRS	Canadian GAAP	IFRS	Canadian GAAP	IFRS	Canadian GAAP	IFRS	Canadian GAAP	IFRS
Sales	\$4,041.2	\$4,019.2	\$3,912.0	\$3,897.2	\$3,884.5	\$3,871.8	\$4,191.5	\$4,144.2	\$16,029.2	\$15,932.4
Operating income	140.3	148.7	122.7	139.9	101.1	138.9	133.3	123.2	497.4	550.7
EBITDA	226.5	229.6	211.9	222.9	193.5	224.8	227.6	210.8	859.5	888.1
EBIT	140.3	148.7	122.7	139.9	101.1	138.9	133.3	123.2	497.4	550.7
Net earnings	\$ 81.6	\$ 86.4	\$ 132.8	\$ 142.9	\$ 62.8	\$ 88.6	\$ 92.3	\$ 83.2	\$ 369.5	\$ 401.1

- The key difference between Sobeys and Empire is the second quarter earnings with Sobeys recognizing the complete gain on the sale to Crombie and Empire recognizing approximately 53% of the adjusted gain.
- The other large difference is during the fourth quarter when Empire Company recognized an impairment loss on its' investment in Kepec Resources for \$9.6 million which was not recorded under Canadian GAAP. This difference arose as a result of the testing model under Canadian GAAP compared to IFRS.



## IFRS Summary – Upcoming Standards

### Leases

- The IASB has delayed the issuance of the new lease standard until the fourth quarter of 2011
- The Standards is expected to have a significant impact on the Company's Statement of Financial Position

### Consolidated Financial Statements

- The IASB has released IFRS 10 – Consolidated Financial Statements
- Management is still assessing the impact of the new standard.