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OPERATOR: Good afternoon. My name is Sean and I'll be your conference operator today. At this time, I'd like to welcome everyone to the Empire first quarter 2010 conference call. All lines have been placed on mute to prevent any background noise.

After the speakers' remarks there will be a question-and-answer session. If you'd like to ask a question during that time simply press * then the number 1 on your telephone keypad. And if you'd like to withdraw your question, press the pound key. Thank you.

Mr. Beesley, you may now begin your conference.

PAUL BEESLEY (Executive Vice President and Chief Financial Officer, Empire Company Limited): Thank you very much, Sean.

Good afternoon and welcome to Empire Company Limited's first quarter conference call. We thank you for joining us. Our comments this afternoon will focus primarily on the financial results for the first quarter ended August 1st, 2009. We'll then open the call to your questions. This call is being recorded in live audio on our website at www.empireco.ca.

Today's discussion includes forward-looking statements. I want to caution you that such statements are based on management's assumptions and beliefs. These forward-looking statements are subject to uncertainties and other factors that could cause actual results to differ materially from such statements.

With me today on the call are from Empire Company Limited Paul Sobey, President and Chief Executive Officer; and Stewart Mahoney, who's Vice President, Investor Relations and Treasury. From Sobeys Inc. We have Bill McEwan, President and Chief Executive Officer; François Vimard, Chief Financial Officer; and Paul Jewer, Senior Vice President, Finance and Treasurer.

This morning we released Empire's financial results for the first quarter ended August 1st, 2009. Revenue for the first quarter equalled $3.97 billion, compared to $3.78 billion in the previous year, which is a 5-per-cent increase.

First quarter operating earnings, that is earnings before net capital gains and other items, equalled $72.2 million, or $1.05 per share compared to $70.9 million, or $1.08 per share in the first quarter last year. It should be noted that per-share operating earnings were impacted by an increase in Empire's diluted weighted average number of shares outstanding to 68.5 million from 65.7 million last year as a result of the equity issue completed to April of this year.

Capital gains and other items, net of tax, during the first quarter equalled $17.5 million compared to $4.8 million in the first quarter last year.

Included in capital gains in the current quarter was a $17 million tax recovery related to the settlement of the CRA tax assessment pertaining to the sale of shares in Hannaford Brothers Company in fiscal 2001.

Net earnings in the first quarter were $89.7 million, or $1.31 per share compared to $75.7 million, or $1.15 per share last year.

The ratio of net debt to total capital at the end of the first quarter equalled 26.3 per cent versus 28.6 per cent last quarter and 35.7 per cent at the end of the first quarter last year.

Empire's liquidity remained strong, with cash and cash equivalents of $301 million at the end of the fourth quarter and authorized consolidated bank credit facilities exceeding borrowings by a total of $958 million.

I'll now turn the call over to Paul Sobey.

PAUL SOBEY (President and Chief Executive Officer, Empire Company Limited): Thank you very much, Paul.

Empire's first quarter performance was consistent with our expectations, driven by continued strong, same-store sales growth at Sobeys and driven by their 18.6-per-cent increase in earnings contribution to our company; and as we had previously advised, by a decline in earnings contributions from our residential real estate, as well as from our interest in Wajax Income Fund. These declines were anticipated given the cyclical nature of these businesses.

Sobeys' results reflect continued solid total same-store sales growth, improved selling margins and ongoing costs initiatives. Bill will provide his comments a little later.

A few comments on our real estate division's performance. During the first quarter Empire's real estate division recorded earnings before capital gains of 6.1 million versus 13.1 million last year. The primary reason for the decline is a 6.2 million reduction in earnings contribution from our residential operations. A decline in Genstar's income contribution was expected given the slowdown in the housing market from previously unsustainable levels.

Crombie's REIT contribution to Empire's operating income in the first quarter was 4.9 million versus 4.6 million last year. Crombie continues to strengthen its financial position, announcing on September 8th that it had reached an agreement with a syndicate of underwriters to issue on a bought-deal basis 85 million of convertible, unsecured, subordinated debentures. The debenture offering is expected to close on or about

September 30th. Net proceeds from the offering will be used to repay the debt of Crombie and for its general trust purposes.

On the development side, progress continues to be made with 18 grocery-anchored properties totalling in excess of 1.7 million square feet under development in Ontario, Quebec and Atlantic Canada. We anticipate that these projects will be completed over the next 24 months with some over the next few quarters.

A few comments now on our investment in other operations: Operating earnings in the first quarter from investments and other operations, net of corporate expenses, declined 2.7 million over Q1 of last year, largely as a result of lower equity earnings from Wajax Income Fund. Equity accounting earnings from Wajax in the first quarter were 2.7 million versus 5.5 million last year. Wajax management has advised that they continue to work towards reducing costs, improving efficiencies and working capital requirements to help offset the lower than expected earnings in their calendar 2009.

Bill will now comment on the performance of Empire's food division.

BILL MCEWAN (President and Chief Executive Officer, Empire Company Limited): Thank you, Paul.

Sobeys' Q1 sales increased 195 million, or 5.3 per cent, to $3.91 billion, up from 3.71 billion last year. Same-store sales grew by 4 per cent. Sobeys' Q1 net earnings increased $11 million to $70.1 million, plus 19 per cent over last year. Trailing past four-quarter net earnings increased $35 million to 239 million, up 17 per cent.

Operating income in the first quarter increased $15.3 million, or 14 per cent to $122 million. Operating margin was 3.15 per cent compared to 2.9 per cent in the first quarter last year.

Sobeys EBITDA in the first quarter increased 15.7 million to $197.9 million. Trailing past four-quarter EBITDA totalled $726 million, up 60 million, or 9 per cent.

First quarter EBITDA as a percentage of sales increased to 5.07 per cent from 4.91 per cent last year. During the first quarter, we invested $80 million in our store network and infrastructure. Fourteen corporate and franchise stores were opened, acquired or relocated compared to 11 stores opened, acquired or relocated in the same quarter last year.

$116 million of free cash generated in the quarter, compared to $35 million of free cash flow generated in Q1 last year. A portion of our free cash was applied to reduce funded debt. At the end of the first quarter

Sobeys' net debt to total capital ratio was 21.4 per cent, down from 31.0 per cent a year ago.

Our momentum and progress continues on the strength of the series of strategic and operational improvements and investments we have made over the past several years. More than 75 per cent of our stores are now up to standard. Our information system upgrades have equipped our people with more timely, useful and consistent information. Our store-level productivity initiative, including SMART Retailing, Fresh Item Management and Workforce Management, continue to fuel our highly competitive and nimble promotion and pricing programs and our margin increases.

Our Club Sobeys and Air Mile programs are attracting new customers each month at significantly higher average order sizes. Our leadership ranks continue to strengthen. Our regional business model allows us to recognize and service localized market requirements, and our focused training and development initiatives across the country, which we recognize as key business drivers, are in full swing.

Our distribution network has been continually upgraded and expanded, and in July we commenced operation at our new automated distribution centre in Vaughan, Ontario. This new leading-edge centre will serve as the dry grocery distribution requirement in the Ontario region and perhaps beyond. The development, design, construction, even resources risk management and ramp-up plans are the most recent example of the exceptional project management, governance and implementation expertise that has grown in our company. We're ahead of our timetable and expect to be fully operational by mid October.

And our product and service innovation initiatives continue to come onstream. Perhaps most notably we have revamped our Compliments private label program. While we are in the early stages of execution, the key changes not all yet visible in store, are as follows.

First, the core Compliments range packaging has been refreshed, completely. Second, Sensations by Compliments, our portable Indulgences tier has been broadened across a greater range of high-penetration categories, appealing to a wider shopper base with even better quality, offering premium value and premium quality.

And we are introducing a range of price entry point products under the new Signal label, which replaced the former Value tier range label under the Compliments brand.

In summary, our sales, earnings and cash flow performance have been and continue to reflect the consistent ability to consistently improve our offering, improve our service, increase productivity, lower cost and execute well and consistently store by store.

I'll now turn it over to Paul for concluding remarks.

PAUL SOBEY: Thanks, Bill. So we're off to a good start fiscal 2010; and going forward our three priorities have not changed. We remain committed to investing in businesses that we know and understand. We intend to remain focused on our core strengths in foot retailing and real estate. Sobeys has been able to continue to grow sales and profitability in a very competitive market, but we are not complacent.

We will continue to support Sobeys as it innovates, executes and grows in a manner that is consistent and widely being recognized as the best food retailer in the country. And we intend to remain committed to the development of free-standing grocery stores and food-anchored shopping plazas, as ECL Development continues to build on the synergies between Sobeys and our real estate operations.

In closing, our corporate success and our sustainability has been made possible by the more than 90,000 employees, franchisees and affiliates of the Empire group of companies. They have been instrumental in creating a successful and exciting organization and that success has, in turn, created a winning environment.

We'd be now happy to respond to your questions.

OPERATOR: At this time I'd like to remind everyone in order to ask a question, press * then the number 1 on your telephone keypad. We'll pause for just a moment to compile the Q&A roster.

Your first question comes from the line of David Hartley. Your line is open.

DAVID HARTLEY: Good afternoon. Thanks for taking my question. Just a few quick questions. Strong top-line growth again at Sobeys. Is it possible you can break it down, inflation, new store contributions, and maybe talk a little bit about the basket and traffic? And I'll leave it there for now?

BILL MCEWAN: Okay. Well, inflation approximated 2 per cent in aggregate, but I would tell you that by the end of the quarter inflation was less than 1 per cent. So the running rate is headed towards deflation. That's number one.

Number two, 4-per-cent comp store sales of which approximately 2 per cent was inflation. The balance is a combination of wholesale sales, up and down the street sales on our wholesale operation, but the capital investment on new stores and expansion.

And third, to your point on transaction size versus transaction count: Interestingly, it's quite evenly split in that half... well, the same increases, over 2 per cent, 2.2 per cent in transaction size growth, and 2.5 per cent increase in transaction size growth. So transaction count and transaction size up approximately the same amount.

DAVID HARTLEY: And are you anticipating, or what are you anticipating in terms of inflation as we go out to the end of the year and into 2010? Are you anticipating deflation?

BILL MCEWAN: Yes, consistent with what we've said over the past two or three quarters in our investor relation days, we're going from a period of high inflation a year ago to declining inflation, to for all intents and purposes no inflation now and possibly deflation on the way. It is important to recognize that in the quarter that we just finished, although an aggregate was approximately 2, there was significant deflation, particularly in some of the regions across the country.

DAVID HARTLEY: I see, okay. Thank you. And just a second question, I'll pass it over. It just relates to your EBITDA margins over the past four quarters. You had an increase this quarter and an increase in Q3 2009 that was actually quite strong; but in between those quarters I suppose you had two declining margin quarters. Could you give us some guidance as to why that's jumping around? Is there anything we should be looking at to understand that better?

BILL MCEWAN: No. Just the rhythm of the business, and we had some transformation costs in one year and not another. But you know, when you look at our EBITDA trend, we're satisfied that we're making steady progress over the longer term, based on all the costs and productivity initiatives, selling initiatives, our SG&A cost reduction activities, et cetera. So, no, nothing to point to. We're satisfied with our consistent, steady improvement.

DAVID HARTLEY: Okay. Thank you.

OPERATOR: Your next question comes from the line of Patricia Baker. Your line is open.

PATRICIA BAKER: Good afternoon. Bill, just another question around the sales: Your same-store sales at 4 per cent and you indicated in the press release that that is from stores in the same locations in both reporting periods. I really just want to quantify or qualify one thing, or understand it better. The stores that you may have enlarged, but are in the same locations, would they be in the comp pool?

BILL MCEWAN: Absolutely. They have been for years.

PATRICIA BAKER: Yes, but I just want to... in different quarters, depending on what you've done, has an impact. So if you were able to ex that out, would it have shifted materially the same-store sale number at all?

BILL MCEWAN: It wouldn't because I would share with you that any material difference from quarter-to-quarter or from year-to-year comparisons on number of expenses now versus then is insignificant.

PATRICIA BAKER: Okay, super. And just on the private label – thank you for sharing with us what you've done to revamp and giving us more information – I'm just wondering if we could get two other quick things from you. The Sensations one, you said you'd broadened it across more high-penetration categories.

BILL MCEWAN: Yes.

PATRICIA BAKER: Can you give us some examples of categories that you've added into that you wouldn't have been in before with that line?

BILL MCEWAN: I'll give you one example.

PATRICIA BAKER: Perfect.

BILL MCEWAN: The national brand in the fresh pure orange juice category, the refrigerated orange juice category, is considered a very high quality premium brand.

PATRICIA BAKER: Um-hmm.

BILL MCEWAN: Our private label product, under the Compliments name, tests with the consumer as good, or in many cases, much better than that product. So it's a Sensations product that was formerly in the mid tier. We've elevated it to the Exceptional tier. Sensations is about affordable indulgences, both premium product that stand out from a quality perspective and an innovation perspective. So in broad numbers, it was more niche, a little bit more precious before.

PATRICIA BAKER: Okay.

BILL MCEWAN: Elevating it from 150 items to approximately 1,000 items because we've got strong research and evidence from the consumer that's what they're looking for. And at the other end of the spectrum, by differentiating it and positioning it and benchmarking it across the 130 category reviews we've done, we're very confident in that being the right thing to do.

Combined with the differentiation on packaging associated with the redesign of the core items, the 2,400 to 2,600 mainstream Compliments products, and then we've eliminated the value tier of about 1,000 products and concentrated that up to the 250 product categories under a completely different label called Signal so as to eliminate any confusion on the core selection tier from the value tier. We're very excited about it.

PATRICIA BAKER: Okay, so just my last question, I think you did answer it. So Signal in its finality will only be 250 items?

BILL MCEWAN: Right. Probably 250 for now, but in the ebb and flow of the business, it may be more in some channels.

PATRICIA BAKER: Yes.

BILL MCEWAN: But at this point it's 250 high-impact price entry point critical categories and it's down from 1,000 and we've expensed it with the Sensations range because consumers are telling us.

PATRICIA BAKER: Mm-mmm.

BILL MCEWAN: And the Selection tier range.

PATRICIA BAKER: Okay, thank you so much.

BILL MCEWAN: No problem.

OPERATOR: Your next question comes from the line of Jim Durran. Your line is open.

JIM DURRAN: Yes, Bill, I just wanted to ask you on the Sobeys revenue line, the revenue strength compared to the square footage growth and the same-store sales growth was much higher this quarter than we saw in Q4. Was that a recovery in the wholesale shipments to some of your franchise organizations, or what was going on there?

BILL MCEWAN: There's a little bit of that. There's a real interesting ebb and flow basing on timing from quarter to quarter. So, yes, it's a good catch, Jim. Yes, that was a little bit of that.

JIM DURRAN: And what about food service within that mix?

BILL MCEWAN: Food service is nothing at all from our perspective.

JIM DURRAN: Okay. And you talked about the DC start-up. Could you give us some idea of what percentage of your Ontario store base is now serviced out of your new Vaughan DC?

BILL MCEWAN: It's around 30 per cent, Jim, right now.

JIM DURRAN: And you're expecting to have that done by the end of October now, which is great news.

BILL MCEWAN: Yes. So we've speeded it up a bit because things were going pretty well.

JIM DURRAN: Yes. And you indicated in the press release that you had done a sale and leaseback on a DC. What facility was that and can you give us the amount that it was done?

BILL MCEWAN: Not on DC. The one we have on the west side of the GTA, and it's around $51 million.

JIM DURRAN: And that's the gross amount?

BILL MCEWAN: Yes. Yes.

JIM DURRAN: And was there any impact at all on the income statement from that?

BILL MCEWAN: No.

JIM DURRAN: Great, thanks very much.

OPERATOR: Again, to ask a question, press * then the number 1 on your telephone keypad. Your next question comes from the line of David Hartley. Your line is open.

DAVID HARTLEY: Hi, thanks. Just back on the wholesale business, have you been able to win any new customers outside of your own organization or your affiliates?

BILL MCEWAN: Yes.

DAVID HARTLEY: And that's been driving much of the gains there, would you say?

BILL MCEWAN: No, that's a component of our business. We have a good strong wholesale business and TRA in Atlantic Canada and Lumsden in the province of Ontario. And the management teams are doing very good work to intelligently look at their accounts to make sure that they're profitable, but they've also increased service technologies to gain more customers up and down the street that makes sense.

So yes, we're pleased and quite pleased with the progress that we've made on the wholesale business up and down the street.

DAVID HARTLEY: Okay, and how long has this been a factor, as I look at your sales growth?

BILL MCEWAN: Forever.

DAVID HARTLEY: Well, no, I mean, in terms of the latest wins you've gotten, have they stretched back a few quarters, or is this...?

BILL MCEWAN: David, it would be a real mistake to attribute anything significant. It's a small percentage of our business, but it's a contributing factor. But it would be... if something were to read the wholesale business drives Sobeys sales, then it would be totally inaccurate.

DAVID HARTLEY: Oh, darn! Okay, no problem. Thank you. We've also noticed a much more aggressive flyer at Price Chopper; you know, more pages, more items. Has this contributed...? I mean, how is Price Chopper doing now? You've made a lot of great changes there and you know, is there a role that rebates are playing in terms of helping profitability for the entire organization?

BILL MCEWAN: Yes, David, you know we don't segment banner results, but I will say this: We are satisfied with the good progress being made at Price Chopper. That's really all I can say. In terms of specific rebates, no. No different than before. But the good management team, making good progress, focus on better execution, top-line growth. Yes, it's been positive.

DAVID HARTLEY: Okay. And last question, the Vaughan DC, which is going to be up and running earlier than expected, with you having, I guess Milton and Whitby still on, I suppose there's a drag here as you had some redundancies. I suppose this will take some time to fully transform everything into the Vaughan DC. What are you... in terms of the material drag that may be on the earnings here, when do you expect that to start falling off?

BILL MCEWAN: It's not that material, David.

DAVID HARTLEY: No?

BILL MCEWAN: No, it’s not that material. There's some start-up costs, for sure, that we're having right now because of the transition, but on the long term that won't be a (inaudible).

DAVID HARTLEY: Okay. Thank you, that's great.

BILL MCEWAN: They're not just starting operations. They started in early July and it's a very careful ramp-up to go to full operations by October 15th. We'll be totally complete by October... well, middle October.

DAVID HARTLEY: Okay, that's great, thanks.

OPERATOR: Your next question comes from the line of Jim Durran. Your line is open.

JIM DURRAN: Yes, just on the real estate side, I don't know, have you seen any improvement in the residential real estate market in Western Canada that would give us a little more hope? I mean, on a broader basis we have seen some strength in the real estate market in Canada so far this year.

PAUL BEESLEY: Yes, there's been some improvement, although if you look at the recent housing starts release, there was more improvement in the multi-unit, which is not really where Genstar is focused.

You know, looking at the results, we expect continued softness and I think you can be guided by what happens in the residential housing market, particularly in the Edmonton and Alberta market. But through certainly at this point, through the balance of fiscal '09, we see continued softness.

JIM DURRAN: Would Genstar have a fair amount of product that's available for sale right now, or has it sort of held off and so you're more, you know, build base on buy?

PAUL BEESLEY: I guess certainly they've got product available and it's something that they've managed very carefully. And as they need new products they are making that investment, but they certainly have adequate product available; but by no means are they overbuilt. They've actually managed this process extremely well.

JIM DURRAN: Okay. And on the commercial side, I gather we should be done now in terms of the last round of property sales to the Crombie REIT. Is there any other dynamics that might be causing revenue to fall year over year?

PAUL BEESLEY: We did have a sale, Jim, last year of a property, in Newfoundland.

JIM DURRAN: Yes.

PAUL BEESLEY: So the costs are more strictly comparable as a result.

JIM DURRAN: And so there's nothing else in terms of amount of space leased or anything that might be affecting those numbers?

PAUL BEESLEY: No, that was a primary factor, the sale of that property.

JIM DURRAN: Okay, great, thank you very much.

OPERATOR: Again, to ask a question, press * then the number 1 on your telephone keypad.

We have no further questions at this time, Mr. Beesley. I turn the call back over to you.

PAUL BEESLEY: Thank you, Sean. Ladies and gentlemen, thanks for your continued interest in Empire Company Limited. We look forward to having you join us on December 10th for a discussion of our second quarter results. Goodbye.

OPERATOR: This concludes today's conference. You may now disconnect.

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