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OPERATOR: Good afternoon my name is Michelle and I will be your conference operator today. At this time I would like to welcome everyone to the First Quarter Fiscal 2012 conference call. All lines have been placed on mute to prevent any background noise. After the speaker's remarks there will be a question and answer session. If you would like to ask a question during this time, simply press star and the number one on your telephone keypad. If you would like to withdraw your question, please press the pound key. Thank you Mr. Beesley you may begin your conference.

PAUL BEESLEY (Executive Vice President and Chief Financial Officer, Empire Company Ltd): Thanks so much Michelle and good afternoon and welcome to Empire Company Ltd's First Quarter conference call. Thank you for joining us today. Our comments will focus primarily on the financial results for the first quarter ended August 6th, 2011. After which we will be then open to respond to your questions. This call is being recorded in live audio on our website at www.empireco.ca

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

Joining me on the call this afternoon are, from Empire Company Ltd, Paul Sobey, President and Chief Executive Officer and Stewart Mahoney, Vice President Investor Relations and Treasury. And from Sobeys, we have Bill McEwan, President and Chief Executive Officer; Francois Vimard Chief Financial Officer and Paul Jewer, Senior Vice President, Finance and Treasurer.

We advise that this is the first quarter reporting our financial results under International Financial Reporting Standards. All comparative figures for the last fiscal year have been adjusted to conform to the newly adopted standards. With the transition to IFRS, the company now has two reportable segments. First, the Food Retailing Segment, which consists of wholly-owned Sobeys and second Investment and Other Operations the principal components of which include investments in Crombie REIT, Genstar Development Partnership and wholly-owned Empire Theatres.

This morning, we released Empire's financial results for the first quarter ended August 6th, 2011. We reported consolidated revenue in the first quarter of $4.15 billion compared to $4.03 billion the previous year, a 3.2 percent increase. First quarter operating earnings, that is, earnings before net capital gains and other items net of minority interest were $90.1 million or $1.32 per share compared to $86.3 million or $1.26 per share in the first quarter last year.

The company recorded capital losses net of tax, in the first quarter of $900,000 compared to no capital gains or losses in the first quarter last year. Net earnings in the first quarter after minority interest equaled $89.2 million or $1.31 per share compared to $86.3 million or $1.26 per share last year. Empire's liquidity remains strong with consolidated cash and cash equivalents of $638 million at the end of the first quarter, up from $617 million at the start of the fiscal year.

Our debt ratio continues to improve with funded debt to capital at the end of the first quarter equal to 25.5 percent versus 26.7 percent at the start of the fiscal year. And, authorized consolidated bank and credit facilities exceed borrowings by $741 million.

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

PAUL SOBEY (President and Chief Executive Officer, Empire Company Ltd): Thanks very much Paul and good afternoon everyone. We are pleased with the start to fiscal 2012 as both Sobeys and our Investment and Other Operation segment posted increased earnings in a very competitive environment. Sobeys improved merchandising and execution, combined with ongoing cost and productivity initiatives continue to fuel our ability to sustain growth and same store sales and operating income. Bill will provide his comments on Sobeys a little later; first two comments on our Investments and Other Operations.

During the first quarter, Empire's Investment and Other Operations reported earnings of 8.5 million versus 7.5 million last year. Crombie REIT's contribution to Empire's operating income in Q1 was 4.8 million versus 4.4 million last year. The increase is largely due to Crombie REIT's recording increased revenues and resulting higher profit net operating income. Crombie's property occupancy remains strong at 94.9 percent at the end of the second quarter and Crombie's leasing activity on about 666,000 square feet of (inaudible) during the six months ended June 30th, which represented about 61 percent of its 2011 lease expirees. Average net rent per square foot for leasing activity in 2011 increased to 16.51 per square foot compared to average expiring rent per square foot of 14.15, a 17 percent increase. For details and information on Crombie's REIT performance, please see its quarterly release dated August 11th.

On the residential property side, Genstar contributed operating income for the first quarter of 7.5 million compared to 7.9 million last year, the reduction primarily due to lower margins on residential lot sales. Other

Investments and Operations contributed to operating income of 2.7 million versus 2.9 million last year. Operating income for the first quarter last year included 3.4 million equity accounted earnings from weighted income fund. This investment was subsequently sold in the second quarter of last fiscal year as such there is no equity earnings accounted (inaudible) in the first quarter of 2012 obviously.

Bill, turn it over to you now for comments on Sobeys.

BILL MCEWAN (President and Chief Executive Officer, Sobeys): Thank you Paul. Sobeys Q1 sales increased $133 million or 3.4 percent to $4.1 billion. Same store sales grew by 1.7 percent in the quarter. Aggregate inflation totaled 1.5 percent for the quarter. Sobeys Q1 gross margin percentage was consistent with last year at 24.2 percent. Sobeys Q1 EBIT (phon) contribution to Empire increased $2.1 million to $135.4 million. Sobeys Q1 net earnings contribution to Empire increased $2.8 million to $81.6 million. Free cash flow in Q1 was $79 million.

We continue to invest across the entire company in our store network and infrastructure. During the first quarter, Sobeys CAPEX totaled $114 million covering store network renewal, infrastructure improvements and expansion projects. Eight corporate and franchise stores were opened, acquired or relocated, three stores were expanded and three stores were re-bannered. At August 6th this year, Sobeys square footage totaled 28.8 million square feet, a 2.1 percent increase over last fiscal year. After several years of continued focus and sustained investment, our store network is now approximately 75 percent to standard that we consider current and performing well. Additionally, we continue to be pleased with the customer response to our FreshCo offer. We have now substantially completed the roll out of the FreshCo format and have shifted our focus to optimizing store level execution day to day.

We continue to upgrade our distribution network; most notably construction is well underway in Quebec on our second automated distribution facility. Our SAP (phon) Quebec implementation is right on track. We have put tools, processes and disciplines in place to assist our people in getting the job done well and we continue the process of accelerating further cost, productivity and efficiency initiatives as a key priority.

Through these initiatives we remain confident and committed to sustaining growth and building on our market position. Going forward as we have said before, we will continue to improve our offering and our service, develop our people, bring even more stores to standard and improve our productivity. We intend to lower our costs, innovate intelligently and execute well and consistently store by store. Bottom line, as a team we remain committed to being widely recognized as the very best food retailer in this country.

We will now conclude the call with Paul Sobey's comments, Paul.

PAUL SOBEY (President and Chief Executive Officer, Empire Company Ltd): Thanks Bill. So as I said earlier, we're off to a good start. We continue to make significant progress and there is a strong sense of pride and a winning spirit throughout the organization that has taken root in doing the job well in a line up of clearly understood strategic objectives. We will now be happy to respond to your questions.

OPERATOR: If anybody has a question please press star, one on your telephone keypad. Your first question comes from Perry Caicco from CIBC World Markets, your line is open.

PERRY CAICCO: Thanks. Just want to explore the composition of your same store sales number, I think you said that a bit of that was inflation, but was the rest of that primarily traffic growth or basket size?

PAUL SOBEY: No, it's primarily basket size, three quarters was basket size with some modest traffic increase.

PERRY CAICCO: And how balanced was the same store sales growth regionally?

PAUL SOBEY: It varied quite significantly actually. We had same store sales growth in every region of the company but it varied significantly to that average of 1.7.

PERRY CAICCO: Would FreshCo have contributed a meaningful amount to that growth?

PAUL SOBEY: You know Perry we don't split it out but suffice it to say that those stores that cycled year-over-year were not insignificant.

PERRY CAICCO: Okay and when you look out over the remaining fiscal year, I just wondered how you feel about gross margin going forward, what are some of the pressures that you'll be under and what are some of the areas that you feel you can make some progress?

PAUL SOBEY: I think we're going to see some either self imposed or competitively imposed continued pressures on pricing. We intend to continue to sustain our competitive pricing position and that will have downward presence on margins. We think we've got a really good balance in our approach to investing intelligently on price and a plan for (inaudible).

I think as evidenced by some of our most recent moves in Western Canada and British Columbia, we continue to build at a modest rate our EBITDA by managing our SG&A wisely and improving our mix and controlling our shrink. But, we don't think it's reasonable to expect that there's going to be some sort of magical solution on increased pricings. So we're preparing to continue to improve our price position intelligently and methodically and carefully over time.

PERRY CAICCO: Is there any way to hold gross margins flat in that kind of an environment?

PAUL SOBEY: I think so. If we continue to manage it as successfully as the various teams have and it varies region by region as you know Perry, in aggregate it shows well. And we have move difficulty in some places than others. But if we continue to manage this as carefully and as diligently and as planfully as I think the teams have across the country, I think that's not an unreasonable expectation.

PERRY CAICCO: Okay, that's good for now, thanks.

OPERATOR: Your next question comes from Patricia Baker, from Scotia Capital, your line is open.

PATRICIA BAKER: Thank you very much. Good afternoon everyone. Bill you noted in your commentary that you're substantially completed the roll out of the FreshCo and you've shifted your focus I guess more to execution and fine tuning, how many FreshCo stores did you have at the end of the first quarter and are you absolutely complete or just almost complete?

BILL MCEWAN: We're not absolutely complete. We had 60 at the end of the quarter.

PATRICIA BAKER: Did you say six, zero?

BILL MCEWAN: Six, zero, 64 as of today and we have a couple more to go with 12 Price Chopper assets that we are taking other actions with either conversions to another banner, closing or running the leases through.

PATRICIA BAKER: Okay and conversion to another banner would that be, that would presumably be a banner that's already in existence?

BILL MCEWAN: Yes.

PATRICIA BAKER: Good, didn't want you venturing off too far there. Thanks.

OPERATOR: Your next question comes from Michael Van Aelst from TD Securities, your line is open.

MICHAEL VAN AELST: Hi, can you talk a little bit more about the competitive environment and the inflation environment and how it progressed throughout the quarter and into Q2?

BILL MCEWAN: Well it, as we mentioned last time we were headed to, we had no inflation or deflation at the end of last quarter. Clearly, it grew to an aggregate of 1.5 for the total quarter and obviously finished slightly ahead of that 1.5 but it's very important to point out that inflation varies significantly across the country, significantly across the country. And while I will not comment on what regions were what inflation rate we just wanted to make sure we contextualize the real same store sales in the context of the 1.7.

There's a significant difference in some regions as a result of competitive activity, market opportunities and in some cases we imposed some deflation on ourselves by taking a strategic position on pricing category by category. And I think we talked about that either last quarter or the quarter before specifically with regard to Western Canada. So, it aggregates to 1.5 but it's quite different from region to region.

MICHAEL VAN AELST: And how about on the competitive side, is there anything that you're seeing dramatically changing in one region or another?

BILL MCEWAN: No. What we would say is that, I would argue that just basic execution across the board is increasing and improving. As is ours, we're very pleased with our day-to-day execution relative to where we were many years ago. But the competitive environment is not essentially different in any region than it was three or six months ago.

MICHAEL VAN AELST: Okay and then the other income line that's new on the income statement, it says it's gains and losses on disposal of assets, are these properties that are sold to Crombie or is it something else?

UNIDENTIFIED SPEAKER: No, it's something else. It was an asset unrelated that was disposed of, the 900 thousand, is that what you're talking about?

(Cross talking) That would be the biggest factor in there and that would be as a result of conversion of debentures within Crombie REIT which has the effect of decreasing our ownership and under accounting rules we're required to recognize the dilution (inaudible).

MICHAEL VAN AELST: Okay, so that, I think it was about a $4 million swing year-over-year that was more one time in nature?

UNIDENTIFIED SPEAKER: Yes, there is some sales from Sobeys to Crombie as well in that number. So those two factors would account for the increase.

MICHAEL VAN AELST: All right, thank you.

OPERATOR: Again, if you'd like to ask a question please, press star, one on your telephone keypad. Your next question comes from Peter Sklar, from BMO Capital Market, your line is open.

PETER SKLAR: In your financial statements you provided a reconciliation of last year's first quarter going from GAAP to IFRS accounting. And it seemed that IFRS last year gave you an additional $0.07 per share versus if you had still been on GAAP. Explain what is it in the accounting that gave you that extra $0.07 a share?

UNIDENTIFIED SPEAKER: I think a big part of it is within results from the sales of assets from Sobeys to Crombie. So, at the Empire level last year any sales between either Empire or Sobeys and Crombie, the gain was eliminated, it was not recorded in the income statement rather what happened would be to the extent it was a gain it reduced securing value of our investment in Crombie.

This year under IFRS at the Sobeys level, Sobeys recognizes 100 percent of the gains related to the sales of their assets to Crombie. When you look at the Empire financial statements, again under IFRS, we're required to remove our portion of the gain related to our ownership and only recognize the portion of the gain related to the public ownership in Crombie.

PETER SKLAR: What would have been the impact in this year's first quarter of the IFRS accounting treatment?

UNIDENTIFIED SPEAKER: Well, about $4 million or so.

PETER SKLAR: Pre-tax?

UNIDENTIFIED SPEAKER: No. If you look at note, in the financials note 18, it actually provides the detailed summary reconciling the first quarter (inaudible) in aggregate the impact of IFRS takes our net income from 81.6 up to 90.6 and as I said, the biggest amount of that would relate to the different treatment of Crombie. There are a few other minor adjustments in there and the details are contained in note 18 and 19.

PETER SKLAR: Right, okay I'll take a look at that. On the FreshCo, previously you've disclosed what the start up costs were related to FreshCo. Is that something you can provide for the first quarter?

PAUL SOBEY: No, we've just put them in the numbers. We wouldn't call them material or worth disclosing at this point.

PETER SKLAR: Okay, and I'm just wondering if you can talk a little bit more about your price repositioning in Western Canada. You talked a little bit about it last quarter Bill, I think you initially said it largely related to fresh, I think it also extended to grocery, I'm just wondering what was the motivation for the repositioning and what was your sense of the impact in terms of your margins and market share?

BILL MCEWAN: Well I'll share this to the extent that we talk about in our regional results. I did mention that we had a fresh foods pricing repositioning indeed, in fact at that time, while I didn't mention it, we had plans to move that forward in a planful way across other departments. When you look at the competitive dynamics in Western Canada, there have been some shifts in how people are attempting to position themselves after what I would say some of them being decades of quite high price. So as those shifts took place we have no intention to giving up our relative competitive position and with the benefit of being able to plan our way into it, looked at different mix initiatives, looked at different category pricing, looked at different mechanism and put ourselves in a position to invest appropriately department by department and establish a better everyday pricing position in balance with a re-tooled promotional strategy.

So (inaudible) department by department, we're not the kind of organization that comes out with a big hoopla and says thousands of prices dropping this Monday, we kind of go at it in a more disciplined way and execute it across departments and categories and end up in a better place in a sustainable fashion and that's what we've done. It's had measured impact, some modest negative impact for the short term (inaudible) changes on the margins, some modest negative impact on your sales because you're imposing deflation on yourself, but put it this way, it's right on plan with our expectations net of the cost and productivity initiatives that we've undertaken to fuel that ability to do that.

So I'm pleased with the progress we're making in Western Canada and it's on track with our expectations.

PETER SKLAR: And this price shift you saw amongst your competitors, was it in conventional or discount banners or everywhere?

BILL MCEWAN: Discount has always been very competitive relative to the balance of the market out there. I think that's well known. But one of the major competitors took a stronger position on pricing than they have for a number of years and rather than wait to measure the impact of that should it take seed we wanted to make sure, as part of our long-term strategy, not that it was done as a result of what they did but we accelerated the implementation of our pricing strategies with that small additional catalyst. But yes it was more the conventional segment.

PETER SKLAR: Okay, thank you.

OPERATOR: Next question comes from Keith Howlett from Desjardins Security, your line is open.

KEITH HOWLETT: Yes I was wondering; I'm not sure you're doing this any longer or have done for a few quarters, but are you breaking out the business re-engineering expenses in the Quebec market?

UNIDENTIFIED SPEAKER: No, Francois, we're just paying our way through those as we go.

FRANCOIS VIMARD (Chief Financial Officer, Sobeys): We have some again this quarter, but the same amount as we had the previous quarters.

UNIDENTIFIED SPEAKER: So, no we're not exposing those individual.

KEITH HOWLETT: And then just a quick question on the, I guess we've had Walmart Super Centres open in Laval, two of them right next to IGA extra stores, so I'm wondering what the experience has been there and also in the Winnipeg market where I guess three have opened and, according to the Winnipeg Press, which it might be old news, but so I'm not sure whether it's current but that you might have reduced some of your prices in the Manitoba market at the beginning of September, so I'm just trying to get a sense of what your experience is, is there any difference what you see in Quebec and Manitoba versus what you already experienced for five years here in Ontario or just how is that shaking out?

BILL MCEWAN: I'll answer that in reverse. First of all, in Western Canada any indication about what we did on pricing in the West you can really go back to the last question that was asked of me and it's a general repositioning of pricing as part of our overall plan in the West that includes Winnipeg. So that's what drove our pricing decision there, not any specific competitive reaction the one you referred to.

It's early days in the province of Quebec, but we have a solid business there that I think is well known and we have a very strong set of franchisees and management team. We've had three of those stores you referred to open up in very close proximity to ours and I would call the impact of them modest and not shocking and not surprising. But you know any new square footage, (inaudible) square footage and it takes business away and that's what we're in the business of offsetting, but I would suggest to you that it certainly hasn't had the same impact there that it has had in some other markets.

KEITH HOWLETT: And then I was wondering if you could comment on how the small town Ontario stores did, just wondering whether tourism was down or up or whether they performed sort of about as same as usual?

BILL MCEWAN: Yes, we don't segment it by vendor but it was a great summer in Ontario particularly in Cottage Country, so that obviously has a benefit to stores in those areas. So, I wouldn't relate it specifically to tourism but we're very pleased with our operation, with the progress of our operations overall in Ontario and the teams with Foodlands which are now represent about 158 stores, are doing a great job we're proud of the work they're doing.

KEITH HOWLETT: Just, finally guys I did get a chance to see the, I guess the (inaudible) store, how is that performing in the early going?

BILL MCEWAN: The (inaudible) store was a new prototype, it was a step up and a step out. The team did some very different things there to challenge the status quo. We subsequently opened additional stores where we've modified some of those executions as I said before, you know what when you're not trying new things and you're not taking a few new risks and you're not going forward with a new concept, you know you're not paying attention in this business. So, not, there were a lot of great things and tremendous feedback, there's some things that didn't work that got re-tooled, but that was the exact intention of that store.

Customer feedback there is spectacular. The site still continues to be a little challenged from access (inaudible) and the site itself, so we're a little disappointed with that, but I wouldn't look to the one store, I'd look to it as, well it's one store that we're looking to have good business and it's doing fine, but it's kind of a laboratory that we learn from and it's improving our execution across the network as a result.

KEITH HOWLETT: At the annual meeting, Mr. Sobey mentioned the prototype Thrifty's sort of the new version, the next generation Sobeys, next generation Thrifty's, next generation IGA extra, is that (inaudible) sort of the beginning of the next generation or should we look to another store?

BILL MCEWAN: What I'd suggested the last time when we talked about next generation is that in our different operating regions, with our different brands; Thrifty's, Sobeys, we have different operating characteristics in each region and that's why we've chosen to go to business that way thus far. We have new innovations going on in every area.

What our biggest opportunity though Keith is not having different things going on in different areas but is to optimize our full service format stores of Thrifty's, Sobeys and IGA extra with the best practices incorporated in all the stores going forward. And we've had teams working together to do just that. But while we have next generation of stores, what I was trying to convey when I mentioned that before is we're not standing still and just cookie cutting our approach. This is a business where if you're not innovating and changing and staying current with the changes in consumer and the patterns and the proximities and the adjacencies and the flow of the store then you're going to rot and we just want to express that we are remaining on top of it and dynamic.

KEITH HOWLETT: Great, thanks very much.

OPERATOR: Next question comes once again from Perry Caicco from CIBC World Market, your line is open.

PERRY CAICCO: Bill, you've had some senior management changes over the last few months, I guess especially one rather senior loss, can you remind us about the state of your management team at this point?

BILL MCEWAN: I'm proud to say it's the best management team I've ever worked with across the country and it's taken some time to put it in place but the more consistent performance the last four or five years driven by it. We sit here and we talk on these calls about the aggregate performance that's a result of focused management teams doing their jobs region by region, so from coast to coast we've always got a few gaps and a few opportunities to improve but I think it's an excellent management team. And with the loss of the individual that you were referring to, who is an excellent retailer, who made a significant positive impact in the time he was with us, he left to pursue generally personal interests and we thank him for his contribution and as you know Perry there were a few people that were recruited as a result of that person joining our organization who continue to serve our stores very, very well and we're pleased to have them working side by side with the great people that have been with Sobeys for years and decades. So I feel very, very good about our management team.

PERRY CAICCO: Okay, thanks.

OPERATOR: Your next question comes from Chris Lee from Bank of America, your line is open.

CHRIS LEE: Hi, good afternoon. Just a question on your operating expenses at Sobeys. I believe the RPEX rate this quarter was essentially flat compared to last year, can you give us some colors in what you expect for the rest of the year, what we can expect the operating expense trend will be?

BILL MCEWAN: You're asking about our Sobeys operating expenses on a go forward basis, what we expect?

CHRIS LEE: Yes. The operating expense rate as a percentage of sales this quarter was essentially flat compared to last year, can we expect a similar trend?

BILL MCEWAN: Yes. As far as we know, that's what we expect.

CHRIS LEE: Okay, thanks.

PAUL BEESLEY: Michelle, are there any other questions? Hello?

OPERATOR: Your next question comes from Michael Van Aelst, from TD Securities, your line is open.

MICHAEL VAN AELST: Just a short one, the tax rate that dropped down to I think 27.1 is that sustainable at that level now going forward?

UNIDENTIFIED SPEAKER: No, I think, you know, probably we'd say more around 28 percent, maybe 100 basis points higher, thereabouts.

MICHAEL VAN AELST: Okay, thank you.

OPERATOR: I have no further questions in queue, Mr. Beesley I turn the call back over to you for closing remarks.

PAUL BEESLEY: Thank you Michelle and we want to thank each and every one of you for your continued interest in Empire and remind you that we'll be hosting the next quarter's call on December the 15th and look forward to having you join us then. Thanks so much, bye bye.

OPERATOR: This concludes today's conference call, you may now disconnect.

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