Management's discussion and analysis

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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 4, 2013 compared to the 52 weeks ended May 5, 2012. 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 two business segments, 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 or on the Company's website at www.empireco.ca.

This discussion and analysis is the responsibility of management. The Board of Directors carries out its responsibilities 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 Company's audited annual consolidated financial statements and the accompanying notes for the 52 weeks ended May 4, 2013 compared to the 52 weeks ended May 5, 2012. The audited annual consolidated financial statements and the accompanying notes are prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") as issued by the International Accounting Standards Board ("IASB") and are reported in Canadian dollars.

These consolidated financial statements include the accounts of Empire, its subsidiaries and Special Purpose Entities ("SPEs"), which the Company is required to consolidate. The information contained in this MD&A is current to June 27, 2013, 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. Expressions such as "anticipates", "expects", "believes", "estimates", "could", "intends", "may", "plans", "will", "would" and other similar expressions, or the negative of these terms, are generally indicative of forward-looking statements.

These forward-looking statements include the following items:

- The Company's expectation relating to timing and completion of the proposed Canada Safeway Limited ("Canada Safeway") acquisition which may be impacted by regulatory approval and other conditions in the acquisition agreement;
- The Company's expectation relating to its ability to complete any sale-leaseback transaction and other asset sales and the timing of such transactions which may be impacted by market conditions and the ability to negotiate acceptable terms with third parties;
- The Company's expectation relating to final financing breakdown, including the amount of bridge financing drawn and the timing of paying back any bridge financing drawn, which may be impacted by the timing of closing, any sale-leaseback transaction, other asset sales and cash flows;
- Anticipated benefits of the Canada Safeway proposed acquisition such as growth prospects, benefits from economies of scale, future business strategy, and expectations regarding operations and strategic fit which may be impacted by the ability of the Company to predict and adapt to changing consumer tastes, preferences and spending patterns and the anticipated retention of Canada Safeway's operational employees;
- The Company's expectation relating to timing and completion of the proposed Empire Theatres sales which may be impacted by regulatory approval and other conditions in the sale agreements;
- The value of the Company's remaining equity interest and earn out relating to the Empire Theatres sale and its ability to realize on either may be impacted by market conditions and Landmark's ability to successfully operate the assets;
- Our expectation that the strength of Sobeys' relationship with 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, which may be impacted by commercial real estate market conditions and the availability of mutually desirable properties for development and sale by Sobeys and for purchase by Crombie REIT;
- The Company's expectation that its operational and capital structure is sufficient to satisfy its ongoing business requirements, which could be impacted by a significant change in the current economic environment in Canada;

- The Company's belief that its cash and cash equivalents on hand, unutilized bank credit facilities and cash generated from operating activities will enable the Company to fund future capital investments, pension plan contributions, working capital, current funded debt obligations and ongoing business requirements, and its belief that it has sufficient funding in place to meet these requirements and other short-term and long-term obligations, all of which could be impacted by changes in the economic environment;
- The Company's expected contributions to its registered defined benefit plans, which could be impacted by fluctuations in asset values due to market uncertainties;
- The Company's expected use and estimated fair values of financial instruments, which could be impacted by, among other things, changes in interest rates, foreign exchange rates and commodity prices;
- The Company's expectation that ongoing litigation matters and claims arising from the ordinary course of business will have no material impact on the Company;
- The Company's expectations that the adoption of certain accounting standards and policies adopted during fiscal 2013 are not expected to have a significant impact on the Company's financial statements;
- Sobeys Inc.'s ("Sobeys") expectations relating to administrative and business rationalization initiatives, which could be impacted by the final scope and scale of these initiatives;
- Sobeys' expectations of continued sales growth in fiscal 2014, which could be impacted by changes in the competitive environment;
- Sobeys' expectations regarding the reduction in business costs related to the opening of the new distribution centre in Québec, which could be impacted by the number of positions eliminated at other distribution centres; and
- Sobeys' expectations relating to pending tax matters with Canada Revenue Agency ("CRA"), which could be determined differently by CRA. This could cause the Company's effective tax rate and its earnings to be affected positively or negatively in the period in which the matter is resolved.

These statements are based on 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 operations 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 reflects 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 its 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 at June 27, 2013 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 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:

- Adjusted sales are sales excluding the impact of the acquisition of 236 retail gas locations and related convenience store operations in the fourth quarter of fiscal 2012.
- Same-store sales are sales from stores in the same location in both reporting periods.
- Gross profit is calculated as sales less cost of sales.
- Gross margin is gross profit divided by sales.
- Operating income, or earnings before interest and taxes ("EBIT") is calculated as net earnings before non-controlling interest, finance costs (net of finance income) and income taxes.
- Adjusted operating income is operating income excluding items which are considered not indicative of underlying business operating performance.
- Operating income margin is operating income divided by sales.
- Earnings before interest, taxes, depreciation and amortization ("EBITDA") is calculated as operating income plus depreciation and amortization of intangibles, which is reconciled to the operating income measure as set out in the following table.

	13 Weeks Ended		52 Weeks Ended	
($ in millions)	**May 4, 2013**	May 5, 2012	**May 4, 2013**	May 5, 2012
Operating income	**$ 155.1**	$ 136.4	**$ 584.8**	$ 534.3
Depreciation	**79.6**	77.7	**314.8**	304.1
Amortization of intangibles	**12.3**	10.1	**44.5**	38.2
EBITDA	**$ 247.0**	$ 224.2	**$ 944.1**	$ 876.6

- Adjusted EBITDA is EBITDA excluding items which are considered not indicative of underlying business operating performance.
- EBITDA margin is EBITDA divided by sales.
- Interest expense is calculated as interest expense on financial liabilities measured at amortized cost plus losses on cash flow hedges reclassified from other comprehensive income.
- Adjusted net earnings is net earnings excluding items which are considered not indicative of underlying business operating performance.
- Funded debt is all interest bearing debt, which includes bank loans, bankers' acceptances and long-term debt.
- Net funded debt is calculated as funded debt less cash and cash equivalents.
- Total capital is calculated as funded debt plus shareholders' equity, net of non-controlling interest.
- Net total capital is total capital less cash and cash equivalents.
- Book value per common share is shareholders' equity, net of non-controlling interest, divided by total common shares outstanding.
- Free cash flow is calculated as cash flows from operating activities, plus proceeds on disposal of property, equipment and investment property, less property, equipment and investment property purchases.
- Return on equity, as reported by Sobeys, is net earnings for the year attributable to owners of the parent, divided by average shareholders' equity.

The following tables reconcile Empire's funded debt, net funded debt, net total capital and total capital to GAAP measures reported on the balance sheets as at May 4, 2013, May 5, 2012 and May 7, 2011, respectively.

($ in millions)	May 4, 2013	May 5, 2012	May 7, 2011
Bank indebtedness	$ 6.0	$ 4.4	$ –
Long-term debt due within one year	47.6	237.3	49.4
Liabilities relating to assets held for sale	–	–	12.7
Long-term debt	915.9	889.1	1,090.3
Funded debt	969.5	1,130.8	1,152.4
Less: cash and cash equivalents	455.2	510.2	615.9
Net funded debt	514.3	620.6	536.5
Total shareholders' equity, net of non-controlling interest	3,726.2	3,396.3	3,162.1
Net total capital	$ 4,240.5	$ 4,016.9	$ 3,698.6

($ in millions)	May 4, 2013	May 5, 2012	May 7, 2011
Funded debt	$ 969.5	$ 1,130.8	$ 1,152.4
Total shareholders' equity, net of non-controlling interest	3,726.2	3,396.3	3,162.1
Total capital	$ 4,695.7	$ 4,527.1	$ 4,314.5

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. This is accomplished through direct ownership and equity participation in businesses that management knows and understands and believes to have the potential for long-term sustainable growth and profitability, principally food retailing and related real estate.

The Company continues to focus on its core strengths in food retailing and related real estate by continuing to direct its energy and capital towards growing long-term sustainable value through cash flow and income growth. While our core businesses are well established and profitable in their own right, they also offer Empire geographical diversification across Canada, which is considered by management to be an additional source of strength. Together, our 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's 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.

Subsequent to fiscal year-end, Sobeys entered into an agreement with Safeway Inc. and its subsidiaries, pursuant to which Sobeys agreed to purchase substantially all of the assets of Canada Safeway. See "Subsequent Events".

OVERVIEW

Empire's key businesses include food retailing and related real estate. The Company's financial results are segmented into two separate operating segments: (1) Food Retailing and (2) Investments and Other Operations. With over $17 billion in annual sales and approximately $7.1 billion in assets, Empire and its subsidiaries directly employ approximately 47,000 people.

Food Retailing

Empire's food retailing segment is carried out through its wholly-owned subsidiary, Sobeys, which conducts business through more than 1,500 retail stores (corporately owned and franchised), operating in every province and in over 800 communities across Canada.

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. Sobeys operates distinct store formats to better tailor its offering to the various customer segments it serves and to satisfy its customers' principal shopping requirements. 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. The primary focus of these format development efforts are Sobeys' six major banners: Sobeys, IGA *extra*, Thrifty Foods, IGA, Foodland and FreshCo.

During the year, Sobeys opened, replaced, expanded, renovated, acquired and/or converted the banners in 54 stores (fiscal 2012 – 324 stores). Fiscal 2012 included the March 15, 2012 acquisition of 236 retail gas locations and related convenience store operations in Québec and Atlantic Canada from Shell Canada. The network acquired includes corporate owned and dealer operated locations and during fiscal 2013 Sobeys recorded sales of approximately $1.0 billion.

In fiscal 2013, 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.

Investments and Other Operations

Empire's investments and other operations segment consists of:

1. A 42.8 percent (40.8 percent fully diluted) equity accounted interest in Crombie REIT, a Canadian real estate investment trust investing in income-producing retail, office and mixed-use properties in Canada, with a future growth strategy focused primarily on the acquisition of retail properties. Crombie REIT currently owns a portfolio of 176 commercial properties in nine provinces, comprising approximately 14.5 million square feet of gross leasable area;
2. A 40.7 percent equity accounted interest in Genstar Development Partnership, a 48.6 percent equity accounted interest in Genstar Development Partnership II, a 42.1 percent equity accounted interest in each of GDC Investments 4, L.P., GDC Investments 5, L.P., and GDC Investments 6, L.P., a 45.8 percent equity accounted interest in GDC Investments 7, L.P. and a 43.7 percent equity accounted interest in GDC Investments 8, L.P. (collectively referred to as "Genstar"). Genstar is a residential property developer with operations in select markets in Ontario, Western Canada and the United States; and
3. Wholly-owned ETL Canada Holdings Limited ("Empire Theatres"), which is the second largest movie exhibitor in Canada. As of May 4, 2013, Empire Theatres owned 50 locations representing 421 screens.

Fiscal 2013 Financial Highlights

- Sales of $17.61 billion, up $1,363.6 million or 8.4 percent. After adjusting for the impact of the acquisition of 236 retail gas locations and related convenience store operations in the fourth quarter of fiscal 2012, consolidated sales increased $463.0 million or 2.9 percent.
- Sobeys' same-store sales increased 1.3 percent.
- Net earnings, net of non-controlling interest, of $384.8 million ($5.65 per diluted share), a $45.4 million or 13.4 percent increase from $339.4 million ($4.99 per diluted share) in fiscal 2012.
- Adjusted net earnings, net of non-controlling interest, of $367.3 million ($5.39 per diluted share), a $44.6 million or 13.8 percent increase from $322.7 million ($4.74 per diluted share) in fiscal 2012.
- Sobeys opened, acquired or relocated 45 corporate and franchised stores, expanded 2 stores, rebannered/redeveloped 7 stores and closed 37 stores.
- Free cash flow of $437.3 million versus $407.9 million last year.
- Funded debt to total capital of 20.6 percent, down 4.4 percentage points from 25.0 percent recorded at the end of last fiscal year.
- Annual dividend per Non-Voting Class A and Class B common share increased to $0.96 from $0.90 last year.

CONSOLIDATED OPERATING RESULTS

The consolidated financial overview provided below reports on the financial performance for the 52 weeks ended May 4, 2013 relative to the 52 weeks ended May 5, 2012 and the 53 weeks ended May 7, 2011.

	52 Weeks Ended May 4, 2013		52 Weeks Ended May 5, 2012		53 Weeks Ended May 7, 2011	
($ in millions, except per share amounts)		% of Sales		% of Sales		% of Sales
Sales	$ 17,612.7	100.00%	$ 16,249.1	100.00%	$ 15,956.8	100.00%
EBITDA(1)(2)	944.1	5.36%	876.6	5.39%	863.0	5.41%
Adjusted EBITDA(1)(3)	921.7	5.23%	856.2	5.27%	837.7	5.25%
Operating income(1)(2)	584.8	3.32%	534.3	3.29%	525.7	3.29%
Net earnings, net of non-controlling interest	384.8	2.18%	339.4	2.09%	400.6	2.51%
Adjusted net earnings, net of non-controlling interest(1)(3)	367.3	2.09%	322.7	1.99%	303.2	1.90%
Basic earnings per share						
Net earnings, net of non-controlling interest	$ 5.66		$ 4.99		$ 5.88	
Adjusted net earnings, net of non-controlling interest(1)(2)	$ 5.41		$ 4.75		$ 4.45	
Basic weighted average number of shares outstanding (in millions)	67.9		67.9		68.1	
Diluted earnings per share						
Net earnings, net of non-controlling interest	$ 5.65		$ 4.99		$ 5.87	
Adjusted net earnings, net of non-controlling interest(1)(2)	$ 5.39		$ 4.74		$ 4.45	
Diluted weighted average number of shares outstanding (in millions)	68.1		68.0		68.2	
Dividend per share	$ 0.96		$ 0.90		$ 0.80	

(1) See Non-GAAP Financial Measures on page 31.
(2) Certain balances have been reclassified for changes to comparative figures (see Note 32 to the Company's fiscal 2012 audited annual financial statements).
(3) Excludes items which are considered not indicative of underlying business operating performance.

Outlook

Management's primary objective will continue to be to maximize the long-term sustainable value of Empire through enhancing the worth of the Company's net assets.

Management is clearly focused on directing its energy and capital towards growing the long-term sustainable value of its food retailing and related real estate. In doing so, we remain committed to: (i) supporting Sobeys in its goal to be widely recognized as the best food retailer and workplace environment in Canada; (ii) the profitable growth of Sobeys' real estate development operations as it develops new properties that are congruent with growing Sobeys and which, upon completion, will be offered for sale to Crombie REIT; (iii) capitalizing on opportunities afforded as a result of the existing strong relationships between our food retailing and our real estate businesses; and (iv) the continued strengthening of our financial condition through the prudent management of working capital and free cash flow in each operating company.

Food Retailing

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 while improving the customers' in-store experience and our productivity.

Sobeys also plans to focus on its workforce management and in-store programs in fiscal 2014 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.

Investments and Other Operations

Empire remains committed to its investment in Crombie REIT. We are confident that the strength of Sobeys' relationship with 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.

Empire expects to continue to benefit from the distinguishing advantage inherent in Sobeys' real estate development operations, whereby it provides robust in-house expertise in the selection and development of commercial locations, which will be offered for sale to Crombie REIT.

Shareholder Return

The Company delivered a total shareholder return of 21.0 percent in fiscal 2013 as shown in the table below. The compound annual return on the Company's shares over the past five years has averaged 13.5 percent and over the past ten years has averaged 12.7 percent. This compares to the compound annual return of the S&P/TSX Composite Index over the past five and ten years of 0.2 percent and 9.3 percent, respectively.

In fiscal 2013, the Company increased its dividend by 6.7 percent to $0.96 per share. This was the seventeenth consecutive year of dividend increases. On June 27, 2013, the Board approved a further dividend increase of 8.3 percent to $0.26 per share quarterly, which amounts to $1.04 per share on an annualized basis. Empire's dividends are declared quarterly at the discretion of the Board.

For the fiscal year ended:	**May 4, 2013**	May 5, 2012	May 7, 2011	May 1, 2010	May 2, 2009	5-Year CAGR[1]
Closing market price per share (TSX: EMP.A)	**$ 68.58**	$ 57.62	$ 54.14	$ 52.98	$ 49.00	11.8%
Dividend paid per share	**$ 0.96**	$ 0.90	$ 0.80	$ 0.74	$ 0.70	7.8%
Dividend yield on prior year closing price	**1.7%**	1.7%	1.5%	1.5%	1.8%	
Increase in closing share price	**19.0%**	6.4%	2.2%	8.1%	24.8%	
Total annual shareholder return[2]	**21.0%**	8.1%	3.7%	9.9%	26.8%	13.5%

(1) Compound annual growth rate ("CAGR").

(2) Total annual shareholder return assumes reinvestment of quarterly dividends, and therefore may not equal the sum of dividend and share price returns in the table.

MANAGEMENT'S EXPLANATION OF CONSOLIDATED OPERATING RESULTS

The following is a review of Empire's consolidated financial performance for the 52 weeks ended May 4, 2013 compared to the 52 weeks ended May 5, 2012.

The financial performance of each of the Company's segments (food retailing and investments and other operations) is discussed in detail in the section entitled "Fiscal 2013 Financial Performance by Segment" in this MD&A.

Sales

Consolidated sales for fiscal 2013 were $17.61 billion compared to $16.25 billion in fiscal 2012, an increase of $1,363.6 million or 8.4 percent. During this period, sales from the food retailing segment increased $1,346.4 million or 8.4 percent.

The following table reconciles sales reported by Sobeys to Empire's food retailing segmented sales, and food retailing and investments and other operations' segmented sales to Empire's consolidated sales.

($ in millions)	52 Weeks Ended May 4, 2013	52 Weeks Ended May 5, 2012	($) Change	(%) Change
Food retailing segment				
Sobeys' reported sales	$ 17,345.8	$ 16,021.9	$ 1,323.9	8.3%
Reclassification of lease revenue from owned property recorded by Sobeys	56.9	33.6		
	17,402.7	16,055.5	1,347.2	8.4%
Elimination of inter-segment	(11.7)	(10.9)		
Empire's food retailing segmented sales	17,391.0	16,044.6	1,346.4	8.4%
Investments & other operations segment				
Recorded sales	221.7	204.6	17.1	8.4%
Elimination of inter-segment	–	(0.1)		
Empire's investments & other operations segmented sales	221.7	204.5	17.2	8.4%
Empire consolidated sales	$ 17,612.7	$ 16,249.1	$ 1,363.6	8.4%

For the 52 weeks ended May 4, 2013, Sobeys reported sales of $17.35 billion, an increase of $1,323.9 million or 8.3 percent from the $16.02 billion reported last year. Sobeys' same-store sales increased 1.3 percent in fiscal 2013.

The growth in Sobeys' reported sales in fiscal 2013 was a direct result of the acquisition of 236 retail gas locations and related convenience store operations in the fourth quarter of fiscal 2012 and Sobeys' continued investment in its retail network, coupled with the continued implementation of sales and merchandising initiatives, improved consistency of store level execution and product and services innovation.

The following table shows a reconciliation of sales reported by Sobeys for the 52 weeks ended May 4, 2013 compared to the prior year. Excluding the impact of the acquisition of 236 retail gas locations and related convenience store operations in the fourth quarter of fiscal 2012, Sobeys' reported sales increased $423.3 million or 2.7 percent for the 52 weeks ended May 4, 2013.

($ in millions)	52 Weeks Ended May 4, 2013	52 Weeks Ended May 5, 2012	($) Change	(%) Change
Sales (reported by Sobeys)	$ 17,345.8	$ 16,021.9	$ 1,323.9	8.3%
Adjustments:				
Impact of acquisition of 236 retail gas locations and related convenience store operations	(1,031.6)	(131.0)	(900.6)	
Adjusted sales(1)	$ 16,314.2	$ 15,890.9	$ 423.3	2.7%

(1) See Non-GAAP Financial Measures on page 31.

Investments and other operations recorded sales of $221.7 million in fiscal 2013 compared to $204.5 million last year.

Please refer to the section entitled "Fiscal 2013 Financial Performance by Segment" for an explanation of the change in sales by segment.

EBITDA

Consolidated EBITDA for the 52 weeks ended May 4, 2013 increased $67.5 million or 7.7 percent to $944.1 million from $876.6 million in fiscal 2012. This increase primarily relates to increased sales, in particular fuel sales, and the corresponding increase in gross profit for the 52 weeks ended May 4, 2013 compared to the same period in the prior year. During this period, EBITDA margin decreased slightly to 5.36 percent from 5.39 percent in the prior year. The decrease in EBITDA margin is a result of lower margins experienced on fuel sales at Sobeys. Adjusting for items which are considered not indicative of underlying business operating performance, consolidated adjusted EBITDA for fiscal 2013 was $921.7 million compared to $856.2 million last year, an increase of $65.5 million or 7.7 percent.

($ in millions)	52 Weeks Ended May 4, 2013	May 5, 2012
EBITDA[1] (consolidated)	$ 944.1	$ 876.6
Adjustments:		
Sobeys' organizational realignment costs	9.1	9.2
One-time charge from equity accounted investments[2]	8.3	–
Transaction costs for Canada Safeway proposed acquisition	5.0	–
Sobeys Québec distribution network restructuring	2.4	3.0
Dilution gains[3]	(18.2)	(10.4)
Gain on disposal of assets	(29.0)	(22.2)
	(22.4)	(20.4)
Adjusted EBITDA[1]	$ 921.7	$ 856.2

(1) See Non-GAAP Financial Measures on page 31.

(2) Reflects a decrease in equity earnings from the investment in Crombie REIT to account for the fair value of Crombie REIT's convertible debentures for the current year and restatement of prior years.

(3) Includes an increase in previously recorded dilution gains as a result of the adjustment to Crombie REIT's equity to account for the fair value of its convertible debentures for the current year and the restatement of prior years.

Please refer to the section entitled "Fiscal 2013 Financial Performance by Segment" for an explanation of the change in EBITDA for each segment.

Operating Income

For the 52 weeks ended May 4, 2013, Empire recorded operating income of $584.8 million, an increase of $50.5 million or 9.5 percent from the $534.3 million recorded for the 52 weeks ended May 5, 2012.

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

- Sobeys' operating income contribution to Empire in fiscal 2013 totalled $515.3 million, an increase of $39.5 million or 8.3 percent from the $475.8 million recorded last year.
- Investments and other operations contributed operating income of $69.5 million in fiscal 2013 compared to $58.5 million in fiscal 2012, an increase of $11.0 million or 18.8 percent.
  - Equity accounted earnings generated by Crombie REIT during the year were $13.7 million compared to $19.7 million in the prior year, a decrease of $6.0 million.
  - Real estate partnerships (Genstar) contributed operating income of $29.6 million, a decrease of $0.4 million from the $30.0 million recorded last year.
  - Other operations (net of corporate expenses) contributed operating income of $26.2 million compared to $8.8 million in fiscal 2012, an increase of $17.4 million.

Please refer to the section entitled "Fiscal 2013 Financial Performance by Segment" for an explanation of the change in operating income for each segment.

Finance Costs

Finance costs, net of finance income, for the 52 weeks ended May 4, 2013 were $50.8 million, a decrease of $9.1 million or 15.2 percent from the $59.9 million recorded last year. This decrease is primarily the result of a decrease in interest expense of $8.1 million and a decrease in net pension finance costs of $1.9 million, partially offset by an increase in fair value losses on forward contracts of $0.8 million. The decrease in interest expense of $8.1 million is due to lower consolidated funded debt levels which were partially associated with the repayment of Sobeys' $200.0 million non-revolving term credit facility on July 23, 2012. EBITDA to interest expense improved to 17.8 times at the end of fiscal 2013 from 14.4 times at the end of the prior fiscal year.

Consolidated funded debt was $969.5 million at May 4, 2013 compared to $1,130.8 million at May 5, 2012, a decrease of $161.3 million or 14.3 percent. The decrease in consolidated funded debt from the prior year was primarily due to a $210.4 million decline in funded debt at Sobeys, partially offset by higher debt levels in investments and other operations of $49.1 million. Please refer to the "Liabilities" sub-section under the "Consolidated Financial Condition" section of this MD&A for further details on consolidated funded debt.

Income Taxes

The Company's effective income tax rate for fiscal 2013 was 26.2 percent compared to 25.8 percent reported in fiscal 2012. The increase experienced in the effective income tax rate for the 52 weeks ended May 4, 2013 is primarily due to the nature of capital items realized and provincial tax rate changes, offset with a previously enacted decrease in the federal statutory rate.

Net Earnings

Consolidated net earnings, net of non-controlling interest, for the 52 weeks ended May 4, 2013 equalled $384.8 million ($5.65 per diluted share) compared to $339.4 million ($4.99 per diluted share) in fiscal 2012. The increase of $45.4 million or 13.4 percent is due to higher operating income and lower finance costs, net of finance income, partially offset by higher income taxes, as mentioned.

The following table presents Empire's segmented net earnings, net of non-controlling interest, for the 52 weeks ended May 4, 2013 compared to the 52 weeks ended May 5, 2012.

($ in millions, except per share amounts, net of tax)	52 Weeks Ended May 4, 2013	52 Weeks Ended May 5, 2012	($) Change	(%) Change
Food retailing	$ 339.9	$ 304.1	$ 35.8	11.8%
Investments and other operations	44.9	35.3	9.6	27.2%
Consolidated	$ 384.8	$ 339.4	$ 45.4	13.4%
EPS (fully diluted)	$ 5.65	$ 4.99	$ 0.66	13.2%

Adjusted Net Earnings

The table below adjusts reported net earnings, net of non-controlling interest, for items which are considered not indicative of underlying business operating performance.

($ in millions, except per share amounts, net of tax)	52 Weeks Ended May 4, 2013	52 Weeks Ended May 5, 2012
Net earnings, net of non-controlling interest	$ 384.8	$ 339.4
Adjustments:		
Sobeys' organizational realignment costs	6.7	6.4
One-time charge from equity accounted investments(1)	5.9	–
Transaction costs for Canada Safeway proposed acquisition	4.0	–
Sobeys Québec distribution network restructuring	1.8	2.1
Dilution gains(2)	(13.0)	(7.3)
Gain on disposal of assets	(22.9)	(17.9)
	(17.5)	(16.7)
Adjusted net earnings, net of non-controlling interest(3)	$ 367.3	$ 322.7
Adjusted net earnings, net of non-controlling interest, by segment:		
Food retailing	$ 331.0	$ 294.6
Investments and other operations	36.3	28.1
Adjusted net earnings, net of non-controlling interest(3)	$ 367.3	$ 322.7
Adjusted EPS (fully diluted)	$ 5.39	$ 4.74

(1) Reflects a decrease in equity earnings, net of tax, from the investment in Crombie REIT to account for the fair value of Crombie REIT's convertible debentures for the current year and restatement of prior years.

(2) Includes an increase in previously recorded dilution gains, net of tax, as a result of the adjustment to Crombie REIT's equity to account for the fair value of its convertible debentures for the current year and the restatement of prior years.

(3) See Non-GAAP Financial Measures on page 31.

For the 52 weeks ended May 4, 2013, after factoring in the impact of the above-noted items, Empire recorded adjusted net earnings, net of non-controlling interest, of $367.3 million ($5.39 per diluted share) compared to $322.7 million ($4.74 per diluted share) in fiscal 2012.

For a detailed discussion of financial performance by segment, see the section of this MD&A entitled "Fiscal 2013 Financial Performance by Segment".

FISCAL 2013 FINANCIAL PERFORMANCE BY SEGMENT

Food Retailing

Highlights

- Sobeys achieved fiscal 2013 sales growth of $1,323.9 million or 8.3 percent to reach $17.35 billion and same-store sales growth of 1.3 percent. After adjusting for the acquisition of 236 retail gas locations and related convenience store operations in the fourth quarter of fiscal 2012, sales growth was $423.3 million or 2.7 percent.
- Free cash flow of $317.6 million versus $322.4 million in fiscal 2012.
- Total capital expenditures equalled $508.1 million in fiscal 2013 versus $579.9 million last year.
- Opened, acquired or relocated 45 corporate and franchised stores, expanded 2 stores, rebannered/redeveloped 7 stores and closed 37 stores.

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 reported by Sobeys are set out below.

($ in millions)	52 Weeks Ended May 4, 2013	52 Weeks Ended May 5, 2012	53 Weeks Ended May 7, 2011
Sales growth	8.3%	1.8%	3.4%
Same-store sales growth(1)	1.3%	1.4%	0.2%
Return on equity(1)	12.9%	12.9%	13.9%
Funded debt to total capital(1)	20.9%	27.2%	29.4%
Funded debt to EBITDA(1)	0.9x	1.2x	1.2x
Property, equipment and investment property purchases(2)	$ 508	$ 563	$ 521

(1) See Non-GAAP Financial Measures on page 31.

(2) This amount reflects the property, equipment and investment property purchases by Sobeys, excluding amounts purchased from the Company and its wholly-owned subsidiaries.

The table below summarizes Sobeys' contribution to Empire's consolidated sales, EBITDA, adjusted EBITDA, operating income, adjusted operating income, net earnings, net of non-controlling interest, and adjusted net earnings, net of non-controlling interest.

($ in millions)	52 Weeks Ended(1) May 4, 2013	52 Weeks Ended(1) May 5, 2012	($) Change	(%) Change
Sales	$ 17,391.0	$ 16,044.6	$ 1,346.4	8.4%
EBITDA(2)	859.5	801.8	57.7	7.2%
Adjusted EBITDA(2)(3)	848.9	791.6	57.3	7.2%
Operating income	515.3	475.8	39.5	8.3%
Adjusted operating income(2)(3)	504.7	465.6	39.1	8.4%
Net earnings, net of non-controlling interest	339.9	304.1	35.8	11.8%
Adjusted net earnings, net of non-controlling interest(2)(3)	331.0	294.6	36.4	12.4%

(1) Net of consolidation adjustments which includes a purchase price allocation from the privatization of Sobeys.

(2) See Non-GAAP Financial Measures on page 31.

(3) Excludes items which are considered not indicative of underlying business operating performance.

Sales

Empire's food retailing segment achieved sales of $17.39 billion in fiscal 2013, an increase of $1,346.4 million or 8.4 percent over fiscal 2012. During the fiscal year, same-store sales increased by 1.3 percent. Excluding the impact of sales relating to the acquisition of 236 retail gas locations and related convenience store operations in the fourth quarter of fiscal 2012, the food retailing segment realized a sales increase of $445.8 million or 2.8 percent. In addition to the acquisition of 236 retail gas locations and related convenience store operations in the fourth quarter of fiscal 2012, the growth in Sobeys' reported sales in fiscal 2013 was a direct result of Sobeys' continued investment in its retail network, coupled with the continued implementation of sales and merchandising initiatives, improved consistency of store level execution and product and services innovation.

Sobeys expects sales growth to continue in fiscal 2014 as a result of continued capital investment in its retail store network, and offering, merchandising, pricing and operational execution improvements across the country.

Sobeys' total store square footage increased by 2.0 percent in fiscal 2013 as a result of the opening, acquiring or relocating of 45 stores and the expansion of 2 stores. There were 7 stores rebannered or redeveloped and 37 stores closed in fiscal 2013.

Business Process and Information System Transformation and Rationalization Costs

During fiscal 2013, Sobeys continued to make progress in the implementation of system-wide business process optimization and rationalization initiatives that are designed to reduce complexity and improve processes and efficiency. These system-wide business process and rationalization initiatives support all aspects of the business including operations, merchandising, distribution, human resources and administration. During the fiscal year, Sobeys completed an information systems implementation at Thrifty Foods which resulted in streamlined business processes for those stores.

The business process and information systems implementation in Québec began during the first quarter of fiscal 2010 and was completed in the third quarter of fiscal 2013. The business process and system initiative costs primarily include labour, implementation and training costs associated with these initiatives. During the 52 weeks ended May 4, 2013, $8.6 million of pre-tax costs were incurred related to these initiatives (fiscal 2012 – $13.2 million).

On January 28, 2011, Sobeys announced plans to build a new distribution centre in Terrebonne, Québec, utilizing the same automated equipment and technology as the Vaughan, Ontario distribution centre. The new facility commenced operations during the third quarter of fiscal 2013 and will allow Sobeys to significantly increase its warehouse and distribution capacity in Québec, while reducing overall distribution costs and improving service to its store network and customers. For the 52 weeks ended May 4, 2013, Sobeys recorded pre-tax severance costs associated with the distribution network in Québec of $2.4 million (fiscal 2012 – $3.0 million).

On October 13, 2011, Sobeys announced an organizational realignment and corresponding leadership appointments. Total pre-tax costs associated with this initiative for the 52 weeks ended May 4, 2013 were $9.1 million (fiscal 2012 – $9.2 million). These expenses relate mainly to consulting and severance costs of $2.4 million and $6.7 million, respectively (fiscal 2012 – $6.7 million and $2.5 million).

Gross Profit

Sobeys recorded gross profit for the 52 weeks ended May 4, 2013 of $4,013.1 million, an increase of $138.9 million or 3.6 percent compared to $3,874.2 million in fiscal 2012. For the year ended May 4, 2013, gross margin decreased 104 basis points to 23.14 percent compared to 24.18 percent last year. The decrease in gross margin is primarily a result of lower margins experienced on fuel sales. Excluding the impact of lower margin fuel sales, gross margin was 24.36 percent for the 52 weeks ended May 4, 2013 compared to 24.53 percent for the same period last year.

EBITDA

For the 52 weeks ended May 4, 2013, Sobeys contributed EBITDA to Empire of $859.5 million (4.94 percent of sales) compared to $801.8 million (5.00 percent of sales) last year, an increase of $57.7 million or 7.2 percent. This increase relates to increased sales, in particular fuel sales, and the corresponding increase in gross profit for the 52 weeks ended May 4, 2013 compared to the same period in the prior year. The 6 basis point decline in EBITDA margin is primarily due to lower margins experienced on fuel sales. Adjusting for items which are considered not indicative of underlying business operating performance, as presented in the following table, Sobeys' adjusted EBITDA contribution to Empire for the 52 weeks ended May 4, 2013 was $848.9 million (4.88 percent of sales) compared to $791.6 million (4.93 percent of sales) last year, an increase of $57.3 million or 7.2 percent.

	52 Weeks Ended	
($ in millions)	**May 4, 2013**	May 5, 2012
EBITDA(1) (contributed by Sobeys)	**$ 859.5**	$ 801.8
Adjustments:		
Sobeys' organizational realignment costs	**9.1**	9.2
Transaction costs for Canada Safeway proposed acquisition	**5.0**	-
Sobeys Québec distribution network restructuring	**2.4**	3.0
Dilution gains	**(0.7)**	(0.4)
Gain on disposal of assets	**(26.4)**	(22.0)
	(10.6)	(10.2)
Adjusted EBITDA(1)	**$ 848.9**	$ 791.6

(1) See Non-GAAP Financial Measures on page 31.

Operating Income

Sobeys' operating income contribution to Empire for the 52 weeks ended May 4, 2013 was $515.3 million (2.96 percent of sales) compared to $475.8 million (2.97 percent of sales) last year, an increase of $39.5 million or 8.3 percent. Adjusting for items which are considered not indicative of underlying business operating performance, as presented in the following table, Sobeys contributed adjusted operating income to Empire in the 52 weeks ended May 4, 2013 of $504.7 million (2.90 percent of sales) compared to $465.6 million (2.90 percent of sales) last year, an increase of $39.1 million or 8.4 percent.

	52 Weeks Ended	
($ in millions)	May 4, 2013	May 5, 2012
Operating income[1] (contributed by Sobeys)	$ 515.3	$ 475.8
Adjustments:		
Sobeys' organizational realignment costs	9.1	9.2
Transaction costs for Canada Safeway proposed acquisition	5.0	–
Sobeys Québec distribution network restructuring	2.4	3.0
Dilution gains	(0.7)	(0.4)
Gain on disposal of assets	(26.4)	(22.0)
	(10.6)	(10.2)
Adjusted operating income[1]	$ 504.7	$ 465.6

(1) See Non-GAAP Financial Measures on page 31.

Combined with the items noted above, Sobeys continues to focus on disciplined cost management initiatives, supply chain and retail productivity improvements, the migration of best practices, and planned capital investments to drive sales and improve margins over time.

Net Earnings

Sobeys contributed net earnings, net of non-controlling interest, of $339.9 million to Empire for the 52 weeks ended May 4, 2013, an increase of $35.8 million or 11.8 percent over the $304.1 million recorded in fiscal 2012. The increase was primarily a result of higher operating income and lower finance costs, net of finance income, partially offset by higher income taxes.

Adjusted Net Earnings

Sobeys contributed adjusted net earnings, net of non-controlling interest, of $331.0 million to Empire for the 52 weeks ended May 4, 2013 compared to $294.6 million last year, an increase of $36.4 million or 12.4 percent.

The table below details the adjustments made to calculate Sobeys' contribution to adjusted net earnings, net of non-controlling interest.

	52 Weeks Ended	
($ in millions)	May 4, 2013	May 5, 2012
Net earnings, net of non-controlling interest (contributed by Sobeys)	$ 339.9	$ 304.1
Adjustments:		
Sobeys' organizational realignment costs	6.7	6.4
Transaction costs for Canada Safeway proposed acquisition	4.0	–
Sobeys Québec distribution network restructuring	1.8	2.1
Dilution gains	(0.5)	(0.3)
Gain on disposal of assets	(20.9)	(17.7)
	(8.9)	(9.5)
Adjusted net earnings, net of non-controlling interest[1]	$ 331.0	$ 294.6

(1) See Non-GAAP Financial Measures on page 31.

Investments and Other Operations

Highlights

- Sales of $221.7 million, up $17.2 million or 8.4 percent.
- Operating income of $69.5 million, up $11.0 million or 18.8 percent.
- Acquired an additional $24.5 million in Crombie REIT Class B units.
- Crombie REIT's market capitalization surpassed $1.4 billion with Empire's investment carrying a fair value of $622.7 million.
- Equity earnings from Crombie REIT, before restatement as outlined in the table for EBITDA, of $22.0 million versus $19.7 million last year.
- Equity earnings from real estate partnerships (Genstar) of $29.6 million compared to $30.0 million last year.
- Improved operating performance from Empire Theatres.

The table below presents sales, EBITDA, adjusted EBITDA, operating income, net earnings and adjusted net earnings for the investments and other operations segment.

	52 Weeks Ended		($)
($ in millions)	May 4, 2013	May 5, 2012	Change
Sales	$ 221.7	$ 204.5	$ 17.2
EBITDA(1)	84.6	74.8	9.8
Adjusted EBITDA(1)(2)	72.8	64.6	8.2
Operating income(1)			
Crombie REIT(3)	13.7	19.7	(6.0)
Real estate partnerships(4)	29.6	30.0	(0.4)
Other operations, net of corporate expenses(5)	26.2	8.8	17.4
	69.5	58.5	11.0
Net earnings	44.9	35.3	9.6
Adjusted net earnings(2)	36.3	28.1	8.2

(1) See Non-GAAP Financial Measures on page 31.

(2) Excludes items which are considered not indicative of underlying business operating performance.

(3) 42.8 percent equity accounted interest in Crombie REIT (May 5, 2012 – 44.3 percent interest). Crombie REIT's operating income contribution for fiscal 2013 was impacted by a one-time charge of $8.3 million (fiscal 2012 – $nil); this charge accounts for the fair value of convertible debentures for the current year and the restatement of prior years.

(4) Interests in Genstar.

(5) Other operations, net of corporate expenses, for the 52 weeks ended May 4, 2013 includes dilution gains of $17.5 million (fiscal 2012 – $10.0 million), which includes an increase in previously recorded dilution gains of $6.1 million (fiscal 2012 – $nil) as a result of the adjustment to Crombie REIT's equity to account for the fair value of its convertible debentures for the current year and the restatement of prior years, and an impairment charge related to an investment of $nil (fiscal 2012 – $1.1 million).

On November 7, 2012, the Company sold its petroleum and natural gas properties for $17.3 million before costs. The purchase price approximated the carrying value of these assets, therefore no gain or loss was recorded after the completion of post-closing adjustments.

At May 4, 2013, Empire's investment portfolio, including equity accounted investments in Crombie REIT and Genstar, consisted of:

($ in millions)	May 4, 2013 Fair Value	May 4, 2013 Carrying Value	May 4, 2013 Unrealized Gain	May 5, 2012 Fair Value	May 5, 2012 Carrying Value	May 5, 2012 Unrealized Gain
Investment in Crombie REIT	$ 622.7	$ 195.2	$ 427.5	$ 520.7	$ 167.4	$ 353.3
Investment in Genstar[1]	203.2	203.2	–	138.8	138.8	–
Canadian Digital Cinema Partnership[1]	9.2	9.2	–	7.2	7.2	–
Other investments[1][2]	39.5	39.5	–	13.0	13.0	–
	$ 874.6	$ 447.1	$ 427.5	$ 679.7	$ 326.4	$ 353.3

(1) Assumes fair value equals carrying value.

(2) Includes an investment in Crombie REIT Series D convertible unsecured subordinated debentures (the "Debentures") with a market value of $24.8 million (May 5, 2012 – $nil). May 5, 2012 includes an investment in Crombie REIT Series B convertible unsecured subordinated debentures with a market value of $12.8 million. During the first quarter of fiscal 2013, the Company purchased $24.0 million of Debentures, which as at May 4, 2013, had a market value of $24.8 million. On September 25, 2012, the Company converted Crombie REIT Series B convertible unsecured subordinated debentures with a face value of $10.0 million into 909,090 units of Crombie REIT. The units were recorded at the exchange amount of $13.8 million, resulting in a pre-tax gain of $3.8 million.

Sales

Investments and other operations' sales equalled $221.7 million for the 52 weeks ended May 4, 2013 versus $204.5 million in fiscal 2012, a $17.2 million or 8.4 percent increase. The increase in sales was primarily driven by an increase in sales at Empire Theatres, partially offset by a decrease in sales by the Company's other operations.

EBITDA

For the 52 weeks ended May 4, 2013, investments and other operations contributed EBITDA to Empire of $84.6 million compared to $74.8 million last year, an increase of $9.8 million or 13.1 percent. Adjusting for items which are considered not indicative of underlying business operating performance, as presented in the table below, investments and other operations' adjusted EBITDA for fiscal 2013 was $72.8 million compared to $64.6 million last year, an increase of $8.2 million or 12.7 percent.

($ in millions)	52 Weeks Ended May 4, 2013	52 Weeks Ended May 5, 2012
EBITDA[1] (investments and other operations)	$ 84.6	$ 74.8
Adjustments:		
One-time charge from equity accounted investments[2]	8.3	–
Gain on disposal of assets	(2.6)	(0.2)
Dilution gains[3]	(17.5)	(10.0)
	(11.8)	(10.2)
Adjusted EBITDA[1]	$ 72.8	$ 64.6

(1) See Non-GAAP Financial Measures on page 31.

(2) Reflects a decrease in equity earnings from the investment in Crombie REIT to account for the fair value of Crombie REIT's convertible debentures for the current year and restatement of prior years.

(3) Includes an increase in previously recorded dilution gains as a result of the adjustment to Crombie REIT's equity to account for the fair value of its convertible debentures for the current year and the restatement of prior years.

Operating Income

Investments and other operations contributed operating income of $69.5 million in the 52 weeks ended May 4, 2013 versus $58.5 million in fiscal 2012, an increase of $11.0 million or 18.8 percent. The contributors to operating income in the 52 weeks ended May 4, 2013 were as follows:

- Equity accounted earnings from the Company's investment in Crombie REIT were $13.7 million in the 52 weeks ended May 4, 2013, down $6.0 million from the $19.7 million recorded in the prior year. This decrease was driven primarily by a one-time charge of $8.3 million (fiscal 2012 – $nil) relating to Crombie REIT's restated earnings, partially offset by increased property revenue and the resulting higher property net operating income. During the preparation of Crombie REIT's fourth quarter fiscal 2012 financial results, it was determined that the conversion feature and redemption option attached to its convertible debentures represented a financial liability requiring fair value measurement over each reporting period, with any adjustment to fair value being recognized through a decrease in net assets attributable to Unitholders. This resulted in Crombie REIT's restatement of financial results for prior years.
- Equity accounted earnings from the Company's investments in real estate partnerships (Genstar) was $29.6 million in the 52 weeks ended May 4, 2013, a decrease of $0.4 million compared to $30.0 million recorded in the prior year.
- Other operations, net of corporate expenses, contributed operating income of $26.2 million, up $17.4 million from the $8.8 million recorded in the 52 weeks ended May 5, 2012. Dilution gains of $17.5 million recorded in the 52 weeks ended May 4, 2013 (fiscal 2012 – $10.0 million) include an adjustment of $6.1 million (fiscal 2012 – $nil) to previously recorded dilution gains as a result of Crombie REIT's restated net assets attributable to Unitholders, as mentioned. Fiscal 2012 included an impairment charge of $1.1 million related to an investment.

Adjusting investments and other operations' operating income for items which are considered not indicative of underlying business operating performance, as presented in the preceding table for EBITDA, resulted in an adjusted operating income contribution for the 52 weeks ended May 4, 2013 of $57.7 million compared to $48.3 million in fiscal 2012, an increase of $9.4 million or 19.5 percent.

Net Earnings

During the 52 weeks ended May 4, 2013, investments and other operations contributed $44.9 million to Empire's consolidated net earnings compared to a contribution of $35.3 million in fiscal 2012. The $9.6 million increase is primarily attributed to higher operating income, as discussed, partially offset by higher finance costs, net of finance income, and higher income taxes.

Adjusted Net Earnings

Investments and other operations contributed adjusted net earnings of $36.3 million for the 52 weeks ended May 4, 2013 compared to $28.1 million last year, an increase of $8.2 million. Included in net earnings for fiscal 2013 were dilution gains of $12.5 million (fiscal 2012 – $7.0 million), which include an adjustment to previously recorded dilution gains of $4.4 million (fiscal 2012 – $nil) as a result of Crombie REIT's restated net assets attributable to Unitholders.

The following table adjusts reported net earnings for these and other items which are considered not indicative of underlying business operating performance.

	52 Weeks Ended	
($ in millions)	**May 4, 2013**	May 5, 2012
Net earnings (investments and other operations)	**$ 44.9**	$ 35.3
Adjustments:		
One-time charge from equity accounted investments[(1)]	**5.9**	–
Gain on disposal of assets	**(2.0)**	(0.2)
Dilution gains[(2)]	**(12.5)**	(7.0)
	(8.6)	(7.2)
Adjusted net earnings[(3)]	**$ 36.3**	$ 28.1

(1) Reflects a decrease in equity earnings, net of tax, from the investment in Crombie REIT to account for the fair value of Crombie REIT's convertible debentures for the current year and restatement of prior years.

(2) Includes an increase in previously recorded dilution gains, net of tax, as a result of the adjustment to Crombie REIT's equity to account for the fair value of its convertible debentures for the current year and the restatement of prior years.

(3) See Non-GAAP Financial Measures on page 31.

QUARTERLY RESULTS OF OPERATIONS

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

	Fiscal 2013				Fiscal 2012			
($ in millions, except per share amounts)	Q4 (13 Weeks) May 4, 2013	Q3 (13 Weeks) Feb. 2, 2013	Q2 (13 Weeks) Nov. 3, 2012	Q1 (13 Weeks) Aug. 4, 2012	Q4 (13 Weeks) May 5, 2012	Q3 (13 Weeks) Feb. 4, 2012	Q2 (13 Weeks) Nov. 5, 2011	Q1 (13 Weeks) Aug. 6, 2011
Sales	$ 4,308.9	$ 4,342.0	$ 4,404.1	$ 4,557.7	$ 4,073.8	$ 3,984.8	$ 4,036.3	$ 4,154.2
Operating income(1)	155.1	113.7	140.9	175.1	136.4	123.2	125.8	148.9
Net earnings, net of non-controlling interest	107.4	75.2	93.3	108.9	92.1	80.0	78.1	89.2
Per share information, basic								
Net earnings, net of non-controlling interest	$ 1.58	$ 1.11	$ 1.37	$ 1.60	$ 1.35	$ 1.18	$ 1.15	$ 1.31
Basic weighted average number of shares outstanding (in millions)	67.9	67.9	67.9	67.9	67.9	67.9	67.9	67.9
Per share information, diluted								
Net earnings, net of non-controlling interest	$ 1.58	$ 1.11	$ 1.37	$ 1.60	$ 1.35	$ 1.17	$ 1.15	$ 1.31
Diluted weighted average number of shares outstanding (in millions)	68.1	68.1	68.1	68.0	68.0	68.1	68.0	68.0

(1) See Non-GAAP Financial Measures on page 31.

As displayed in the table above, the Company's sales on a comparable 13 week basis have continued to show improvement compared with the same quarter of the prior year. The ongoing improvement in sales continues to be mainly driven by the performance of Sobeys as a result of its adherence to a competitive pricing posture, increased retail selling square footage from new stores and enlargements, improved store level execution, product and services innovation and, in the fourth quarter of fiscal 2012, the acquisition of 236 retail gas locations and related convenience store operations. The first quarter of fiscal 2013, ended August 4, 2012, was the first full quarter to include fuel sales related to this acquisition. Sales include fluctuations in quarter-to-quarter inflationary and deflationary market pressures.

Consolidated sales and net earnings, net of non-controlling interest, have been influenced by the Company's investing activities, the competitive environment, cost management initiatives, food price and general industry trends, the cyclicality of both residential and commercial real estate, and by other risk factors as outlined in this MD&A.

The Company does experience some seasonality as evidenced in the results presented above, in particular during the summer months and over the holidays.

Summary Table of Consolidated Financial Results for the Fourth Quarter

	13 Weeks Ended			
	May 4, 2013		May 5, 2012	
($ in millions, except per share amounts)		% of Sales		% of Sales
Sales	$ 4,308.9	100.00%	$ 4,073.8	100.00%
EBITDA[1]	247.0	5.73%	224.2	5.50%
Adjusted EBITDA[1][2]	235.9	5.47%	222.2	5.45%
Operating income[1]	155.1	3.60%	136.4	3.35%
Net earnings, net of non-controlling interest	107.4	2.49%	92.1	2.26%
Adjusted net earnings, net of non-controlling interest[1][2]	98.6	2.29%	89.6	2.20%
Basic earnings per share				
Net earnings, net of non-controlling interest	$ 1.58		$ 1.35	
Adjusted net earnings, net of non-controlling interest[1][2]	$ 1.45		$ 1.32	
Basic weighted average number of shares outstanding (in millions)	67.9		67.9	
Diluted earnings per share				
Net earnings, net of non-controlling interest	$ 1.58		$ 1.35	
Adjusted net earnings, net of non-controlling interest[1][2]	$ 1.45		$ 1.32	
Diluted weighted average number of shares outstanding (in millions)	68.1		68.0	

(1) See Non-GAAP Financial Measures on page 31.

(2) Excludes items which are considered not indicative of underlying business operating performance.

Sales

Consolidated sales for the fourth quarter of fiscal 2013 were $4.31 billion compared to $4.07 billion last year, a $235.1 million or 5.8 percent increase. Sales contributed by the food retailing segment equalled $4.26 billion compared to $4.02 billion in fiscal 2012. Excluding the impact of the acquisition of 236 retail gas locations and related convenience store operations in the fourth quarter of fiscal 2012, consolidated sales increased $96.4 million or 2.4 percent. Sobeys' same-store sales increased 0.6 percent during the fourth quarter of fiscal 2013.

For the 13 weeks ended May 4, 2013, Sobeys reported sales of $4.24 billion, an increase of $229.2 million or 5.7 percent from the $4.02 billion recorded last year. Excluding the impact of sales resulting from the acquisition of 236 retail gas locations and related convenience store operations in the fourth quarter of fiscal 2012, Sobeys' fourth quarter sales increased $90.5 million or 2.3 percent. The 2.3 percent growth in Sobeys' fourth quarter sales was a direct result of continued increased retail selling square footage from new store and enlargements, coupled with the continued implementation of sales and merchandising initiatives, improved consistency of store level execution and product and services innovation.

The following table shows a reconciliation of fourth quarter sales recorded by Sobeys.

	13 Weeks Ended			
($ in millions)	May 4, 2013	May 5, 2012	($) Change	(%) Change
Sales (reported by Sobeys)	$ 4,244.5	$ 4,015.3	$ 229.2	5.7%
Adjustments:				
Impact of acquisition of 236 retail gas locations and related convenience store operations	(269.7)	(131.0)	(138.7)	
Adjusted sales[1]	$ 3,974.8	$ 3,884.3	$ 90.5	2.3%

(1) See Non-GAAP Financial Measures on page 31.

Investments and other operations' sales for the fourth quarter of fiscal 2013 equalled $52.1 million versus $50.6 million in fiscal 2012, an increase of $1.5 million or 3.0 percent. The increase primarily relates to higher sales recorded by Empire Theatres as a result of higher attendance and concession revenues during the quarter.

EBITDA

Consolidated EBITDA in the fourth quarter of fiscal 2013 was $247.0 million compared to $224.2 million last year, an increase of $22.8 million or 10.2 percent. EBITDA margin increased 23 basis points to 5.73 percent in the fourth quarter of fiscal 2013 from 5.50 percent last year.

The contributors to the change in consolidated EBITDA from the fourth quarter last year were as follows:

- Sobeys contributed EBITDA to Empire of $217.9 million versus $203.7 million in the fourth quarter of fiscal 2012, an increase of $14.2 million or 7.0 percent.
- Investments and other operations contributed EBITDA of $29.1 million in the 13 weeks ended May 4, 2013 compared to $20.5 million last year, an increase of $8.6 million or 42.0 percent.

Adjusted EBITDA for the fourth quarter of fiscal 2013 was $235.9 million (5.47 percent of sales) versus $222.2 million (5.45 percent of sales) last year. Included in EBITDA for the fourth quarter of fiscal 2013 were gains on the disposal of assets of $17.4 million (fiscal 2012 – $5.1 million) and transaction costs associated with the Canada Safeway proposed acquisition of $5.0 million (fiscal 2012 – $nil). These and other items which are considered not indicative of underlying business operating performance are outlined in the table below.

	13 Weeks Ended	
($ in millions)	May 4, 2013	May 5, 2012
EBITDA[1] (consolidated)	$ 247.0	$ 224.2
Adjustments:		
Transaction costs for Canada Safeway proposed acquisition	5.0	–
Sobeys' organizational realignment costs	2.0	2.8
One-time charge from equity accounted investments[2]	1.5	–
Sobeys Québec distribution network restructuring	(0.7)	0.7
Dilution gains[3]	(1.5)	(0.4)
Gain on disposal of assets	(17.4)	(5.1)
	(11.1)	(2.0)
Adjusted EBITDA[1]	$ 235.9	$ 222.2

(1) See Non-GAAP Financial Measures on page 31.

(2) Reflects a decrease in equity earnings from the investment in Crombie REIT to account for the fair value of Crombie REIT's convertible debentures for the current year and restatement of prior years.

(3) Includes an increase in previously recorded dilution gains as a result of the adjustment to Crombie REIT's equity to account for the fair value of its convertible debentures for the current year and the restatement of prior years.

Operating Income

The Company reported operating income of $155.1 million for the 13 weeks ended May 4, 2013 compared to $136.4 million for the 13 weeks ended May 5, 2012. The increase in operating income of $18.7 million or 13.7 percent is a result of a higher operating income contribution from the food retailing segment of $9.2 million or 7.7 percent, along with a higher contribution from investments and other operations of $9.5 million or 57.9 percent.

- Equity earnings from the Company's investment in Crombie REIT of $4.9 million were flat compared to the fourth quarter of fiscal 2012. Included in equity earnings for the quarter was a one-time charge of $1.5 million (fiscal 2012 – $nil) relating to Crombie REIT's restated earnings, as discussed. Excluding this one-time charge, equity earnings from Crombie REIT for the 13 weeks ended May 4, 2013 were $6.4 million.
- Real estate partnerships (Genstar) contributed equity earnings of $13.7 million in the fourth quarter, up $0.5 million from the fourth quarter of fiscal 2012.
- Other operations, net of corporate expenses, contributed operating income of $7.3 million versus $(1.7) million in the fourth quarter of the prior year. Included in other operations, net of corporate expenses, in the fourth quarter were gains on the disposal of assets of $2.6 million (fiscal 2012 – $0.2 million), dilution gains of $1.5 million (fiscal 2012 – $0.4 million) and an impairment charge related to an investment of $nil (fiscal 2012 – $1.1 million).

Finance Costs

Consolidated finance costs, net of finance income, in the fourth quarter of fiscal 2013 equalled $12.5 million versus $14.3 million last year. The $1.8 million decrease is primarily a result of lower interest expense of $1.7 million. EBITDA to interest expense for the 13 weeks ended May 4, 2013 increased to 19.8 times from 15.8 times in the same period of the prior year.

Income Taxes

The effective income tax rate for the 13 weeks ended May 4, 2013 was 24.0 percent versus 21.3 percent in the fourth quarter of fiscal 2012. The increase in the effective income tax rate is primarily due to the timing of the realization of tax benefits in the fourth quarter of fiscal 2012 compared to the same period in the current year, offset with a previously enacted decrease in the federal statutory rate.

Net Earnings

Consolidated net earnings, net of non-controlling interest, for the 13 weeks ended May 4, 2013 were $107.4 million ($1.58 per diluted share) compared to $92.1 million ($1.35 per diluted share) in fiscal 2012, an increase of $15.3 million or 16.6 percent. The increase is primarily related to the increase in operating income and lower finance costs, net of finance income, as discussed, partially offset by higher income taxes.

Adjusted Net Earnings

The table below adjusts fiscal 2013 and fiscal 2012 reported fourth quarter net earnings, net of non-controlling interest, for items which are considered not indicative of underlying business operating performance.

	13 Weeks Ended	
($ in millions, except per share amounts, net of tax)	May 4, 2013	May 5, 2012
Net earnings, net of non-controlling interest	$ 107.4	$ 92.1
Adjustments:		
Transaction costs for Canada Safeway proposed acquisition	4.0	–
Sobeys' organizational realignment costs	1.5	2.0
One-time charge from equity accounted investments(1)	1.1	–
Sobeys Québec distribution network restructuring	(0.5)	0.4
Dilution gains(2)	(1.1)	(0.3)
Gain on disposal of assets	(13.8)	(4.6)
	(8.8)	(2.5)
Adjusted net earnings, net of non-controlling interest(3)	$ 98.6	$ 89.6
Adjusted net earnings, net of non-controlling interest, by segment:		
Food retailing	$ 82.3	$ 79.2
Investments and other operations	16.3	10.4
Adjusted net earnings, net of non-controlling interest(3)	$ 98.6	$ 89.6
Adjusted EPS (fully diluted)	$ 1.45	$ 1.32

(1) Reflects a decrease in equity earnings, net of tax, from the investment in Crombie REIT to account for the fair value of Crombie REIT's convertible debentures for the current year and restatement of prior years.

(2) Includes an increase in previously recorded dilution gains, net of tax, as a result of the adjustment to Crombie REIT's equity to account for the fair value of its convertible debentures for the current year and the restatement of prior years.

(3) See Non-GAAP Financial Measures on page 31.

For the 13 weeks ended May 4, 2013, excluding the impact of the above-noted items, Empire recorded adjusted net earnings, net of non-controlling interest, of $98.6 million ($1.45 per diluted share) compared to $89.6 million ($1.32 per diluted share) recorded in the 13 weeks ended May 5, 2012, an increase of $9.0 million or 10.0 percent.

CONSOLIDATED FINANCIAL CONDITION

Capital Structure and Key Financial Condition Measures

The Company's overall financial condition has improved since the start of the fiscal year as evidenced by the capital structure and key financial condition measures presented in the table below.

($ in millions, except per share ratio calculations)	May 4, 2013	May 5, 2012	May 7, 2011
Shareholders' equity, net of non-controlling interest	$ 3,726.2	$ 3,396.3	$ 3,162.1
Book value per common share	$ 54.84	$ 49.98	$ 46.48
Bank indebtedness	$ 6.0	$ 4.4	$ –
Long-term debt, including current portion	$ 963.5	$ 1,126.4	$ 1,152.4
Funded debt to total capital	20.6%	25.0%	26.7%
Net funded debt to net total capital	12.1%	15.4%	14.5%
Funded debt to EBITDA	1.0x	1.3x	1.3x
EBITDA to interest expense	17.8x	14.4x	11.9x
Current assets to current liabilities	1.0x	0.9x	1.1x
Total assets	$ 7,140.1	$ 6,913.1	$ 6,518.6

See Non-GAAP Financial Measures section in this MD&A for definitions of funded debt, net funded debt, total capital, net total capital, interest expense and EBITDA.

Shareholders' Equity

Book value per common share was $54.84 at May 4, 2013 compared to $49.98 at May 5, 2012. The increase in book value largely reflects the Company's earnings growth, as discussed.

The Company's share capital on May 4, 2013 consisted of:

	Authorized Number of Shares	Issued and Outstanding Number of Shares	$ in Millions
2002 Preferred shares, par value of $25 each, issuable in series	991,980,000	–	$ –
Non-Voting Class A shares, without par value	257,044,056	33,687,747	311.7
Class B common shares, without par value, voting	40,800,000	34,260,763	7.6
			$ 319.3

There were 33,687,747 Non-Voting Class A and 34,260,763 Class B common shares outstanding at May 4, 2013 for a total of 67,948,510 shares outstanding. This is unchanged from the previous fiscal year-end.

During fiscal 2013, 45,310 options (fiscal 2012 – 73,247 options) were issued under Empire's long-term incentive plan. The options issued in fiscal 2013 allow the holder to purchase Non-Voting Class A shares at $53.93 per share (fiscal 2012 – $54.40 per share). Empire had 684,128 options outstanding at May 4, 2013 compared to 638,818 options outstanding at May 5, 2012. There were no options exercised during fiscal 2013 or fiscal 2012.

The table below presents the number of outstanding options and weighted average exercise price over the last two fiscal years.

	Fiscal 2013		Fiscal 2012	
	# of Options	Weighted Average Exercise Price	# of Options	Weighted Average Exercise Price
Balance, beginning of year	638,818	$ 46.57	565,571	$ 45.55
Granted	45,310	53.93	73,247	54.40
Balance, end of year	684,128	$ 47.06	638,818	$ 46.57
Stock options exercisable, end of year	468,450		329,050	

The 684,128 stock options outstanding as at the fiscal year ended May 4, 2013 (May 5, 2012 – 638,818 stock options) represents 1.0 percent (May 5, 2012 – 0.9 percent) of the outstanding Non-Voting Class A and Class B common shares.

During the third quarter of fiscal 2012, the Company redeemed all of its 164,900 Series 2 Preferred Shares outstanding in accordance with their terms. The Series 2 Preferred Shares were redeemed at a price of $25 per share plus an amount equal to all dividends accrued and unpaid to January 31, 2012.

As at June 27, 2013, the Company had Non-Voting Class A and Class B common shares outstanding of 33,687,747 and 34,260,763, respectively, as well as 684,128 options to acquire in aggregate 684,128 Non-Voting Class A shares.

Dividends paid to Non-Voting Class A and Class B common shareholders amounted to $65.2 million in fiscal 2013 ($0.96 per share) versus $61.1 million ($0.90 per share) in fiscal 2012.

Liabilities

Historically, Empire has financed a significant portion of its assets through the use of long-term debt. Long-term assets are generally financed with fixed rate, long-term debt, thereby reducing both interest rate and refinance risk. Total long-term debt (including the current portion of long-term debt) at May 4, 2013 was $963.5 million, representing 99.4 percent of Empire's total funded debt.

The composition of funded debt by segment is as follows:

($ in millions)	May 4, 2013	May 5, 2012	May 7, 2011
Bank indebtedness			
Investments and other operations	$ 6.0	$ 4.4	$ –
Long-term debt (including current portion)			
Food retailing	765.2	975.6	999.3
Investments and other operations	198.3	150.8	153.1
Total funded debt(1)	$ 969.5	$ 1,130.8	$ 1,152.4

(1) See Non-GAAP Financial Measures on page 31.

Consolidated funded debt has decreased $161.3 million from the $1,130.8 million reported at the start of the fiscal year. The decrease in consolidated funded debt from fiscal 2012 was primarily due to a $210.4 million decline in funded debt at Sobeys, partially offset by higher debt levels in investments and other operations of $49.1 million. During the first quarter of fiscal 2013, Sobeys repaid its $200.0 million non-revolving term credit facility, as detailed below.

On August 22, 2011, Empire extended the term of its $450.0 million credit facility to a maturity date of June 30, 2014. On September 26, 2012, Empire further extended the term of the credit facility to a maturity date of June 30, 2015.

On February 14, 2012, Sobeys entered into an amended and restated credit agreement. The agreement provides for an unsecured revolving term credit facility of $450.0 million, and a $200.0 million unsecured non-revolving term credit facility resulting in total authorized credit facilities of $650.0 million. In the fourth quarter of fiscal 2013, Sobeys extended the maturity date of the revolving term credit facility from February 14, 2016 to February 14, 2017, and the non-revolving term credit facility matured and was repaid on July 23, 2012. Interest payable on the revolving term credit facility fluctuates with changes in the bankers' acceptance rate, Canadian prime rate or London InterBank Offered Rate ("LIBOR"). As at May 4, 2013, Sobeys had issued $80.6 million (May 5, 2012 – $52.7 million) in letters of credit against the revolving term credit facility.

The ratio of funded debt to total capital has improved 4.4 percentage points to 20.6 percent from 25.0 percent at the end of fiscal 2012. This improvement is mainly a result of lower consolidated funded debt levels due partially to the repayment of Sobeys' non-revolving term credit facility of $200.0 million, as mentioned, and higher shareholders' equity levels due to growth in retained earnings.

Empire's funded debt to EBITDA ratio improved from 1.3 times at May 5, 2012 to 1.0 times at May 4, 2013 due to lower consolidated funded debt levels as mentioned and a 7.7 percent increase in fiscal 2013 EBITDA.

Empire's EBITDA to interest expense ratio improved from 14.4 times recorded at the beginning of the fiscal year to 17.8 times at May 4, 2013. The improvement over fiscal 2012 is primarily due to a 13.3 percent decline in interest expense accompanied by an increase in fiscal 2013 EBITDA of 7.7 percent, as discussed.

As at May 4, 2013, Sobeys' credit ratings were BBB with a stable trend from Dominion Bond Rating Service ("DBRS") and BBB- with a stable trend from Standard and Poor's ("S&P"). Subsequent to the June 12, 2013 announcement regarding the Asset Purchase Agreement to acquire substantially all of the assets and select liabilities of Canada Safeway, S&P reaffirmed their rating of BBB- and downgraded the trend to negative. DBRS placed their rating under review with negative implications.

For additional disclosure on Empire's bank indebtedness and long-term debt, see Notes 13 and 15 to the Company's audited annual consolidated financial statements for the 52 weeks ended May 4, 2013.

Financing of the Canada Safeway Proposed Acquisition

Subsequent to fiscal year-end, Sobeys entered into an agreement with Safeway Inc. and its subsidiaries, pursuant to which Sobeys agreed to purchase substantially all of the assets of Canada Safeway. See "Subsequent Events" for a discussion of the proposed financing for that transaction.

Financial Instruments

As part of Empire's risk management strategy, the Company actively monitors its exposures to various financial risks including interest rate risk, foreign exchange price risk and commodity risk. From time to time, the Company utilizes hedging instruments as deemed appropriate to mitigate risk exposure to one or more types of financial risk. The Company does not use financial instruments for speculative purposes. The Company's use of these instruments has not had a material impact on consolidated earnings for the 13 and 52 weeks ended May 4, 2013 or for the comparative periods in fiscal 2012.

When the Company enters into a financial instrument contract, it is exposed to potential credit risk associated with the counterparty of the contract defaulting. To mitigate this risk exposure, the Company monitors the credit worthiness of the various contract counterparties on an ongoing basis and will take corrective actions as deemed appropriate should a counterparty's credit profile change dramatically.

In-Place Financial Instruments

The Company 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. In July 2007, Sobeys entered into an interest rate swap for $200.0 million to fix the interest rate on a portion of its floating rate debt. This credit facility matured and was repaid in July 2012 with the interest rate swap being settled concurrently. On a consolidated basis, there were no interest rate instruments outstanding at May 4, 2013.

In July 2008, Sobeys entered into a floating-for-floating currency swap with a fixed rate of $1.015 Canadian Dollar ("CAD")/ United States Dollar ("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 4, 2013, Sobeys recognized a liability of $0.2 million relating to this instrument. Sobeys estimates that a 10.0 percent increase/(decrease) in applicable foreign currency exchange rates would impact the fair value of the swap by plus/(minus) $0.6 million and would impact other comprehensive income by plus/(minus) $0.4 million.

Fair Value Methodology

When a financial instrument is designated as a hedge for financial accounting purposes, it is classified as fair value through profit and loss on the balance sheets and recorded at fair value. The estimated fair values of the financial instruments as at May 4, 2013 were based on relevant market prices and information available at the reporting date. The Company determines the fair value of each financial instrument by reference to external and third party quoted bid, ask and mean prices, as appropriate, in an active market. In inactive markets, fair values are based on internal and external valuation models, such as discounted cash flows using market observed inputs. Fair values determined using valuation models require the use of assumptions to determine the amount and timing of forecasted future cash flows and discount rates. The Company primarily uses external market inputs, including factors such as interest yield curves and forward exchange rates. Changes in interest rates and exchange rates, along with other factors, may cause the fair value amounts to change in subsequent periods. The fair value of these financial instruments reflects the amount the Company would pay or receive if it were to settle the contracts at the reporting date.

For additional disclosure on Empire's use of financial instruments, see Notes 3 and 25 to the Company's annual audited financial statements for the 52 weeks ended May 4, 2013.

LIQUIDITY AND CAPITAL RESOURCES

The Company maintains the following sources of liquidity:

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

At May 4, 2013, consolidated cash and cash equivalents was $455.2 million versus $510.2 million at May 5, 2012.

At the end of the fourth quarter of fiscal 2013, on a non-consolidated basis, Empire directly maintained an authorized bank line for operating, general and corporate purposes of $450.0 million, of which $181.0 million or 40.2 percent was utilized. On a consolidated basis, Empire's authorized bank credit facilities exceeded borrowings by $675.2 million at May 4, 2013.

The Company believes that its cash and cash equivalents on hand, unutilized bank credit facilities and cash generated from operating activities will enable the Company to fund future capital investments, pension plan contributions, working capital, current funded debt obligations and ongoing business requirements. The Company also believes it has sufficient funding in place to meet these requirements and other short-term and long-term financial obligations. The Company mitigates potential liquidity risk by ensuring its various sources of funds are diversified by term to maturity and source of credit.

Empire and its subsidiaries have provided covenants to its lenders in support of various financing facilities. All covenants were complied with for the 52 weeks ended May 4, 2013 and for the fiscal year ended May 5, 2012.

The following table highlights major cash flow components for the 13 and 52 weeks ended May 4, 2013 compared to the 13 and 52 weeks ended May 5, 2012.

	13 Weeks Ended		52 Weeks Ended	
($ in millions)	**May 4, 2013**	May 5, 2012	**May 4, 2013**	May 5, 2012
Net earnings	**$ 108.4**	$ 96.1	**$ 393.9**	$ 352.1
Non-cash and other cash items	**129.5**	118.3	**548.1**	507.5
Net change in non-cash working capital	**26.6**	175.7	**(67.4)**	86.2
Income taxes paid, net	**(25.0)**	(22.7)	**(86.5)**	(131.1)
Dividends paid, preferred share	**–**	–	**–**	(0.1)
Cash flows from operating activities	**239.5**	367.4	**788.1**	814.6
Cash flows used in investing activities	**(91.3)**	(428.0)	**(555.3)**	(768.3)
Cash flows (used in) from financing activities	**(63.5)**	26.2	**(287.8)**	(152.0)
Increase (decrease) in cash and cash equivalents	**$ 84.7**	$ (34.4)	**$ (55.0)**	$ (105.7)

Operations

The fourth quarter of fiscal 2013 generated cash flows from operating activities of $239.5 million compared to $367.4 million in the comparable period last year. The $127.9 million decrease is primarily attributed to a $149.1 million decrease in the net change in non-cash working capital and a $2.3 million increase in income taxes paid. These amounts were partially offset by an increase in net earnings of $12.3 million and an increase in non-cash and other cash items of $11.2 million.

Cash flows from operating activities for the 52 weeks ended May 4, 2013 were $788.1 million compared to $814.6 million for the 52 weeks ended May 5, 2012. The $26.5 million decrease was primarily a result of a decrease in the net change in non-cash working capital of $153.6 million. This was partially offset by: (i) a $44.6 million decrease in income taxes paid; (ii) a $41.8 million increase in net earnings; and (iii) a $40.6 million increase in non-cash and other cash items.

The following table presents non-cash working capital changes on a quarter-over-quarter basis.

Non-Cash Working Capital (Quarter-Over-Quarter)			13 Weeks Ended May 4, 2013	13 Weeks Ended May 5, 2012
($ in millions)	May 4, 2013	Feb. 2, 2013	Increase (Decrease) in Cash Flows	Increase (Decrease) in Cash Flows
Receivables	$ 381.7	$ 324.6	$ (57.1)	$ (32.1)
Inventories	900.8	895.0	(5.8)	25.2
Prepaid expenses	86.2	72.4	(13.8)	(6.3)
Accounts payable and accrued liabilities	(1,765.8)	(1,657.0)	108.8	182.5
Provisions	(30.6)	(37.4)	(6.8)	3.2
Impact of reclassifications on working capital	(1.3)	–	1.3	3.2
Total	$ (429.0)	$ (402.4)	$ 26.6	$ 175.7

The net change in non-cash working capital of $26.6 million in the fourth quarter is largely attributed to an increase in accounts payable and accrued liabilities of $108.8 million. The increase in accounts payable and accrued liabilities was partially offset by: (i) an increase in receivables of $57.1 million; (ii) an increase in prepaid expenses of $13.8 million; (iii) a decrease in provisions of $6.8 million; and (iv) an increase in inventories of $5.8 million. The increase in inventories in the fourth quarter of fiscal 2013 compared to the decrease last year relates to increased fuel inventory compared to the prior year, combined with increased inventory related to the opening of the new distribution centre in Terrebonne, Québec in the third quarter of fiscal 2013.

The Company's ratio of current assets to current liabilities of 1.0 times was up slightly from the 0.9 times reported in the same period last year.

Investment

Cash used in investing activities of $91.3 million in the fourth quarter of fiscal 2013 decreased $336.7 million compared to cash used in investing activities of $428.0 million last year. The decrease was primarily the result of: (i) a decrease in cash used for business acquisitions of $215.6 million; (ii) an increase in proceeds on disposal of property, equipment and investment property of $56.4 million; (iii) a decrease in property, equipment and investment property purchases of $52.4 million; (iv) a decline in cash used to fund a net increase in investments of $42.0 million; and (v) a decrease in additions to intangibles of $4.2 million. These amounts were partially offset by an increase in cash used in loans and other receivables of $26.9 million and an increase in cash used to fund other assets and other long-term liabilities of $7.3 million.

Consolidated purchases of property, equipment and investment properties totalled $131.6 million in the 13 weeks ended May 4, 2013 compared to $184.0 million in the 13 weeks ended May 5, 2012. Proceeds on the disposal of property, equipment and investment properties increased $56.4 million from $25.0 million recorded in the fourth quarter of fiscal 2012 to $81.4 million recorded in the fourth quarter of fiscal 2013. During the quarter, the Company sold four properties (fiscal 2012 – zero properties) to Crombie REIT, three (fiscal 2012 – zero) of which were leased back. Cash consideration received for the properties was recorded at the exchange amount of $53.3 million (fiscal 2012 – $nil).

For the 52 weeks ended May 4, 2013, cash used in investing activities was $555.3 million, a decrease of $213.0 million from cash used in investing activities of $768.3 million last year. The decrease was primarily the result of: (i) a decrease in cash used to fund business acquisitions of $229.8 million; (ii) a decrease in property, equipment and investment property purchases of $70.8 million; (iii) an increase in cash generated from other assets and other long-term liabilities of $28.9 million; and (iv) a decrease in additions to intangibles of $3.6 million. Partially offsetting these amounts were: (i) an increase in cash used to fund a net increase in investments of $63.3 million; (ii) an increase in cash used to fund loans and other receivables of $41.6 million; and (iii) a $14.9 million decrease in proceeds on disposal of property, equipment and investment property.

For the 52 weeks ended May 4, 2013, consolidated purchases of property, equipment and investment properties totalled $531.9 million compared to $602.7 million last year. Proceeds on the disposal of property, equipment and investment properties decreased $14.9 million from $196.0 million recorded in fiscal 2012 to $181.1 million recorded in fiscal 2013. During fiscal 2013, the Company sold eight properties (fiscal 2012 – nine properties) to Crombie REIT, seven (fiscal 2012 – seven) of which were leased back. Cash consideration received for the properties was recorded at the exchange amount of $106.0 million (fiscal 2012 – $123.9 million).

The table below outlines the number of stores Sobeys invested in during the 13 and 52 weeks ended May 4, 2013 compared to the 13 and 52 weeks ended May 5, 2012.

Sobeys' Corporate and Franchised Store Construction Activity

	13 Weeks Ended		52 Weeks Ended	
# of stores	**May 4, 2013**	May 5, 2012	**May 4, 2013**	May 5, 2012
Opened/acquired/relocated	**16**	9	**45**	45
Acquisition of retail gas locations and related convenience store operations	**–**	236	**–**	236
Expanded	**1**	4	**2**	13
Rebannered/redeveloped	**–**	16	**7**	30
Closed	**12**	10	**37**	44

The following table shows Sobeys' square footage changes for the 13 and 52 weeks ended May 4, 2013, by type.

Sobeys' Square Footage Changes

	13 Weeks Ended	52 Weeks Ended
Square feet (in thousands)	May 4, 2013	May 4, 2013
Opened	297	933
Relocated	67	67
Acquired	13	14
Expanded	10	27
Closed	(140)	(486)
Net change	247	555

At May 4, 2013, Sobeys' square footage totalled 29.9 million square feet, a 2.0 percent increase over the 29.3 million square feet operated at the end of fiscal 2012.

Financing

Financing activities during the fourth quarter used $63.5 million of cash compared to $26.2 million of cash generated in the same quarter last year. The increase in cash used of $89.7 million is primarily the result of: (i) a decrease in the issuance of long-term debt of $47.3 million; (ii) an increase in the repayment of long-term debt of $34.5 million; and (iii) an increase in interest paid of $8.4 million.

During the 52 weeks ended May 4, 2013, financing activities used $287.8 million of cash compared to $152.0 million of cash used in fiscal 2012. The increase of $135.8 million is primarily the result of an increase in the repayment of long-term debt of $169.7 million and a decrease in bank indebtedness of $2.8 million. Partially offsetting these amounts were an increase in the issuance of long-term debt of $31.1 million and a decrease in interest paid of $5.6 million.

Business Acquisitions

On March 15, 2012, Sobeys acquired 236 retail gas locations and related convenience store operations in Québec and Atlantic Canada from Shell Canada for $214.9 million. The network acquired includes corporate owned and dealer operated locations. The acquisition of these retail gas locations complements Sobeys' convenience store operations.

The total consideration of $214.9 million was paid in cash. Acquisition costs of $3.9 million relating to external legal, consulting, due diligence and other closing costs were incurred and have been included in selling and administrative expenses in the consolidated statements of earnings for the 13 and 52 weeks ended May 5, 2012.

The fair value of the identifiable assets acquired and liabilities assumed as at the acquisition date are as follows:

($ in millions)	
Inventories	$ 8.0
Property and equipment	136.3
Intangibles	22.3
Provisions	(23.2)
Other assets and liabilities	5.2
Total identifiable net assets	$ 148.6
Excess consideration paid over identifiable net assets acquired	$ 66.3

During fiscal 2013, management finalized the purchase price allocation related to this acquisition. As a result, the consolidated balance sheet as at May 4, 2013 was adjusted by an increase to land of $1.7 million, a decrease to equipment of $3.4 million, an increase to provisions of $0.6 million and an increase to goodwill of $2.3 million.

Guarantees and Commitments

Guarantees

Franchise Affiliates

Sobeys has a guarantee contract under the terms of which, should franchise affiliates be unable to fulfill their lease obligations, Sobeys would be required to fund the greater of $7.0 million or 9.9 percent (fiscal 2012 – $7.0 million or 9.9 percent) of the authorized and outstanding obligation. The terms of the guarantee contract are reviewed annually each August. As at May 4, 2013, the amount of the guarantee was $7.0 million (fiscal 2012 – $7.0 million).

Sobeys has guaranteed certain equipment leases of its franchise affiliates. Under the terms of the guarantee, should franchise affiliates be unable to fulfill their lease obligations, Sobeys would be required to fund the difference of the lease commitments up to a maximum of $70.0 million on a cumulative basis. Sobeys approves each of the contracts.

During fiscal 2009, Sobeys entered into an additional credit enhancement contract 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 franchisee affiliates be unable to fulfill their lease obligations or other remedy, Sobeys would be required to fund the greater of $6.0 million or 10.0 percent (fiscal 2012 – $6.0 million or 10.0 percent) of the authorized and outstanding obligation annually. Under the terms of the contract, 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 determined that there were no material implications with respect to the consolidation of SPEs. As at May 4, 2013, the amount of the guarantee was $6.0 million (fiscal 2012 – $6.0 million).

The aggregate, annual, minimum rent payable under the guaranteed operating equipment leases for fiscal 2014 is approximately $15.8 million. The guaranteed lease commitments over the next five fiscal years are:

($ in millions)	Third Parties
2014	$ 15.8
2015	0.5
2016	0.3
2017	–
2018	–
Thereafter	–

Other

At May 4, 2013, the Company was contingently liable for letters of credit issued in the aggregate amount of $97.8 million (fiscal 2012 – $69.6 million).

Upon entering into the lease of its new Mississauga distribution centre in March 2000, Sobeys guaranteed to the landlord the performance by SERCA Foodservice Inc. of all of its obligations under the lease. The remaining term of the lease is seven years with an aggregate obligation of $22.6 million (fiscal 2012 – $25.6 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 the purchaser, and Sysco Corp. agreed to indemnify and hold Sobeys harmless from any liability it may incur pursuant to its guarantee.

Commitments

Long-Term Debt

Principal debt retirement in each of the next five fiscal years is as follows:

($ in millions)	
2014	$ 37.0
2015	41.0
2016	199.2
2017	10.0
2018	105.7
Thereafter	534.2

Finance Leases

Finance lease liabilities are payable as follows:

($ in millions)	Future Minimum Lease Payments	Interest	Present Value of Minimum Lease Payments
2014	$ 12.3	$ 1.7	$ 10.6
2015	8.0	1.2	6.8
2016	6.2	1.0	5.2
2017	6.1	0.7	5.4
2018	4.0	0.5	3.5
Thereafter	9.6	2.4	7.2
	$ 46.2	$ 7.5	$ 38.7

During fiscal 2013, the Company increased its finance lease obligation by $8.8 million (fiscal 2012 – $4.2 million) with a similar increase in assets under finance leases. These additions are non-cash in nature, therefore have been excluded from the statements of cash flows.

Operating Leases, as Lessee

The Company leases various retail stores, distribution centres, theatres, offices and equipment under non-cancellable operating leases. These leases have varying terms, escalation clauses, renewal options and basis on which contingent rent is payable.

The total net, future minimum rent payable under the Company's operating leases as of May 4, 2013 is approximately $2,748.9 million. This reflects a gross lease obligation of $3,730.1 million reduced by expected sub-lease income of $981.2 million. The net commitments over the next five fiscal years are:

	Third Parties		Related Parties	
($ in millions)	Net Lease Obligation	Gross Lease Obligation	Net Lease Obligation	Gross Lease Obligation
2014	$ 228.8	$ 338.6	$ 65.8	$ 65.8
2015	214.4	315.6	65.7	65.7
2016	198.6	293.6	64.8	64.8
2017	180.8	266.2	58.0	58.0
2018	163.3	237.1	57.2	57.2
Thereafter	888.1	1,404.1	563.4	563.4

The Company recorded $440.0 million (fiscal 2012 – $411.6 million) as an expense for minimum lease payments for the fiscal year ended May 4, 2013 in the consolidated statements of earnings. The expense was offset by sub-lease income of $129.9 million (fiscal 2012 – $118.3 million), and a further $9.2 million (fiscal 2012 – $4.5 million) of expense was recognized for contingent rent.

Operating Leases, as Lessor

The Company also leases most investment properties, under operating leases. These leases have varying terms, escalation clauses, renewal options and basis on which contingent rent is receivable.

Rental income for the fiscal year ended May 4, 2013 was $59.2 million (fiscal 2012 – $41.7 million) and was included in sales in the consolidated statements of earnings. In addition, the Company recognized $1.0 million of contingent rent for the fiscal year ended May 4, 2013 (fiscal 2012 – $1.5 million).

The lease payments expected to be received over the next five fiscal years are:

($ in millions)	Third Parties
2014	$ 7.1
2015	5.9
2016	5.5
2017	5.2
2018	4.4
Thereafter	24.6

Free Cash Flow

Free cash flow 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 from operating activities for the 13 and 52 weeks ended May 4, 2013 and the 13 and 52 weeks ended May 5, 2012.

	13 Weeks Ended		52 Weeks Ended	
($ in millions)	**May 4, 2013**	May 5, 2012	**May 4, 2013**	May 5, 2012
Cash flow from operating activities	**$ 239.5**	$ 367.4	**$ 788.1**	$ 814.6
Add: proceeds on disposal of property, equipment and investment property	**81.4**	25.0	**181.1**	196.0
Less: property, equipment and investment property purchases	**(131.6)**	(184.0)	**(531.9)**	(602.7)
Free cash flow(1)	**$ 189.3**	$ 208.4	**$ 437.3**	$ 407.9

(1) See Non-GAAP Financial Measures on page 31.

Free cash flow generation in the fourth quarter of fiscal 2013 was $189.3 million compared to $208.4 million generated in the fourth quarter last year. The $19.1 million decrease in free cash flow was due to a $127.9 million decrease in cash flow from operating activities, partially offset by a $56.4 million increase in proceeds on the disposal of property, equipment and investment property and a $52.4 million decrease in property, equipment and investment property purchases. The $127.9 million decrease in cash flow from operating activities is primarily attributed to a $149.1 million decrease in the net change in non-cash working capital and an increase in income taxes paid of $2.3 million, partially offset by an increase in net earnings of $12.3 million and an increase in non-cash and other cash items of $11.2 million.

For the 52 weeks ended May 4, 2013, free cash flow generation was $437.3 million compared to $407.9 million generated last year. The $29.4 million increase in free cash flow was primarily the result of a $70.8 million decrease in property, equipment and investment property purchases, partially offset by a decline in cash flow from operating activities of $26.5 million and a decline in proceeds on the disposal of property, equipment and investment property of $14.9 million. The $26.5 million decrease in cash flow from operating activities was primarily a result of a decrease in the net change in non-cash working capital of $153.6 million, partially offset by: (i) a $44.6 million decrease in income taxes paid; (ii) a $41.8 million increase in net earnings; and (iii) a $40.6 million increase in non-cash and other cash items.

ACCOUNTING STANDARDS AND POLICIES

Accounting Standards and Policies Adopted During Fiscal 2013

(i) Financial Instruments: Disclosures

In October 2010, the IASB issued amendments to IFRS 7, "Financial Instruments: Disclosures", which require increased disclosure for transactions involving the transfer of financial assets. The amendments became effective in the Company's first quarter of fiscal 2013. No new disclosures were required for the consolidated financial statements as a result of implementing these amendments.

(ii) Deferred Tax: Recovery of Underlying Assets

In December 2010, the IASB issued amendments to International Accounting Standard ("IAS") 12, "Income Taxes", which introduce an exception to the general measurement requirements of IAS 12 in respect of investment properties measured at fair value. The amendments became effective in the Company's first quarter of fiscal 2013. These amendments did not impact the Company, as its investment properties are not measured at fair value.

Future Changes in Accounting Standards

(i) Financial Instruments

In November 2009, the IASB issued IFRS 9, "Financial Instruments", which will ultimately replace IAS 39, "Financial Instruments: Recognition and Measurement". The replacement is a multi-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 is the first phase of the project, which provides guidance on the classification and measurement of financial assets and financial liabilities. IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

(ii) Consolidated Financial Statements

In May 2011, the IASB issued IFRS 10, "Consolidated Financial Statements", which establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The objective of IFRS 10 is to define principles of control and to establish the basis of determining when and how an entity should be included within a set of consolidated financial statements. It replaces portions of IAS 27, "Consolidated and Separate Financial Statements", and supersedes Standing Interpretations Committee ("SIC") 12, "Consolidation – Special Purpose Entities", completely and is effective for annual periods beginning on or after January 1, 2013. The Company has evaluated the impact of this standard on its "Investments in associates" and has determined that while having significant influence on these investments, the criteria for control are not met and therefore equity accounting for these investments continues to be appropriate. Management has also evaluated the impact of this standard as it applies to SPE's, and does not expect it to have a significant impact.

(iii) Joint Arrangements

In May 2011, the IASB issued IFRS 11, "Joint Arrangements", which establishes principles for financial reporting by entities that have an interest in a joint arrangement. IFRS 11 supersedes IAS 31, "Interest in Joint Ventures", and SIC 13, "Jointly Controlled Entities – Non Monetary Contributions by Venturers". Through an assessment of the rights and obligations in an arrangement, this IFRS establishes principles to determine the type of joint arrangement and guidance for financial reporting activities required by the entities that have an interest in arrangements that are jointly controlled and is effective for annual periods beginning on or after January 1, 2013. The adoption of this standard is not expected to have a significant impact on the Company's financial statements.

(iv) Disclosure of Interests in Other Entities

In May 2011, the IASB issued IFRS 12, "Disclosure of Interests in Other Entities", which outlines disclosure requirements for an entity that has interests in a subsidiary, a joint arrangement, an associate and an unconsolidated structured entity. IFRS 12 requires an entity to disclose information that enables users of its financial statements to evaluate the nature of, and risks associated with, its interest in other entities and the effects of those interests on its financial position, financial performance and cash flows. It is effective for annual periods beginning on or after January 1, 2013. The adoption of this standard will result in additional financial statement note disclosures relating to the Company's investments in associates and joint ventures.

(v) Fair Value Measurement

In May 2011, the IASB issued IFRS 13, "Fair Value Measurement", which defines fair value, sets out in a single IFRS a framework for measuring fair value and identifies required disclosures about fair value measurements. This IFRS is effective for annual periods beginning on or after January 1, 2013.

(vi) Employee Benefits

In June 2011, the IASB issued amendments to IAS 19, "Employee Benefits", which eliminate the option to defer the recognition of actuarial gains and losses, streamline the presentation of changes in assets and liabilities arising from defined benefit plans to be presented in other comprehensive income and enhance disclosure requirements around the characteristics of the defined benefit plans and risks associated with participation in those plans. The amendments are effective for annual periods beginning on or after January 1, 2013. The preliminary expected impact of the changes to this standard for the 52 weeks ended May 4, 2013 is a reduction in pre-tax earnings of $7.1 million and a pre-tax increase to other comprehensive income of $6.4 million.

(vii) Presentation of Financial Statements

In May 2012, the IASB issued amendments to IAS 1, "Presentation of Financial Statements", clarifying the requirements for comparative information. The amendments are effective for annual periods beginning on or after January 1, 2013.

The Company is currently evaluating the impact of these new standards and amendments on its consolidated financial statements.

Critical Accounting Estimates

The preparation of consolidated financial statements, in conformity with IFRS, requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The use of estimates, judgments and assumptions are all interrelated. Certain of these estimates require subjective or complex judgments by management that may be uncertain. Some of these items include the valuation of inventories, goodwill, employee future benefits, stock-based compensation, valuation of asset-backed commercial paper, provisions, impairments, customer loyalty programs, useful lives of property, equipment, investment property and intangibles for purposes of depreciation and amortization, 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. Management regularly evaluates the estimates and assumptions it uses. Actual results could differ from these estimates.

Impairment of Non-Financial Assets

Goodwill is reviewed for impairment at least annually by assessing the recoverable amount of each cash generating unit or groups of cash generating units to which the goodwill relates. The recoverable amount is the higher of fair value less costs to sell and value in use. When the recoverable amount of the cash generating units is less than the carrying amount an impairment loss is recognized immediately as selling and administrative expenses. Impairment losses related to goodwill cannot be reversed.

Long-lived tangible and intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). The recoverable amount is the higher of fair value less costs to sell and value in use. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash generating unit(s) to which the asset belongs. The Company has primarily determined a cash generating unit to be an individual store or theatre. Corporate assets, such as head offices and distribution centres, do not individually generate separate cash inflows and are therefore aggregated for testing with the locations they service. When the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount (or cash generating unit) is reduced to the recoverable amount. An impairment loss is recognized as selling and administrative expenses or cost of sales immediately in net earnings or loss.

Where an impairment loss subsequently reverses, other than related to goodwill, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate, but is limited to the carrying amount that would have been determined if no impairment loss had been recognized in prior periods. A reversal of impairment loss is recognized immediately in net earnings or loss.

In the process of measuring expected future cash flows, management makes assumptions about the future growth of profits. These assumptions relate to future events and circumstances. The actual results may vary and may cause significant adjustments to the Company's assets within subsequent financial years.

Pension Benefit Plans and Other Benefit Plans

The cost of the Company's pension benefits for defined contribution plans are expensed at the time active employees are compensated. The cost of defined benefit pension plans and other benefit plans is accrued based on actuarial valuations, which are determined using the projected unit credit method pro-rated on service and management's best estimate of the expected long-term rate of return on plan assets, salary escalation, retirement ages and expected growth rate of health care costs.

Current market values are used to value benefit plan assets. The obligation related to employee future benefits is measured using 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 impact of plan amendments is recognized as an expense and amortized on a straight-line basis over the average period until the benefits are vested. To the extent that increases in the obligation related to past service have vested immediately following the changes in the original plan, the Company recognizes past service cost immediately.

In measuring its defined benefit liability the Company will recognize all of its actuarial gains and losses immediately into other comprehensive income.

Income Taxes

Deferred 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. Deferred 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 deferred 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 deferred 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 deferred income tax balances on the consolidated balance sheets.

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 valued at retail and adjusted to cost; (ii) estimated inventory provisions due to spoilage and shrinkage occurring between the last physical inventory count and the balance sheet dates; 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 sheets and a charge or credit to operating income in the consolidated statements 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 dates. To the extent that actual losses experienced vary from those estimated, both inventories and operating income may be impacted.

Provisions

Provisions are recognized when there is a present legal or constructive obligation as a result of a past event, for which it is probable that a transfer of economic benefits will be required to settle the obligation, and where a reliable estimate can be made of the amount of the obligation. Provisions are discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the liability, if material.

Disclosure Controls and Procedures

Management of Empire, which includes the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), is responsible for establishing and maintaining Disclosure Controls and Procedures ("DC&P") as that term is defined in National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings". As at May 4, 2013, the CEO and CFO have evaluated, or caused to be evaluated under our supervision, the design and operation of the Company's DC&P. Based on that evaluation, the CEO and CFO have concluded that Empire's DC&P was effective as at May 4, 2013.

Internal Control over Financial Reporting

Management of Empire, which includes the CEO and CFO, is responsible for establishing and maintaining Internal Control over Financial Reporting ("ICFR"), as that term is defined in National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings". 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 Organizations of the Treadway Commission. As at May 4, 2013, the CEO and CFO have evaluated, or caused to be evaluated under our supervision, the design and operating effectiveness of the Company's ICFR. Based on the evaluation, the CEO and CFO have concluded that Empire's ICFR was effective as at May 4, 2013.

There have been no changes in Empire's ICFR during the period beginning February 3, 2013 and ended May 4, 2013 that have materially affected, or are reasonably likely to materially affect, Empire's ICFR.

RELATED PARTY TRANSACTIONS

The Company has related party transactions with various associates. The Company holds a 42.8 percent ownership interest in Crombie REIT which is accounted for using the equity method. As a result of the issuance of Crombie REIT units during the current fiscal year, partially offset by the Company's subscription of Class B limited partnership units and the conversion of Crombie REIT debentures, the Company's interest in Crombie REIT was reduced from 44.3 percent to 42.8 percent. On a fully diluted basis (assuming conversion of all outstanding convertible securities of Crombie REIT) the Company's interest in Crombie REIT would be approximately 40.8 percent.

The Company rents premises from Crombie REIT at amounts which, in management's opinion, approximate fair market value. Based upon the significant number of leases negotiated with third parties operating in the same markets in which the Company rents premises from Crombie REIT, management has determined the rental payments to Crombie REIT to be indicative of fair value. During the fiscal year 2013, the aggregate net payments under these leases, which are measured at exchange amount, were $80.6 million (fiscal 2012 – $75.1 million).

In addition, Crombie REIT provides administrative and management services to the Company. The charges incurred for administrative and management services are on a cost recovery basis. For the 52 weeks ended May 4, 2013, charges incurred for administrative and management services were $1.0 million (fiscal 2012 – $1.5 million).

The Company has non-interest bearing notes payable to Crombie REIT in the amount of $2.4 million (fiscal 2012 – $3.2 million) related to the subsidy payments to Crombie REIT pursuant to an omnibus subsidy agreement dated March 23, 2006 between certain subsidiaries of Crombie REIT and ECL Properties Limited.

During fiscal 2013, the Company sold eight properties (fiscal 2012 – nine properties) to Crombie REIT, seven (fiscal 2012 – seven) of which were leased back. Cash consideration received for the properties was recorded at the exchange amount of $106.0 million (fiscal 2012 – $123.9 million), resulting in a pre-tax gain of $15.0 million (fiscal 2012 – $12.4 million), which was recognized in the consolidated statements of earnings. During fiscal 2012, the Company acquired a property from Crombie REIT for $5.0 million which is equal to the fair market value of the property. As the property was leased by the Company from Crombie REIT, an additional $2.0 million was paid for the cancellation of the lease and recognized in the consolidated statements of earnings, with total cash consideration paid of $7.0 million. No properties were acquired during fiscal 2013.

The Company owns Crombie REIT Debentures with a market value of $24.8 million (May 5, 2012 – $nil). At May 5, 2012, the Company owned Crombie REIT Series B convertible unsecured subordinated debentures with a market value of $12.8 million. During the 52 weeks ended May 4, 2013, the Company received income related to these securities of $1.2 million (fiscal 2012 – $0.6 million).

On October 20, 2011, Crombie REIT closed a bought-deal public offering of units at a price of $12.85 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 limited partnership units (which are convertible on a one-for-one basis into units of Crombie REIT).

During the quarter ended November 5, 2011, fixed rate secured mortgages provided to Crombie REIT in the amount of $5.6 million were repaid in their entirety. During the 52 weeks ended May 5, 2012, the Company received income related to these mortgages of $0.2 million.

On March 29, 2012, Crombie REIT closed a bought-deal public offering of units at a price of $14.50 per unit. Concurrent with the public offering, the Company subscribed for approximately $53.0 million of Class B limited partnership units (which are convertible on a one-for-one basis into units of Crombie REIT).

On July 3, 2012, the Company purchased $24.0 million of Debentures from Crombie REIT, pursuant to a $60.0 million bought-deal prospectus offering. The Debentures have a maturity date of September 30, 2019. The Debentures have a coupon of 5.00 percent per annum and each $1,000 principal amount of Debenture is convertible into approximately 49.7512 units of Crombie REIT, at any time, at the option of the holder, based on a conversion price of $20.10 per unit.

On September 25, 2012, the Company converted Series B convertible unsecured subordinated debentures of Crombie REIT with a face value of $10.0 million into 909,090 units of Crombie REIT. The units were recorded at the exchange amount of $13.8 million, resulting in a pre-tax gain of $3.8 million.

During the quarter ended November 3, 2012, the Company acquired a parcel of land from Genstar Development Partnership, in which the Company holds a 40.7 percent interest. Cash consideration paid for the land was $7.6 million. The gain realized of $1.6 million was eliminated from property and equipment.

On December 14, 2012, Crombie REIT closed a bought-deal public offering of units at a price of $14.75 per unit. Concurrent with the public offering, the Company subscribed for $24.5 million of Class B limited partnership units (which are convertible on a one-for-one basis into units of Crombie REIT).

SUBSEQUENT EVENTS

On June 12, 2013, the Company and Sobeys announced that Sobeys entered in an Asset Purchase Agreement with Safeway Inc. and its subsidiaries to acquire substantially all of the assets and select liabilities of Canada Safeway for a cash purchase price of Cdn. $5.8 billion, subject to a working capital adjustment, plus the assumption of certain liabilities. The agreement provides for the purchase of the following:

- 213 full service grocery stores under the Safeway banner in Western Canada;
- 199 in-store pharmacies;
- 62 co-located fuel stations;
- 10 liquor stores;
- 4 primary distribution centres; and
- 12 manufacturing facilities.

The Company's and Sobeys' announcement included their intention that financing for the acquisition will come from a combination of the following: (i) a planned $1.5 billion Empire equity offering; (ii) a planned $1.0 billion sale-leaseback of acquired real estate assets; (iii) a $1.825 billion term loan and the issuance of $800 million in unsecured notes by Sobeys; (iv) other real estate and non-core asset sales; and (v) available cash on hand. As some of these transactions may not be completed by the time of closing, Scotiabank has provided Empire and Sobeys with fully committed credit facilities for the full purchase price plus transaction expenses required to close the transaction. Crombie REIT has a right of first offer in respect of any real estate sales undertaken by Sobeys. The closing of the acquisition is expected during the Company's second quarter of fiscal 2014, and is subject to the fulfillment or waiver of certain customary closing conditions as well as the receipt of required regulatory approvals, including that of the Competition Bureau.

Acquisition costs of $5.0 million relating to external legal, consulting, due diligence and other closing costs were incurred to May 4, 2013.

On June 27, 2013, the Company announced that Empire Theatres has reached a definitive agreement with Cineplex Inc. for the sale of 24 theatres in Atlantic Canada and 2 theatres in Ontario. Empire Theatres has also reached a separate definitive agreement with Landmark Cinemas for the sale of 20 theatres in Ontario and Western Canada.

The purchase price for the Cineplex transaction is $200 million to be paid in cash, subject to certain adjustments to be made at closing.

The purchase price for the Landmark transaction is approximately $55 million subject to certain adjustments to be made at closing, with the purchase price to be paid as follows: $31 million in cash on closing; $19 million in equity; and an earn out right which management estimates has a potential value of approximately $5 million. Upon closing, the assets will be held by a new entity with the Empire Theatres' equity being the controlling interest. The new entity will be consolidated into the Company's financial statements, including $30 million of debt in the new entity. Landmark will manage the business and have a right to buy out Empire Theatres' equity interest for $19 million in cash until December 31, 2013, following which Empire Theatres can agree to sell its equity interest in the entity and require Landmark to sell on the same terms.

Closing of the transaction with Cineplex and also with Landmark is subject to satisfaction of customary conditions and relevant regulatory approvals, which includes approval from the Competition Bureau. Closing of each transaction is expected to occur by late summer of 2013. Empire Theatres is not obligated to close either transaction without closing the other.

EMPLOYEE FUTURE BENEFIT OBLIGATIONS

For the 52 weeks ended May 4, 2013, the Company contributed $9.6 million to its registered defined benefit plans (fiscal 2012 – $10.7 million). The Company expects to contribute approximately $8.4 million in fiscal 2014 to these plans. The Company continues to assess the impact of the capital markets on its funding requirements.

DESIGNATION FOR ELIGIBLE DIVIDENDS

"Eligible dividends" receive favourable treatment for income tax purposes. To be an eligible dividend, a dividend must be designated as such at the time of payment.

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

CONTINGENCIES

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.

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.

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 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 the Company.

Competition

Empire's food retailing business, 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, operating in over 800 communities in Canada. 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 to meet a broader spectrum of needs of its customers in order to enhance profitability by region and target market.

Sobeys' real estate development operations and Empire, through its investment in Crombie REIT, compete with numerous other managers and owners of real estate properties in seeking tenants and new properties to acquire. The existence of competing managers and owners could affect their ability to: (i) acquire property in compliance with their investment criteria; (ii) lease space in their 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 sales and cash flows. To mitigate these risks, Sobeys and Crombie REIT maintain strategic relationships with developers to ensure an adequate supply of prospective attractive properties. In addition, Crombie REIT maintains strategic relationships with existing and potential tenants to help ensure high occupancy levels are maintained at each of its properties.

Continued growth of rental income is dependent on renewing expiring leases and locating 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. To mitigate this risk, Crombie REIT and Sobeys utilize staggered lease maturities to ensure that there are not unusually large amounts of leasable space coming up for renewal in any given year.

Genstar faces competition from other residential land developers in securing attractive sites for new residential lot development. Although Genstar holds land for future development, it faces significant competition when looking to acquire new land for future development. To mitigate this risk, Genstar maintains a geographically diverse inventory of well located land for development to alleviate periods of intense competition for the acquisition of new land. In addition, Genstar management has intimate knowledge of the residential markets where Genstar operates and in markets where it seeks new land investments.

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. The majority of Company debt is at fixed rates; accordingly, there is limited exposure to interest rate risk until debt maturity.

Liquidity

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

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. At May 4, 2013, bank indebtedness and approximately 31.4 percent of the Company's long-term debt was 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 purchases 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 operations. Labour disruptions pose a moderate operational risk as Sobeys operates an integrated network of 24 distribution centres across the country for the food retailing segment. Sobeys has good relations with its employees and unions and does not anticipate any material labour disruptions in fiscal 2014. 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 are 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 event and natural hazard is the risk of a pandemic. Sobeys has worked with industry and government sources to develop a pandemic preparedness plan. Responsibility for business continuity planning has been designated to the Human Resources Committee of Empire's Board of Directors.

Environmental Health and Safety

The Company is continually enhancing its programs in the 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.

Sobeys' retail fuel locations operate underground storage tanks. Environmental contamination resulting from leaks or damages to these tanks is possible. To mitigate this environmental risk, Sobeys engages in several monitoring procedures, as well as risk assessment activities, to minimize potential environmental hazards.

These activities mitigate but do not eliminate the Company's environmental risk, and as such, along with the risk of changes to existing environmental protection regulatory requirements, there remains exposure for negative financial and operational impacts to the Company in future years.

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.

Occupational Health and Safety

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, theatres, distribution centres and offices. These policies and programs are reviewed regularly by the Human Resources Committee of the Board.

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 Sobeys' 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 operating systems, tools and procedures in order to become more efficient and effective. The implementation of major information technology projects carries with it various risks, including the risk of 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.

Real Estate

The Company utilizes a capital allocation process which is focused on obtaining the most attractive real estate locations for its retail stores and theatres, as well as for its commercial property and residential development operations, with direct or indirect 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 the 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

The success of Empire 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 affiliate 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.

Drug Regulation

Legislated changes to generic prescription drug prices continued to impact Sobeys in fiscal 2013. On January 18, 2013, it was announced that in all provinces, with the exception of Québec, the reimbursement rate for the top six generic prescription drugs would be significantly reduced as of April 1, 2013 impacting fiscal 2013 and onward. Other amendments, the impacts of which vary province by province, continue to be announced. Sobeys will continue to identify opportunities to mitigate the negative impact on financial performance resulting from these changes.

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 Currency

The Company conducts the majority of its operating business in CAD and its foreign exchange risk is mainly limited to currency fluctuations between the CAD, the Euro and the USD. USD purchases of product by the food retailing segment 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 counterparties to fix the exchange rate on some of its expected requirements for Euros and USD.

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 is 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

It is important that 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 the Board review of significant capital allocation decisions. The Company has established prudent hurdle rates for capital investments that are evaluated through a prudent due diligence process.

Access to Capital

Access to capital risk refers to Empire or its operating companies 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 banks. Empire mitigates these risks by maintaining strong relationships with its banks and continuously monitors its credit ratings.

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 requirements.

Dividend Practice

The Board of Directors of Empire reviews from time to time the adequacy of Empire's dividend practice with the objective of allowing sufficient financial flexibility to continue investing in our business while growing returns to shareholders. Under the current dividend practice, increases in the Non-Voting Class A and Class B common share dividends are directly linked to growth in Empire's adjusted net earnings. Empire's dividend practice and the declaration of dividends are subject to the discretion of Empire's Board of Directors and, consequently, there can be no guarantee that Empire's dividend practice will be maintained or that dividends will be declared.

Additional financial information relating to Empire, including the Company's Annual Information Form, can be found on the Company's website www.empireco.ca or on the SEDAR website for Canadian regulatory filings at www.sedar.com.

Dated: June 27, 2013
Stellarton, Nova Scotia, Canada