

FINAL TRANSCRIPT

Empire Company Limited

Annual General Meeting

Event Date/Time: September 13, 2012 – 10:00 a.m. E.T.

Length: 33 minutes

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CORPORATE PARTICIPANTS

Karin McCaskill

Empire Company Limited – Secretary, Senior Vice President, and General Counsel

Rob Dexter

Empire Company Limited – Chair

Paul Sobey

Empire Company Limited – President and Chief Executive Officer

Marc Poulin

Sobeys Inc. – Chief Executive Officer and President

CONFERENCE CALL PARTICIPANTS

Carol Campbell

Empire Company Limited – Vice President Risk Management

Stewart Mahoney

Empire Company Limited – Vice President Treasury and Investor Relations

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PRESENTATION

Karin McCaskill – Secretary, Senior Vice President, and General Counsel, Empire Company Limited

Ladies and gentlemen, Chair of the Board of Empire, Mr. Rob Dexter.

Rob Dexter – Chair, Empire Company Limited

Morning. So welcome to the 30th Annual General Meeting of Empire Company Limited. I'm Rob Dexter and I'm Chair of the Board of Empire, and I'll be Chair of the meeting today.

I would like to note that once again this year we have a number of the Nova Scotia community business students in attendance along with their instructor, Rosemary Davis. So we're pleased to have you with us again.

In addition, we welcome all the employees who are with us today, and thank each of you for joining us. To my right is Paul Sobey, President and Chief Executive Officer; Marc Poulin, President and Chief Executive Officer of Sobeys; Paul Beesley, Executive Vice President and Chief Financial Officer; and Karin McCaskill, Secretary of the Company and Senior Vice President and General Counsel of Sobeys Inc. Karin will act as secretary of the meeting.

I have asked Ms. Cindy Harrett and Ms. Jeannette Eisner (phon) of Canadian Stock Transfer Company to act as scrutineers.

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Our agenda today includes first the formal part of the meeting, a few remarks of my own, a look at fiscal 2012 and the first quarter of fiscal 2013, with Paul Sobey, who will then introduce Marc Poulin, the CEO of Sobeys Inc. Marc will then review some of the key initiatives taking place at Sobeys. We then will be happy to answer any questions you may have.

I now call the meeting to order. Karin McCaskill as Secretary of the Company has advised me that we have 34,260,763 Class B voting shares represented at this meeting either in person or by proxy, representing 100 percent of the total outstanding Class B common voting shares. So I now declare the Annual General Meeting to be duly constituted.

The minutes of the Annual General Meeting held September 14, 2011, were distributed when you registered this morning, and additional copies are available. So unless there are any objections, I will dispense with the reading of the minutes. Are there any errors or omissions in the minutes?

Hearing no objections, the minutes are approved as presented.

I would now like to introduce the nominees who in addition to myself are standing for election to the Board of Directors for the ensuing year. I'm going to ask each to stand as I call their names.

First is Bonnie Brooks, who unfortunately was not able to be here this morning; Marcel Côté; David Ferguson; Edward Harsant; David Leslie; Marc Poulin; Mel Rhineland; Stephen Savidant. Next, my favourite part as a big shareholder is a number

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of Sobey's: David Sobey; Donald Sobey was not able to be here this morning; Frank Sobey; John Sobey; Karl Sobey; Paul Sobey; Rob Sobey; and Martine Turcotte.

I would also like to extend our sincere thanks to Malan Ng, who will be retiring from the Empire Board of Directors. Malan has contributed greatly to Empire's success, brought valuable experience to the Board, particularly as Chair of the Audit Committee, great financial wisdom, and experience and, Malan, we're going to miss you a lot. So thanks very much.

As noted in the Notice of Annual General Meeting and Management Information Circular at the meeting we are to approve the following items. First, the election of each of the Directors I have just mentioned, and fixing the maximum number of directors at 18. The Directors' remuneration is set out in the circular; the appointment of Grant Thornton LLP as auditors for the ensuing year, and authorization of the Directors to fix the remuneration of Grant Thornton. Are there any questions on any of these matters?

As proxies for 100 percent of the voting shares have been deposited in favour of these matters, we obviously have enough votes already deposited for their approval. For the record, is there any voting shareholders at the meeting who would like to register a vote contrary to any of the matters?

Hearing none, I declare each of these items passed as outlined in the Notice of Meeting and Management Information Circular.

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Now turn to the advisory resolution on executive compensation, in respect of which Class A and Class B shareholders will vote. This is an advisory vote, and therefore not binding upon the Board of Directors. However, the Board, and in particular the Human Resources Committee, continue to be interested in the feedback from all shareholders with respect to executive compensation.

Our philosophy is based on the fundamental principle of pay for performance to align the interests of our executives with those of shareholders. This compensation approach allows us to attract, motivate, and retain highly qualified executives who are encouraged to make decisions and take actions that will create long-term sustainable growth and result in long-term shareholder value.

Now I know of the Class B shares, 100 percent of the Class B shareholders voted in favour of this. Karin, do you have a number yet for the Class A?

Karin McCaskill

Yes. It's 95.6 voted in favour.

Rob Dexter

Percent?

Karin McCaskill

Percent, sorry.

Rob Dexter

So clearly we have enough to pass this resolution. For the record, is there anyone who may not have voted in favour of this who would be contrary to it?

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If not, I declare the motion passed.

The audited consolidated financial statements were mailed to each registered shareholder, and as well copies have been made available at this meeting. While there's no requirement that these documents be approved by the shareholders, at this stage we are open to any discussion or questions anyone may have. Are there any questions?

Hearing no questions, I'll just make a few remarks of my own before I turn it over to Paul. At Empire, the Board takes a very active role in the careful stewardship of the Company. Such responsibilities include a thorough understanding of the risks associated with our growth strategies and the extent to which they could affect our ability to deliver results.

We are committed to ensuring our corporate governance practices are among the best in Canada, and the makeup of our Board is a retention of that commitment. It includes Sobey family representatives and a majority of independent Directors who are ready and willing to constructively challenge each other as well as the senior management team.

Another responsibility of the Board is to ensure we have the best people running our businesses and the proper long-term succession planning is in place at all levels of management. The importance of this critical role in our proactive succession planning became apparent earlier this year when we were delighted to appoint Marc Poulin as CEO of Sobeys from among a number of highly qualified candidates.

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Until recently, Marc was President of our very successful IGA operations in Quebec. Those of you who know Marc know that he's a respected veteran in the industry and is very well qualified to lead Sobeys to the next stage of growth.

On behalf of the Board, I also wish to extend my appreciation and best wishes to Bill McEwan, who stepped down as CEO of Sobeys June 28, 2012. Bill had a knack of getting all of those around him to do their best. Under the extraordinary leadership of Bill, Sobeys became a much larger and also a much stronger competitor.

Finally, and on behalf of the entire Board, I would like to extend our sincere appreciation to the management and employees of Empire and its operating companies and affiliates. Their efforts have made it possible to earn the continuing loyalty and confidence of our customers, and deliver another solid financial performance for our shareholders.

I'd now like to turn this over to Paul, who will bring us up to date on the fiscal results.

Paul Sobey – President and Chief Executive Officer, Empire Company Limited

Thanks, Rob. Well good morning, everyone, and on behalf of all of us at Empire, I'd like to thank you for taking the time and being with us here this morning.

As we have noted, Empire's decision to focus our resources primarily on our food retailing and related real estate businesses several years ago has continued to pay dividends for Empire and its shareholders over the past year. And once again, these

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steady businesses helped Empire achieve a record financial performance in a highly competitive retail food industry in an improving, but still uncertain economy.

More than this, however, continuing progress is a testament to the validity of Empire's growth strategy and the quality of the people: quality of the people who are responsible for executing them. The reality is you can have a well articulated and sound strategy, but without talented people to effectively execute your key strategic initiatives, you are very likely to fail. And we are fortunate at Empire to have very talented management in each of our operating companies and at the corporate office who over time have helped articulate our strategy, and more importantly, have managed its ongoing execution.

And as illustrated by the theme of this year's annual report, we are working more closely together than ever before to realize Empire's full potential as one organization. And we were pleased to report that Empire sales in fiscal 2012 reached 16.25 billion, up 292 million from the previous year.

And last year's sales included an additional week of operation from Sobeys amounting to \$314 million, which was partially offset by the \$131 million associated with the acquisition of 236 retail gas convenience store operations from Shell Canada in the fourth quarter of fiscal 2012.

Adjusted net earnings, excluding items not indicative of underlying business operating performance, such as gains on disposal of assets, were \$321 million, \$4.71 per

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share compared to \$303 million or \$4.45 per share, a 5.7 percent increase and a record level for the Company.

And over the past 10 years, Empire's adjusted net earnings have grown at a compounded rate of 9.3 percent. Now Empire's net earnings for the year were \$339 million or \$4.99 per share as compared to \$401 million or 5.87 per share in the previous year, and the main difference is attributable to a 76.2 million gain on the disposal of our net interest in Wajax Income Fund.

And our balance sheet, our balance sheet continued to strengthen, and at the end of the year Empire's ratio of debt to capital improved to 25 percent from 26.7 percent a year ago. And this improvement was made possible, notwithstanding the \$250 million expenditure on the retail gas convenience operations, but by the solid operating performance of Sobeys and the proceeds from the sale of retail properties to Crombie REIT.

And in recognition of the operating performance and financial condition improvements, at the end of June your Board of Directors approved a 6.7 percent increase in our annual dividend rate from \$0.90 per share to \$0.96 per share, and this was the seventeenth consecutive annual increase in Empire's dividend. And during the past 10 years, our dividends have increased at a compound annual growth rate of 15.5 percent.

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Our book value also continued to increase, rising 7.5 percent to reach \$50 per share at the end of fiscal 2012, and over the last 10 years our book value has also grown at an annual growth rate of 9.9 percent.

I'd like now to turn to the performance of each of our divisions and first Sobeys, which has been the foundation of our success for over the past 105 years. Sobeys' fiscal 2012 sales increased 284 million or 1.8 percent to reach \$16 billion with same-store sales growth of 1.4 percent. And after adjusting for the additional week of operations last year and the impact of the Shell retail gas convenience stores, sales growth was a solid 3 percent.

And although modest food price inflation returned to our markets in fiscal 2012, competition remained intense due to high levels of promotional activity, and the steady increase in retail square footage across the industry.

Our ability to keep growing in this environment was the result of successful execution of our food focus strategy, our related marketing and merchandising initiatives, and the ongoing training and development of our people, as well as the significant modernization of our store network.

Sobeys also continued to advance cost and productivity initiatives that have allowed us to grow earnings despite intense price competition in our markets. And Sobeys contributed adjusted net earnings to Empire of \$292.5 million, an increase of 4.2 percent over the prior year. And these are solid results, particularly given the highly

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competitive industry in which we operate, and reflect the continuous investment we have made to improve our businesses.

As a matter of interest, over the past five years Sobeys has invested more than 2.2 billion to build sustainable sales and earnings growth in our business, and advance Sobeys' goal of being widely recognized as the best food retailer and workplace environment in Canada. And over the same period, Sobeys generated operating cash flow of 3.2 billion, which more than funded this level of investment.

In fiscal 2012, Sobeys invested 550 million to expand and improve the quality of its retail square footage and to enhance the capabilities of its business processes and distribution network. Our total square footage increased by 2.1 percent, and as you can see by the slide behind me, reflected in orange are the 236 retail gas convenience stores acquired, resulting in a total network of 1,575 stores or 29 million square feet of retail space.

Now I'd like to comment on the performance of investment and other operations, which consists primarily of our 44 percent interest in Crombie REIT and our approximate 40 percent interest in Genstar and wholly-owned Empire Theatres.

The unique mutually beneficial relationship between Empire and Crombie REIT continued to deliver substantial benefits to the shareholders of both companies in fiscal 2012. Since its creation in 2006, Crombie has helped facilitate Sobeys' expansion across the country and has enabled Empire to realize the value of its real estate assets.

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Crombie has also given us the opportunity to enjoy the benefits of commercial real estate ownership, which includes steady income growth and capital appreciation. And Crombie continued to perform very well in its fiscal year ended December 31, 2011, with property revenues and net operating income reaching record levels.

Crombie's operating income contribution to Empire in fiscal 2012 was up 7.1 percent to \$19.7 million with a cash flow contribution of 28.2 million. And the value of our investment in Crombie continued to increase. At fiscal year-end, the market value of our 44.3 percent ownership of Crombie REIT was approximately \$521 million, with Crombie's total market capitalization surpassing \$1 billion for the first time.

And during fiscal 2012, seven properties were sold by Sobeys to Crombie REIT for 99 million with much more in the development pipeline going forward. And Crombie's management has also been active in acquiring third party properties in order to augment its strategic relationship with Sobeys. And most significantly, Crombie completed the acquisition of 22 third party retail properties on April 10th, a \$255 million acquisition that added 850,000 square feet of rental space to their portfolio, while significantly advancing Crombie's geographical diversification across the country.

We also continue to be pleased with our investment in Genstar, which selectively acquires and prepares land for development into master planned residential communities. Genstar's operating income contribution exceeded our expectations at \$30 million in fiscal 2012, reflecting an average increase in residential lot selling prices and an improvement in their core Western Canadian real estate market.

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And while wholly-owned Empire Theatres also posted a solid year with higher sales and net income for fiscal 2012, this performance was the result of the popularity of new releases, ongoing opening of new theatres, ongoing investments in digital and 3D digital technologies, and the success of the Company's online marketing and other promotional efforts.

And Empire Theatres remains committed to enhancing the quality of our customers' movie going experience, and this was reflected in this beautiful theatre renovation, which we are in today, and it had its grand reopening last month.

At this point, I'd like to turn our attention to Empire's first quarter results, which were released this morning, and we are very pleased to once again be able to say that we're off to a good start. It makes this a lot easier.

Consolidated sales for the first quarter ended August 4th totalled 4.56 billion, up 403.5 million or 9.7 percent over last year. Adjusted net earnings equalled 103.4 million or \$1.52 per share compared to \$1.25 per share last year, a 21.6 percent increase. And our balance sheet continued to strengthen with a ratio of debt to capital improving since the start of the fiscal year.

Sobeys continues to be the main driver of our success, and in the first quarter Sobeys reported sales growth of 9.6 percent and adjusted net earnings of 99.6 million, up 21 million from last year. And Genstar's operating income contribution in the first quarter of 4.6 million was in line with our expectations. However, it was lower than last year, which recorded 7.5 million in the first quarter of last year.

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And Crombie REIT's contribution of 5.5 million to operating income in the first quarter was 4.8 million—compared to 4.8 million in the first quarter last year. And as we look forward to the balance of the year and beyond, Empire's approach to the creation of long-term shareholder value will not change.

We remain focused on business as we know and understand, food retailing and real estate, and these businesses will continue to have, we believe, have the potential for long-term growth, long-term sustainable growth and profitability.

And I would be remiss in not mentioning the most essential ingredient to our ongoing success, and that is the dedication and the enthusiasm of our employees and the employees of our franchisees and affiliates. And while many initiatives—while we have many initiatives in place to foster growth and lower costs, success still boils down to creating more intimate and enduring relationships with our customers, one customer at a time.

And it's our people, it's our people who make this happen. We encourage an open and collaborative work environment with our employees, one that promotes a diversity of perspectives and thinking, and in doing so we are a stronger organization, and one in which improvement and innovation are an integral part of who we are. And where every single person has the power to make a difference.

And in closing, on behalf of the Board, the Sobeys family, the senior management team, and indeed all of our shareholders, I would like to thank all of our

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outstanding and dedicated employees, including those who work for our franchisees and affiliates for helping us deliver another solid year of results.

And I'd like to also thank each and every one of them for helping make the communities in which we live and work a better place. Your personal efforts, along with the support of the Company, the various Sobey foundations, truly do indeed make a difference.

Empire's success also depends, of course, on our outstanding Board of Directors. Their insight and guidance has been much appreciated, and they've fulfilled the role of stewardship of the interest of all our shareholders with diligence and integrity.

And on behalf of all of shareholders, management, and indeed the Board, I would also like to thank personally Malan, who is retiring I guess after 11 years, and as I've said before, please keep in touch. We wish you all the best in whatever you do.

I would like also at this time express our appreciation to all you, our shareholders, for your continued support, and finally I would also like to acknowledge and thank Bill McEwan for his inspirational leadership over the past 11 years.

We were delighted to be able to pass the torch to another exceptional executive, Mr. Marc Poulin, and over the past 10 years our business in Quebec has thrived under Marc's leadership as President of our IGA business unit, which has become widely recognized as one of the best food portfolios in North America.

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And at that point it gives me great, great, great pleasure to introduce the new CEO of Sobeys Inc., Mr. Marc Poulin, who will provide his views on Sobeys and some of the key initiatives that the company is focused on.

Marc, over to you.

Marc Poulin – Chief Executive Officer and President, Sobeys Inc.

Thank you, Paul, and good morning, ladies and gentlemen. After many years of operational improvement, growth, and development, Sobeys has earned its reputation as a leading food retailer in Canada.

We remain unwavering in our commitment to our food focus strategy, which continues to resonate with our customers across the country. To date, we have one of the most modern food retailing network in Canada with five distinct formats designed to meet the specific needs of our customers.

In our full service format, Sobeys, IGA, and Thrifty Foods stores, we are the primary driver of our growth, and we are in the process of rolling out new and innovative products and services to our customers.

The banner in our other formats, which includes Foodland, FreshCo, Needs, and Lawton Drugs, are also performing well following years of careful repositioning and investment. Sobeys' innovative spirit has also led to some important initiatives outside of our traditional retail channel, including our purchase of 236 Shell retail gas and convenience locations in Quebec and Atlantic Canada.

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This deal, which closed on March 15th of last year—of this year, sorry, has added more than 1 billion litres to Sobeys' annual fuel sales, while increasing the market presence of our convenience format business and driving the growth of our wholesale operation in Quebec and Atlantic Canada. And importantly, it will also allow us to introduce exciting cross promotion of product and services between our food stores and our full operations through the AIR MILES Rewards Program in those regions.

We also expect our wholesale business to benefit from the long-term distribution arrangement to supply Target Canada with selective food and grocery items, including private label products beginning next year.

We expect the Canadian food retailing industry to remain very competitive. As we have said consistently over the past few years, we will do whatever it takes to maintain our competitive price position in each market we serve. Our ability to do so profitably has been made possible by enhancing the offerings to our customers and by relentless focus on our cost and productivity (phon) initiatives.

The most fundamental of these has been the rollout of our enterprise-wide integrated SAP platform, which will be completed in Quebec later this year. This platform will allow us to enhance the standardization and benefits of the full suite of SAP-enabled productivity tools from coast to coast.

The completion of the SAP platform in Quebec will be completed by the opening of our second fully automated distribution centre located in Terrebonne, nearby Montreal. This facility, which is scheduled to open in November of this year and

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be fully operational by spring of next year, will employ the latest generation of the Witron integrated logistics technology. This is a proven technology that has dramatically improved accuracy, timing, and cost of grocery distribution in our Ontario division.

The completion of the SAP platform also provides the technological foundation for an important organization realignment, which we began in fiscal 2012. Historically, Sobeys has operated under a regional management structure, which reflected Sobeys' evolution as a national food retailer through the acquisition of regional businesses that occurred during the previous decade.

To date, however, we are truly beginning to harness the power of Sobeys as one national organization. Our former regional management structure has been replaced with two business units, each of which is going to market with a more focused and format-based approach. Both business units are supported by newly standardized business functions that are designed to reduce complexity, eliminate duplication, and capitalize on Sobeys' trend as a \$60 billion organization.

While this realignment of our management and resources is expected to optimize our competitive position going forward, one thing that will remain constant is Sobeys' distinctive food focus strategy, including our ability to customize our offering to meet the different requirements of local markets.

At the same time, our popular Club Sobeys, Club Thrifty Foods, and AIR MILES Reward Program continue to provide us with valuable insight into our customer needs and shopping habits. In fiscal 2012, we significantly advanced our customer insight

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capabilities with the introduction of world-class analytic tools through our strategic partnership with Aimia, a global leader in loyalty management. These tools will help us to deliver more value to our customers, and improve the efficiency of our marketing and merchandising initiatives. Our vendors are also very excited by what we are doing and are working with us with great enthusiasm to create a more compelling shopping experience for our customers.

So there's a winning spirit and a sense of momentum that has taken root at Sobeys. Going forward, Sobeys is ready to capitalize on its full potential. We have the right strategy in place, and we'll continue to refine our organizational structure and resources to further strengthen our competitive position in the market.

We look forward to your continued support.

Finally, at the close of this meeting we will have a short video that will give you a sense of the winning spirit that continues to build within Sobeys.

For now, though, thank you for your attention, and I will now turn the podium over to Rob, who will close the meeting. Thanks again.

Rob Dexter

Thanks, Marc. Appreciate those comments. Is there any other business from the floor?

Well, my favourite part, are there any questions from the floor? I'm not going to wait long. I don't see any. Do you see any? Okay.

May I have a motion to terminate the meeting?

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Carol Campbell – Vice President Risk Management, Empire Company Limited

(unintelligible)

Rob Dexter

Thank you, Carol. May I have a seconder?

Stewart Mahoney – Vice President Treasury and Investor Relations, Empire Company Limited

(unintelligible)

Rob Dexter

Thank you Stewart. All those in favour? Opposed?

I now declare the motion carried and the meeting terminated.

Thank you very much for your attention. You're all invited down to Crombie's for lunch, and we look forward to seeing you there, and as Marc said we have a short video to show the spirit and the excitement in Sobeys, and so I'd ask you to do that and then we'll see you at lunch.

Thanks very much.
