

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-K**

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 28, 2013

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-00041



**SAFEWAY INC.**

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

94-3019135

(I.R.S. Employer Identification No.)

5918 Stoneridge Mall Road

Pleasanton, California

(Address of principal executive offices)

94588-3229

(Zip Code)

Registrant's telephone number, including  
area code:

(925) 467-3000

**Securities registered pursuant to Section 12(b) of the Act:**

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.01 par value per share	New York Stock Exchange
7.45% Senior Debentures due 2027	New York Stock Exchange
Preferred Stock Purchase Rights	New York Stock Exchange

**Securities registered pursuant to Section 12(g) of the Act:**

(Title of class)

NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. **Yes** ☒ **No** ☐.

(Cover continued on following page)

## SAFEWAY INC. AND SUBSIDIARIES

(Cover continued from previous page)

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ☐ No ☒.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files) Yes ☒ No ☐.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K ☒.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes ☐ No ☒.

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter. The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 15, 2013 was approximately \$5.8 billion.

As of February 20, 2014, there were outstanding approximately 230.3 million shares of the registrant's common stock.

### DOCUMENTS INCORPORATED BY REFERENCE

The following document is incorporated by reference to the extent specified herein:

<u>Document Description</u>	<u>10-K Part</u>
Portions of the definitive proxy statement for use in connection with the Annual Meeting of Stockholders (to be held May 14, 2014) to be filed within 120 days after the end of the fiscal year ended December 28, 2013	III

**SAFEWAY INC. AND SUBSIDIARIES**  
**Table of Contents**

	<b>Page</b>
<a href="#">FORWARD-LOOKING STATEMENTS</a>	<a href="#">4</a>
<b>PART I</b>	
Item 1. <a href="#">Business</a>	<a href="#">6</a>
Item 1A. <a href="#">Risk Factors</a>	<a href="#">11</a>
Item 1B. <a href="#">Unresolved Staff Comments</a>	<a href="#">16</a>
Item 2. <a href="#">Properties</a>	<a href="#">16</a>
Item 3. <a href="#">Legal Proceedings</a>	<a href="#">16</a>
Item 4. <a href="#">Mine Safety Disclosures</a>	<a href="#">16</a>
<a href="#">Executive Officers of the Registrant</a>	<a href="#">17</a>
<b>PART II</b>	
Item 5. <a href="#">Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</a>	<a href="#">18</a>
Item 6. <a href="#">Selected Financial Data</a>	<a href="#">21</a>
Item 7. <a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	<a href="#">23</a>
Item 7A. <a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	<a href="#">39</a>
Item 8. <a href="#">Financial Statements and Supplementary Data</a>	<a href="#">40</a>
Item 9. <a href="#">Changes In and Disagreements With Accountants on Accounting and Financial Disclosure</a>	<a href="#">95</a>
Item 9A. <a href="#">Controls and Procedures</a>	<a href="#">95</a>
Item 9B. <a href="#">Other Information</a>	<a href="#">95</a>
<b>PART III</b>	
Item 10. <a href="#">Directors, Executive Officers and Corporate Governance</a>	<a href="#">96</a>
Item 11. <a href="#">Executive Compensation</a>	<a href="#">96</a>
Item 12. <a href="#">Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</a>	<a href="#">96</a>
Item 13. <a href="#">Certain Relationships and Related Transactions, and Director Independence</a>	<a href="#">96</a>
Item 14. <a href="#">Principal Accountant Fees and Services</a>	<a href="#">97</a>
<b>PART IV</b>	
Item 15. <a href="#">Exhibits and Financial Statement Schedules</a>	<a href="#">98</a>
<a href="#">SIGNATURES</a>	<a href="#">103</a>

## SAFeway INC. AND SUBSIDIARIES

### FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K for Safeway Inc. ("Safeway," the "Company," "we" or "our") contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. We also provide forward-looking statements in other materials which are released to the public, as well as oral forward-looking statements. Forward-looking statements contain information about our future operating or financial performance. Forward-looking statements are based on our current expectations and involve risks and uncertainties, which may be beyond our control, as well as assumptions. If assumptions prove to be incorrect or if known or unknown risks and uncertainties materialize into actual events or circumstances, actual results could differ materially from those included in or contemplated or implied by these statements. Forward-looking statements do not strictly relate to historic or current facts. Forward-looking statements are indicated by words or phrases such as "continuing," "ongoing," "expects," "estimates," "anticipates," "believes," "guidance" and similar words or phrases and the negative of such words or phrases.

This Annual Report on Form 10-K includes forward-looking statements relating to, among other things: a potential transaction involving the sale of the Company; the distribution of the our shares of Blackhawk Network Holdings, Inc. ("Blackhawk") to our stockholders; the potential monetization of our ownership interest in Casa Ley S.A. de C.V. ("Casa Ley"); changes to the total closed store reserve; uses of cash; ability to borrow under commercial paper program and/or bank credit facilities; sufficiency of liquidity; repayment of borrowings and debt reduction; interest expense; indemnification obligations; dividend payments on common stock; cash capital expenditures; outcomes of legal proceedings; the effect of new accounting standards; compliance with laws and regulations; amount of indebtedness; realization of deferred tax liability; expansion of proprietary private-label brands; sale of Dominick's locations; multiemployer pension plan withdrawal liability; pension plan expense and contributions; obligations and contributions under benefit plans; the rate of return on pension assets; amounts to be recognized as a component of net periodic benefit cost; results of shrink programs; unrecognized tax benefits; unrecognized compensation cost; and repurchases of common stock. The following are among the principal factors that could cause actual results to differ materially from those included in or contemplated or implied by the forward-looking statements:

- The Company's ability to consummate a transaction involving the sale of the Company;
- The Company's ability to execute plans to distribute its Blackhawk stock to Safeway stockholders;
- The Company's ability to monetize its investment in Casa Ley;
- General business and economic conditions in our operating regions, including the rate of inflation or deflation, consumer spending levels, currency valuations, population, employment and job growth and/or losses in our markets;
- Sales volume levels and price per item trends;
- Pricing pressures and competitive factors, which could include pricing strategies, store openings, remodels or acquisitions by our competitors;
- Results of our programs to control or reduce costs, improve buying practices and control shrink;
- Results of our programs to increase sales;
- Results of our continuing efforts to expand corporate brands;
- Results of our programs to improve our perishables and center of store departments;
- The impact of generic drugs on pharmacy sales and identical-store sales;
- Results of our promotional programs;
- Results of our capital program;

## **SAFEWAY INC. AND SUBSIDIARIES**

- Results of our efforts to improve working capital;
- Results of any ongoing litigation in which we are involved or any litigation in which we may become involved;
- The resolution of uncertain tax positions;
- The outcome of the agreement to sell substantially all the net assets of Canada Safeway Limited to Sobeys Inc. including the ability to use proceeds as described in this Form 10-K and the ability to project the impact of the transaction on our ongoing operations;
- The outcome of exiting the Chicago market;
- The ability to achieve satisfactory operating results in all geographic areas where we operate;
- Changes in the financial performance of our equity investments;
- Labor costs, including benefit plan costs and severance payments, or labor disputes that may arise from time to time and work stoppages that could occur in areas where certain collective bargaining agreements have expired or are on indefinite extensions or are scheduled to expire in the near future;
- Potential costs and risks associated with actual or potential cyber attacks;
- Data security or other information technology issues that may arise;
- Failure to fully realize or delay in realizing growth prospects for existing or new business ventures, including our Blackhawk and Property Development Centers subsidiaries;
- Legislative, regulatory, tax, accounting or judicial developments, including with respect to Blackhawk;
- The cost and stability of fuel, energy and other power sources;
- The impact of the cost of fuel on gross margin and identical-store sales;
- Discount rates used in actuarial calculations for pension obligations and self-insurance reserves;
- The rate of return on our pension assets;
- The availability and terms of financing, including interest rates;
- Adverse developments with regard to food and drug safety and quality issues or concerns that may arise;
- Loss of key members of senior management;
- Unanticipated events or changes in real estate matters, including acquisitions, dispositions and impairments;
- Adverse weather conditions and effects from natural disasters;
- Performance in new business ventures or other opportunities that we pursue; and
- The capital investment in and financial results from our retail stores.

We undertake no obligation to update forward-looking statements to reflect new information, events or developments after the date hereof. For additional information regarding these risks and uncertainties, see "Item 1A. Risk Factors." These are not intended to be a discussion of all potential risks or uncertainties, as it is not possible to predict or identify all risk factors.

## SAFEWAY INC. AND SUBSIDIARIES

### PART I

#### Item 1. Business

**General** The Company began operations in 1926. In July 1986, Safeway was incorporated in the state of Delaware as SSI Holdings Corporation and, thereafter, its name was changed to Safeway Stores, Incorporated. In February 1990, the Company changed its name to Safeway Inc.

On February 19, 2014, Safeway announced it is in discussions concerning a possible transaction involving the sale of the Company. Although the discussions are ongoing, the Company has not reached an agreement on a transaction, and there can be no assurance that these discussions will lead to an agreement or a completed transaction.

Separately, the Company has decided to distribute the remaining 37.8 million shares it owns of Blackhawk Network Holdings, Inc. ("Blackhawk") (approximately 72.2% of the outstanding Blackhawk shares) to Safeway stockholders. Currently, the plan is to make the distribution on a pro rata basis to all Safeway stockholders in a transaction intended to be tax-free to Safeway and its stockholders. However, if the Company consummates a sale transaction, the distribution may be taxable.

In addition, Safeway owns 49% of Casa Ley S.A. de C.V. ("Casa Ley"), the fifth largest food and general merchandise retailer in Mexico based on sales. Based on Casa Ley's improving performance, the Company believes it is an appropriate time to explore alternatives to monetize its investment in Casa Ley. While the Company has discussed its desire to monetize its investment with the majority owners of Casa Ley, there can be no assurance as to whether the Company will be able to sell its interest in Casa Ley at a price and on terms that the Company finds acceptable.

On November 3, 2013, Safeway completed the sale of substantially all of the net assets of Canada Safeway Limited ("CSL" and now known as CSL IT Services ULC) to Sobeys Inc., a wholly-owned subsidiary of Empire Company Limited. See Note B to the consolidated financial statements set forth in Part II, Item 8 of this report for additional information.

During the fourth quarter of 2013, the Company exited the Chicago market, where it operated 72 Dominick's stores. See Note B to the consolidated financial statements set forth in Part II, Item 8 of this report for additional information.

The Company's fiscal year ends on the Saturday nearest December 31. The last three fiscal years consist of the 52-week period ended December 28, 2013 ("fiscal 2013" or "2013"), the 52-week period ended December 29, 2012 ("fiscal 2012" or "2012") and the 52-week period ended December 31, 2011 ("fiscal 2011" or "2011").

Safeway Inc. is one of the largest food and drug retailers in the United States, with 1,335 stores at year-end 2013. The Company's U.S. retail operations are located principally in California, Hawaii, Oregon, Washington, Alaska, Colorado, Arizona, Texas and the Mid-Atlantic region. In support of its U.S. retail operations, the Company has an extensive network of distribution, manufacturing and food-processing facilities.

Safeway owns and operates GroceryWorks.com Operating Company, LLC ("GroceryWorks"), an online grocery channel doing business under the names Safeway.com and Vons.com (collectively "Safeway.com").

Blackhawk, a majority-owned subsidiary of Safeway, is a leading prepaid payment network utilizing proprietary technology to offer a broad range of gift cards, other prepaid products and payment services. Blackhawk's payment network supports its three primary constituents: consumers who purchase the products and services Blackhawk offers, content providers who offer branded products that are redeemable for goods and services, and distribution partners who sell those products. Blackhawk's product offerings include gift cards, prepaid telecom products and prepaid financial services products, including general purpose

## SAFEWAY INC. AND SUBSIDIARIES

reloadable ("GPR") cards and Blackhawk's reload network. In the fourth quarter of 2013, Blackhawk acquired IntelliSpend Prepaid Solutions TM, a leader in the corporate incentives and consumer promotions marketplace, and Retailo AG, a leading third-party gift card distribution network in Germany, Austria and Switzerland. See Note C to the consolidated financial statements set forth in Part II, Item 8 of this report for additional information.

**Stores** Safeway's average store size is approximately 47,500 square feet. The Company determines the size of a new store based on a number of considerations, including the needs of the community the store serves, the location and site plan and the estimated return on capital invested. Safeway's "Lifestyle" store showcases the Company's commitment to quality with an expanded perishables offering. It features an earth-toned décor package that is warm and inviting with special lighting to highlight products and departments, custom flooring and unique display features. The Company believes this warm ambiance significantly enhances the shopping experience.

Safeway's stores provide a full array of grocery items with a portion tailored to local preferences. Most stores offer a wide selection of food and general merchandise and feature a variety of specialty departments such as bakery, delicatessen, floral, seafood and pharmacy. In addition, the majority of stores offer Starbucks coffee shops, and some offer adjacent fuel centers.

Safeway continues to operate a number of smaller stores that also offer an extensive selection of food and general merchandise and that generally include one or more specialty departments. These stores remain an important part of the Company's store network in smaller communities and certain other locations where larger stores may not be feasible because of space limitations and/or community needs or restrictions.

The following table summarizes Safeway's stores by size at year-end 2013:

Square footage	Number of stores	Percent of total
Less than 30,000	145	10.9%
30,000 to 50,000	541	40.5
More than 50,000	649	48.6
Total stores	1,335	100.0%

**Store Ownership** At year-end 2013, Safeway owned 46% of its stores and leased its remaining stores.

**Private Label/Merchandise** Safeway's operating strategy is to provide value to its customers by maintaining high store standards and a wide selection of high-quality products at competitive prices. To provide one-stop shopping for today's busy shoppers, the Company emphasizes high-quality produce and meat and offers many unique items through its various specialty departments.

Safeway is focused on differentiating its offering with high-quality perishables. The Company believes it has developed a reputation for having the best produce in the market, through high-quality specifications and precise handling procedures, and the most tender and flavorful meat and poultry, through both the Company's Rancher's Reserve Tender Beef offering and Open Nature all natural beef, chicken and sausages. Safeway's deli/food service department has developed a variety of solutions for today's busy shoppers, including Signature Café sandwiches, soups and salads as well as Primo Taglio deli meats and cheeses. Many Safeway bakeries offer freshly made bread, and the floral department is recognized by its signature gazebo.

Safeway has continued to develop its portfolio of Consumer Brands private label products. The Company has focused its brands into three areas: Health & Wellness, Premium and Core. The prices in each category are generally lower than those of comparable products from national brands.

## SAFeway INC. AND SUBSIDIARIES

The Health & Wellness portfolio includes the O Organics, Eating Right, Open Nature and Bright Green brands. These offerings address consumers' specific health needs or preferences. O Organics is an exclusively organic brand. Eating Right offers products created for specific eating needs such as high protein, gluten free, low calorie and general health maintenance. Open Nature is a line of products that are 100% natural. Bright Green is an environmentally friendly household product line.

The Premium portfolio includes the Safeway SELECT, Signature Café, Rancher's Reserve, Primo Taglio, waterfront BISTRO and Debi Lilly offerings. Safeway SELECT is a line of quality products that the Company believes are unique to the category. Waterfront BISTRO is a seafood brand designed to make preparing a restaurant-quality meal at home easy. Debi Lilly is a line of unique bouquets, candles, vases and gifts.

In the fourth quarter of 2013, Safeway announced a partnership with celebrity chef Marcella Valladolid, creating a proprietary brand for Safeway bearing her name. Initially launched with marinated meats, authentic tortillas and snacks, this line will continue to expand as Safeway looks to offer more products that appeal to Hispanics and all Hispanic food lovers.

In the Core portfolio are the Safeway brands Lucerne, Refreshe, the Snack Artist and Pantry Essentials. The Safeway brand is a family of four brands: Safeway Farms, Safeway Kitchens, Safeway Home and Safeway Care. The Lucerne brand has been producing quality dairy products for over 100 years. The Snack Artist offers high-quality and great value snacks in a variety of categories such as chips, snacking nuts and frozen categories in whimsical, resealable packaging, a unique feature in the category. Pantry Essentials was launched in 2011 as a value line, offering basic items across several categories, including dairy, meat, canned vegetables and paper goods.

During 2012, Safeway completed the roll out of the **just for U™** personalized pricing and digital marketing program in U.S. markets. This program allows a customer to download personalized pricing and digital coupons to the Safeway Club Card.

**Manufacturing and Wholesale** The principal function of manufacturing operations is to manufacture and process private-label merchandise sold in stores operated by Safeway. As measured by sales dollars, 13% of Safeway's private-label merchandise is manufactured in Company-owned plants, and the remainder is purchased from third parties.

Safeway operated the following manufacturing and processing facilities in the United States at year-end 2013:

Milk plants	6
Bakery plants	6
Ice cream plants	2
Soft drink bottling plants	4
Fruit and vegetable processing plants	1
Cake commissary	1
Total	20

In addition, the Company operates laboratory facilities for quality assurance and research and development in certain plants and at its corporate offices.

**Distribution** Safeway has 13 distribution/warehousing centers in the United States, which collectively provide the majority of all products to Safeway's retail operating areas. The distribution center in Maryland is operated by a third party.



## SAFEWAY INC. AND SUBSIDIARIES

**Capital Expenditure Program** A key component of the Company's long-term growth strategy is its capital expenditure program. The Company's capital expenditure program funds, among other things, new stores, remodels, retail shopping center development, manufacturing plants, distribution facilities and information technology. Safeway's management has maintained a rigorous program to select and approve new capital investments.

As previously reported, Safeway completed the sale of the net assets of CSL to Sobeys Inc. on November 3, 2013. Additionally, in the fourth quarter of 2013, the Company exited the Chicago market where it operated 72 Dominick's stores. CSL and Dominick's are reported as discontinued operations. All information in the table below excludes discontinued operations. It details changes in the Company's store base and presents the Company's cash capital expenditures over the last five years (dollars in millions):

	2013	2012	2011	2010	2009
Total stores at beginning of year	1,346	1,377	1,392	1,422	1,436
Stores opened:					
New	3	3	4	3	2
Replacement	4	5	18	9	4
	7	8	22	12	6
Stores closed or sold	18	39	37	42	20
Total stores at year end	1,335	1,346	1,377	1,392	1,422
Number of fuel stations at year end	349	340	334	326	322
Total retail square footage at year end (in millions)	63.4	63.8	65.1	65.1	66.0
Cash paid for property additions	767.4	821.2	992.4	689.6	721.7
Cash paid for property additions as a percentage of sales and other revenue	2.1%	2.3%	2.8%	2.1%	2.2%

In 2014, the Company expects to spend approximately \$800 million to \$900 million for capital expenditures.

The decline in the store count over the last five years is due to a focus on completing Lifestyle remodels rather than opening new stores while, at the same time, selling or closing underperforming stores. In 2012, the Company disposed of 25 of its Genuardi's stores. See Note B to the consolidated financial statements set forth in Part II, Item 8 of this report.

**Financial Information about Segments, Geographic Areas and Sales Revenue by Type of Similar Product** Note Q to the consolidated financial statements set forth in Part II, Item 8 of this report provides financial information about the Company's segments, geographic areas and sales revenue by type of similar product.

**Trade Names and Trademarks** Safeway has invested significantly in the development and protection of "Safeway" both as a trade name and a trademark and considers it to be an important business asset. Safeway also owns more than 300 other trademarks registered and/or pending in the United States Patent and Trademark Office and other jurisdictions, including trademarks for its product and services such as Safeway, Safeway SELECT, Rancher's Reserve, O Organics, Lucerne, Primo Taglio, Eating Right, mom to mom, waterfront BISTRO, Bright Green, Pantry Essentials, Open Nature, Refreshe, Snack Artist, Signature Café, Priority, **just for U™**, My Simple Nutrition, Ingredients for Life, and other trademarks such as Pak'N Save Foods, Vons, Pavilions, Randalls, Tom Thumb, and Carrs Quality Centers. Each trademark registration is for an initial period of 10 or 20 years, depending on the registration date, and may be renewed so long as it is in continued use in commerce.

## SAFEWAY INC. AND SUBSIDIARIES

Safeway considers its trademarks to be of material importance to its business and actively defends and enforces its rights.

**Working Capital** At year-end 2013, working capital consisted of \$8.5 billion in current assets and \$5.9 billion in current liabilities. Normal operating fluctuations in these substantial balances can result in changes to cash flow from operations presented in the consolidated statements of cash flows that are not necessarily indicative of long-term operating trends. There are no unusual industry practices or requirements relating to working capital items.

**Seasonality** Blackhawk receives a significant portion of the cash inflow from the sale of third-party prepaid cards late in the fourth quarter of the year and generally remits the cash, less commissions, to the card partners early in the first quarter of the following year.

Safeway's first three fiscal quarters contain 12 weeks. The fourth quarters of 2013, 2012 and 2011 contain 16 weeks. See Note V to the consolidated financial statements set forth in Part II, Item 8 of this report.

**Competition** Food retailing is very competitive. The principal competitive factors that affect the Company's business are location, quality, price, service, selection and condition of assets.

We face intense competition from traditional grocery retailers, non-traditional competitors such as supercenters and club stores, as well as from specialty and niche supermarkets, drug stores, dollar stores, convenience stores and restaurants. Safeway and its competitors engage in price competition which, from time to time, has adversely affected operating margins in the Company's markets.

**Raw Materials** Various agricultural commodities constitute the principal raw materials used by the Company in the manufacture of its food products. Management believes that raw materials for its products are not in short supply, and all are readily available from a wide variety of independent suppliers.

**Compliance with Environmental Laws** The Company's compliance with federal, state, local and foreign laws and regulations that have been enacted or adopted regulating the discharge of materials into the environment or otherwise related to the protection of the environment has not had and is not expected to have a material adverse effect upon the Company's financial position or results of operations.

**Employees** At year-end 2013, Safeway had more than 138,000 full- and part-time employees. Just over 75% of Safeway's employees are covered by collective bargaining agreements negotiated with union locals affiliated with one of seven different international unions. There are almost 400 such agreements, typically having three- to five-year terms. Accordingly, Safeway renegotiates a significant number of these agreements every year.

During 2013, contracts covering approximately 28,000 employees were ratified, excluding Canadian operations and Dominick's. In particular, United Food and Commercial Workers International Union ("UFCW") collective bargaining agreements which covered approximately 25,000 employees, primarily in stores in the Company's Northwest and Eastern divisions, were ratified.

**Available Information** Safeway's investor Web site is located at [www.safeway.com/investor\\_relations](http://www.safeway.com/investor_relations). You may access our Securities and Exchange Commission ("SEC") filings free of charge at our corporate Web site promptly after such material is electronically filed with, or furnished to, the SEC. We also maintain certain corporate governance documents on our Web site, including the Company's Corporate Governance Guidelines, our Director Independence Standards, the Code of Business Conduct and Ethics for the Company's corporate directors, officers and employees, and the charters for our Audit, Nominating and Corporate Governance, and Executive Compensation committees. We will provide a copy of any such documents to any stockholder who requests it. We do not intend for information found on the Company's Web site to be part of this document.

## SAFEWAY INC. AND SUBSIDIARIES

### Item 1A. Risk Factors

We wish to caution you that there are risks and uncertainties that could affect our business. These risks and uncertainties include, but are not limited to, the risks described below and elsewhere in this report, particularly in “Forward-Looking Statements.” The following is not intended to be a complete discussion of all potential risks or uncertainties, as it is not possible to predict or identify all risk factors.

**Competitive Industry Conditions** We face strong competition from traditional grocery retailers, non-traditional competitors such as supercenters and club stores, as well as from specialty and niche supermarkets, drug stores, dollar stores, convenience stores and restaurants. Increased competition may have an adverse effect on profitability as the result of lower sales, lower gross profits and/or greater operating costs.

Our ability to attract customers is dependent, in large part, upon a combination of location, quality, price, service, selection and condition of assets. In each of these areas, traditional and non-traditional competitors compete with us and may successfully attract our customers to their stores by aggressively matching or exceeding what we offer. In recent years, many of our competitors have increased their presence in our markets. Our responses to competitive pressure, such as additional promotions and increased advertising, could adversely affect our profitability. We cannot guarantee that our actions will succeed in gaining or maintaining market share. Additionally, we cannot predict how our customers will react to the entrance of certain non-traditional competitors into the grocery retailing business.

Because we face intense competition, we need to anticipate and respond to changing consumer demands more effectively than our competitors. We strive to achieve and maintain favorable recognition of our unique private-label brands, effectively market our products to consumers, competitively price our products and maintain and enhance a perception of value for consumers. Finally, we need to source and market our merchandise efficiently and creatively. Failure to accomplish these objectives could impair our ability to compete successfully and adversely affect our growth and profitability.

**Labor Relations** A significant majority of our employees are unionized, and our relationship with unions, including labor disputes or work stoppages, could have an adverse impact on our financial results. We are a party to almost 400 collective bargaining agreements, of which 94 are scheduled to expire in 2014. These expiring agreements cover approximately 53% of our union-affiliated employees, primarily the United Food and Commercial Workers union contracts in two of our largest divisions, Northern California and Vons. In future negotiations with labor unions, we expect that health care, pension and wage costs, among other issues, will be important topics for negotiation. If, upon the expiration of such collective bargaining agreements, we are unable to negotiate acceptable contracts with labor unions, it could result in strikes by the affected workers and thereby significantly disrupt our operations. Further, if we are unable to control health care and pension costs provided for in the collective bargaining agreements, we may experience increased operating costs and an adverse impact on future results of operations.

**Profit Margins** Profit margins in the grocery retail industry are narrow. In order to increase or maintain our profit margins, we develop strategies to increase revenues, reduce costs and increase gross margins, such as new marketing programs, new advertising campaigns, productivity improvements, shrink reduction, distribution center efficiencies, energy efficiency programs and other similar strategies. Our failure to achieve forecasted cost reductions, revenue growth or gross margin improvement across the Company could have a material adverse effect on our business. Changes in our product mix also may negatively affect certain financial measures.

**Opening and Remodeling Stores** Failure to open and remodel stores as planned could have a material adverse effect on our results. If, as a result of labor relations issues, supply issues or environmental and real estate delays, or other reasons, these capital projects do not stay within the time and financial budgets we have forecasted, our future financial performance could be materially adversely affected. Furthermore, we cannot ensure that the new or remodeled stores will achieve anticipated same-store sales or profit levels.

## SAFEWAY INC. AND SUBSIDIARIES

**Food Safety, Quality and Health Concerns** We could be adversely affected if consumers lose confidence in the safety and quality of certain food products. Adverse publicity about these types of concerns, whether valid or not, may discourage consumers from buying our products or cause production and delivery disruptions. The real or perceived sale of contaminated food products by us could result in product liability claims, a loss of consumer confidence and product recalls, which could have a material adverse effect on our sales and operations.

**Current Economic Conditions** Our operations and financial performance are affected by economic conditions. While economic conditions have recently improved, there is continued uncertainty about the strength of the economic recovery. If the current economic situation does not continue to improve or if it weakens, consumers may reduce spending, trade down to a less expensive mix of products or trade down to discounters for grocery items, all of which could impact our sales growth. Higher fuel prices could also dampen overall consumer demand. We are unable to predict with certainty if the economy of the United States will continue to improve or the rate at which it will improve. If the economy does not continue to improve or if it weakens, Safeway's business, results of operations and financial condition could be adversely affected.

**Future Growth of Blackhawk** Blackhawk's business, financial condition, results of operations and prospects are subject to certain risks and uncertainties. Consequently, actual results could differ materially from Blackhawk's targeted earnings growth. There is no assurance that Blackhawk will continue to grow at the same rate as it has in the past. Some of the specific risks and uncertainties include, but are not limited to, the following:

- Blackhawk's operating revenues may decline if it loses one or more of its top distribution partners or fails to attract new distribution partners to its network.
- Blackhawk relies on its content providers for its product and service offerings, and the loss of one or more of its top content providers or a decline in demand for their products, or Blackhawk's failure to maintain existing exclusivity arrangements with content providers or to attract new content providers to its network, could have a material adverse effect on its business, results of operations and financial condition.
- Blackhawk relies on relationships with card issuing banks for services related to products for which it acts as program manager, and its business, results of operations and financial condition could be materially and adversely affected if it fails to maintain these relationships or if it maintains them under new terms that are less favorable to Blackhawk.
- Blackhawk operates in a highly and increasingly regulated environment, and failure by Blackhawk or the businesses that participate in its distribution network to comply with applicable laws and regulations, including anti-money laundering, consumer protection, federal banking and state unclaimed property and tax laws and regulations, could have a material adverse effect on Blackhawk's business, results of operations and financial condition.
- Due to seasonal fluctuations in Blackhawk's business, adverse events that occur during the second or fourth fiscal quarter could have a disproportionate effect on its results of operations and financial condition.
- Changes in card association rules or standards set by Visa, MasterCard and others, or changes in card association and debit network fees or products or interchange rates, could materially and adversely affect Blackhawk's business, financial condition and results of operations.
- Recent and future acquisitions or investments could disrupt Blackhawk's business and harm its financial condition. In the fourth quarter of 2013, Blackhawk acquired IntelliSpend Prepaid Solutions TM, a leader in the corporate incentives and consumer promotions marketplace, and Retailo AG, a leading third-party gift card distribution network in Germany, Austria and Switzerland.

We recently announced our decision to distribute the remaining 37.8 million shares of Blackhawk common stock that we own to our stockholders as discussed elsewhere in this report.

## SAFEWAY INC. AND SUBSIDIARIES

**New Business Initiatives and Strategies** The introduction, implementation, success and timing of new business initiatives and strategies, including but not limited to, initiatives to increase revenue, develop real estate or enter into new areas of business may be less successful or may be different than anticipated, which could adversely affect our business.

**Strategic Initiatives** We recently announced certain strategic initiatives, including our decision to distribute the remaining 37.8 million shares of Blackhawk common stock that we own to our stockholders and our intention to explore alternatives to monetize our investment in Casa Ley. The timing and details of the proposed distribution of the Blackhawk shares will be determined in the near future. There also can be no assurance whether we will be able to sell our interest in Casa Ley at a price and on terms that we find acceptable. We also recently announced that we are in discussions concerning a possible transaction involving the sale of the Company. There can be no assurance that these discussions will lead to an agreement or a completed transaction.

**Pension and Post-Retirement Benefit Plans** We maintain defined benefit retirement plans for substantially all employees not participating in multiemployer pension plans. The funded status of these plans (the difference between the fair value of the plan assets and the projected benefit obligation) is a significant factor in determining annual pension expense and cash contributions to fund the plans. The decline in the financial markets during 2008 resulted in a substantial reduction in the fair value of the retirement plan assets. As a result, cash contributions to U.S. pension and post-retirement plans increased from \$7.1 million in 2010 to \$151.2 million in 2011. In recent years, cash contributions have declined due to improved market conditions and the impact of the Pension Funding Stabilization legislation, which increased the discount rate used to determine pension funding. However, if financial markets do not continue to improve or if financial markets decline, increased pension expense and cash contributions may have an adverse impact on our financial results.

In addition, we participate in various multiemployer pension plans for substantially all employees represented by unions. We are required to make contributions to these plans in amounts established under collective bargaining agreements. Under the Pension Protection Act of 2006 ("PPA"), contributions in addition to those made pursuant to a collective bargaining agreement may be required in limited circumstances in the form of a surcharge that is equal to 5% of the contributions due in the first year and 10% each year thereafter until the applicable bargaining agreement expires. If surcharges are required, many of our bargaining agreements provide for an offset against contribution amounts otherwise required under those agreements.

Pension expense for multiemployer pension plans is recognized as contributions are made. Benefits generally are based on a fixed amount for each year of service. We contributed \$259.2 million, \$248.7 million and \$238.2 million to these plans in 2013, 2012 and 2011, respectively, excluding Canadian operations and Dominick's. Based on the most recent information available to us, a number of these multiemployer plans are underfunded. As a result, contributions to these plans may increase. The amount of any increase or decrease in our required contributions to these multiemployer pension plans will depend upon the outcome of collective bargaining, actions taken by trustees who manage the plans, government regulations, the actual return on assets held in the plans and the potential payment of a withdrawal liability if we choose to exit a market, among other factors. Additionally, the benefit levels and related issues will continue to create collective bargaining challenges. Under current law, an employer that withdraws or partially withdraws from a multiemployer pension plan may incur withdrawal liability, which is related to the portion of the plan's underfunding, if any, that is allocable to the withdrawing employer under very complex actuarial and allocation rules. Multiemployer pension legislation passed in 2006, 2008, and 2010 will continue to apply to the funds in which we participate, which may have an impact on future pension contributions.

**Substantial Indebtedness** We currently have, and expect to continue to have, a significant amount of debt, which could adversely affect our financial health. As of December 28, 2013, we had approximately \$4.2 billion in total consolidated debt outstanding, including capital lease obligations. This substantial indebtedness could increase our vulnerability to general adverse economic and industry conditions. If debt

## SAFEWAY INC. AND SUBSIDIARIES

markets do not permit us to refinance certain maturing debt: (i) we may be required to dedicate an unplanned portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, dividends on common stock, stock repurchases, acquisitions, development efforts and other general corporate purposes; (ii) our flexibility in planning for, or reacting to, changes in our business may be limited; (iii) we might be placed at a competitive disadvantage relative to our competitors that have less debt; and (iv) we may be limited by the financial and other restrictive covenants in the documents governing our indebtedness. Changes in our credit ratings may have an adverse impact on our financing costs and structure in future periods, such as higher interest costs on future financings and our ability to participate in the commercial paper market. Additionally, interest expense could be materially and adversely affected by increases in interest rates, increases in the amount of outstanding debt, decisions to incur premiums on the early redemption of debt and any other factor that results in an increase in debt.

**Unfavorable Changes in Government Regulation** Our stores are subject to various federal, state, local and foreign laws, regulations and administrative practices that affect our business. We must comply with numerous provisions regulating health and sanitation standards, food labeling, energy, equal employment opportunity, minimum wages and licensing for the sale of food, drugs and alcoholic beverages. We cannot predict either the nature of future laws, regulations, interpretations or applications, or the effect either additional government regulations or administrative orders, when and if promulgated, or disparate federal, state, local and foreign regulatory schemes would have on our future business. They could, however, require the reformulation of certain products to meet new standards, the recall or discontinuance of certain products not able to be reformulated, additional record keeping, expanded documentation of the properties of certain products, expanded or different labeling and/or scientific substantiation. Any or all of such requirements could have an adverse effect on our results of operations and financial condition.

**Legal Proceedings** From time to time, we are a party to legal proceedings, including matters involving personnel and employment issues, personal injury, antitrust claims, intellectual property claims and other proceedings arising in the ordinary course of business. In addition, there is an increasing number of cases being filed against companies generally, which contain class-action allegations under federal and state wage and hour laws. We estimate our exposure to these legal proceedings and establish reserves for the estimated liabilities. Assessing and predicting the outcome of these matters involves substantial uncertainties. Although not currently anticipated by management, unexpected outcomes in these legal proceedings, or changes in management's evaluations or predictions, could have a material adverse impact on our financial results.

**Information Technology Risks** We have large, complex information technology systems that are important to the successful operation of our business operations and marketing initiatives. If we were to experience difficulties accessing data stored in these systems, or in maintaining, expanding or upgrading existing systems or implementing new systems, we could incur significant losses due to disruptions in our systems and business.

Additionally, we gather and retain personal information that customers provide to us. We also receive and store personal information in connection with our human resources organization. Despite our considerable efforts to secure our computer network, security could be compromised, confidential information could be misappropriated or system disruptions could occur. This could cause significant damage to our reputation, affect our relationships with our customers and employees and lead to claims against us.

As a merchant who accepts debit and credit cards for payment, we are subject to the Payment Card Industry Data Security Standard ("PCI DSS"), issued by the PCI Council. PCI DSS contains compliance guidelines and standards with regard to our security surrounding the physical and electronic storage, processing and transmission of individual cardholder data. By accepting debit cards for payment, we are also subject to compliance with American National Standards Institute data encryption standards, and payment network security operating guidelines. We currently comply with PCI DSS version 2.0; however, we are required to comply with the new PCI DSS version 3.0 by January 1, 2015. Despite our compliance with these standards and other information security measures, we cannot be certain that all of our IT systems are able to prevent, contain or detect any cyber-attacks or security breaches from known malware or malware that may be



## SAFEWAY INC. AND SUBSIDIARIES

developed in the future. To the extent that any disruption results in the loss, damage or misappropriation of information, we may be adversely affected by claims from customers, financial institutions, regulatory authorities, payment card associations and others. In addition, the cost of complying with stricter privacy and information security laws and standards, including PCI DSS version 3.0 could be significant to us.

**Insurance Plan Claims** We use a combination of insurance and self-insurance to provide for potential liabilities for workers' compensation, automobile and general liability, property risk (including earthquake coverage), director and officers' liability, employment practices liability, cyber risks, terrorism and employee health care benefits. We estimate the liabilities associated with the risks retained by us, in part, by considering historical claims experience, demographic and severity factors and other actuarial assumptions which, by their nature, are subject to a high degree of variability. Among the causes of this variability are unpredictable external factors affecting future inflation rates, discount rates, litigation trends, legal interpretations, benefit level changes and claim settlement patterns.

The majority of our workers' compensation liability is from claims occurring in California. California workers' compensation has received intense scrutiny from the state's politicians, insurers, employers and providers, as well as the public in general. Recent years have seen escalation in the number of legislative reforms, judicial rulings and social phenomena affecting our business. Some of the many sources of uncertainty in our reserve estimates include changes in benefit levels, medical fee schedules, medical utilization guidelines and apportionment. Reversals of reforms by legislation or judicial action could have a material adverse impact on our financial results.

**Leadership Development and Succession Planning** The training and development of our future leaders is important to our long-term growth. We rely on the experience of our senior management, who have specific knowledge of our business and industry that is difficult to replace. If we are unable to attract and retain highly-qualified senior management, our business may be adversely affected. Effective succession planning is also important to our long-term success. Failure to ensure effective transfer of knowledge and smooth transitions involving key employees could hinder our strategic planning and execution.

**Stockholder Rights Plan** In September 2013, we adopted a one-year stockholder rights plan. Under the plan, one preferred stock purchase right was distributed for each share of common stock held by stockholders of record on September 30, 2013. Under certain circumstances, the rights will become exercisable and each right will entitle stockholders to buy one one-thousandth of a share of our Series A Junior Participating Preferred Stock at an exercise price of \$100. In general, the rights become exercisable at the close of business on the tenth business day following (i) public announcement that a person or group acquired 10% (15% in the case of a passive institutional investor) or more of our common stock or (ii) commencement or announcement of a tender offer for 10% (15% in the case of a passive institutional investor) or more of our common stock. Our Board of Directors is entitled to redeem the rights at \$0.01 per right at any time before a person or group has acquired 10% or more (15% or more in the case of a passive institutional investor) of the outstanding common stock. The rights will expire on September 15, 2014, subject to our right to extend such date, unless earlier redeemed or exchanged by us or terminated.

The stockholder rights plan is designed to deter coercive takeover tactics and to prevent an acquirer from gaining control of the Company without offering a fair price to all of our stockholders. The plan is intended to accomplish these objectives by encouraging a potential acquirer to negotiate with our Board of Directors to have the rights redeemed or the plan amended prior to such party exceeding the ownership thresholds set forth in the plan. The existence of the stockholder rights plan and the rights of holders of any other shares of preferred stock that may be issued in the future, however, could have the effect of making it more difficult for a third party to acquire a majority of our outstanding common stock, and thereby adversely affect the price of our common stock.

**Canada Safeway Limited** In the fourth quarter of 2013, the Company received cash proceeds of CAD5.8 billion from the sale of substantially all of the net assets of our Canadian operations. If the Company does

## SAFEWAY INC. AND SUBSIDIARIES

not reach a definitive agreement related to the potential transaction involving the Company, it intends to pay down additional debt, buy back additional stock and invest in growth opportunities with the remainder of these proceeds. Stock market conditions, the market value of our common stock and other factors may affect our ability to continue to effect repurchases of our common stock, including the amount and timing of any such stock repurchases. Failure to find growth opportunities to use the proceeds from this sale of the net assets could adversely affect our financial results.

Additionally, this transaction increases our concentration of retail stores to certain geographic areas in the United States, which heightens our exposure to general economic conditions in these areas.

**Dominick's** During the fourth quarter of 2013, we closed a number of Dominick's store locations in the Chicago market. At December 28, 2013, certain of these closed locations were classified as Assets and Liabilities Held for Sale in our statement of financial position (see Note B to the consolidated financial statements). While the Company currently expects to sell these locations, the sale of these properties is dependent on local real estate market conditions, local and global economic factors, and the existence of prospective buyers. There can be no assurance that the Company will realize its expected proceeds from the sale of these locations, or that sales can be completed within a reasonable time, if at all.

**Impairment of Long-Lived Assets** Our long-lived assets, primarily stores, are subject to periodic testing for impairment. Failure to achieve sufficient levels of cash flow at reporting units could result in impairment charges on long-lived assets. We have incurred significant impairment charges to earnings in the past, including in fiscal 2013, 2012 and 2011.

**Energy and Fuel** Safeway's operations are dependent upon the availability of a significant amount of energy and fuel to manufacture, store and transport products. Energy and fuel costs have experienced volatility over time. To reduce the impact of volatile energy costs, the Company has entered into contracts to purchase electricity and natural gas at fixed prices to satisfy a portion of its energy needs. This is discussed further in Part II, Item 7A of this report under the caption "Commodity Price Risk."

Safeway also sells fuel. Significant increases in wholesale fuel costs could result in retail price increases and in lower gross profit on fuel sales. Additionally, consumer demand for fuel may decline if retail prices increase. Such volatility and the impact to our operations and financial results are difficult to predict with certainty.

### Item 1B. Unresolved Staff Comments

None.

### Item 2. Properties

The information required by this item is set forth in Part I, Item 1 of this report.

### Item 3. Legal Proceedings

Information about legal proceedings appears under the caption "Legal Matters" in Note P to the consolidated financial statements set forth in Part II, Item 8 of this report.

### Item 4. Mine Safety Disclosures

Not applicable.



## SAFEWAY INC. AND SUBSIDIARIES

### Executive Officers of the Registrant

The names and ages of the current executive officers of the Company and their positions as of February 20, 2014 are set forth below. Unless otherwise indicated, each of the executive officers served in various managerial capacities with the Company over the past five years. None of the executive officers named below is related to any other executive officer or director by blood, marriage or adoption. Officers serve at the discretion of the Board of Directors.

Name and all positions with the Company	Age	Year first elected	
		Officer	Present office
Robert L. Edwards <sup>(1)</sup> President and Chief Executive Officer	58	2004	2013
Peter J. Bocian <sup>(2)</sup> Executive Vice President and Chief Financial Officer	59	2013	2013
Diane M. Dietz Executive Vice President and Chief Marketing Officer	47	2008	2008
Kelly P. Griffith <sup>(3)</sup> Executive Vice President, Retail Operations	50	2013	2013
Larree M. Renda Executive Vice President	55	1991	1999
David F. Bond Senior Vice President Finance and Control	60	1997	1997
Robert A. Gordon Senior Vice President Secretary and General Counsel Chief Governance Officer	62	1999	2000
Russell M. Jackson Senior Vice President Human Resources	56	2007	2007
Barry J. Libenson <sup>(4)</sup> Senior Vice President Chief Information Officer	53	2013	2013
Melissa C. Plaisance Senior Vice President Finance and Investor Relations	54	2004	2004
David R. Stern Senior Vice President Planning and Business Development	59	1994	2002
Jerry Tidwell Senior Vice President Supply Operations	62	2001	2003
Donald P. Wright Senior Vice President Real Estate and Engineering	61	1991	1991

## SAFEWAY INC. AND SUBSIDIARIES

- (1) Robert L. Edwards joined the Company as Executive Vice President and Chief Financial Officer in 2004. In April 2012, Mr. Edwards was named President. He continued as Chief Financial Officer until Peter J. Bocian joined the Company on February 19, 2013. In May 2013, Mr. Edwards was appointed Chief Executive Officer and continued as President of the Company.
- (2) Peter J. Bocian joined the Company as Executive Vice President and Chief Financial Officer effective February 19, 2013. Prior to that, Mr. Bocian served as Executive Vice President, Head of Corporate Services and Finance at JPMorgan Chase & Co. since 2011. From 2008 until 2011, he served as Executive Vice President and Chief Administrative Officer of Hewlett-Packard Company.
- (3) From 2010 until his election to Executive Vice President, Retail Operations in 2013, Kelly P. Griffith was President of Merchandising for Safeway. From 2008 until 2010, Mr. Griffith served as President, Perishables for the Company.
- (4) Barry J. Libenson joined Safeway in July 2013. Prior to Safeway, Mr. Libenson served as Senior Vice President, Chief Information Officer of Land O' Lakes, Inc. since 2010. Prior to that, Mr. Libenson was Vice President and Chief Information Officer at Ingersoll- Rand, Co. Ltd. Mr. Libenson joined Ingersoll-Rand as Vice President of e-Business in 2001.

## PART II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company's common stock, \$0.01 par value, is listed on the New York Stock Exchange. Information on dividends declared per common share is set forth in Part II, Item 7 of this report. The following table presents quarterly high and low sales prices for the Company's common stock.

2013	Low		High	
Quarter 4 (16 weeks)	\$	25.85	\$	36.90
Quarter 3 (12 weeks)		22.35		26.89
Quarter 2 (12 weeks)		22.26		28.42
Quarter 1 (12 weeks)		17.08		25.92
2012				
Quarter 4 (16 weeks)	\$	15.00	\$	19.36
Quarter 3 (12 weeks)		14.73		18.31
Quarter 2 (12 weeks)		17.53		22.21
Quarter 1 (12 weeks)		20.20		23.16

There were 13,037 stockholders of record as of February 20, 2014; however, approximately 98% of the Company's outstanding stock is held in "street name" by depositories or nominees on behalf of beneficial holders. The closing price per share of common stock, as reported on the New York Stock Exchange Composite Tape, was \$35.32 at the close of business on February 20, 2014.

Although the Company expects to continue to pay quarterly dividends on its common stock, the payment of future dividends is at the discretion of the Board of Directors and will depend upon the Company's earnings, capital requirements, financial condition and other factors.

## SAFEWAY INC. AND SUBSIDIARIES

### Issuer Purchases of Equity Securities

Fiscal period	Total number of shares purchased <sup>(1)</sup>	Average price paid per share <sup>(2)</sup>	Total number of shares purchased as part of publicly announced plans or programs	Approximate dollar value of shares that may yet be purchased under the plans or programs (in millions) <sup>(3)</sup>
September 8, 2013 - October 5, 2013	5,846	\$ 31.66	—	\$ 827.0
October 6, 2013 - November 2, 2013	3,005	33.36	—	2,827.0
November 3, 2013 - November 30, 2013	9,767,629	33.96	9,765,000	2,495.2
December 1, 2013 - December 28, 2013	9,786,099	33.90	9,784,000	2,163.3
<b>Total</b>	<b>19,562,579</b>	<b>\$ 33.93</b>	<b>19,549,000</b>	<b>\$ 2,163.3</b>

<sup>(1)</sup> Includes 13,579 shares withheld at the election of certain holders of restricted stock by the Company from the vested portion of restricted stock awards with a market value approximating the amount of the withholding taxes due from such restricted stockholders.

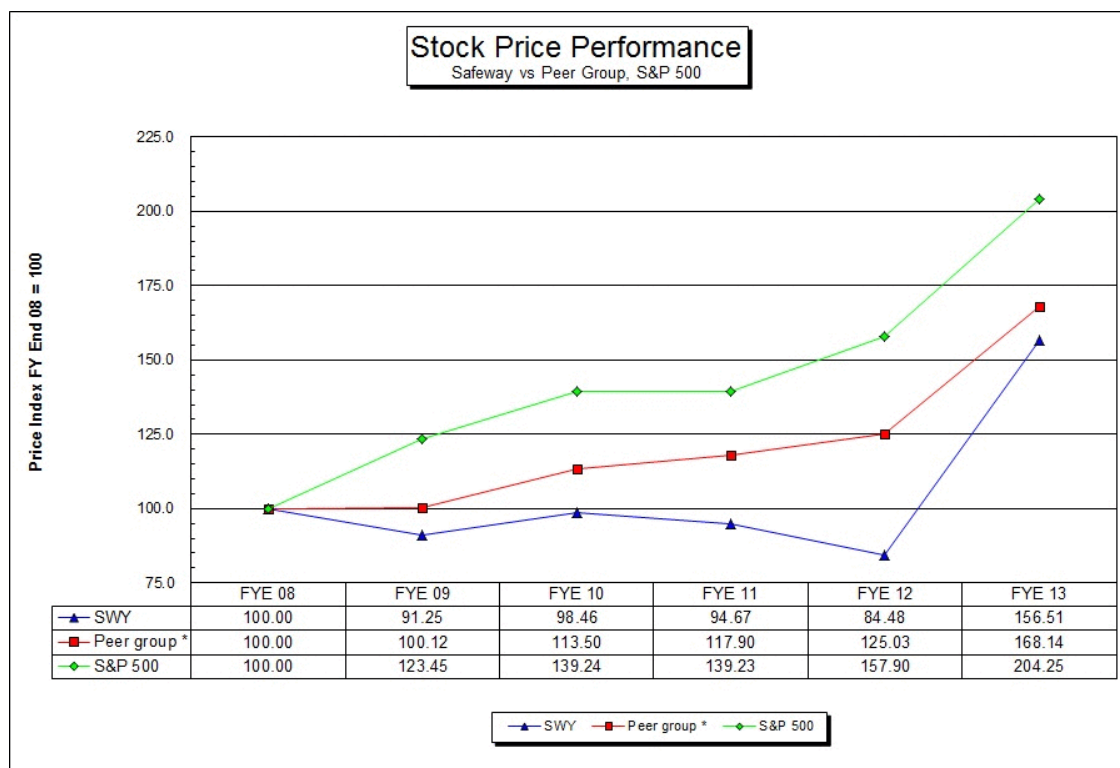
<sup>(2)</sup> Average purchase price excludes commissions.

<sup>(3)</sup> The Company's stock repurchase program was initiated in 1999. In October 2013, the Company's board of directors increased the authorized level of the Company's stock repurchase program from \$9.0 billion to \$11.0 billion. The timing and volume of future repurchases will depend on several factors, including market conditions. The repurchase program has no expiration date but may be terminated by the Board of Directors. Additional information on the Company's stock repurchase program is set forth in Part II, Item 7 of this report.

## SAFEWAY INC. AND SUBSIDIARIES

### Stock Performance Graph

The following graph compares the yearly percentage change in the Company's cumulative total stockholder return on its common stock for the period from the end of its 2008 fiscal year to the end of its 2013 fiscal year to that of the Standard & Poor's ("S&P") 500 and a group of peer companies<sup>(\*)</sup> in the retail grocery industry and assumes reinvestment of dividends. The stock price performance shown below is not necessarily indicative of future performance.



(\*) The peer group consists of Delhaize Group, The Kroger Co., Loblaw Companies Limited, SUPERVALU INC., and Whole Foods Market, Inc.

The performance graph above is being furnished solely to accompany this annual report on Form 10-K pursuant to Item 201(e) of Regulation S-K, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

## SAFeway INC. AND SUBSIDIARIES

### Item 6. Selected Financial Data

As previously reported, Safeway completed the sale of the net assets of Canada Safeway Limited ("CSL" now known as CSL IT Services ULC) to Sobeys Inc. on November 3, 2013. Additionally, in the fourth quarter of 2013, the Company exited the Chicago market where it operated 72 Dominick's stores. All information in the two tables which follow exclude Canadian operations and Dominick's, except for balance sheet information as noted below.

(Dollars in millions, except per-share amounts)	<b>52 Weeks 2013</b>	52 Weeks 2012	52 Weeks 2011	52 Weeks 2010	53 Weeks 2009
<b>Results of Operations</b>					
Sales and other revenue	\$ 36,139.1	\$ 36,068.3	\$ 35,356.7	\$ 33,228.3	\$ 33,361.3
Gross profit	9,494.0	9,462.4	9,468.8	9,399.7	9,564.4
Operating & administrative expense	(8,858.6)	(8,753.1)	(8,760.0)	(8,606.1)	(8,562.3)
Goodwill impairment charge	—	—	—	—	(1,974.2)
Operating profit (loss)	635.4	709.3	708.8	793.6	(972.1)
Interest expense	(273.0)	(300.7)	(268.1)	(294.9)	(327.8)
Loss on foreign currency translation	(57.4)	—	—	—	—
Other income, net	31.0	27.8	17.7	17.2	6.7
Income (loss) before income taxes	336.0	436.4	458.4	515.9	(1,293.2)
Income taxes	(89.7)	(141.8)	(91.2)	(182.1)	(108.7)
Income (loss) from continuing operations, net of tax	246.3	294.6	367.2	333.8	(1,401.9)
Income from discontinued operations, net of tax (Note B)	3,275.9	303.5	151.0	256.8	304.4
Net income (loss) before allocation to noncontrolling interests	3,522.2	598.1	518.2	590.6	(1,097.5)
Noncontrolling interests	(14.7)	(1.6)	(1.5)	(0.8)	—
Net income (loss) attributable to Safeway Inc.	\$ 3,507.5	\$ 596.5	\$ 516.7	\$ 589.8	\$ (1,097.5)
Basic earnings (loss) per common share:					
Continuing operations	\$ 0.96	\$ 1.18	\$ 1.06	\$ 0.88	\$ (3.40)
Discontinued operations	\$ 13.57	\$ 1.23	\$ 0.43	\$ 0.68	\$ 0.74
Total	\$ 14.53	\$ 2.41	\$ 1.49	\$ 1.56	\$ (2.66)
Diluted earnings (loss) per common share:					
Continuing operations	\$ 0.95	\$ 1.18	\$ 1.06	\$ 0.88	\$ (3.40)
Discontinued operations	\$ 13.43	\$ 1.22	\$ 0.43	\$ 0.67	\$ 0.74
Total	\$ 14.38	\$ 2.40	\$ 1.49	\$ 1.55	\$ (2.66)
Weighted average shares outstanding (in millions):					
Basic	239.1	245.6	343.4	378.3	412.9
Diluted	241.5	245.9	343.8	379.6	412.9
Cash dividends declared per common share	\$ 0.7750	\$ 0.6700	\$ 0.5550	\$ 0.4600	\$ 0.3828

## SAFEWAY INC. AND SUBSIDIARIES

### Item 6. Selected Financial Data (continued)

(Dollars in millions, except per-share amounts)	52 Weeks 2013	52 Weeks 2012	52 Weeks 2011	52 Weeks 2010	53 Weeks 2009
<b>Financial Statistics</b>					
Identical-store sales increases (decreases) <sup>(1)</sup>	0.2%	1.6%	4.9%	— %	(5.7)%
Identical-store sales increases (decreases) without fuel <sup>(1)</sup>	1.7%	0.8%	1.1%	(1.7)%	(3.0)%
Gross profit margin	26.27%	26.23%	26.78%	28.29 %	28.67 %
Operating & administrative expense as a percentage of sales <sup>(2)</sup>	24.51%	24.27%	24.78%	25.90 %	25.67 %
Operating profit (loss) as a percentage of sales <sup>(3)</sup>	1.76%	1.97%	2.00%	2.39 %	(2.91)%
Cash paid for property additions	\$ 767.4	\$ 821.2	\$ 992.4	\$ 689.6	\$ 721.7
Depreciation expense	\$ 943.9	\$ 970.2	\$ 973.0	\$ 984.8	\$ 999.3
Total assets <sup>(3,6)</sup>	\$ 17,219.5	\$ 14,657.0	\$ 15,073.6	\$ 15,148.1	\$ 14,963.6
Total debt <sup>(6)</sup>	\$ 4,193.0	\$ 5,573.7	\$ 5,410.2	\$ 4,836.3	\$ 4,901.7
Total equity <sup>(3,4,6)</sup>	\$ 5,875.1	\$ 2,909.2	\$ 3,691.1	\$ 4,999.7	\$ 4,948.4
<b>Other Statistics</b>					
Stores opened during the year	7	8	22	12	6
Stores closed during the year <sup>(5)</sup>	18	39	37	42	20
Total stores at year end	1,335	1,346	1,377	1,392	1,422
Total retail square footage at year end (in millions)	63.4	63.8	65.1	65.1	66.0

<sup>(1)</sup> Defined as stores operating the same period in both the current year and the prior year, comparing sales on a daily basis. Stores that are open during remodeling are included in identical-store sales (ID Sales). Internet sales are included in ID Sales if the store fulfilling the orders is included in the ID Sales calculation.

<sup>(2)</sup> Management believes this ratio is relevant because it assists investors in evaluating Safeway's ability to control costs.

<sup>(3)</sup> 2009 includes a pretax goodwill impairment charge of \$1,974.2 million, (\$1,818.2 million, after-tax).

<sup>(4)</sup> Total equity in 2009 through 2012 has been decreased \$24.2 million due to a correction in the accounting for the accrual of multiemployer health and welfare benefits. See Note A, under the caption "Correction to Previously Reported Financial Statements."

<sup>(5)</sup> In 2012, the Company disposed of 25 of its Genuardi's stores. See Note B.

<sup>(6)</sup> Includes Canada and Dominick's in 2009 through 2012.

## SAFEWAY INC. AND SUBSIDIARIES

### Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The last three fiscal years consist of the 52-week period ended December 28, 2013 ("fiscal 2013" or "2013"), the 52-week period ended December 29, 2012 ("fiscal 2012" or "2012") and the 52-week period ended December 31, 2011 ("fiscal 2011" or "2011").

#### Management Overview

On February 19, 2014, Safeway announced it is in discussions concerning a possible transaction involving the sale of the Company. Although the discussions are ongoing, the Company has not reached an agreement on a transaction, and there can be no assurance that these discussions will lead to an agreement or a completed transaction.

Safeway also announced that it has decided to distribute the remaining 37.8 million shares it owns of Blackhawk (approximately 72.2% of the outstanding Blackhawk shares) to Safeway stockholders. Currently, the plan is to make the distribution on a pro rata basis to all Safeway stockholders in a transaction intended to be tax-free to Safeway and its stockholders. However, if Safeway consummates a sale transaction, the distribution may be taxable. The timing and details of the distribution will be determined in the near future.

Additionally, Safeway announced that it is exploring alternatives to monetize its investment in its equity affiliate, Casa Ley. While Safeway has discussed its desire to monetize its investment with the majority owners of Casa Ley, there can be no assurance that Safeway will be able to sell its interest in Casa Ley at a price and on terms that Safeway finds acceptable.

#### Discontinued Operations

**Sale of Canadian Operations** On November 3, 2013, Safeway completed the Sale of Canadian Operations to Sobeys for CAD5.8 billion (USD5.6 billion) in cash plus the assumption of certain liabilities.

**Dominick's** During the fourth quarter of 2013, Safeway sold or closed all Dominick's stores. In 2013, cash proceeds on the sale of these stores were \$72.2 million, with a pre-tax loss of \$493.1 million. Included in the loss is a \$310.8 million charge which represents the estimated multiemployer pension plan withdrawal liability. See Note N.

**Genuardi's** In January 2012, Safeway announced the planned sale or closure of its Genuardi's stores, located in the Eastern United States. These transactions were completed during 2012 with cash proceeds of \$107.0 million and a pre-tax gain of \$52.4 million (\$31.9 million after tax).

## SAFeway INC. AND SUBSIDIARIES

Financial information for discontinued operations is shown below (in millions):

	2013	2012	2011
<i>Sales and other revenue:</i>			
CSL <sup>(1)</sup>	\$ 5,447.9	\$ 6,695.8	\$ 6,726.9
Dominick's	1,394.8	1,465.2	1,568.6
Total	\$ 6,842.7	\$ 8,161.0	\$ 8,295.5
<i>Income (loss) from discontinued operations, before income taxes:</i>			
CSL <sup>(1)</sup>	\$ 286.2	\$ 442.3	\$ 462.3
Dominick's	(92.0)	(50.4)	(38.7)
Total	\$ 194.2	\$ 391.9	\$ 423.6
<i>Gain (loss) on sale or disposal of operations, net of lease exit costs, before income taxes:</i>			
CSL <sup>(2)</sup>	\$ 4,783.1	\$ —	\$ —
Dominick's	(493.1)	—	—
Genuardi's	—	52.4	—
Total	\$ 4,290.0	\$ 52.4	\$ —
Total income from discontinued operations before income taxes	\$ 4,484.2	\$ 444.3	\$ 423.6
Income taxes on discontinued operations	(1,208.3)	(140.8)	(272.6)
Income from discontinued operations, net of tax	\$ 3,275.9	\$ 303.5	\$ 151.0

<sup>(1)</sup> For CSL, 2013 reflects 44 weeks of activity compared to 52 weeks in 2012 and 2011.

<sup>(2)</sup> In accordance with ASU No. 2013-05, "Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity," the Company transferred the cumulative translation adjustment relating to Canadian operations from Accumulated Other Comprehensive Loss on the balance sheet to gain on the Sale of Canadian Operations.

Historical financial information for CSL and Dominick's presented in the consolidated income statements has been reclassified to discontinued operations to conform to current-year presentation. The historical operating results of Genuardi's stores have not been reflected in discontinued operations because the historical financial operating results were not material to the Company's consolidated financial statements for all periods presented. The disclosures in this Management's Discussion and Analysis focus on continuing operations, unless otherwise noted. See Note B to the consolidated financial statements set forth in Part II, Item 8 of this report for additional information on Discontinued Operations.

### **Initial Public Offering ("IPO") of Blackhawk**

On April 24, 2013, Blackhawk, a Safeway subsidiary, completed its initial public offering of 11.5 million shares of its Class A common stock at \$23.00 per share on the NASDAQ Global Select Market, which included the exercise by the underwriters for the offering of an option to purchase 1.5 million shares of Class A common stock. The offering consisted solely of shares offered by existing stockholders, including Safeway. As part of the IPO, Safeway sold 11.3 million shares of Class A common stock of Blackhawk for proceeds of \$243.6 million (\$238.0 million, net of professional service fees), reducing the Company's ownership from approximately 95% to approximately 73% of Blackhawk's total outstanding shares of common stock. As of December 28, 2013, Safeway owned 37.8 million shares, or approximately 72.2%, of Blackhawk, which the Company plans to distribute to its stockholders.



## SAFEWAY INC. AND SUBSIDIARIES

### **Reduction of Debt**

During 2013, the Company reduced debt by \$1.4 billion with a combination of net proceeds from the sale of its Canadian operations, free cash flow and net proceeds from the IPO of Blackhawk .

The Company repaid its \$250.0 million Floating Rate Senior Note on the December 12, 2013 maturity date and redeemed \$500.0 million of 6.25% Senior Notes due March 15, 2014. Additionally, in the fourth quarter of 2013, the Company deposited CAD304.5 million in an account with the Trustee under the indenture governing the CAD300.0 million, 3.00% Second Series Notes due March 31, 2014. Safeway met the conditions for satisfaction and discharge of the Company's obligations under the indenture and as a result, extinguished the \$287.9 million notes and \$292.2 million cash from the consolidated balance sheet. In addition, the Company reduced borrowings under its term credit agreement by \$300 million.

### **Repurchase of the Company's Common Stock**

During 2013, the Company repurchased 19.5 million shares of common stock at an average cost of \$33.93 per share and a total cost of \$663.7 million (including commissions), with a portion of proceeds from the sale of Safeway's Canadian operations.

### **Economic Conditions**

The Company's results of operations can be affected by economic conditions such as macroeconomic conditions, credit market conditions and the level of consumer confidence. The Company believes that recently consumer confidence has improved modestly, but remains cautious. The Company is responding to this challenging environment with new marketing programs, such as **just for U™**, a continuing focus on cost control and new business initiatives.

### **Results of Operations**

**Income from Continuing Operations** Income from continuing operations was \$246.3 million (\$0.95 per diluted share) in 2013, \$294.6 million (\$1.18 per diluted share) in 2012 and \$367.2 million (\$1.06 per diluted share) in 2011. Fiscal 2013 included a \$57.4 million loss on foreign currency translation, a \$30.0 million loss from the impairment of notes receivable and a \$9.7 million gain from the reduction of contingent consideration related to Blackhawk's acquisition of Cardpool. Fiscal 2012 included a \$46.5 million gain from legal settlements. Income tax expense in 2011 was reduced by \$53.8 million due to a change in policy regarding the repatriation of earnings in Casa Ley.

**Sales and Other Revenue** Identical-store sales increases for the past three fiscal years were as follows:

	2013	2012	2011
Including fuel	0.2%	1.6%	4.9%
Excluding fuel	1.7%	0.8%	1.1%

Sales increased 0.2% to \$36,139.1 million in 2013 from \$36,068.3 million in 2012. Identical-store sales, excluding fuel, increased 1.7%, or \$506 million, due to inflation and better merchandising. Other revenue, primarily from gift and prepaid card sales increased \$186 million. Warehouse and supply sales increased \$35 million. Fuel sales decreased \$426 million in 2013, as a result of the average retail price per gallon of fuel decreasing 4.1% and gallons sold decreasing 5.4%. Sales declined \$233 million due to the disposition of Genuardi's stores in 2012. Store closures, net of new stores, decreased sales \$39 million. Average transaction size and transaction counts increased during fiscal 2013.

## SAFeway INC. AND SUBSIDIARIES

Sales increased 2.0% to \$36,068.3 million in 2012 from \$35,356.7 million in 2011. Fuel sales increased \$363.8 million in 2012, as a result of the average retail price per gallon of fuel increasing 2.3% and gallons sold increasing 5.8%. Identical-store sales, excluding fuel, increased 0.8%, or \$236 million, primarily due to inflation. Other revenue, primarily from gift and prepaid card sales increased \$201 million. New stores, net of store closures, increased sales by \$205 million. Sales declined \$254 million due to the disposition of Genuardi's stores. Average transaction size increased during fiscal 2012, and transaction counts decreased.

**Gross Profit** Gross profit represents the portion of sales revenue remaining after deducting the cost of goods sold during the period, including purchase and distribution costs. These costs include inbound freight charges, purchasing and receiving costs, warehouse inspection costs, warehousing costs and other costs associated with Safeway's distribution network. Advertising and promotional expenses are also a component of cost of goods sold. Additionally, all vendor allowances are classified as an element of cost of goods sold.

Gross profit margin was 26.27% of sales in 2013, 26.23% of sales in 2012 and 26.78% in 2011.

The gross profit margin increased four basis points to 26.27% of sales in 2013 from 26.23% of sales in 2012 primarily for the following reasons:

	Basis-point increase (decrease)
Impact of fuel sales	35
Lower advertising expense	16
Changes in product mix	6
Increased LIFO income	5
Fuel partner discounts	(15)
Investments in price	(18)
Higher Blackhawk revenue (which has a lower gross margin than grocery sales)	(8)
Higher shrink expense	(19)
Other individually immaterial items	2
	4

The gross profit margin decreased 55 basis points to 26.23% of sales in 2012 from 26.78% of sales in 2011 primarily for the following reasons:

	Basis-point (decrease) increase
Impact of fuel sales	(35)
Investments in price	(21)
Higher shrink expense	(13)
Costs incurred to launch <b>just for U™</b>	(9)
Lower LIFO expense	14
Other individually immaterial items	9
	(55)

## SAFEWAY INC. AND SUBSIDIARIES

Shrink expense increased 19 basis points in 2013 and 13 basis point in 2012. In the second half of 2013, Safeway implemented a new strategy which focuses more on increasing sales with less emphasis on controlling shrink. While Safeway anticipated some additional shrink in 2013, the transition to the new strategy resulted in an unplanned level of shrink in the third quarter of 2013. We believe this initial unplanned level for shrink was eliminated in the fourth quarter of 2013 and that shrink expense should be flat in 2014. Safeway's long-term programs to control shrink expense include improved buying practices to prevent overstocking of inventory and increased security to reduce theft.

Vendor allowances totaled \$2.4 billion in 2013, \$2.3 billion in 2012 and \$2.2 billion in 2011. Vendor allowances can be grouped into the following broad categories: promotional allowances, slotting allowances and contract allowances.

Promotional allowances make up the vast majority of all allowances. With promotional allowances, vendors pay Safeway to promote their product. The promotion may be any combination of a temporary price reduction, a feature in print ads, a feature in a Safeway circular or a preferred location in the store. The promotions are typically one to two weeks long.

Slotting allowances are a very small portion of total allowances. With slotting allowances, the vendor reimburses Safeway for the cost of placing new product on the shelf. Safeway has no obligation or commitment to keep the product on the shelf for a minimum period.

Contract allowances make up the remainder of all allowances. Under a typical contract allowance, a vendor pays Safeway to keep product on the shelf for a minimum period of time or when volume thresholds are achieved.

Promotional and slotting allowances are accounted for as a reduction in the cost of purchased inventory and are recognized when the related inventory is sold. Contract allowances are recognized as a reduction in the cost of goods sold as volume thresholds are achieved or through the passage of time.

**Operating and Administrative Expense** Operating and administrative expense consists primarily of store occupancy costs and backstage expenses, which, in turn, consist primarily of wages, employee benefits, rent, depreciation and utilities.

Operating and administrative expense was 24.51% of sales in 2013 compared to 24.27% of sales in 2012 and 24.78% in 2011.

Operating and administrative expense margin increased 24 basis points to 24.51% of sales in 2013 from 24.27% of sales in 2012 primarily for the following reasons:

## SAFEWAY INC. AND SUBSIDIARIES

	Basis-point increase (decrease)
Impact of fuel sales	33
\$46.5 million gain from legal settlements in 2012	15
Write-off of \$30 million of notes receivable	9
Decline in self-insurance expense	(16)
Higher revenue from Blackhawk	(12)
Lower depreciation expense	(11)
Lower pension expense	(5)
Other individually immaterial items	11
	24

Self-insurance expense declined \$50.6 million to \$98.6 million in 2013 from \$149.2 million in 2012. A 100 basis-point increase in the discount rate used to measure the present value of the self-insurance liability accounted for approximately \$24 million of the decline in expense. The remaining decline was due primarily to Company programs to reduce workers' compensation expense.

Operating and administrative expense margin decreased 51 basis points to 24.27% of sales in 2012 from 24.78% of sales in 2011 primarily for the following reasons:

	Basis-point decrease (increase)
Impact of fuel sales	(17)
\$46.5 million gain from legal settlements in 2012	(15)
Lower labor	(12)
Reduced store occupancy	(10)
Higher revenue from Blackhawk	(9)
Higher pension expense	10
Other individually immaterial items	2
	(51)

**Gain on Property Dispositions** Operating and administrative expense included a net gain on property dispositions of \$51.2 million in 2013, a net gain of \$48.3 million in 2012 and a net gain of \$16.2 million in 2011.

**Interest Expense** Interest expense was \$273.0 million in 2013, compared to \$300.7 million in 2012 and \$268.1 million in 2011. The decrease in interest expense in 2013 was due to lower average borrowing in 2013 compared to 2012, partly offset by slightly higher interest rates. The increase in 2012 was due to higher average borrowings, partly offset by lower average interest rates.

Average borrowings from continuing operations were \$5,623.9 million, \$6,378.9 million and \$5,037.1 million in 2013, 2012 and 2011, respectively. Average interest rates were 4.92%, 4.71% and 5.32% in 2013, 2012 and 2011, respectively.

## SAFEWAY INC. AND SUBSIDIARIES

**Loss on Foreign Currency Translation** After the sale of the Company's Canadian operations, the adjustments resulting from translation of assets and liabilities denominated in Canadian dollars are included in the statement of income as a foreign currency gain or loss. Foreign currency loss was \$57.4 million in fiscal 2013.

**Other Income, Net** In fiscal 2013, Other income, net consists of interest income of \$14.8 million, equity in earnings of unconsolidated affiliate of \$17.6 million, gain on the sale of investments of \$8.6 million and loss on extinguishment of debt of \$10.1 million. In fiscal 2012, Other income, net consists primarily of interest income of \$9.9 million and equity in earnings from Safeway's unconsolidated affiliate of \$17.5 million. In 2011, Other income, net consists primarily of interest income of \$4.8 million and equity in earnings of unconsolidated affiliate of \$13.0 million.

**Income Taxes** Income tax expense was \$89.7 million, or 26.7% of pre-tax income in 2013. In 2013 Safeway withdrew \$68.7 million from the accumulated cash surrender value of corporate-owned life insurance ("COLI") policies and determined that a majority of the remaining cash surrender value would be received in the future through tax-free death benefits. Consequently, Safeway reversed deferred taxes on that remaining cash surrender value and reduced 2013 income tax expense by \$17.2 million. In 2012, Safeway had income tax expense of \$141.8 million, or 32.5% of pre-tax income. In 2011, income tax expense was \$91.2 million, or 19.9%, of pre-tax income. Income tax expense in 2011 was reduced by \$53.8 million due to a change in policy regarding the repatriation of earnings in Casa Ley.

## SAFEWAY INC. AND SUBSIDIARIES

**Blackhawk Financial Results** Blackhawk revenue (excluding intercompany revenue to Safeway Inc.) was \$1,128.5 million for fiscal 2013, up 19.0% from \$948.5 million in fiscal 2012. This increase was primarily due to an increase in the load value of gift cards, an increase in marketing revenue, an increase in fees from VISA gift cards, increase in sales from Cardpool and an increase in card production sales. In 2013, Blackhawk recorded a gain of \$13.5 million from the reduction of contingent consideration related to the acquisition of Cardpool. Also in 2013, Blackhawk incurred a \$6.0 million mark-to-market charge for accelerating the expense of a partner equity instrument at the time of its IPO. Income before taxes from Blackhawk was \$84.5 million in 2013 compared to \$75.0 million in fiscal 2012.

Blackhawk revenue (excluding intercompany revenue to Safeway Inc.) was \$948.5 million for fiscal 2012, up 27.6% from \$743.3 million in fiscal 2011. This increase was primarily due to an increase in the load value of gift cards, an increase in marketing revenue, an increase in sales from Cardpool and an increase in telecom handset sales. Income before taxes from Blackhawk was \$75.0 million in 2012 compared to \$60.7 million in fiscal 2011.

### Critical Accounting Policies and Estimates

Critical accounting policies are those accounting policies that management believes are important to the portrayal of Safeway's financial condition and results of operations and require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

**Workers' Compensation** The Company is primarily self-insured for workers' compensation, automobile and general liability costs. It is the Company's policy to record its self-insurance liability as determined actuarially, based on claims filed and an estimate of claims incurred but not yet reported.

Self-insurance reserves are actuarially determined primarily by applying historical paid loss and incurred loss development trends to current cash and incurred expected losses in order to estimate total losses. The Company then discounts total expected losses to their present value using a risk-free rate of return.

Any actuarial projection of self-insured losses is subject to a high degree of variability. Litigation trends, legal interpretations, benefit level changes, claim settlement patterns and similar factors influenced historical development trends that were used to determine the current-year expense and therefore contributed to the variability in annual expense. However, these factors are not direct inputs into the actuarial projection, and thus their individual impact cannot be quantified.

The discount rate is a significant factor that has led to variability in self-insured expenses. Since the discount rate is a direct input into the estimation process, the Company is able to quantify its impact. The discount rate, which is based on the United States Treasury Note rates for the estimated average claim life of five years, was 1.75% in 2013, 0.75% in 2012 and 0.75% in 2011. A 25-basis-point change in the discount rate affects the self-insured liability by approximately \$6 million.

The majority of the Company's workers' compensation liability is from claims occurring in California. California workers' compensation has received intense scrutiny from the state's politicians, insurers, employers and providers, as well as the public in general. Recent years have seen escalation in the number of legislative reforms, judicial rulings and social phenomena affecting this business. Some of the many sources of uncertainty in the Company's reserve estimates include changes in benefit levels, medical fee schedules, medical utilization guidelines, vocation rehabilitation and apportionment.

**Store Lease Exit Costs and Impairment Charges** Safeway assesses store impairment indicators quarterly. Safeway's policy is to recognize losses relating to the impairment of long-lived assets when

## SAFEWAY INC. AND SUBSIDIARIES

expected net future cash flows are less than the assets' carrying values. When stores that are under long-term leases close, Safeway records a liability for the future minimum lease payments and related ancillary costs, net of estimated cost recoveries. In both cases, fair value is determined by estimating net future cash flows and discounting them using a risk-adjusted rate of interest. The Company estimates future cash flows based on its experience and knowledge of the market in which the closed store is located and, when necessary, uses real estate brokers. However, these estimates project future cash flows several years into the future and are affected by factors such as inflation, real estate markets and economic conditions.

At any one time, Safeway has a portfolio of closed stores which is widely dispersed over several markets. While individual closed store reserves are likely to be adjusted up or down in the future to reflect changes in assumptions, the change to the total closed store reserve has not been nor is expected to be material.

**Employee Benefit Plans** The Company recognizes in its balance sheet a liability for the underfunded status of its employee benefit plans. The Company measures plan assets and obligations that determine the funded status as of fiscal year end. Additional disclosures are provided in Note M to the consolidated financial statements, set forth in Part II, Item 8 of this report.

The determination of Safeway's obligation and expense for pension benefits is dependent, in part, on the Company's selection of certain assumptions used by its actuaries in calculating these amounts. These assumptions are disclosed in Note M to the consolidated financial statements and include, among other things, the discount rate, the expected long-term rate of return on plan assets and the rate of compensation increases. Actual results in any given year will often differ from actuarial assumptions because of economic and other factors. In accordance with generally accepted accounting principles ("GAAP"), the amount by which actual results differ from the actuarial assumptions is accumulated and amortized over future periods and, therefore, affects recognized expense in such future periods. While Safeway believes its assumptions are appropriate, significant differences in actual results or significant changes in the Company's assumptions may materially affect Safeway's pension and other postretirement obligations and its future expense.

Safeway bases the discount rate on current investment yields on high-quality fixed-income investments. The discount rate assumption used to determine the year-end projected benefit obligation is increased or decreased to be consistent with the change in yield rates for high-quality fixed-income investments for the expected period to maturity of the pension benefits. The discount rate used to determine 2013 pension expense was 4.2%. A lower discount rate increases the present value of benefit obligations and increases pension expense. Expected return on pension plan assets is based on historical experience of the Company's portfolio and the review of projected returns by asset class on broad, publicly traded equity and fixed-income indices, as well as target asset allocation. Safeway's target asset allocation mix is designed to meet the Company's long-term pension requirements. For 2013, the Company's assumed rate of return was 7.50% on U.S. pension assets. Over the 10-year period ended December 28, 2013, the average rate of return was approximately 6% for U.S. pension assets, slightly below the Company's assumed rate of return. A poor global financial market during 2008 led to a substantial reduction in the 10-year average rate of return on Safeway's pension assets. We expect that the markets will eventually recover to our assumed long-term rate of return.

## SAFeway INC. AND SUBSIDIARIES

The following table summarizes actual allocations for Safeway's plans at year-end:

Asset category	Target	Plan assets <sup>(1)</sup>	
		2013	2012
Equity	65%	66.4%	64.3%
Fixed income	35	31.9	33.0
Cash and other	—	1.7	2.7
Total	100%	100.0%	100.0%

<sup>(1)</sup> Plan assets for 2013 are for continuing operations. Plan assets for 2012 include continuing and discontinued operations.

The investment policy with regard to Safeway's pension plans also emphasizes the following key objectives: (1) maintain a diversified portfolio among asset classes and investment styles; (2) maintain an acceptable level of risk in pursuit of long-term economic benefit; (3) maximize the opportunity for value-added returns from active investment management while establishing investment guidelines and monitoring procedures for each investment manager to ensure the characteristics of the portfolio are consistent with the original investment mandate; and (4) maintain adequate controls over administrative costs.

Sensitivity to changes in the major assumptions for Safeway's pension plans are as follows (in millions):

	Percentage point change	United States	
		Projected benefit obligation decrease (increase)	Expense decrease (increase)
Expected return on assets	+1 pt	\$ —	\$ 14.3
	-1 pt	\$ —	\$ (14.3)
Discount rate	+1 pt	\$ 251.7	\$ 28.9
	-1 pt	\$ (315.7)	\$ (35.9)

Cash contributions to the Company's pension and post-retirement benefit plans are expected to total approximately \$13.1 million in 2014 and totaled \$56.3 million in 2013, \$110.3 million in 2012 and \$151.2 million in 2011.

**Income Tax Contingencies** The Company is subject to periodic audits by the Internal Revenue Service and other foreign, state and local taxing authorities. These audits may challenge certain of the Company's tax positions such as the timing and amount of income and deductions and the allocation of taxable income to various tax jurisdictions. The Company evaluates its tax positions and establishes liabilities in accordance with the applicable accounting guidance on uncertainty in income taxes. These tax uncertainties are reviewed as facts and circumstances change and are adjusted accordingly. This requires significant management judgment in estimating final outcomes. Actual results could materially differ from these estimates and could significantly affect the Company's effective tax rate and cash flows in future years. Note L to the consolidated financial statements set forth in Part II, Item 8 of this report provides additional information on income taxes.

### Liquidity and Financial Resources

Net cash flow provided by operating activities was \$1,045.8 million in 2013, \$1,288.9 million in 2012 and \$1,570.0 million in 2011. The decrease in net cash flow provided by operating activities in 2013 from 2012 was due primarily to income taxes paid. Net cash flow from operating activities declined in 2012 compared to 2011 primarily due to a greater use of cash flow for working capital which was largely calendar driven.



## SAFeway INC. AND SUBSIDIARIES

Blackhawk receives significant cash inflow from the sale of third-party gift cards late in the fourth quarter of the year and remits the majority of the cash, less commissions, to the card partners early in the first quarter of the following year. Changes in payables related to third-party gift cards, net of receivables, was a use of cash of \$27.6 million in 2013 compared to a source of cash of \$26.4 million in 2012.

Cash contributions to pension and post-retirement plans were \$56.3 million in 2013, \$110.3 million in 2012 and \$151.2 million in 2011. Cash contributions are expected to decline to approximately \$13.1 million in 2014 due primarily to increased return on plan assets and the impact of the Pension Funding Stabilization legislation which increased the discount rate used to determine pension funding (but which had no effect on pension expense).

Net cash flow used by investing activities, which consists principally of cash paid for property additions, was \$621.3 million in 2013, \$614.3 million in 2012 and \$923.2 million in 2011. Net cash flow used by investing activities increased in 2013 compared to 2012 primarily as a result of cash used in 2013 for business acquisitions by Blackhawk, partly offset by lower capital expenditures. Net cash flow used by investing activities declined in 2012 compared to 2011 primarily as a result of lower capital expenditures and higher proceeds from the sale of property in 2012.

Cash paid for property additions was \$767.4 million in 2013, \$821.2 million in 2012 and \$992.4 million in 2011. Capital expenditures by major category of spending were as follows:

(in millions)	Fiscal Year		
	2013	2012	2011
Remodels	\$ 227.9	\$ 227.8	\$ 250.7
Information technology	117.0	96.1	126.8
New stores	111.7	157.2	308.2
Property Development Centers	105.0	177.2	92.3
Supply chain	91.1	59.3	91.0
Other	114.7	103.6	123.4
Cash paid for property additions	\$ 767.4	\$ 821.2	\$ 992.4

In 2014, the Company expects to spend approximately \$800 million to \$900 million in cash capital expenditures.

Net cash flow used by financing activities was 1,842.4 million in 2013, \$1,329.1 million in 2012 and \$1,413.7 million in 2011. In 2013, net cash payments on debt were \$1,386.0 million. The Company also repurchased \$663.7 million of common stock and paid \$181.4 million in dividends. In 2012, Safeway had net cash additions to debt of \$117.5 million, repurchased \$1,274.5 million of common stock and paid \$163.9 million in dividends. In 2011, net cash payments on debt were \$270.7 million. Additionally, the Company repurchased \$1,554.0 million of common stock and paid \$188.0 million in dividends.

**Initial Public Offering of Blackhawk** On April 24, 2013, Blackhawk, a Safeway subsidiary, completed its initial public offering of 11.5 million shares of its Class A common stock at \$23.00 per share on the NASDAQ Global Select Market, which included the exercise by the underwriters for the offering of an option to purchase 1.5 million shares of Class A common stock. The offering consisted solely of shares offered by existing stockholders, including Safeway. As part of the IPO, Safeway sold 11.3 million shares of Class A common stock of Blackhawk for proceeds of \$243.6 million (\$238.0 million, net of professional service fees), reducing the Company's ownership from approximately 95% to approximately 73% of Blackhawk's total outstanding shares of common stock. In 2014, Safeway announced plans to distribute all of its shares of Blackhawk stock to Safeway shareholders (See Note U).

## SAFeway INC. AND SUBSIDIARIES

Based upon the current level of operations, Safeway believes that net cash flow from operating activities and other sources of liquidity, including potential proceeds from the monetization of the Company's investment in Casa Ley and potential borrowing under Safeway's commercial paper program, its credit agreement and debt offerings, will be adequate to meet anticipated requirements for working capital, capital expenditures, interest payments, dividend payments, stock repurchases, if any, and scheduled principal payments for the foreseeable future. There can be no assurance, however, that Safeway's business will continue to generate cash flow at or above current levels or that the Company will maintain its ability to borrow under its commercial paper program and credit agreement.

**Free Cash Flow on Continuing Operations** Free cash flow is calculated as (1) net cash flow from operating activities adjusted to exclude payables related to third-party gift cards, net of receivables, less (2) net cash flow used by investing activities adjusted to exclude cash used by investments and business acquisitions. Cash from the sale of third-party gift cards is held for a short period of time and then remitted, less our commission, to card partners. Because this cash flow is temporary, it is not available for other uses, and it is therefore excluded from our calculation of free cash flow. We add back cash used by investments and business acquisitions to our calculation of free cash flow in order to provide a more accurate indication of our capacity to apply our available free cash flow to its intended uses.

(in millions)	Fiscal Year		
	2013	2012	2011
Net cash flow from operating activities	\$ 1,045.8	\$ 1,288.9	\$ 1,570.0
Decrease (increase) in payables related to third-party gift cards, net of receivables	27.6	(26.4)	(293.6)
Net cash flow from operating activities, as adjusted	1,073.4	1,262.5	1,276.4
Net cash flow used by investing activities	(621.3)	(614.3)	(923.2)
Business acquisitions, net of cash acquired	149.4	—	35.9
Net cash flow used by investing activities, as adjusted	(471.9)	(614.3)	(887.3)
Free cash flow	\$ 601.5	\$ 648.2	\$ 389.1

Free cash flow provides information regarding the cash that the Company's business generates, which management believes is useful to understanding the Company's business. Free cash flow is also a useful indicator of Safeway's ability to service debt and fund share repurchases that management believes will enhance stockholder value.

This non-U.S. GAAP financial measure should not be considered as an alternative to net cash flow from operating activities or other increases and decreases in cash as shown on our Consolidated Statements of Cash Flows as a measure of liquidity. Non-U.S. GAAP financial measures have limitations as analytical tools, and they should not be considered in isolation or as substitutes for analysis of the Company's results as reported under U.S. GAAP. Other companies in the Company's industry may calculate free cash flow differently, limiting its usefulness as a comparative measure. Because of these limitations, free cash flow should not be considered as a measure of discretionary cash available to us to invest in the growth of our business.

**Bank Credit Agreement and Term Loan Agreement** Information about the Company's bank credit agreement and term loan agreement appear in Note F to the consolidated financial statements set forth in Part II, Item 8 of this report.

**Adjusted EBITDA from Continuing Operations** Management believes that "Adjusted EBITDA from Continuing Operations" is a useful measure of operating performance that facilitates management's evaluation of the Company's ability to service debt and capability to incur more debt to generate the cash

## SAFeway INC. AND SUBSIDIARIES

needed to grow the business (including at times when interest rates fluctuate). Omitting interest, taxes and the other enumerated items provides a financial measure that is useful to management in assessing operating performance because the cash Safeway's business operations generate enables us to incur debt and thus to grow.

Management believes that "Adjusted EBITDA from Continuing Operations" also facilitates comparisons of Safeway's results of operations with those of companies having different capital structures. Since the levels of indebtedness, tax structures, discontinued operations, property impairment charges, methodologies in calculating LIFO expense and unconsolidated affiliates that other companies have are different from the Company's, we omit these amounts to facilitate investors' ability to make these comparisons. Similarly, we omit depreciation and amortization because other companies may employ a greater or lesser amount of owned property, and because, in management's experience, whether a store is new or one that is fully or mostly depreciated does not necessarily correlate to the contribution such store makes to operating performance.

Management also believes that investors, analysts and other interested parties view our ability to generate "Adjusted EBITDA from Continuing Operations" as an important measure of our operating performance and that of other companies in our industry.

"Adjusted EBITDA from Continuing Operations" is a useful indicator of Safeway's ability to service debt, fund share repurchases and pay dividends that management believes will enhance stockholder value. "Adjusted EBITDA from Continuing Operations" is also a useful indicator of cash available for investing activities.

The computation of Adjusted EBITDA from Continuing Operations is provided below. Adjusted EBITDA from Continuing Operations should not be considered as an alternative to income from continuing operations, net of tax, or cash flow from operating activities (which are determined in accordance with U.S. GAAP). Other companies may define Adjusted EBITDA differently and, as a result, such measures may not be comparable to Safeway's Adjusted EBITDA from Continuing Operations (dollars in millions).

	52 Weeks 2013
Adjusted EBITDA from Continuing Operations:	
Income from continuing operations, net of tax	\$ 246.3
Add (subtract):	
Noncontrolling interests	(14.7)
Income taxes	89.7
Interest expense	273.0
Depreciation expense	943.9
LIFO income	(14.3)
Share-based employee compensation	59.1
Property impairment charges	35.6
Equity in earnings of unconsolidated affiliate	(17.6)
Dividend from unconsolidated affiliate	3.8
Impairment of notes receivable	30.0
Total Adjusted EBITDA from Continuing Operations	\$ 1,634.8

**Shelf Registration** On October 24, 2011, the Company filed a shelf registration statement (the "Shelf") with the SEC which permits Safeway to issue an unlimited amount of debt securities and/or common stock. The Shelf expires on October 24, 2014. The Safeway Board of Directors has authorized the issuance of up to

## SAFEWAY INC. AND SUBSIDIARIES

\$3.0 billion of securities under the Shelf. As of December 28, 2013, \$1.95 billion of securities were available for issuance under the board's authorization.

**Commercial Paper** Information about the Company's commercial paper borrowings appear in Note F to the consolidated financial statements set forth in Part II, Item 8 of this report.

**Dividends Declared on Common Stock** The following table presents information regarding dividends declared on Safeway's common stock during fiscal 2013, 2012 and 2011.

(in millions, except per-share amounts)	Date Declared	Record Date	Per-Share Amounts	Total	Year-to-date Total
<b>2013</b>					
Quarter 4	12/05/13	12/19/13	\$ 0.2000	\$ 46.0	\$ 185.5
Quarter 3	08/22/13	09/19/13	0.2000	49.1	139.5
Quarter 2	05/14/13	06/20/13	0.2000	48.2	90.4
Quarter 1	03/14/13	03/25/13	0.1750	42.2	42.2
<b>2012</b>					
Quarter 4	12/05/12	12/17/12	\$ 0.1750	\$ 41.9	\$ 162.0
Quarter 3	08/22/12	09/20/12	0.1750	41.9	120.1
Quarter 2	05/15/12	06/21/12	0.1750	41.9	78.2
Quarter 1	03/16/12	03/29/12	0.1450	36.3	36.3
<b>2011</b>					
Quarter 4	12/07/11	12/22/11	\$ 0.1450	\$ 43.8	\$ 187.6
Quarter 3	08/24/11	09/22/11	0.1450	49.3	143.8
Quarter 2	05/19/11	06/23/11	0.1450	50.7	94.5
Quarter 1	03/15/11	03/24/11	0.1200	43.8	43.8

## SAFEWAY INC. AND SUBSIDIARIES

**Dividends Paid on Common Stock** The following table presents information regarding dividends paid on Safeway's common stock during fiscal 2013, 2012 and 2011.

(in millions, except per-share amounts)	Date Paid	Record Date	Per-Share Amounts	Total	Year-to-date Total
<b>2013</b>					
Quarter 4	10/10/13	09/19/13	\$ 0.2000	\$ 49.1	\$ 181.4
Quarter 3	07/11/13	06/20/13	0.2000	48.2	132.3
Quarter 2	04/11/13	03/25/13	0.1750	42.2	84.1
Quarter 1	12/31/12	12/17/12	0.1750	41.9	41.9
<b>2012</b>					
Quarter 4	10/11/12	09/20/12	\$ 0.1750	\$ 41.9	\$ 163.9
Quarter 3	07/12/12	06/21/12	0.1750	41.9	122.0
Quarter 2	04/12/12	03/29/12	0.1450	36.3	80.1
Quarter 1	01/12/12	12/22/11	0.1450	43.8	43.8
<b>2011</b>					
Quarter 4	10/13/11	09/22/11	\$ 0.1450	\$ 49.3	\$ 188.0
Quarter 3	07/14/11	06/23/11	0.1450	50.7	138.7
Quarter 2	04/14/11	03/24/11	0.1200	43.8	88.0
Quarter 1	01/13/11	12/23/10	0.1200	44.2	44.2

**Stock Repurchase Program** From the initiation of the Company's stock repurchase program in 1999 through the end of fiscal 2013, the aggregate cost of shares of common stock repurchased by the Company, including commissions, was approximately \$8.8 billion, leaving an authorized amount for repurchases of approximately \$2.2 billion. During fiscal 2013, Safeway repurchased approximately 19.5 million shares of its common stock under the repurchase program at an aggregate price, including commissions, of \$663.7 million. The average price per share, excluding commissions, was \$33.93. The timing and volume of future repurchases will depend on factors such as Safeway's day-to-day business needs as well as its stock price and economic and market conditions. Stock repurchases may be affected from time to time through open market purchases or pursuant to a Rule 10b5-1 plan. The stock repurchase program may be accelerated, suspended, delayed or discontinued at any time.

## SAFEWAY INC. AND SUBSIDIARIES

**Contractual Obligations** The table below presents significant contractual obligations of the Company at year-end 2013 (in millions) <sup>(1)</sup>:

	2014	2015	2016	2017	2018	Thereafter	Total
Long-term debt <sup>(2)</sup>	\$ 252.9	\$ 442.2	\$ 402.0	\$ 501.9	\$ 3.4	\$ 2,165.8	\$ 3,768.2
Estimated interest on long-term debt	186.1	166.8	164.1	150.4	118.6	765.9	1,551.9
Capital lease obligations <sup>(2),(3)</sup>	49.3	49.9	45.8	39.3	32.9	207.6	424.8
Interest on capital leases	34.4	30.9	27.9	25.1	22.2	90.7	231.2
Self-insurance liability	108.6	82.0	55.2	37.1	25.4	124.4	432.7
Interest on self-insurance liability	0.9	2.2	2.4	2.3	2.1	34.6	44.5
Operating leases <sup>(3)</sup>	470.3	430.3	397.3	351.1	299.5	1,781.5	3,730.0
Marketing development funds	59.6	47.3	32.5	15.5	8.7	3.6	167.2
Contracts for purchase of property, equipment and construction of buildings	276.0	—	—	—	—	—	276.0
Fixed-price energy contracts <sup>(4)</sup>	39.2	14.4	1.2	1.3	1.3	11.4	68.8
Other purchase obligations	55.8	0.2	—	—	—	—	56.0
Total	\$ 1,533.1	\$ 1,266.2	\$ 1,128.4	\$ 1,124.0	\$ 514.1	\$ 5,185.5	\$ 10,751.3

<sup>(1)</sup> Excludes funding of pension and post-retirement benefit obligations which were \$56.3 million in 2013. The Company currently expects to contribute approximately \$13.1 million to its pension and post-retirement benefit plans in 2014. Also excludes contributions under various multiemployer pension plans, which totaled \$259.2 million in 2013, excluding Canadian operations and Dominick's. Also excludes the estimated \$310.8 million of multiemployer pension plan withdrawal liability with the closure of Dominick's. Additionally, the amount of unrecognized tax benefits (\$137.5 million at December 28, 2013) has been excluded from the contractual obligations table because a reasonably reliable estimate of the timing of future tax settlements cannot be determined. Purchase orders for inventory are not included in the above table as they are cancelable by their terms.

<sup>(2)</sup> Required principal payments only.

<sup>(3)</sup> Excludes common area maintenance, insurance or tax payments for which the Company is also obligated. In fiscal 2013, these charges totaled approximately \$164.3 million.

<sup>(4)</sup> See Part II, Item 7A to this report under the caption "Commodity Price Risk."

### Off-Balance Sheet Arrangements

**Guarantees** The Company is party to a variety of contractual agreements under which it may be obligated to indemnify the other party for certain matters. These contracts primarily relate to the Company's commercial contracts, operating leases and other real estate contracts, trademarks, intellectual property, financial agreements and various other agreements. Under these agreements, the Company may provide certain routine indemnifications relating to representations and warranties (for example, ownership of assets, environmental or tax indemnifications) or personal injury matters. The terms of these indemnifications range in duration and may not be explicitly defined. The Company believes that if it were to incur a loss in any of these matters, the loss would not have a material effect on the Company's financial statements.

**Letters of Credit** The Company had letters of credit of \$44.7 million outstanding at year-end 2013. The letters of credit are maintained primarily to support performance, payment, deposit or surety obligations of

## SAFeway INC. AND SUBSIDIARIES

the Company. The Company pays commissions ranging from 0.15% to 1.10% on the face amount of the letters of credit.

### New Accounting Pronouncements Not Yet Adopted

See Part II, Item 8, Note A to this report for new accounting pronouncements which have not yet been adopted by the Company.

### Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Safeway is exposed to market risk from changes in interest rates, foreign currency exchange rates and commodity prices. The Company has, from time to time, selectively used derivative financial instruments to reduce these market risks. The Company does not utilize financial instruments for trading or other speculative purposes, nor does it utilize leveraged financial instruments.

Safeway's market risk exposures related to interest rates, foreign currency and commodity prices are discussed below and have not materially changed from the prior fiscal year.

**Interest Rate Risk** Safeway manages interest rate risk through the use of fixed- and variable-interest rate debt and, from time to time, interest rate swaps. At year-end 2013, the Company had no interest rate swaps.

**Foreign Currency Exchange Risk** Safeway is exposed to foreign currency risk, as approximately \$4,032.5 million (CAD4,294.0 million) of assets and approximately \$841.7 million (CAD896.3 million) of liabilities, retained by Safeway after the disposition of CSL in 2013, are denominated in Canadian dollars. These net assets are exposed to economic losses in the event of adverse changes in the currency exchange rate. During fiscal 2013, the Company recorded a loss of \$57.4 million on currency exchange in continuing operations. As of year-end 2013, Safeway had no derivative financial instruments to offset the risk of foreign currency.

**Commodity Price Risk** Safeway has entered into fixed-priced contracts to purchase electricity and natural gas for a portion of its energy needs. Safeway expects to take delivery of these commitments in the normal course of business, and as a result, these commitments qualify as normal purchases. See Part II, Item 7, under the caption "Contractual Obligations" for the Company's obligations related to fixed-price energy contracts as of year-end 2013.

**Long-Term Debt** The table below presents principal amounts and related weighted-average rates by year of maturity for the Company's debt obligations at year-end 2013 (dollars in millions):

	2014	2015	2016	2017	2018	Thereafter	Total	Fair value
Long-term debt: <sup>(1)</sup>								
Principal	\$ 252.9	\$ 442.2	\$ 402.0	\$ 501.9	\$ 3.4	\$ 2,165.8	\$ 3,768.2	\$ 3,949.7
Weighted average interest rate	5.63%	1.79%	3.42%	6.35%	7.60%	5.52%	4.98%	

<sup>(1)</sup> Primarily fixed-rate debt.

**SAFEWAY INC. AND SUBSIDIARIES**

**Item 8. Financial Statements and Supplementary Data**

	<b><u>Page</u></b>
<a href="#">Management's Annual Report on Internal Control over Financial Reporting</a>	<a href="#">41</a>
<a href="#">Report of Independent Registered Public Accounting Firm</a>	<a href="#">42</a>
<a href="#">Consolidated Statements of Income for fiscal 2013, 2012 and 2011</a>	<a href="#">44</a>
<a href="#">Consolidated Statements of Comprehensive Income for fiscal 2013, 2012 and 2011</a>	<a href="#">45</a>
<a href="#">Consolidated Balance Sheets as of the end of fiscal 2013 and 2012</a>	<a href="#">46</a>
<a href="#">Consolidated Statements of Cash Flows for fiscal 2013, 2012 and 2011</a>	<a href="#">48</a>
<a href="#">Consolidated Statements of Stockholders' Equity for fiscal 2013, 2012 and 2011</a>	<a href="#">50</a>
<a href="#">Notes to Consolidated Financial Statements</a>	<a href="#">52</a>



**SAFEWAY INC. AND SUBSIDIARIES**  
**Management's Annual Report on Internal Control over Financial Reporting**

Management of the Company, including the Chief Executive Officer and the Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934, as amended. The Company's internal controls were designed to provide reasonable assurance as to the reliability of its financial reporting and the preparation and presentation of the consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States and includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Management of the Company has conducted an evaluation of the effectiveness of its internal control over financial reporting based on the criteria in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. This evaluation included review of the documentation of controls, evaluation of the design effectiveness of controls, testing of the operating effectiveness of controls and a conclusion on this evaluation. Management's assessment of and conclusion on the effectiveness of internal control over financial reporting as of December 28, 2013 did not include the internal controls of Retailo AG and Intelispend, both acquired by the Company's consolidated subsidiary, Blackhawk, in November 2013. The financial statements of Retailo AG and Intelispend constitute, in aggregate, less than 1% of net and total assets, and comprise in aggregate less than 1% of revenues and of net income of Safeway Inc.'s consolidated financial statement amounts as of and for the fiscal year ended December 28, 2013. Through this evaluation, management did not identify any material weakness in the Company's internal control. There are inherent limitations in the effectiveness of any system of internal control over financial reporting; however, based on the evaluation, management has concluded the Company's internal control over financial reporting was effective as of December 28, 2013.

The Company's independent registered public accounting firm has audited the accompanying consolidated financial statements and the Company's internal control over financial reporting. The report of the independent registered public accounting firm is included in this Annual Report on Form 10-K and begins on the following page.

/s/ Robert L. Edwards

ROBERT L. EDWARDS

President and Chief Executive Officer

February 25, 2014

/s/ Peter J. Bocian

PETER J. BOCIAN

Executive Vice President and Chief Financial Officer

February 25, 2014

**Report of Independent Registered Public Accounting Firm**

**To the Board of Directors and Stockholders of Safeway Inc.:**

We have audited the accompanying consolidated balance sheets of Safeway Inc. and subsidiaries (the "Company") as of December 28, 2013 and December 29, 2012, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 28, 2013. We also have audited the Company's internal control over financial reporting as of December 28, 2013, based on criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in "Management's Annual Report on Internal Control over Financial Reporting", Management's assessment of and conclusion on the effectiveness of internal control over financial reporting as of December 28, 2013 did not include the internal controls of Retailo AG and Intelispense, both acquired by the Company's consolidated subsidiary, Blackhawk, in November 2013. The financial statements of Retailo AG and Intelispense constitute less than 1% of net and total assets, and comprise in aggregate less than 1% of revenues and of net income of Safeway Inc.'s consolidated financial statement amounts as of and for the year ended December 28, 2013. Accordingly, our audit did not include the internal control over financial reporting at Retailo AG and Intelispense. The Company's management is responsible for the consolidated financial statements of Safeway Inc., for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management's Annual Report on Internal Control over Financial Reporting." Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted

accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Safeway Inc. and subsidiaries as of December 28, 2013 and December 29, 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 28, 2013, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 28, 2013, based on the criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

**/s/ DELOITTE & TOUCHE LLP**

San Francisco, California

February 25, 2014

**SAFEWAY INC. AND SUBSIDIARIES**  
**Consolidated Statements of Income**  
(In millions, except per-share amounts)

	52 Weeks 2013	52 Weeks 2012	52 Weeks 2011
Sales and other revenue	\$ 36,139.1	\$ 36,068.3	\$ 35,356.7
Cost of goods sold	(26,645.1)	(26,605.9)	(25,887.9)
Gross profit	9,494.0	9,462.4	9,468.8
Operating and administrative expense	(8,858.6)	(8,753.1)	(8,760.0)
Operating profit	635.4	709.3	708.8
Interest expense	(273.0)	(300.7)	(268.1)
Loss on foreign currency translation	(57.4)	—	—
Other income, net	31.0	27.8	17.7
Income before income taxes	336.0	436.4	458.4
Income taxes	(89.7)	(141.8)	(91.2)
Income from continuing operations, net of tax	246.3	294.6	367.2
Income from discontinued operations, net of tax	3,275.9	303.5	151.0
Net income before allocation to noncontrolling interests	3,522.2	598.1	518.2
Less noncontrolling interests	(14.7)	(1.6)	(1.5)
Net income attributable to Safeway Inc.	\$ 3,507.5	\$ 596.5	\$ 516.7
Basic earnings per share:			
Continuing operations	\$ 0.96	\$ 1.18	\$ 1.06
Discontinued operations	\$ 13.57	\$ 1.23	\$ 0.43
Total	\$ 14.53	\$ 2.41	\$ 1.49
Diluted earnings per share:			
Continuing operations	\$ 0.95	\$ 1.18	\$ 1.06
Discontinued operations	\$ 13.43	\$ 1.22	\$ 0.43
Total	\$ 14.38	\$ 2.40	\$ 1.49
Weighted average shares outstanding – basic	239.1	245.6	343.4
Weighted average shares outstanding – diluted	241.5	245.9	343.8

See accompanying notes to consolidated financial statements.

**SAFEWAY INC. AND SUBSIDIARIES**  
**Consolidated Statements of Comprehensive Income**  
(In millions)

	52 Weeks 2013	52 Weeks 2012	52 Weeks 2011
Net income before allocation to noncontrolling interests	\$ 3,522.2	\$ 598.1	\$ 518.2
Other comprehensive (loss) income:			
Translation adjustments, net of tax	(65.0)	(3.1)	8.8
Pension and post-retirement benefits adjustment to funded status, net of tax	179.5	(79.7)	(210.3)
Recognition of pension and post-retirement benefits actuarial loss, net of tax	66.3	69.5	51.0
Other, net of tax	(1.1)	1.0	1.0
Total other comprehensive income (loss)	179.7	(12.3)	(149.5)
Comprehensive income including noncontrolling interests	3,701.9	585.8	368.7
Comprehensive income attributable to noncontrolling interests	(14.7)	(1.6)	(1.5)
Comprehensive income attributable to Safeway Inc.	\$ 3,687.2	\$ 584.2	\$ 367.2

See accompanying notes to consolidated financial statements.

**SAFEWAY INC. AND SUBSIDIARIES**  
**Consolidated Balance Sheets**  
(In millions, except per-share amounts)

	Year-end 2013	Year-end 2012
<b>Assets</b>		
Current assets:		
Cash and equivalents	\$ 4,647.3	\$ 352.2
Receivables	1,211.4	909.0
Merchandise inventories, net of LIFO reserve of \$58.1 and \$70.5	2,089.6	2,562.0
Prepaid expenses and other current assets	371.5	344.7
Assets held for sale	143.9	—
Total current assets	8,463.7	4,167.9
Property:		
Land	1,583.2	1,881.4
Buildings	5,774.0	6,812.6
Leasehold improvements	2,836.2	3,485.5
Fixtures and equipment	6,979.1	7,958.5
Property under capital leases	550.2	612.1
	17,722.7	20,750.1
Less accumulated depreciation and amortization	(10,185.2)	(11,525.5)
Total property, net	7,537.5	9,224.6
Goodwill	464.5	471.5
Investment in unconsolidated affiliate	196.1	191.7
Other assets	557.7	601.3
Total assets	\$ 17,219.5	\$ 14,657.0

**SAFEWAY INC. AND SUBSIDIARIES**  
**Consolidated Balance Sheets**  
(In millions, except per-share amounts)

	Year-end 2013	Year-end 2012
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Current maturities of notes and debentures	\$ 252.9	\$ 294.0
Current obligations under capital leases	49.3	36.2
Accounts payable	3,376.4	3,125.0
Accrued salaries and wages	419.4	460.9
Deferred income taxes	—	30.4
Income taxes payable	1,135.2	—
Other accrued liabilities	623.2	683.3
Total current liabilities	5,856.4	4,629.8
Long-term debt:		
Notes and debentures	3,515.3	4,831.9
Obligations under capital leases	375.5	411.6
Total long-term debt	3,890.8	5,243.5
Deferred income taxes	—	178.5
Pension and post-retirement benefit obligations	451.4	914.5
Accrued claims and other liabilities	1,145.8	781.5
Total liabilities	11,344.4	11,747.8
Commitments and contingencies		
Stockholders' equity:		
Common stock: par value \$0.01 per share; 1,500 shares authorized; 244.2 and 605.3 shares issued	2.4	6.1
Additional paid-in capital	1,981.9	4,505.6
Treasury stock at cost: 14.1 and 365.8 shares	(480.6)	(9,119.8)
Accumulated other comprehensive loss	(271.1)	(73.8)
Retained earnings	4,586.9	7,585.6
Total Safeway Inc. equity	5,819.5	2,903.7
Noncontrolling interest	55.6	5.5
Total equity	5,875.1	2,909.2
Total liabilities and stockholders' equity	\$ 17,219.5	\$ 14,657.0

See accompanying notes to consolidated financial statements.

**SAFEWAY INC. AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows**  
(In millions)

	52 Weeks 2013	52 Weeks 2012	52 Weeks 2011
<b>Operating Activities:</b>			
Net income before allocation to noncontrolling interest	\$ 3,522.2	\$ 598.1	\$ 518.2
Income from discontinued operations, net of tax	(3,275.9)	(303.5)	(151.0)
Income from continuing operations, net of tax	246.3	294.6	367.2
Reconciliation to net cash flow from operating activities:			
Depreciation expense	943.9	970.2	973.0
Property impairment charges	35.6	33.6	33.1
Share-based employee compensation	59.1	53.6	48.5
LIFO (income) expense	(14.3)	0.7	35.1
Equity in earnings of unconsolidated affiliate	(17.6)	(17.5)	(13.0)
Net pension and post-retirement benefits expense	114.8	129.0	98.9
Contributions to pension and post-retirement benefit plans	(56.3)	(110.3)	(151.2)
Gain on property dispositions and lease exit costs, net	(51.2)	(48.3)	(16.2)
Loss on extinguishment of debt	10.1	—	—
(Decrease) increase in accrued claims and other liabilities	(29.5)	53.9	21.9
Deferred income taxes	(267.7)	(40.7)	(57.0)
Other	(0.4)	11.5	21.4
Changes in working capital items:			
Receivables	(51.5)	(7.9)	7.0
Inventories at FIFO cost	(77.9)	(107.3)	65.7
Prepaid expenses and other current assets	(57.4)	(26.0)	(14.5)
Income taxes	82.1	(52.7)	40.0
Payables and accruals	205.3	126.1	(183.5)
Payables related to third-party gift cards, net of receivables	(27.6)	26.4	293.6
Net cash flow from operating activities - continuing operations	1,045.8	1,288.9	1,570.0
Net cash flow from operating activities - discontinued operations	198.3	280.8	453.6
Net cash flow from operating activities	1,244.1	1,569.7	2,023.6
<b>Investing Activities:</b>			
Cash paid for property additions	(767.4)	(821.2)	(992.4)
Proceeds from sale of property	220.3	263.0	164.9
Proceeds from company-owned life insurance policies	68.7	—	—
Business acquisitions, net of cash acquired	(149.4)	—	(35.9)
Other	6.5	(56.1)	(59.8)
Net cash flow used by investing activities - continuing operations	(621.3)	(614.3)	(923.2)
Net cash flow from (used by) investing activities - discontinued operations	5,530.9	42.3	(91.3)
Net cash flow from (used by) investing activities	4,909.6	(572.0)	(1,014.5)



**SAFEWAY INC. AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows**  
(In millions)

	52 Weeks 2013	52 Weeks 2012	52 Weeks 2011
<b>Financing Activities:</b>			
Additions to long-term borrowings	785.5	3,508.1	3,177.9
Payments on long-term borrowings	(2,171.5)	(3,390.6)	(2,907.2)
Payments of debt extinguishment costs	(11.0)	—	—
Net proceeds from the sale of Blackhawk common stock	161.5	—	—
Purchase of treasury stock	(663.7)	(1,274.5)	(1,554.0)
Dividends paid	(181.4)	(163.9)	(188.0)
Net proceeds from exercise of stock options	240.1	3.8	73.4
Excess tax benefit from share-based employee compensation	6.7	1.3	1.8
Other	(8.6)	(13.3)	(17.6)
Net cash flow used by financing activities - continuing operations	(1,842.4)	(1,329.1)	(1,413.7)
Net cash flow (used) provided by financing activities - discontinued operations	(3.8)	(44.7)	336.4
Net cash flow used by financing activities	(1,846.2)	(1,373.8)	(1,077.3)
Effect of changes in exchange rates on cash	(12.4)	(1.1)	18.8
Increase (decrease) in cash and equivalents	4,295.1	(377.2)	(49.4)
<b>Cash and Equivalents:</b>			
Beginning of year	352.2	729.4	778.8
End of year	\$ 4,647.3	\$ 352.2	\$ 729.4
<b>Other Cash Information - Continuing and Discontinued Operations:</b>			
Cash payments during the year for:			
Interest	\$ 289.2	\$ 322.3	\$ 302.6
Income taxes, net of refunds	497.2	380.9	336.2
<b>Non-Cash Investing and Financing Activities - Continuing and Discontinued Operations:</b>			
Capital lease obligations entered into	\$ 78.0	\$ 48.1	\$ 1.1
Purchases of property, plant and equipment included in accounts payable	128.3	107.8	198.8
Notes received in the sale of real estate	—	—	97.3
Mortgage notes assumed in property additions	—	42.9	3.7

See accompanying notes to consolidated financial statements.

**SAFEWAY INC. AND SUBSIDIARIES**  
**Consolidated Statements of Stockholders' Equity**  
(In millions, except per-share amounts)

	52 Weeks 2013	52 Weeks 2012	52 Weeks 2011
<b>Common Stock:</b>			
Balance, beginning of year	\$ 6.1	\$ 6.0	\$ 6.0
Options exercised	—	0.1	—
Retirement of treasury stock <sup>(1)</sup>	(3.7)	—	—
Balance, end of year	2.4	6.1	6.0
<b>Additional Paid-In Capital:</b>			
Balance, beginning of year	4,505.6	4,463.9	4,363.1
Share-based employee compensation	59.1	55.1	50.0
Options exercised/cancelled, net	210.6	(11.9)	53.7
Initial public offering of Blackhawk, net	161.5	—	—
Retirement of treasury stock <sup>(1)</sup>	(2,989.0)	—	—
Other <sup>(2)</sup>	34.1	(1.5)	(2.9)
Balance, end of year	1,981.9	4,505.6	4,463.9
<b>Treasury Stock:</b>			
Balance, beginning of year	(9,119.8)	(7,874.4)	(6,283.8)
Purchase of treasury stock	(663.7)	(1,240.3)	(1,588.2)
Retirement of treasury stock <sup>(1)</sup>	9,313.4	—	—
Other	(10.5)	(5.1)	(2.4)
Balance, end of year	(480.6)	(9,119.8)	(7,874.4)
<b>Retained Earnings:</b>			
Balance, beginning of year	7,585.6	7,151.1	6,846.2
Prior period adjustment <sup>(3)</sup>			(24.2)
Balance, beginning of year, as corrected			6,822.0
Net income attributable to Safeway Inc.	3,507.5	596.5	516.7
Cash dividends declared (\$0.775, \$0.670 and \$0.555 per share)	(185.5)	(162.0)	(187.6)
Retirement of treasury stock <sup>(1)</sup>	(6,320.7)	—	—
Balance, end of year	4,586.9	7,585.6	7,151.1
<b>Accumulated Other Comprehensive Loss:</b>			
Balance, beginning of year	(73.8)	(61.5)	88.0
Translation adjustments	(65.0)	(3.1)	8.8
Pension and post-retirement benefits adjustment to funded status (net of tax of \$87.1, \$45.5 and \$113.3)	179.5	(79.7)	(210.3)
Recognition of pension and post-retirement benefits actuarial loss (net of tax of \$38.7, \$40.5 and \$31.0)	66.3	69.5	51.0
Sale of Canada Safeway Limited <sup>(4)</sup>	(377.0)	—	—
Other (net of tax of \$0.6, \$0.5 and \$0.1)	(1.1)	1.0	1.0
Balance, end of year	(271.1)	(73.8)	(61.5)

**SAFEWAY INC. AND SUBSIDIARIES**  
**Consolidated Statements of Stockholders' Equity**  
(In millions)

	52 Weeks 2013	52 Weeks 2012	52 Weeks 2011
<b>Noncontrolling Interests:</b>			
Balance, beginning of year	5.5	6.0	4.4
Noncontrolling interests acquired through Retailo acquisition	6.9	—	—
Net earnings attributable to noncontrolling interests, net of tax	14.7	1.6	1.5
Other <sup>(2)</sup>	28.5	(2.1)	0.1
Balance, end of year	55.6	5.5	6.0
<b>Total Equity</b>	<b>\$ 5,875.1</b>	<b>\$ 2,909.2</b>	<b>\$ 3,691.1</b>

	Number of Shares Issued		
<b>Common Stock:</b>			
Balance, beginning of year	605.3	604.5	599.8
Options exercised	9.6	0.1	3.2
Restricted stock grants, net of forfeitures	0.5	0.7	1.5
Performance share awards	0.4	—	—
Retirement of treasury stock <sup>(1)</sup>	(371.6)	—	—
Balance, end of year	244.2	605.3	604.5

	Number of Shares		
<b>Treasury Stock:</b>			
Balance, beginning of year	(365.8)	(307.9)	(231.8)
Purchase of treasury stock	(19.5)	(57.6)	(76.1)
Retirement of treasury stock <sup>(1)</sup>	371.6	—	—
Other	(0.4)	(0.3)	—
Balance, end of year	(14.1)	(365.8)	(307.9)

<sup>(1)</sup> Safeway retired 371.6 million treasury shares in 2013. See Note K under the caption "Shares Repurchased."

<sup>(2)</sup> Primarily results from Blackhawk IPO.

<sup>(3)</sup> 2012 and 2011 have been corrected for the prior period adjustment discussed in Note A under the caption "Corrections to Previously Reported Financial Statements."

<sup>(4)</sup> Safeway completed the sale of CSL in 2013. See Note A under the caption "The Company."

See accompanying notes to consolidated financial statements.

**SAFEWAY INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

**Note A: The Company and Significant Accounting Policies**

**The Company** Safeway Inc. ("Safeway" or the "Company") is one of the largest food and drug retailers in the United States, with 1,335 stores as of year-end 2013. Safeway's U.S. retail operations are located principally in California, Hawaii, Oregon, Washington, Alaska, Colorado, Arizona, Texas, and the Mid-Atlantic region. In support of its retail operations, the Company has an extensive network of distribution, manufacturing and food processing facilities. The Company also owns and operates GroceryWorks.com Operating Company, LLC, an online grocery channel, doing business under the names Safeway.com and Vons.com (collectively "Safeway.com").

On November 3, 2013, Safeway completed the sale of substantially all of the net assets of Canada Safeway Limited ("CSL" now known as CSL IT Services ULC) to Sobeys Inc. ("Sobeys"), a wholly-owned subsidiary of Empire Company Limited. As a result, the operating results of CSL are reported as discontinued operations in the consolidated statements of income for all periods presented. See Note B to the consolidated financial statements for additional information.

During the fourth quarter of 2013, the Company exited the Chicago market, where it operated 72 Dominick's stores. The operating results of Dominick's are reported as discontinued operations in the consolidated statements of income for all periods presented. In addition, certain assets and liabilities associated with Dominick's are reported as assets and liabilities held for sale in the December 28, 2013 consolidated balance sheet. See Note B to the consolidated financial statements for additional information.

Unless otherwise indicated, the notes accompanying the consolidated financial statements reflect the Company's continuing operations.

Blackhawk Network Holdings, Inc. ("Blackhawk"), a majority-owned subsidiary of Safeway, is a leading prepaid payment network utilizing proprietary technology to offer a broad range of gift cards, other prepaid products and payment services. Blackhawk's payment network supports its three primary constituents: consumers who purchase the products and services Blackhawk offers, content providers who offer branded products that are redeemable for goods and services, and distribution partners who sell those products. Blackhawk's product offerings include gift cards, prepaid telecom products and prepaid financial services products, including general purpose reloadable ("GPR") cards and Blackhawk's reload network. In the fourth quarter of 2013, Blackhawk acquired Intelispend Prepaid Solutions TM, a leader in the corporate incentives and consumer promotions marketplace, and Retailo AG, a leading third-party gift card distribution network in Germany, Austria and Switzerland. See Note C to the consolidated financial statements set forth in Part II, Item 8 of this report for additional information.

The Company also has a 49% ownership interest in Casa Ley, S.A. de C.V. ("Casa Ley"), which operates 200 food and general merchandise stores in Western Mexico.

**Basis of Presentation** The consolidated financial statements include Safeway Inc., a Delaware corporation, and all majority-owned subsidiaries and have been prepared in accordance with accounting principles generally accepted in the United States of America. Intercompany transactions and balances have been eliminated in consolidation. The Company's investment in Casa Ley is reported using the equity method. Safeway's equity in earnings of Casa Ley is based on financial information prepared in accordance with accounting principles generally accepted in the United States and is recorded on a one-month delay basis because financial information for the latest month is not available from Casa Ley in time to be included in Safeway's consolidated results until the following reporting period.

**Fiscal Year** The Company's fiscal year ends on the Saturday nearest December 31. The last three fiscal years consist of the 52-week period ended December 28, 2013 ("fiscal 2013" or "2013"), the 52-week period ended December 29, 2012 ("fiscal 2012" or "2012") and the 52-week period ended December 31, 2011 ("fiscal 2011" or "2011").

**SAFEWAY INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

**Corrections to Previously Reported Financial Statements** Subsequent to the issuance of the fiscal 2012 consolidated financial statements, the Company determined that the accrual for multiemployer health and welfare benefits was understated by \$39.5 million as of December 29, 2012 due to certain labor contracts not accounted for on an accrual basis. This understatement originated many years ago. Safeway assessed the materiality of this item on previously issued financial statements in accordance with the SEC's Staff Accounting Bulletin ("SAB") No. 99 and concluded that the correction was not material to any of the individual annual or interim periods. Safeway has corrected the accompanying consolidated financial statements by decreasing 2011 Retained Earnings by \$24.2 million, and in the 2012 balance sheet, decreasing Current Deferred Income Taxes by \$15.3 million and increasing the multiemployer health and welfare accrual within Other Accrued Liabilities by \$39.5 million. The effect on the 2012 and 2011 consolidated statement of operations is insignificant. This correction results in no other changes to the consolidated financial statements.

**Use of Estimates** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Translation of Foreign Currencies** Assets and liabilities of the Company's foreign subsidiaries and Casa Ley are translated into U.S. dollars at year-end rates of exchange, and income and expenses are translated at average rates during the year. Adjustments resulting from translating financial statements into U.S. dollars, net of applicable income taxes, are included as a separate component in the statement of comprehensive income, within accumulated other comprehensive income in the consolidated balance sheets and within the consolidated statements of stockholders' equity.

After the net asset sale of Canadian operations ("Sale of Canadian Operations"), the adjustments resulting from translation of retained assets and liabilities denominated in Canadian dollars are included in the statement of income as a foreign currency gain or loss. Foreign currency loss was \$57.4 million in fiscal 2013.

**Revenue Recognition** Retail store sales are recognized at the point of sale. Sales tax is excluded from revenue. Internet sales are recognized when the merchandise is delivered to the customer. Discounts provided to customers in connection with loyalty cards are accounted for as a reduction of sales.

Safeway records a deferred revenue liability when it sells Safeway gift cards. Safeway records a sale when a customer redeems the gift card. Safeway gift cards do not expire. The Company reduces the liability and increases other revenue for the unused portion of gift cards ("breakage") after two years, the period at which redemption is considered remote. Breakage amounts were \$11.6 million, \$9.0 million and \$8.9 million in 2013, 2012 and 2011, respectively.

The Company, through its Blackhawk subsidiary, also sells third-party gift cards through Safeway retail operations and through other grocery and convenience store retailers. Safeway earns a commission which is recorded as other revenue when the third-party gift card is sold to the end consumer. The liability for redemption and potential income for breakage remains with the third-party merchant; therefore, Safeway does not record redemption or breakage of these gift cards.

**Cost of Goods Sold** Cost of goods sold includes cost of inventory sold during the period, including purchase and distribution costs. These costs include inbound freight charges, purchasing and receiving costs, warehouse inspection costs, warehousing costs and other costs of Safeway's distribution network. All vendor allowances are recorded as a reduction of cost of goods when earned. Advertising and promotional expenses

**SAFEWAY INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

are also included as a component of cost of goods sold. Such costs are expensed in the period the advertisement occurs. Advertising and promotional expenses totaled \$372.6 million in 2013, \$416.7 million in 2012 and \$408.6 million in 2011.

**Cash and Equivalents** Cash and equivalents include short-term investments with original maturities of less than three months and credit and debit card sales transactions which settle within a few business days of year end.

Book overdrafts at year-end 2013 and 2012 of \$84.5 million and \$25.8 million, respectively, are included in accounts payable.

**Receivables** Receivables include pharmacy, gift card receivables and miscellaneous trade receivables.

**Merchandise Inventories** Merchandise inventory of \$1,643.2 million at year-end 2013 and \$1,608.4 million at year-end 2012 is valued at the lower of cost on a last-in, first-out ("LIFO") basis or market value. Such LIFO inventory had a replacement or current cost of \$1,701.3 million at year-end 2013 and \$1,678.9 million at year-end 2012. Liquidations of LIFO layers during the three years reported did not have a material effect on the results of operations. The remaining inventory consists primarily of perishables, pharmacy and fuel inventory. Perishables are counted every four weeks and are carried at the last purchased cost or the last four-week average cost, which approximates first-in, first out ("FIFO") cost. Pharmacy and fuel inventories are carried at the last purchased cost, which approximates FIFO cost. The Company records an inventory shrink adjustment upon physical counts and also provides for estimated inventory shrink adjustments for the period between the last physical inventory and each balance sheet date.

**Property and Depreciation** Property is stated at cost. Depreciation expense on buildings and equipment is computed on the straight-line method using the following lives:

Stores and other buildings	7 to 40 years
Fixtures and equipment	3 to 15 years

Safeway capitalizes eligible costs to acquire or develop internal-use software that are incurred during the application development stage as part of fixtures and equipment. Capitalized costs related to internal-use software are amortized using the straight-line method over the estimated useful lives of the assets.

Property under capital leases and leasehold improvements is amortized on a straight-line basis over the shorter of the remaining terms of the leases or the estimated useful lives of the assets.

**Company-Owned Life Insurance Policies** Safeway has company-owned life insurance policies that have a cash surrender value. During 2013, Safeway borrowed against these policies. The Company has no current intention of repaying the loans prior to maturity or cancellation of the policies. Therefore, we offset the cash surrender value by the related loans. At December 28, 2013, the cash surrender value of the policies was \$58.5 million, and the balance of the policy loans was \$40.9 million, resulting in a net cash surrender value of \$17.6 million. At December 29, 2012, the cash surrender value of the policies was \$89.0 million, and no policy loans were outstanding.

**Employee Benefit Plans** The Company recognizes in its statement of financial position an asset for its employee benefit plan's overfunded status or a liability for underfunded status. The Company measures plan assets and obligations that determine the funded status as of fiscal year end. See Note M.

**Self-Insurance** The Company is primarily self-insured for workers' compensation, automobile and general liability costs. The self-insurance liability is determined actuarially, based on claims filed and an estimate of

**SAFEWAY INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

claims incurred but not yet reported, and is discounted using a risk-free rate of interest. The present value of such claims was calculated using a discount rate of 1.75% in 2013, 0.75% in 2012 and 0.75% in 2011.

A summary of changes in Safeway's self-insurance liability is as follows (in millions):

	2013	2012	2011
Beginning balance	\$ 480.1	\$ 470.9	\$ 468.5
Expense, including the effect of discount rate	98.6	151.6	151.1
Claim payments	(137.2)	(142.5)	(148.6)
Disposal of discontinued operations	(8.8)	—	—
Currency translation	—	0.1	(0.1)
Ending balance	432.7	480.1	470.9
Less current portion	(108.6)	(137.4)	(129.4)
Long-term portion	\$ 324.1	\$ 342.7	\$ 341.5

The current portion of the self-insurance liability is included in other accrued liabilities, and the long-term portion is included in accrued claims and other liabilities in the consolidated balance sheets. The total undiscounted liability was \$477.2 million at year-end 2013 and \$496.2 million at year-end 2012.

### **Deferred Rent**

*Rent Escalations.* The Company recognizes escalating rent provisions on a straight-line basis over the lease term.

*Rent Holidays.* Certain of the Company's operating leases contain rent holidays. For these leases, Safeway recognizes the related rent expense on a straight-line basis starting at the earlier of the first rent payment or the date of possession of the leased property. The difference between the amounts charged to expense and the rent paid is recorded as deferred lease incentives and amortized over the lease term.

**Income Taxes** Income tax expense or benefit reflects the amount of taxes payable or refundable for the current year, the impact of deferred tax liabilities and deferred tax assets, accrued interest on tax deficiencies and refunds and accrued penalties on tax deficiencies. Deferred income taxes represent future net tax effects resulting from temporary differences between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

A valuation allowance is established for deferred tax assets if it is more likely than not that these items will either expire before the Company is able to realize their benefits, or that future deductibility is uncertain. Periodically, the valuation allowance is reviewed and adjusted based on management's assessments of realizable deferred tax assets.

Tax positions are recognized when they are more likely than not to be sustained upon examination. The amount recognized is measured as the largest amount of benefit that is more likely than not of being realized upon settlement. The Company is subject to periodic audits by the Internal Revenue Service and other foreign, state and local taxing authorities. These audits may challenge certain of the Company's tax positions such as the timing and amount of income and deductions and the allocation of taxable income to various tax jurisdictions. The Company evaluates its tax positions and establishes liabilities in accordance with the applicable accounting guidance on uncertainty in income taxes. These tax uncertainties are reviewed as facts and circumstances change and are adjusted accordingly. This requires significant management

**SAFEWAY INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

judgment in estimating final outcomes. Actual results could materially differ from these estimates and could significantly affect the Company's effective tax rate and cash flows in future years.

**Financial Instruments**

*Interest rate swaps.* The Company has, from time to time, entered into interest rate swap agreements to change its portfolio mix of fixed- and floating-rate debt to more desirable levels. Interest rate swap agreements involve the exchange with a counterparty of fixed- and floating-rate interest payments periodically over the life of the agreements without exchange of the underlying notional principal amounts. The differential to be paid or received is recognized over the life of the agreements as an adjustment to interest expense. The Company's counterparties have been major financial institutions.

*Energy contracts.* The Company has entered into contracts to purchase electricity and natural gas at fixed prices for a portion of its energy needs. Safeway expects to take delivery of the electricity and natural gas in the normal course of business. Contracts that qualify for the normal purchase exception under derivatives and hedging accounting guidance are not marked to market. Energy purchased under these contracts is expensed as delivered.

*Warrants.* Blackhawk issued warrants to third parties to purchase shares of Blackhawk common stock. Blackhawk recorded substantially all of the these warrants in additional paid-in-capital with an offset to intangible assets and is amortizing the assets over the term of the related marketing and distribution services agreements of approximately five years. The value of these warrants was calculated using the Black-Scholes model. Since there is no active market for these warrants, the valuation model used unobservable pricing inputs and management estimates.

**Fair Value of Financial Instruments** Disclosures of the fair value of certain financial instruments are required, whether or not recognized in the balance sheet. The Company estimated the fair values presented below using appropriate valuation methodologies and market information available as of year end. Considerable judgment is required to develop estimates of fair value, and the estimates presented are not necessarily indicative of the amounts that the Company could realize in a current market exchange. The use of different market assumptions or estimation methodologies could have a material effect on the estimated fair values. Additionally, the fair values were estimated at year end, and current estimates of fair value may differ significantly from the amounts presented.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

*Cash and equivalents, accounts receivable, accounts payable.* The carrying amount of these items approximates fair value.

*Short-term investments.* These investments are readily convertible to cash and the carrying amount of these items approximates fair value.

*Notes receivables.* The Company's notes receivables, included in other assets, is comprised primarily of notes receivable resulting from the sale of real estate. The fair value of note receivables is estimated by discounting expected future cash flows using interest rates, adjusted for credit risk, at which similar loans could be made under current market conditions. The carrying value of notes receivables, which approximates fair value, was \$101.0 million at December 28, 2013 and \$130.6 million at December 29, 2012.

*Long-term debt, including current maturities.* Market values quoted in public markets are used to estimate the fair value of publicly traded debt. To estimate the fair value of debt issues that are not quoted in public markets, the Company uses those interest rates that are currently available to it for issuance of debt with similar terms and remaining maturities as a discount rate for the remaining principal payments.



**SAFEWAY INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

**Store Lease Exit Costs and Impairment Charges** Safeway regularly reviews its stores' operating performance and assesses the Company's plans for certain store and plant closures. Losses related to the impairment of long-lived assets are recognized when expected future cash flows are less than the asset's carrying value. The Company evaluates the carrying value of the assets in relation to its expected future cash flows. If the carrying value is greater than the future cash flows, a provision is made for the impairment of the assets to write the assets down to estimated fair value. Fair value is determined by estimating net future cash flows, discounted using a risk-adjusted rate of return. The Company calculates impairment on a store-by-store basis. These provisions are recorded as a component of operating and administrative expense.

When stores that are under long-term leases close, the Company records a liability for the future minimum lease payments and related ancillary costs, net of estimated cost recoveries that may be achieved through subletting properties or through favorable lease terminations, discounted using a risk-adjusted rate of interest. This liability is recorded at the time the store is closed. Activity included in the reserve for store lease exit costs is disclosed in Note E.

**Accumulated Other Comprehensive Loss** Accumulated other comprehensive loss, net of applicable taxes, consisted of the following at year-end (in millions):

	2013	2012	2011
Translation adjustments	\$ (139.0)	\$ 399.0	\$ 402.1
Pension and post-retirement benefits adjustment to funded status	(403.0)	(737.8)	(658.1)
Recognition of pension and post-retirement benefits actuarial loss	272.5	265.5	196.0
Other	(1.6)	(0.5)	(1.5)
Total	\$ (271.1)	\$ (73.8)	\$ (61.5)

At the closing of the Sale of Canadian Operations, the Company recorded the related balance of cumulative translation adjustment, pension and post-retirement benefit adjustment to funded status and recognition of pension and post-retirement benefits actuarial loss which related to CSL as part of the gain on the sale. See Note B.

**Stock-Based Employee Compensation** Safeway accounts for all share-based payments to employees, including grants of employee stock options, as compensation cost based on the fair value on the date of grant. The Company determines fair value of such awards using the Black-Scholes option pricing model. The Black-Scholes option pricing model incorporates certain assumptions, such as risk-free interest rate, expected volatility, expected dividend yield and expected life of options, in order to arrive at a fair value estimate.

**New Accounting Pronouncements**

In February 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Updated ("ASU") No. 2013-02, "Comprehensive Income (Topic 220) Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income", to improve the reporting of reclassifications out of accumulated other comprehensive income. ASU No. 2013-02 requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety from accumulated other comprehensive income to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. Safeway adopted these disclosure amendments in the quarter ended March 23, 2013. The implementation

**SAFEWAY INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

of this update did not impact Safeway's financial position, results of operations or cash flows as it was disclosure-only in nature.

In March 2013, the FASB issued ASU No. 2013-05, "Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity." The ASU clarifies that when a parent entity ceases to have a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity, the parent is required to apply the guidance in Accounting Standards Codification 830-30 to release any related cumulative translation adjustment into net income. The ASU provides that the cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. The Company early adopted ASU No. 2013-05 and the effect is included in the gain on the sale of CSL in Note B.

**Note B: Assets and Liabilities Held for Sale and Discontinued Operations**

**Assets and Liabilities Held for Sale** In the fourth quarter of 2013, the Company announced its intention to exit the Chicago market, where it operated 72 Dominick's stores. During the fourth quarter of 2013, the Company sold or closed its Dominick's stores. Certain Dominick's properties were classified as held for sale at year end. Additionally, the Company had other real estate assets held for sale at December 28, 2013. Assets and liabilities held for sale at December 28, 2013 were as follows (in millions):

	December 28, 2013
<b>Assets held for sale:</b>	
Dominick's property, net, held for sale	\$ 136.7
Other United States real estate assets held for sale	7.2
Total assets held for sale	\$ 143.9
	December 28, 2013
<b>Liabilities held for sale:</b>	
Dominick's	
Deferred gain on property dispositions	\$ 9.0
Obligations under capital leases	5.2
Deferred rent	2.6
Other liabilities	1.4
Total liabilities held for sale <sup>(1)</sup>	\$ 18.2

<sup>(1)</sup> Included in Other Accrued Liabilities on the consolidated balance sheet.

**Discontinued Operations**

**Sale of Canadian Operations** On November 3, 2013, Safeway completed the Sale of Canadian Operations to Sobeys for CAD5.8 billion (USD5.6 billion) in cash plus the assumption of certain liabilities.

**Dominick's** During the fourth quarter of 2013, Safeway sold or closed all Dominick's stores. In 2013, cash proceeds on the sale of these stores were \$72.2 million, with a pre-tax loss of \$493.1 million. Included in

**SAFEWAY INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

the loss is a \$310.8 million charge which represents the estimated multiemployer pension plan withdrawal liability. See Note N.

**Genuardi's** In January 2012, Safeway announced the planned sale or closure of its Genuardi's stores, located in the Eastern United States. These transactions were completed during 2012 with cash proceeds of \$107.0 million and a pre-tax gain of \$52.4 million (\$31.9 million after tax).

The notes to the consolidated financial statements exclude discontinued operations, unless otherwise noted. Historical financial information for CSL and Dominick's presented in the consolidated income statements has been reclassified to discontinued operations to conform to current-year presentation. The historical operating results of Genuardi's stores have not been reflected in discontinued operations because the historical financial operating results were not material to the Company's consolidated financial statements for all periods presented. Financial information for discontinued operations is shown below (in millions):

	2013	2012	2011
<b>Sales and other revenue:</b>			
CSL <sup>(1)</sup>	\$ 5,447.9	\$ 6,695.8	\$ 6,726.9
Dominick's	1,394.8	1,465.2	1,568.6
Total	\$ 6,842.7	\$ 8,161.0	\$ 8,295.5
<b>Income (loss) from discontinued operations, before income taxes:</b>			
CSL <sup>(1)</sup>	\$ 286.2	\$ 442.3	\$ 462.3
Dominick's	(92.0)	(50.4)	(38.7)
Total	\$ 194.2	\$ 391.9	\$ 423.6
<b>Gain (loss) on sale or disposal of operations, net of lease exit costs, before income taxes:</b>			
CSL <sup>(2)</sup>	\$ 4,783.1	\$ —	\$ —
Dominick's	(493.1)	—	—
Genuardi's	—	52.4	—
Total	\$ 4,290.0	\$ 52.4	\$ —
Total income from discontinued operations before income taxes	\$ 4,484.2	\$ 444.3	\$ 423.6
Income taxes on discontinued operations	(1,208.3)	(140.8)	(272.6)
Income from discontinued operations, net of tax	\$ 3,275.9	\$ 303.5	\$ 151.0

<sup>(1)</sup> For CSL, 2013 reflects 44 weeks of activity compared to 52 weeks in 2012 and 2011.

<sup>(2)</sup> In accordance with ASU No. 2013-05, "Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity," the Company transferred the cumulative translation adjustment relating to Canadian operations from Accumulated Other Comprehensive Loss on the balance sheet to gain on the Sale of Canadian Operations.

**SAFeway INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

**Note C: Blackhawk**

**Initial Public Offering of Blackhawk** On April 24, 2013, Blackhawk, a Safeway subsidiary, completed its initial public offering of 11.5 million shares of its Class A common stock at \$23.00 per share on the NASDAQ Global Select Market, which included the exercise by the underwriters for the offering of an option to purchase 1.5 million shares of Class A common stock. The offering consisted solely of shares offered by existing stockholders, including Safeway. As part of the IPO, Safeway sold 11.3 million shares of Class A common stock of Blackhawk for proceeds of \$243.6 million (\$238.0 million, net of professional service fees), reducing the Company's ownership from approximately 95% to approximately 73% of Blackhawk's total outstanding shares of common stock. Safeway recorded these net proceeds as an increase to Additional Paid-In Capital and used these net proceeds to reduce debt. Additionally, the Company recorded a \$76.5 million tax liability on the sale of these shares as a reduction to Additional Paid-In Capital and \$5.8 million as an increase to tax expense. The taxes were paid in the fourth quarter of 2013. Additionally, Safeway incurred a \$17.9 million deferred tax expense related to the retained shares in Blackhawk.

As of December 28, 2013, Safeway owned 37.8 million shares, or approximately 72.2%, of Blackhawk, which the Company plans to distribute to its stockholders. See Note U.

**Acquisitions** On November 29, 2013, Blackhawk acquired 100% of the outstanding common stock of Retailo, a German privately-held company which is a third-party gift card distribution network in Germany, Austria and Switzerland. Blackhawk acquired Retailo for total purchase consideration of \$70.2 million. The following table summarizes the purchase price allocation which was based upon the estimated fair value of each asset and liability (in millions).

Settlement receivables	\$	18.1
Settlement payables		(14.8)
Other liabilities, net		(0.7)
Deferred income taxes, net		(7.4)
Identifiable technology and intangible assets		45.7
Noncontrolling interests		(6.9)
Goodwill <sup>(1)</sup>		36.2
Total consideration	\$	70.2

<sup>(1)</sup> See Note D.

Noncontrolling interests result from third-party ownership interests in certain subsidiaries of Retailo.

The following table summarizes the components of the identifiable technology and intangible assets of Retailo and their estimated useful lives at the acquisition date (dollars in millions).

	Fair Value	Useful life
Distribution partner relationships	\$ 38.0	15 years
Customer relationships	5.5	8 years - 10 years
Technology	1.9	3 years
Trade name	0.3	3 years
	\$ 45.7	

**SAFEWAY INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

On November 12, 2013, Blackhawk acquired substantially all of the net assets of IntelliSpend from Maritz Holdings Inc., a privately-held company, for total purchase consideration of \$97.5 million. IntelliSpend delivers intelligent prepaid solutions for business needs: employee rewards, wellness, sales incentives, expense management and promotional programs. The following table summarizes the purchase price allocation which was based upon the estimated fair value of each asset and liability (in millions).

Cash and cash equivalents	\$	15.0
Trading securities		29.4
Accounts receivable		7.9
Cardholder liabilities		(31.4)
Customer deposits		(12.5)
Other tangible assets, net		(4.0)
Deferred taxes		(0.3)
Identifiable technology and intangible assets		39.2
Goodwill <sup>(1)</sup>		54.2
Total consideration	\$	97.5

<sup>(1)</sup> See Note D.

Blackhawk sold the trading securities for cash on the day after closing and presents this sale as an inflow from investing activities in the accompanying consolidated statements of cash flows.

The following table summarizes the components of the identifiable technology and intangible assets of IntelliSpend and their estimated useful lives at the acquisition date (dollars in millions).

	Fair Value	Useful life
Customer relationships	\$ 23.9	7 years - 14 years
Back-log	9.3	1 year - 3 years
Patent	3.3	5 years
Technology	2.4	5 years
Trade name	0.3	4 years
	<u>\$ 39.2</u>	

**Note D: Goodwill**

Goodwill represents the excess of cost of an acquired business over the fair value of the identifiable tangible and intangible assets acquired and liabilities assumed in a business combination. Goodwill is not subject to amortization but must be evaluated for impairment.

Safeway tests goodwill for impairment annually (on the first day of the fourth quarter) or whenever events or circumstances indicate that it is more likely than not that the fair value of a reporting unit is below its carrying value.

The impairment test is a two-step process. In the first step, the Company determines if the fair value of the reporting units is less than the book value. Under generally accepted accounting principles, a reporting unit is either the equivalent to, or one level below, an operating segment. Each reporting unit constitutes a business for which discrete financial information is available and for which management regularly reviews

**SAFEWAY INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

the operating results. Safeway's operating segments are our retail divisions. Safeway's reporting units are generally consistent with its operating segments.

If Safeway concludes that fair value is greater than the book value, Safeway does not have to proceed to step two, and Safeway can conclude there is no goodwill impairment. If the Company concludes that the fair value of a reporting unit is less than book value, the Company must perform step two, in which it calculates the implied fair value of goodwill and compares it to carrying value. If the carrying value of goodwill exceeds the implied fair value of goodwill, such excess represents the amount of goodwill impairment.

Determining the fair value of a reporting unit involves the use of significant estimates and assumptions. The estimated fair value of each reporting unit is based on an average of the guideline company method and the discounted cash flow method. These methods are based on historical and forecasted amounts specific to each reporting unit and consider sales, gross profit, operating profit and cash flows and general economic and market conditions, as well as the impact of planned business and operational strategies. Safeway bases its fair value estimates on assumptions it believes to be reasonable at the time, but such assumptions are subject to inherent uncertainty. Measuring the fair value of reporting units would constitute a Level 3 measurement under the fair value hierarchy. See Note H for a discussion of levels.

Based upon the results of our 2013, 2012 and 2011 analyses, no impairment of goodwill was indicated in 2013, 2012 or 2011.

A summary of changes in Safeway's goodwill by geographic area is as follows (in millions):

	2013			2012		
	U.S.	Canada	Total	U.S.	Canada	Total
Balance – beginning of year:						
Goodwill	\$ 4,364.9	\$ 97.9	\$ 4,462.8	\$ 4,364.9	\$ 96.2	\$ 4,461.1
Accumulated impairment charges	(3,991.3)	—	(3,991.3)	(3,991.3)	—	(3,991.3)
	373.6	97.9	471.5	373.6	96.2	469.8
Activity during the year:						
Disposal of CSL goodwill	—	(97.9) <sup>(1)</sup>	(97.9)	—	—	—
Blackhawk acquisition of Retailo <sup>(2)</sup>	36.2	—	36.2	—	—	—
Blackhawk acquisition of IntelliSpend <sup>(2)</sup>	54.2	—	54.2	—	—	—
Other adjustments <sup>(3)</sup>	0.5	—	0.5	—	1.7	1.7
	90.9	(97.9)	(7.0)	—	1.7	1.7
Balance – end of year <sup>(4)</sup> :						
Goodwill	4,455.8	—	4,455.8	4,364.9	97.9	4,462.8
Accumulated impairment charges	(3,991.3)	—	(3,991.3)	(3,991.3)	—	(3,991.3)
	\$ 464.5	\$ —	\$ 464.5	\$ 373.6	\$ 97.9	\$ 471.5

<sup>(1)</sup> See Note B.

<sup>(2)</sup> See Note C.

<sup>(3)</sup> Represents foreign currency translation.

<sup>(4)</sup> Blackhawk goodwill was \$133.5 million at year-end 2013 and \$42.7 million at year-end 2012.

**SAFEWAY INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

**Note E: Store Lease Exit Costs and Impairment Charges**

**Impairment Write-Downs** Safeway recognized impairment charges on the write-down of long-lived assets of \$35.6 million in 2013, \$33.6 million in 2012 and \$33.1 million in 2011. These charges are included as a component of operating and administrative expense.

**Store Lease Exit Costs** The reserve for store lease exit costs includes the following activity for 2013, 2012 and 2011 (in millions):

	2013	2012	2011
Beginning balance	\$ 76.5	\$ 77.0	\$ 94.0
Provision for estimated net future cash flows of additional closed stores <sup>(1)</sup>	6.1	19.4	2.8
Provision for estimated net future cash flows of Dominick's closed stores <sup>(2)</sup>	113.6	—	—
Net cash flows, interest accretion, changes in estimates of net future cash flows	(15.2)	(19.9)	(19.8)
Ending balance	\$ 181.0	\$ 76.5	\$ 77.0

<sup>(1)</sup> Estimated net future cash flows represents future minimum lease payments and related ancillary costs from the date of closure to the end of the remaining lease term, net of estimated cost recoveries that may be achieved through subletting properties or through favorable lease terminations.

<sup>(2)</sup> Estimated net future cash flows for Dominick's stores closed during the fourth quarter of 2013.

Store lease exit costs are included as a component of operating and administrative expense, with the exception of Dominick's locations closed in the fourth quarter of 2013 which are included in the loss on disposal of operations. For all stores, the liability is included in accrued claims and other liabilities.

**SAFEWAY INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

**Note F: Financing**

Notes and debentures were composed of the following at year end (in millions):

	2013	2012
Commercial paper	\$ —	\$ —
Bank credit agreement, unsecured	—	—
Term credit agreement, unsecured	400.0	700.0
Other bank borrowings, unsecured	—	2.8
Mortgage notes payable, secured	46.8	48.3
Floating Rate Senior Notes due 2013, unsecured	—	250.0
3.00% Second Series Notes due 2014, unsecured <sup>1</sup>	—	302.2
6.25% Senior Notes due 2014, unsecured	—	500.0
5.625% Senior Notes due 2014, unsecured	250.0	250.0
3.40% Senior Notes due 2016, unsecured	400.0	400.0
6.35% Senior Notes due 2017, unsecured	500.0	500.0
5.00% Senior Notes due 2019, unsecured	500.0	500.0
3.95% Senior Notes due 2020, unsecured	500.0	500.0
4.75% Senior Notes due 2021, unsecured	400.0	400.0
7.45% Senior Debentures due 2027, unsecured	150.0	150.0
7.25% Senior Debentures due 2031, unsecured	600.0	600.0
Other notes payable, unsecured	21.4	22.6
	3,768.2	5,125.9
Less current maturities	(252.9)	(294.0)
Long-term portion	\$ 3,515.3	\$ 4,831.9

<sup>(1)</sup> See the caption "Satisfaction and Discharge of Indenture" later in this note.

**Commercial Paper** The amount of commercial paper borrowings is limited to the unused borrowing capacity under the bank credit agreement, described in the following paragraph. Safeway classifies commercial paper as long term because the Company intends to and has the ability to refinance these borrowings on a long-term basis through either continued commercial paper borrowings or utilization of the bank credit agreement, which matures in 2015. During 2013, the average commercial paper borrowing was \$43.9 million and had a weighted-average interest rate of 0.68%. During 2012, the average commercial paper borrowing was \$681.7 million which had a weighted-average interest rate of 0.86%.

**Bank Credit Agreement** The Company has a \$1,500.0 million credit agreement with a syndicate of banks which has a termination date of June 1, 2015 and provides for two additional one-year extensions of the termination date. The credit agreement provides (i) to Safeway a \$1,250.0 million revolving credit facility (the "Domestic Facility"), (ii) to Safeway and CSL a Canadian facility of up to \$250.0 million for U.S. Dollar and Canadian Dollar advances and (iii) to Safeway a \$400.0 million sub-facility of the Domestic Facility for issuance of standby and commercial letters of credit. The credit agreement also provides for an increase in the credit facility commitments up to an additional \$500.0 million, at the option of the lenders and subject to the satisfaction of certain conditions. The restrictive covenants of the credit agreement limit Safeway with respect to, among other things, creating liens upon its assets and disposing of material amounts of assets other than in the ordinary course of business. Additionally, the Company is required to maintain a minimum Adjusted EBITDA, as defined in the credit agreement, to interest expense ratio of 2.0 to 1 and is required



**SAFEWAY INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

to not exceed an Adjusted Debt (total consolidated debt less cash and cash equivalents in excess of \$75.0 million) to Adjusted EBITDA ratio of 3.5 to 1. As of December 28, 2013, the Company was in compliance with these covenant requirements. As of December 28, 2013, there were no borrowings, and letters of credit totaled \$43.4 million under the Credit Agreement. Total unused borrowing capacity under the credit agreement was \$1,456.6 million as of December 28, 2013.

The Sale of Canadian Operations was permitted under the terms of the Credit Agreement. The Company has the option to permanently reduce or terminate the \$250.0 million Canadian credit facility.

U.S. borrowings under the credit agreement carry interest at one of the following rates selected by the Company: (1) the prime rate; (2) a rate based on rates at which Eurodollar deposits are offered to first-class banks by the lenders in the bank credit agreement plus a pricing margin based on the Company's debt rating or interest coverage ratio (the "Pricing Margin"); or (3) rates quoted at the discretion of the lenders. Canadian borrowings denominated in U.S. dollars carry interest at one of the following rates selected by the Company: (a) the Canadian base rate; or (b) the Canadian Eurodollar rate plus the Pricing Margin. Canadian borrowings denominated in Canadian dollars carry interest at one of the following rates selected by the Company: (1) the Canadian prime rate; or (2) the rate for Canadian bankers acceptances plus the Pricing Margin.

During 2013, the Company paid facility fees of 0.15% on the total amount of the credit facility.

**Term Credit Agreement** Safeway has a \$700.0 million term credit agreement with a syndicate of banks which matures on March 19, 2015. The term credit agreement provided an up to \$700.0 million three-year and three-month senior term credit facility available to Safeway. Loans under the term credit agreement carry interest, at Safeway's option, at either a Base Rate (as defined in the Term Credit Agreement) plus a pricing margin or a Eurodollar Rate (as defined in the Term Credit Agreement) plus a pricing margin. The Term Credit Agreement covenants are substantially similar to the covenants contained in Safeway's existing bank credit agreement dated as of June 1, 2011, as previously disclosed under the caption "Bank Credit Agreement." As of December 28, 2013, the Company was in compliance with these covenant requirements. As of December 28, 2013, there were \$400.0 million of outstanding borrowings under the Term Credit Agreement.

**Shelf Registration** On October 24, 2011, the Company filed a shelf registration statement (the "Shelf") with the SEC which enables Safeway to issue an unlimited amount of debt securities and/or common stock. The Shelf expires on October 24, 2014. The Safeway Board of Directors authorized issuance of up to \$3.0 billion of securities under the Shelf. As of December 28, 2013, \$1.95 billion of securities were available for issuance under the board's authorization.

**Issuances of Senior Unsecured Indebtedness** Safeway issued \$250.0 million of Floating Rate Senior Notes on June 14, 2012, which matured on December 12, 2013. The Company did not issue any senior unsecured debt in 2013.

**Redemption of Notes** In the fourth quarter of 2013, the Company redeemed \$500.0 million of 6.25% Senior Notes due March 15, 2014. This redemption resulted in a make-whole premium of \$6.7 million, before tax, which is classified in Other Income on the consolidated income statement.

**Satisfaction and Discharge of Indenture** In the fourth quarter of 2013, the Company deposited CAD304.5 million (USD292.2 million) in an account with the Trustee under the indenture governing the CAD300.0 million (USD287.9 million), 3.00% Second Series Notes due March 31, 2014. Safeway met the conditions for satisfaction and discharge of the Company's obligations under the indenture and as a result, extinguished the CAD300.0 million (USD287.9 million) notes and CAD304.5 million (USD292.2 million) cash from the consolidated balance sheet.

**SAFEWAY INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

**Mortgage Notes Payable** Mortgage notes payable at year-end 2013 have remaining terms ranging from less than two years to eight years, had a weighted-average interest rate during 2013 of 5.57% and are secured by properties with a net book value of approximately \$89.6 million.

**Other Notes Payable** Other notes payable at year-end 2013 have remaining terms ranging from one year to 22 years and had a weighted average interest rate of 6.73% during 2013.

**Annual Debt Maturities** As of year-end 2013, annual debt maturities (principal payments only) were as follows (in millions). Many of the notes payable include make-whole provisions:

2014	\$	252.9
2015		442.2
2016		402.0
2017		501.9
2018		3.4
Thereafter		2,165.8
	\$	3,768.2

**Letters of Credit** The Company had letters of credit of \$44.7 million outstanding at year-end 2013, of which \$43.4 million were issued under the credit agreement. The letters of credit are maintained primarily to support performance, payment, deposit or surety obligations of the Company. The Company pays commissions ranging from 0.15% to 1.10% on the face amount of the letters of credit.

**Fair Value** At year-end 2013 and year-end 2012, the estimated fair value of debt, including current maturities, was \$3,949.7 million and \$5,408.2 million, respectively.

**Note G: Financial Instruments**

Safeway manages interest rate risk through the strategic use of fixed- and variable-interest rate debt and, from time to time, interest rate swaps. The Company does not utilize financial instruments for trading or other speculative purposes, nor does it utilize leveraged financial instruments. At year-end 2013, the Company had no interest rate swaps outstanding.

**Note H: Fair Value Measurements**

The accounting guidance for fair value measurements prioritizes the inputs used in measuring fair value into the following hierarchy:

Level 1	Quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2	Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable;
Level 3	Unobservable inputs in which little or no market activity exists, therefore requiring an entity to develop its own assumptions about the assumptions that market participants would use in pricing.

**SAFEWAY INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

The following table presents assets and liabilities which are measured at fair value on a recurring basis at December 28, 2013 (in millions):

		Fair Value Measurements		
		Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Assets:</b>	<b>Total</b>			
<b>Cash equivalents:</b>				
Term deposits	\$ 2,818.0	\$ —	\$ 2,818.0	\$ —
Money market	449.0	449.0	—	—
Bankers' acceptances	309.6	—	309.6	—
Commercial paper	274.0	—	274.0	—
Short-term investments <sup>(1)</sup>	81.0	42.0	39.0	—
Non-current investments <sup>(2)</sup>	38.0	—	38.0	—
<b>Total</b>	<b>\$ 3,969.6</b>	<b>\$ 491.0</b>	<b>\$ 3,478.6</b>	<b>\$ —</b>
<b>Liabilities:</b>				
Contingent consideration <sup>(3)</sup>	\$ 2.9	\$ —	\$ —	\$ 2.9
<b>Total</b>	<b>\$ 2.9</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 2.9</b>

<sup>(1)</sup> Included in Prepaid Expenses and Other Current Assets on the balance sheet.

<sup>(2)</sup> Included in Other Assets on the balance sheet.

<sup>(3)</sup> Included in Other Accrued Liabilities and Accrued Claims and Other Liabilities on the balance sheet.

A reconciliation of the beginning and ending balances for Level 3 liabilities for the year ended December 28, 2013 follows (in millions):

	Contingent consideration
Balance, beginning of year	\$ 21.8
Settlements	(4.2)
Gains	(14.7)
Balance, end of year	\$ 2.9

**SAFEWAY INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

The following table presents assets and liabilities which are measured at fair value on a recurring basis at December 29, 2012 (in millions):

		Fair Value Measurements			
		Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Assets:	Total				
Cash equivalents	\$ 96.5	\$ 91.0	\$ 5.5	\$ —	
Short-term investments <sup>(1)</sup>	44.2	14.5	29.7	—	
Non-current investments <sup>(2)</sup>	33.9	—	33.9	—	
Total	\$ 174.6	\$ 105.5	\$ 69.1	\$ —	
Liabilities:					
Contingent consideration <sup>(3)</sup>	\$ 21.8	\$ —	\$ —	\$ 21.8	
Total	\$ 21.8	\$ —	\$ —	\$ 21.8	

<sup>(1)</sup> Included in Prepaid Expenses and Other Current Assets on the balance sheet.

<sup>(2)</sup> Included in Other Assets on the balance sheet.

<sup>(3)</sup> Included in Accrued Claims and Other Liabilities on the balance sheet.

A reconciliation of the beginning and ending balances for Level 3 liabilities for the year ended December 29, 2012 follows (in millions):

	Contingent consideration
Balance, beginning of year	\$ 26.3
Settlements	(1.5)
Unrealized gains	(3.0)
Balance, end of year	\$ 21.8

In determining the fair value of assets and liabilities, the Company maximizes the use of quoted market prices and minimizes the use of unobservable inputs. The Level 1 fair values are based on quoted market values for identical assets. The fair values of Level 2 assets and liabilities are determined using prices from pricing agencies and financial institutions that develop values based on observable inputs in active markets. Level 3 fair values are determined from industry valuation models based on externally developed inputs.

In connection with the Company's evaluation of long-lived assets for impairment, certain long-lived assets were measured at fair value on a nonrecurring basis using Level 3 inputs as defined in the fair value hierarchy. Fair value of long-lived assets is determined by estimating the amount and timing of net future cash flows (including rental expense for leased properties, sublease rental income, common area maintenance costs and real estate taxes) and discounting them using a risk-adjusted rate of interest. Safeway estimates future cash flows based on its experience and knowledge of the market in which the store is located and, when necessary, uses real estate brokers. During fiscal 2013, long-lived assets with a carrying value of \$63.5 million were written down to their estimated fair value of \$27.9 million, resulting in an impairment charge of \$35.6 million. During fiscal 2012, long-lived assets with a carrying value of \$51.8 million were written down to their estimated fair value of \$18.2 million, resulting in an impairment charge of \$33.6 million.

**SAFEWAY INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

**Note I: Lease Obligations**

At year-end 2013, Safeway leased approximately 54% of its stores. Most leases have renewal options, typically with increased rental rates during the option period. Certain of these leases contain options to purchase the property at amounts that approximate fair market value.

As of year-end 2013, future minimum rental payments applicable to non-cancelable capital and operating leases with remaining terms in excess of one year were as follows (in millions):

	Capital leases	Operating leases
2014	\$ 83.7	\$ 470.3
2015	80.8	430.3
2016	73.7	397.3
2017	64.3	351.1
2018	55.1	299.5
Thereafter	298.4	1,781.5
Total minimum lease payments	656.0	\$ 3,730.0
Less amounts representing interest	(231.2)	
Present value of net minimum lease payments	424.8	
Less current obligations	(49.3)	
Long-term obligations	\$ 375.5	

Future minimum lease payments under non-cancelable capital and operating lease agreements have not been reduced by future minimum sublease rental income of \$173.6 million.

Amortization expense for property under capital leases was \$46.1 million in 2013, \$26.3 million in 2012 and \$24.6 million in 2011. Accumulated amortization of property under capital leases was \$251.9 million at year-end 2013 and \$223.1 million at year-end 2012.

The following schedule shows the composition of total rental expense for all operating leases (in millions):

	2013	2012	2011
Property leases:			
Minimum rentals	\$ 372.1	\$ 371.0	\$ 366.6
Contingent rentals <sup>(1)</sup>	7.3	7.7	7.6
Less rentals from subleases	(11.1)	(9.4)	(8.0)
	368.3	369.3	366.2
Equipment leases	20.4	20.4	20.1
	\$ 388.7	\$ 389.7	\$ 386.3

<sup>(1)</sup> In general, contingent rentals are based on individual store sales.

**SAFEWAY INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

**Note J: Interest Expense**

Interest expense consisted of the following (in millions):

	2013	2012	2011
Commercial paper	\$ 3.2	\$ 6.0	\$ 1.6
Bank credit agreement	1.9	1.7	1.6
Term credit agreement	7.3	8.7	—
Mortgage notes payable	2.7	1.8	0.6
6.50% Senior Notes due 2011	—	—	5.3
5.80% Senior Notes due 2012	—	29.1	46.4
Floating Rate Senior Notes due 2013	4.3	2.7	—
3.00% Second Series Notes due 2014	7.4	9.0	6.8
6.25% Senior Notes due 2014	29.9	31.3	31.3
5.625% Senior Notes due 2014	14.1	14.1	14.1
3.40% Senior Notes due 2016	13.6	13.6	1.0
6.35% Senior Notes due 2017	31.8	31.8	31.8
5.00% Senior Notes due 2019	25.0	25.0	25.0
3.95% Senior Notes due 2020	19.7	19.7	19.7
4.75% Senior Notes due 2021	19.0	19.0	1.4
7.45% Senior Debentures due 2027	11.2	11.2	11.2
7.25% Senior Debentures due 2031	43.5	43.5	43.5
Other notes payable	1.8	1.8	2.1
Obligations under capital leases	38.0	39.7	43.7
Amortization of deferred finance costs	7.4	6.9	4.9
Interest rate swap agreements	—	(5.0)	(9.9)
Capitalized interest	(8.8)	(10.9)	(14.0)
	\$ 273.0	\$ 300.7	\$ 268.1

**SAFEWAY INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

**Note K: Capital Stock**

**Shares Authorized and Issued** Authorized preferred stock consists of 25.0 million shares, of which none were outstanding during 2013, 2012 or 2011. Authorized common stock consists of 1.5 billion shares at \$0.01 par value per share. Common stock outstanding at year-end 2013 was 230.1 million shares (net of 14.1 million shares of treasury stock) and 239.5 million shares at year-end 2012 (net of 365.8 million shares of treasury stock).

**Shares Repurchased** Safeway repurchased 19.5 million shares of common stock at an average cost of \$33.93 per share and a total cost of \$663.7 million (including commissions) during 2013, 57.6 million shares at an average cost of \$21.51 and a total cost of \$1,240.3 million (including commissions) during 2012 and 76.1 million shares at an average cost of \$20.85 and a total cost of \$1,588.2 million (including commissions) during 2011.

**Retirement of Treasury Stock** In 2013, the Company retired 371.6 million shares of its repurchased common stock. The par value of the repurchased shares was charged to common stock with the excess purchase price over par value allocated between paid-in capital and retained earnings.

**Stockholder Rights Plan** In September 2013, Safeway adopted a one-year stockholder rights plan. Under the plan, one preferred stock purchase right was distributed for each share of common stock held by stockholders of record on September 30, 2013. Under certain circumstances, the rights will become exercisable and each right will entitle stockholders to buy one one-thousandth of a share of Series A Junior Participating Preferred Stock of the Company at an exercise price of \$100. In general, the rights become exercisable at the close of business on the tenth business day following (i) public announcement that a person or group acquired 10% (15% in the case of a passive institutional investor) or more of our common stock or (ii) commencement or announcement of a tender offer for 10% (15% in the case of a passive institutional investor) or more of our common stock. The Company's Board of Directors is entitled to redeem the rights at \$0.01 per right at any time before a person or group has acquired 10% or more (15% or more in the case of a passive institutional investor) of the outstanding common stock. The rights will expire on September 15, 2014, subject to the Company's right to extend such date, unless earlier redeemed or exchanged by the Company or terminated.

Subject to limited exceptions, if a person or group acquires 10% or more of the outstanding common stock (15% or more in the case of a passive institutional investor) of the Company (including in the form of synthetic ownership through derivative positions), each right (other than those held by that person or group) will become exercisable and entitle its holder to purchase, at the right's then-current exercise price, a number of shares of common stock having a market value at that time of twice the right's exercise price. If the Company is acquired in a merger or other business combination transaction that has not been approved by the Board of Directors after the rights become exercisable, each right will entitle its holder to purchase, at the right's then-current exercise price, a number of shares of the acquiring company's common stock having a market value at that time of twice the right's exercise price.

**Stock Option Plans** Under Safeway's stock option plans, the Company may grant incentive and non-qualified options to purchase common stock at an exercise price equal to or greater than the fair market value at the grant date. Options generally vest over four or five years. Vested options are exercisable in part or in full at any time prior to the expiration date of six to 10 years from the date of the grant.

**1999 Amended and Restated Equity Participation Plan** Under the 1999 Amended and Restated Equity Participation Plan (the "1999 Plan"), options generally vest over four, five or seven years. Although the 1999 Plan remains in full force and effect, there will be no more grants under this plan. Vested options are exercisable in part or in full at any time prior to the expiration date of six to 10 years from the date of the grant. Shares issued as a result of stock option exercises will be funded with the issuance of new shares. The 2007 Equity and Incentive Award Plan (the "2007 Plan") and the 2011 Equity and Incentive Award Plan (the "2011 Plan"), discussed below, succeed the 1999 Plan.

**2007 Equity and Incentive Award Plan** In May 2007, the stockholders of Safeway approved the 2007 Plan. Under the 2007 Plan, Safeway may grant or issue stock options, stock appreciation rights, restricted stock units, deferred stock, dividend equivalents, performance awards and stock payments, or any combination thereof. Safeway may grant incentive and non-qualified options to purchase common stock at an exercise price equal to or greater than the fair market value at the grant date. Options to purchase 7.6 million shares were available for grant at December 28, 2013 under this plan. Shares issued as a result of the 2007 Plan may be treasury shares, authorized but unissued shares or shares purchased in the open market.

**2011 Equity and Incentive Award Plan** In May 2011, the stockholders of Safeway approved the 2011 Plan. Under the 2011 Plan, Safeway may grant or issue stock options, stock appreciation rights, restricted stock, restricted stock units, deferred stock, dividend equivalents, performance awards and stock payments, or any combination thereof to participants other than Safeway's Chief Executive Officer. Safeway may grant incentive and non-qualified options to purchase common stock at an exercise price equal to or greater than the fair market value at the grant date. At December 28, 2013, 8.7 million shares of common stock were available for issuance under this plan. Shares issued as a result of the 2011 Plan may be treasury shares, authorized but unissued shares or shares purchased in the open market.



**Restricted Stock** The Company awarded 747,708 shares, 695,816 shares and 1,470,625 shares of restricted stock in 2013, 2012 and 2011, respectively, to certain officers and key employees. These shares vest over a period of between three to five years and are subject to certain transfer restrictions and forfeiture prior to vesting. Deferred stock compensation, representing the fair value of the stock at the measurement date of the award, is amortized to compensation expense over the vesting period. The amortization of restricted stock resulted in compensation expense for continuing operations of \$15.8 million in 2013, \$13.1 million in 2012 and \$10.5 million in 2011.

**Performance Share Awards** In 2013 and 2012, Safeway granted performance share awards to certain executives. These performance share awards, covering a target of approximately 1.2 million shares in 2013 and 1.1 million shares in 2012, will vest over three years and are subject to the achievement of earnings per share goals determined on a compound annual growth rate basis relative to the S&P 500. If these goals are achieved above a certain level and Safeway meets certain Total Shareholder Return criteria, certain executives may receive additional shares of stock above the target number of performance shares, subject to a specified maximum. Likewise, executives may earn less than the target number of performance shares. The Company recorded \$14.9 million in expense in 2013 and \$9.8 million in expense in 2012 related to these awards based on the expected achievement of the performance target. The payouts related to all active awards, if earned, will be settled in the Company's common stock after the end of each performance period.

Activity in the Company's stock option plans for the year ended December 28, 2013 was as follows:

	Options	Weighted-average exercise price	Aggregate intrinsic value (in millions)
Outstanding, beginning of year	24,097,393	\$ 25.92	\$ 0.9
<b>2013 Activity:</b>			
Granted	2,334,583	24.68	
Canceled	(9,087,473)	30.03	
Exercised	(9,615,848)	25.02	
Outstanding, end of year	7,728,655	\$ 21.85	\$ 82.3
Exercisable, end of year <sup>(1)</sup>	3,168,122	\$ 21.57	\$ 34.6
Vested and expected to vest, end of year <sup>(2)</sup>	6,424,628	\$ 21.69	\$ 69.5

<sup>(1)</sup> The remaining weighted-average contractual life of these options is 4.7 years.

<sup>(2)</sup> The remaining weighted-average contractual life of these options is 6.1 years.

Weighted-average fair value of options granted during the year:

2011	\$ 5.87
2012	4.50
<b>2013</b>	<b>6.67</b>

The total intrinsic value of options exercised was \$47.0 million in 2013, \$0.7 million in 2012 and \$9.7 million in 2011. As of year-end 2013, there was \$57.8 million of total unrecognized compensation cost related to nonvested stock-based compensation arrangements granted under the Company's stock option plans. That cost is expected to be recognized over a weighted-average period of 2.6 years.

**Additional Stock Plan Information** Safeway accounts for stock-based employee compensation in accordance with generally accepted accounting principles for stock compensation. The Company determines fair value of such awards using the Black-Scholes option pricing model. The following weighted-average assumptions used, by year, to value Safeway's grants are as follows:

	2013			2012			2011		
Expected life (in years)	6.25	—	6.5	6.25	—	6.5	6.5	—	34.1%
Expected stock volatility	31.6%	—	33.0%	30.6%	—	33.9%	29.8%	—	2.7%
Risk-free interest rate	1.1%	—	2.1%	0.9%	—	1.3%	1.5%	—	2.7%
Expected dividend yield during the expected term	3.5%	—	4.0%	2.8%	—	3.7%	2.2%	—	2.7%

The expected term of the awards was determined utilizing the "simplified method" outlined in SEC Staff Accounting Bulletin No. 107 that utilizes the following formula: (vesting term + original contract term)/2. Expected stock volatility was determined based upon a combination of historical volatility for periods preceding the measurement date and estimates of implied volatility based upon open interests in traded option contracts on Safeway common stock. The risk-free interest rate was based on the yield curve in effect at the time the options were granted, using U.S. constant maturities over the expected life of the option. Expected dividend yield is based on Safeway's dividend policy at the time the options were granted.

The following table summarizes information about unvested Safeway restricted stock as of December 28, 2013:

Awards	Weighted-average grant date fair value
--------	--



Unvested, beginning of year	2,412,830	\$	22.16
Granted	747,708		23.43
Vested	(672,657)		22.31
Canceled	(255,618)		23.01
Unvested, end of year	2,232,263	\$	22.45

At the date of vest, the fair value of restricted stock awards vested during the year was \$16.4 million in 2013, \$14.2 million in 2012 and \$6.6 million in 2011. At December 28, 2013, there was \$36.2 million of total unrecognized compensation cost related to non-vested restricted stock awards. The cost is expected to be recognized over a weighted average period of 2.7 years.

Total share-based compensation expenses for continuing operations recognized as a component of operating and administrative expense is as follows (in millions):

	2013	2012	2011
Share-based compensation expense	\$ 59.1	\$ 53.6	\$ 48.5
Income tax benefit	(23.2)	(20.8)	(18.8)
Share-based compensation expense recognized in earnings, net of tax	\$ 35.9	\$ 32.8	\$ 29.7

#### Note L: Taxes on Income

The components of income before income tax expense are as follows (in millions):

	2013	2012	2011
Domestic	\$ 326.1	\$ 434.3	\$ 456.1
Foreign	9.9	2.1	2.3
	\$ 336.0	\$ 436.4	\$ 458.4

**SAFEWAY INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

The components of income tax expense are as follows (in millions):

	2013	2012	2011
Current:			
Federal	\$ 322.6	\$ 168.7	\$ 108.2
State	32.2	12.4	39.0
Foreign	2.6	1.4	1.0
	357.4	182.5	148.2
Deferred:			
Federal	(250.8)	(36.5)	(38.6)
State	(16.5)	(3.5)	(17.4)
Foreign	(0.4)	(0.7)	(1.0)
	(267.7)	(40.7)	(57.0)
	\$ 89.7	\$ 141.8	\$ 91.2

Reconciliation of the provision for income taxes at the U.S. federal statutory income tax rate to the Company's income taxes is as follows (dollars in millions):

	2013	2012	2011
Statutory rate	35%	35%	35%
Income tax expense using federal statutory rate	\$ 117.6	\$ 152.8	\$ 160.4
State taxes on income net of federal benefit	10.2	5.8	14.0
Charitable donations of inventory	(9.6)	(4.3)	(12.0)
U.S. repatriation tax	—	—	(53.8)
Federal tax credits	(11.2)	(2.2)	(12.1)
Reversal of deferred tax liability on life insurance	(17.2)	—	—
Investment in Blackhawk	23.7	—	—
Equity earnings of foreign affiliate	(13.3)	(8.4)	(4.6)
Other	(10.5)	(1.9)	(0.7)
	\$ 89.7	\$ 141.8	\$ 91.2

In 2013, Safeway withdrew \$68.7 million from the accumulated cash surrender value of corporate-owned life insurance ("COLI") policies purchased in the early 1980s and determined that a majority of the remaining cash surrender value would be received in the future through tax-free death benefits. Consequently, Safeway reversed deferred taxes on that remaining cash surrender value and reduced tax expense by \$17.2 million.

Income tax expense increased by \$23.7 million in 2013 related to Safeway's investment in Blackhawk, one of its subsidiaries. During 2013, Blackhawk completed its initial public offering of stock and as a result of the IPO Blackhawk is no longer included in Safeway's consolidated federal income tax return. This required Safeway to record current and deferred taxes related to its investment in Blackhawk.

Income tax expense decreased by \$53.8 million in 2011 as a result of a change in repatriation policy regarding the Company's investment in Casa Ley.

**SAFEWAY INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

Significant components of the Company's net deferred tax liability at year end are as follows (in millions):

	2013	2012
Deferred tax assets:		
Pension liability	\$ 279.8	\$ 293.3
Workers' compensation and other claims	152.0	189.7
Employee benefits	155.7	202.8
Accrued claims and other liabilities	92.4	95.3
Reserves not currently deductible	63.8	37.4
Federal deduction of state taxes	51.2	7.7
Foreign tax credit carryforwards	—	37.9
State tax credit carryforwards	21.3	27.7
Operating loss carryforwards	8.8	1.9
Other assets	9.5	3.1
	834.5	896.8
Valuation Allowance	—	(27.1)
	\$ 834.5	\$ 869.7

	2013	2012
Deferred tax liabilities:		
Property	\$ (430.0)	\$ (662.4)
Inventory	(273.3)	(314.5)
Investment in Blackhawk	(17.9)	—
Investments in foreign operations	(6.5)	(19.4)
	(727.7)	(996.3)
Net deferred tax asset (liability)	\$ 106.8	\$ (126.6)

Deferred tax assets and liabilities are reported in the balance sheet as follows (in millions):

	2013	2012
Current deferred tax assets <sup>(1)</sup>	\$ 51.8	\$ 1.1
Noncurrent deferred tax assets <sup>(2)</sup>	55.0	81.2
Current deferred tax liability	—	(30.4)
Noncurrent deferred tax liability	—	(178.5)
Net deferred tax asset (liability)	\$ 106.8	\$ (126.6)

<sup>(1)</sup> Included in Prepaid Expenses and Other Current Assets.

<sup>(2)</sup> Included in Other Assets.

At December 28, 2013, the Company had net operating loss carryforwards for federal income tax purposes of approximately \$4.5 million which expire at various dates from 2023 to 2024. The Company also had foreign net operating loss carryforwards of \$20.2 million which do not expire. In addition, the Company had state tax credit carryforwards of \$32.5 million which expire in 2023.

**SAFEWAY INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

At December 29, 2012, the Company had foreign tax credit carryforwards of \$37.9 million which would normally expire in 2021. A valuation allowance was recorded against \$27.1 million of these carryforwards. The valuation allowance is recorded when it becomes more likely than not that a portion of the deferred tax asset will not be realized. As a result of the sale of its Canadian operations the Company was able to utilize the foreign tax credit carryforwards in 2013.

At year-end 2013, no deferred tax liability has been recognized for the \$170.0 million of unremitted foreign earnings because the Company intends to utilize those earnings in the foreign operations for an indefinite period of time. If Safeway did not consider these earnings to be indefinitely reinvested, the deferred tax liability would have been in the range of \$25 million to \$75 million at year-end 2013.

A reconciliation of the beginning and ending amount of unrecognized tax benefits follows (in millions):

	2013	2012	2011
Balance at beginning of year	\$ 119.4	\$ 161.3	\$ 159.9
Additions based on tax positions related to the current year	75.6	2.7	17.8
Reduction for tax positions of current year	(4.9)	—	—
Additions for tax positions of prior years	0.2	2.2	0.5
Reductions for tax positions of prior years	(47.1)	(46.9)	(3.5)
Foreign currency translation	(0.3)	0.1	(0.1)
Expiration of statute of limitations	(1.3)	—	—
Settlements	(4.1)	—	(13.3)
Balance at end of year	\$ 137.5	\$ 119.4	\$ 161.3

As of December 28, 2013, December 29, 2012 and December 31, 2011, the balance of unrecognized tax benefits included tax positions of \$60.1 million (net of tax), \$42.9 million (net of tax) and \$43.1 million (net of tax), respectively, that would reduce the Company's effective income tax rate if recognized in future periods.

Continuing operations income tax expense in 2013, 2012 and 2011 included benefits of \$5.9 million (net of tax), \$5.6 million (net of tax) and expense of \$0.2 million (net of tax), respectively, related to interest and penalties. As of December 28, 2013 and December 29, 2012, the Company's accrual for net interest and penalties were receivables of \$5.2 million and \$3.3 million, respectively.

The Company and its domestic subsidiaries file income tax returns with federal, state and local tax authorities within the United States. The Company's foreign affiliates file income tax returns in various foreign jurisdictions, the most significant of which are Canada and certain of its provinces. The Company expects that it will no longer be subject to federal income tax examinations for fiscal years before 2007, and is no longer subject to state and local income tax examinations for fiscal years before 2006. With limited exceptions, including proposed deficiencies which the Company is protesting, Safeway's Canadian affiliates are no longer subject to examination by Canada and certain of its provinces for fiscal years before 2006.

The Company does not anticipate that total unrecognized tax benefits will change significantly in the next 12 months.

**Note M: Employee Benefit Plans**

**Pension Plans** The Company maintains defined benefit, non-contributory retirement plans for substantially all of its employees not participating in multiemployer pension plans. Safeway recognizes the funded status of its retirement plans on its consolidated balance sheet.

**SAFeway INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

**Other Post-Retirement Benefits** In addition to the Company's pension plans, the Company sponsors plans that provide postretirement medical and life insurance benefits to certain employees. Retirees share a portion of the cost of the postretirement medical plans. Safeway pays all the costs of the life insurance plans. The Company also sponsors a Retirement Restoration Plan that provides death benefits and supplemental income payments for senior executives after retirement. All of these Other Post-Retirement Benefit Plans are unfunded.

**Canadian Pension and Other Post-Retirement Plans** Sobeys assumed Safeway's Canadian pension and post-retirement plan obligations as part of the overall purchase of Safeway's Canadian operations in November 2013. Accordingly, the activity in these plans are not included in this footnote unless otherwise noted.

The following table provides a reconciliation of the changes in the retirement plans' benefit obligation and fair value of assets over the two-year period ended December 28, 2013 and a statement of the funded status as of year-end 2013 and year-end 2012 (in millions):

	Pension		Other Post-Retirement Benefits	
	2013	2012	2013	2012
<b>Change in projected benefit obligation:</b>				
Beginning balance	\$ 2,635.4	\$ 2,424.5	\$ 135.0	\$ 131.1
Service cost	42.0	40.3	0.7	0.6
Interest cost	85.4	91.8	3.2	3.6
Plan amendments	0.2	0.4	—	—
Actuarial loss (gain)	(56.3)	176.0	(5.0)	6.6
Plan participant contributions	—	—	1.0	1.0
Benefit payments	(133.3)	(131.6)	(7.2)	(7.3)
Change in projected benefit obligation related to CSL	(39.5)	34.0	1.3	(0.6)
Disposal of CSL	(510.5)	—	(49.5)	—
Ending balance	\$ 2,023.4	\$ 2,635.4	\$ 79.5	\$ 135.0
<b>Change in fair value of plan assets:</b>				
Beginning balance	\$ 1,845.7	\$ 1,641.4	\$ —	\$ —
Actual return on plan assets	268.6	179.3	—	—
Employer contributions	50.1	104.1	6.2	6.3
Plan participant contributions	—	—	1.0	1.0
Benefit payments	(133.3)	(131.6)	(7.2)	(7.3)
Change in fair value of plan assets related to CSL	32.8	52.5	—	—
Disposal of CSL	(419.7)	—	—	—
Ending balance	\$ 1,644.2	\$ 1,845.7	\$ —	\$ —
<b>Components of net amount recognized in financial position:</b>				
Other accrued liabilities (current liability)	\$ (1.1)	\$ (2.3)	\$ (6.2)	\$ (7.9)
Pension and postretirement benefit obligations (non-current liability)	(378.1)	(787.4)	(73.3)	(127.1)
Funded status	\$ (379.2)	\$ (789.7)	\$ (79.5)	\$ (135.0)

**SAFEWAY INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

Amounts recognized in accumulated other comprehensive income consist of the following (in millions):

	Pension		Other Post-Retirement Benefits	
	2013	2012	2013	2012
Net actuarial loss	\$ 365.0	\$ 872.5	\$ 10.6	\$ 25.4
Prior service cost (credit)	14.3	17.3	(1.1)	(3.2)
	\$ 379.3	\$ 889.8	\$ 9.5	\$ 22.2

Safeway expects approximately \$43.0 million of the net actuarial pension loss and \$9.6 million of the prior service cost to be recognized as a component of net periodic benefit cost in 2014.

Information for Safeway's pension plans, all of which have an accumulated benefit obligation in excess of plan assets as of year-end 2013 and 2012, is shown below (in millions):

	2013	2012
Projected benefit obligation	\$ 2,023.4	\$ 2,635.4
Accumulated benefit obligation	1,978.3	2,554.4
Fair value of plan assets	1,644.2	1,845.7

**SAFEWAY INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

The following tables provide the components of net expense for the retirement plans and other changes in plan assets and benefit obligations recognized in other comprehensive income (in millions):

Components of net expense:	Pension			Other Post-Retirement Benefits		
	2013	2012	2011	2013	2012	2011
Estimated return on plan assets	\$ (107.9)	\$ (101.0)	\$ (116.0)	\$ —	\$ —	\$ —
Service cost	42.0	40.3	37.8	0.7	0.6	0.6
Interest cost	85.4	91.8	100.0	3.2	3.6	4.4
Settlement loss	—	5.9	1.1	—	—	—
Curtailment loss	—	1.8	—	—	—	—
Amortization of prior service cost (credit)	12.8	15.3	17.4	(0.1)	(0.1)	(0.1)
Amortization of net actuarial loss	77.8	70.3	53.3	0.9	0.5	0.4
Net expense	\$ 110.1	\$ 124.4	\$ 93.6	\$ 4.7	\$ 4.6	\$ 5.3
Changes in plan assets and benefit obligations recognized in other comprehensive income:						
Net actuarial (gain) loss	\$ (216.9)	\$ 97.8	\$ 228.6	\$ (5.0)	\$ 6.6	\$ 3.4
Recognition of net actuarial loss	(77.8)	(76.3)	(54.4)	(0.9)	(0.5)	(0.4)
Prior service credit	0.2	0.5	1.0	—	—	—
Recognition of prior service (cost) credit	(12.8)	(17.0)	(17.4)	0.1	0.1	0.1
Changes relating to discontinued operations	(55.5)	9.0	87.4	(3.0)	(5.0)	(6.7)
Total recognized in other comprehensive income	(362.8)	14.0	245.2	(8.8)	1.2	(3.6)
Total net expense and changes in plan assets and benefit obligations recognized in comprehensive income	\$ (252.7)	\$ 138.4	\$ 338.8	\$ (4.1)	\$ 5.8	\$ 1.7

Prior service costs are amortized on a straight-line basis over the average remaining service period of active participants. Actuarial gains and losses are amortized over the average remaining service life of active participants when the accumulation of such gains and losses exceeds 10% of the greater of the projected benefit obligation and the fair value of plan assets. The Company uses its fiscal year-end date as the measurement date for its plans.

**SAFEWAY INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

The actuarial assumptions used to determine year-end projected benefit obligations for pension plans were as follows:

	2013	2012	2011
Discount rate:			
United States plans	<b>4.90%</b>	4.20%	4.94%
Canadian plans		4.00%	4.25%
Combined weighted-average rate		4.16%	4.80%
Rate of compensation increase:			
United States plans	<b>3.00%</b>	3.00%	3.00%
Canadian plans		2.75%	2.75%

The actuarial assumptions used to determine net periodic benefit costs for pension plans were as follows:

	2013	2012	2011
Discount rate	<b>4.20%</b>	4.94%	5.69%
Expected return on plan assets:	<b>7.50%</b>	7.75%	8.50%
Rate of compensation increase	<b>3.00%</b>	3.00%	3.00%

The Company has adopted and implemented an investment policy for the defined benefit pension plans that incorporates a strategic long-term asset allocation mix designed to meet the Company's long-term pension requirements. This asset allocation policy is reviewed annually and, on a regular basis, actual allocations are rebalanced to the prevailing targets. The following table summarizes actual allocations for Safeway's plans (including Canadian plans in 2012) at year-end:

Asset category	Target	Plan assets	
		2013	2012
Equity	65%	<b>66.4%</b>	64.3%
Fixed income	35%	<b>31.9%</b>	33.0%
Cash and other	—	<b>1.7%</b>	2.7%
Total	100%	<b>100.0%</b>	100.0%



**SAFEWAY INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

The investment policy also emphasizes the following key objectives: (1) maintain a diversified portfolio among asset classes and investment styles; (2) maintain an acceptable level of risk in pursuit of long-term economic benefit; (3) maximize the opportunity for value-added returns from active investment management while establishing investment guidelines and monitoring procedures for each investment manager to ensure the characteristics of the portfolio are consistent with the original investment mandate; and (4) maintain adequate controls over administrative costs.

Expected return on pension plan assets is based on historical experience of the Company's portfolio and the review of projected returns by asset class on broad, publicly traded equity and fixed-income indices, as well as target asset allocation. Safeway's target asset allocation mix is designed to meet the Company's long-term pension requirements.

The fair value of Safeway's pension plan assets at December 28, 2013, excluding pending transactions of \$37.2 million, by asset category are as follows (in millions):

Asset category:	Fair Value Measurements			
	Total	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash and cash equivalents <sup>(1)</sup>	\$ 30.2	\$ 29.0	\$ 1.2	\$ —
Short-term investment collective trust <sup>(2)</sup>	18.2	—	18.2	—
Common and preferred stock: <sup>(3)</sup>				
Domestic common and preferred stock	270.4	269.9	0.5	—
International common stock	38.5	38.5	—	—
Common collective trust funds <sup>(2)</sup>	611.2	—	611.2	—
Corporate bonds <sup>(4)</sup>	101.1	—	101.1	—
Mortgage- and other asset-backed securities <sup>(5)</sup>	62.3	—	62.3	—
Mutual funds <sup>(6)</sup>	183.8	5.9	177.9	—
U.S. government securities <sup>(7)</sup>	335.8	—	335.7	0.1
Other securities <sup>(8)</sup>	29.9	3.1	19.0	7.8
Total	\$ 1,681.4	\$ 346.4	\$ 1,327.1	\$ 7.9

<sup>(1)</sup> The carrying value of these items approximates fair value.

<sup>(2)</sup> These investments are valued based on the Net Asset Value ("NAV") of the underlying investments and are provided by the fund issuers.

<sup>(3)</sup> The fair value of common stock is based on the exchange quoted market prices. When quoted prices are not available for preferred stock, an industry standard valuation model is used which maximizes observable inputs.

<sup>(4)</sup> The fair value of corporate bonds is generally based on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, the fair value is based upon an industry valuation model, which maximizes observable inputs.

<sup>(5)</sup> The fair value of mortgage- and other asset-backed securities is generally based on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for comparable securities, the fair value is based upon an industry model which maximizes observable inputs.

<sup>(6)</sup> These investments are publicly traded investments which are valued using the NAV. The NAV of the mutual funds is a quoted price in an active market. The NAV is determined once a day after the closing of the exchange based upon the underlying assets in the fund, less the fund's liabilities, expressed on a per-share basis.

**SAFEWAY INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

<sup>(7)</sup> The fair value of U.S. government securities is based on quoted market prices when available. When quoted prices are not available, the fair value of U.S. government securities is based on yields currently available on comparable securities or on an industry valuation model which maximizes observable inputs.

<sup>(8)</sup> Other securities, which consist primarily of U.S. municipal bonds, foreign government bonds and foreign agency securities are valued based on yields currently available on comparable securities of issuers with similar credit ratings.

Also included in Other Securities are exchange-traded derivatives that are valued based on quoted prices in an active market for identical derivatives assets and liabilities. Non-exchange-traded derivatives are valued using industry valuation models, which maximize observable inputs, such as interest-rate yield curve data, foreign exchange rates, and applicable spot and forward rates.

See Note H for a discussion of levels.

A reconciliation of the beginning and ending balances for Level 3 assets for the year ended December 28, 2013 follows (in millions):

	Fair Value Measured Using Significant Unobservable Inputs (Level 3)				
	Total	Corporate bonds	Mortgage- and other asset-backed securities	U.S. government securities	Other securities
Balance, beginning of year	\$ 4.0	\$ 3.4	\$ 0.5	\$ 0.1	\$ —
Purchases, sales, settlements, net	4.0	(3.4)	(0.5)	—	7.9
Unrealized gains	(0.1)	—	—	—	(0.1)
Balance, end of year	\$ 7.9	\$ —	\$ —	\$ 0.1	\$ 7.8

The fair value of Safeway's pension plan assets, including Canadian plans, at December 29, 2012, excluding pending transactions of \$19.6 million, by asset category are as follows (in millions):

Asset category:	Fair Value Measurements			
	Total	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash and cash equivalents <sup>(1)</sup>	\$ 28.6	\$ 24.1	\$ 4.5	\$ —
Short-term investment collective trust <sup>(2)</sup>	36.1	—	36.1	—
Common and preferred stock: <sup>(3)</sup>				
Domestic common and preferred stock	256.6	256.1	0.5	—
International common stock	50.6	50.6	—	—
Common collective trust funds <sup>(2)</sup>	899.9	—	899.9	—
Corporate bonds <sup>(4)</sup>	96.0	—	92.6	3.4
Mortgage- and other asset-backed securities <sup>(5)</sup>	62.6	—	62.1	0.5
Mutual funds <sup>(6)</sup>	136.4	—	136.4	—
U.S. government securities <sup>(7)</sup>	270.6	—	270.5	0.1
Other securities <sup>(8)</sup>	27.9	—	27.9	—
Total	\$ 1,865.3	\$ 330.8	\$ 1,530.5	\$ 4.0

**SAFEWAY INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

- (1) The carrying value of these items approximates fair value.
- (2) These investments are valued based on the Net Asset Value ("NAV") of the underlying investments and are provided by the fund issuers.
- (3) The fair value of common stock is based on the exchange quoted market prices. When quoted prices are not available for preferred stock, an industry standard valuation model is used which maximizes observable inputs.
- (4) The fair value of corporate bonds is generally based on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, the fair value is based upon an industry valuation model, which maximizes observable inputs.
- (5) The fair value of mortgage- and other asset-backed securities is generally based on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for comparable securities, the fair value is based upon an industry model which maximizes observable inputs.
- (6) These investments are publicly traded investments which are valued using the NAV. The NAV of the mutual funds is a quoted price in an active market. The NAV is determined once a day after the closing of the exchange based upon the underlying assets in the fund, less the fund's liabilities, expressed on a per-share basis.
- (7) The fair value of U.S. government securities is based on quoted market prices when available. When quoted prices are not available, the fair value of U.S. government securities is based on yields currently available on comparable securities or on an industry valuation model which maximizes observable inputs.
- (8) Other securities, which consist primarily of U.S. municipal bonds, foreign government bonds and foreign agency securities are valued based on yields currently available on comparable securities of issuers with similar credit ratings.

Valuation techniques are described earlier in this note. See Note H for a discussion of levels.

A reconciliation of the beginning and ending balances for Level 3 assets for the year ended December 29, 2012 follows (in millions):

	Fair Value Measured Using Significant Unobservable Inputs (Level 3)			
	Total	Corporate bonds	Mortgage- and other asset- backed securities	U.S. government securities
Balance, beginning of year	\$ 2.8	\$ 2.7	\$ —	\$ 0.1
Purchases, sales, settlements, net	0.4	(0.1)	0.5	—
Unrealized gains	0.8	0.8	—	—
Balance, end of year	\$ 4.0	\$ 3.4	\$ 0.5	\$ 0.1

**Contributions** Safeway expects to contribute approximately \$13.1 million to its defined benefit pension plan and post-retirement benefit plans in 2014.

**Estimated Future Benefit Payments** The following benefit payments, which reflect expected future service as appropriate, are expected to be paid (in millions):

	Pension benefits	Other benefits
2014	\$ 107.3	\$ 6.5
2015	111.4	6.5
2016	114.9	6.5
2017	119.6	6.5
2018	122.0	6.4
2019 – 2023	648.2	31.2

**SAFEWAY INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

**Note N: Multiemployer Benefit Plans**

**Multiemployer Pension Plans** Safeway contributes to a number of multiemployer defined benefit pension plans under the terms of collective bargaining agreements that cover its union-represented employees. Benefits generally are based on a fixed amount for each year of service, and, in some cases, are not negotiated with contributing employers or in some cases even known by contributing employers. None of the Company's collective bargaining agreements require that a minimum contribution be made to these plans.

The risks of participating in U.S. multiemployer pension plans are different from single-employer pension plans in the following aspects:

- a. Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- c. If Safeway stops participating in some of its multiemployer pension plans, Safeway may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The Company made and charged to expense contributions of \$259.2 million in 2013, \$248.7 million in 2012 and \$238.2 million in 2011 to these plans for continuing operations.

In 2013, the Company sold all Canadian operations which terminated our obligation to contribute to Canadian multiemployer pension plans. Due to provincial law in Canada, Safeway is not expected to incur multiemployer pension withdrawal liability associated with the sale.

Also in 2013, the Company sold or closed all stores in the Dominick's division. Safeway participated in four multiemployer pension plans on which withdrawal liability is expected to be incurred due to the Dominick's closure. The Company recorded expense of \$310.8 million to discontinued operations in the fourth quarter 2013, which represents the estimated multiemployer pension plan withdrawal liability. Demand letters from the related multiemployer pension plans may be received in 2014, or later. Withdrawal liability is generally paid over time, and as such the Company expects to pay in the range of \$10 million to \$20 million per year, varying by year, for approximately 20 years. The final amount of the withdrawal liability due will be adjusted once assessments have been received by the plans and the amount of the related payments are known.

All information related to multiemployer pension expense or multiemployer postretirement benefit obligations herein exclude Canada and Dominick's for all purposes unless otherwise stated.

**SAFEWAY INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

Safeway's participation in these plans for the annual period ended December 28, 2013 is outlined in the following tables. All information in the tables is as of December 28, 2013, December 29, 2012 and December 31, 2011 in the columns labeled 2013, 2012 and 2011, respectively, unless otherwise stated. The "EIN-PN" column provides the Employer Identification Number ("EIN") and the Plan Number ("PN"), if applicable. Unless otherwise noted, the most recent Pension Protection Act ("PPA") zone status available in 2013 and 2012 is for the plan's year ending at December 31, 2013, and December 31, 2012, respectively. The zone status is based on information that Safeway received from the plan. Among other factors, generally, plans in critical status ("red zone") are less than 65 percent funded, plans in endangered or seriously endangered status ("yellow zone" or "orange zone", respectively) are less than 80 percent funded, and plans at least 80 percent funded are said to be in the "green zone." The "FIP/RP status pending/implemented" column indicates plans for which a funding improvement plan ("FIP") or a rehabilitation plan ("RP") is either pending or has been implemented by the trustees of each plan. Information related to the impact of utilization of extended amortization periods on zone status is either not available or not obtainable without undue cost and effort.

Other than the sale of Safeway's Canadian operations and Dominick's, there have been no significant changes that affect the comparability of 2013, 2012, and 2011 contributions.

**SAFeway INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

The following two tables contain information about Safeway's U.S. multiemployer pension plans.

Pension fund	EIN - PN	Pension Protection Act zone status		Safeway 5% of total plan contributions		FIP/RP status pending/implemented
		2013	2012	2012	2011	
UFCW-Northern California Employers Joint Pension Trust Fund	946313554 - 001	Red	Red	Yes	Yes	Implemented
Western Conference of Teamsters Pension Plan	916145047 - 001	Green	Green	No	No	No
Southern California United Food & Commercial Workers Unions and Food Employers Joint Pension Plan	951939092 - 001	Red 3/31/2014	Red 3/31/2013	Yes 3/31/2013	Yes 3/31/2012	Implemented
Food Employers Labor Relations Association and United Food and Commercial Workers Pension Fund	526128473 - 001	Red	Red	Yes	Yes	Implemented
Bakery and Confectionery Union and Industry International Pension Fund	526118572 - 001	Red	Red	Yes	Yes	Implemented
Sound Retirement Trust (formerly Retail Clerks Pension Trust)	916069306 - 001	Red 9/30/2013	Red 9/30/2012	Yes 9/30/2012	Yes 9/30/2011	Implemented
Rocky Mountain UFCW Unions & Employers Pension Plan	846045986 - 001	Green	Green	Yes	Yes	No
Desert States Employers & UFCW Unions Pension Plan	846277982 - 001	Green	Green	Yes	Yes	No
Denver Area Meat Cutters and Employers Pension Plan	846097461 - 001	Green	Green	Yes	Yes	No
Mid-Atlantic UFCW and Participating Employers Pension Fund <sup>(4)</sup>	461000515 - 001	NA	NA	NA	NA	NA
Oregon Retail Employees Pension Trust	936074377 - 001	Red	Red	Yes	Yes	Implemented
Washington Meat Industry Pension Trust	916134141 - 001	Red 6/30/2014	Red 6/30/2013	Yes 6/30/2012	Yes 6/30/2011	Implemented
Alaska United Food and Commercial Workers Pension Trust	916123694 - 001	Red	Red	Yes	Yes	Implemented
Safeway Multiple Employer Retirement Plan <sup>(3)</sup>	943019135 - 005	80%+	80%+	No 12/29/2012	No 12/31/2011	NA
Retail Food Employers and UFCW Local 711 Pension Trust Fund	516031512 - 001	Red	Red	Yes	Yes	Implemented
Central Pension Fund of the International Union of Operating Engineers and Participating Employers	366052390 - 001	Green 1/31/2014	Green 1/31/2013	No 1/31/2013	No 1/31/2012	No
Alaska Teamster-Employer Pension Plan	926003463 - 024	Red 6/30/2014	Red 6/30/2013	No 6/30/2012	No 6/30/2011	Implemented

**SAFEWAY INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

Pension fund	Contributions of Safeway (in millions)			Surcharge imposed <sup>(1)</sup>	Expiration date of collective bargaining agreements	Total collective bargaining agreements	Most significant collective bargaining agreement(s)		
	2013	2012	2011				Count	Expiration	% head-count <sup>(2)</sup>
UFCW-Northern California Employers Joint Pension Trust Fund	\$ 77.4	\$ 72.9	\$ 69.3	No	8/25/2012 to 7/23/2016	20	14	10/11/2014	93%
Western Conference of Teamsters Pension Plan	\$ 45.7	\$ 43.9	\$ 44.2	No	9/29/2012 to 2/25/2017	46	1	10/1/2016	28%
Southern California United Food & Commercial Workers Unions and Food Employers Joint Pension Plan	\$ 42.1	\$ 39.3	\$ 36.8	No	3/2/2014 to 5/4/2014	14	12	3/2/2014	99%
Food Employers Labor Relations Association and United Food and Commercial Workers Pension Fund	\$ 19.5	\$ 23.5	\$ 23.2	No	10/31/2013 to 10/20/2016	7	4	10/29/2016	97%
Bakery and Confectionery Union and Industry International Pension Fund	\$ 13.3	\$ 12.4	\$ 12.1	Yes	8/14/2011 to 9/3/2017	39	5	4/8/2017	39%
Sound Retirement Trust (formerly Retail Clerks Pension Trust)	\$ 12.2	\$ 11.2	\$ 10.1	No	7/6/2013 to 10/5/2016	39	3	5/7/2016	53%
Rocky Mountain UFCW Unions & Employers Pension Plan	\$ 11.4	\$ 11.3	\$ 11.8	No	9/12/2015 to 8/27/2016	45	8	9/12/2015	56%
Desert States Employers & UFCW Unions Pension Plan	\$ 9.5	\$ 10.5	\$ 9.9	No	10/25/2014 to 11/1/2014	4	2	10/25/2014	97%
Denver Area Meat Cutters and Employers Pension Plan	\$ 5.0	\$ 5.0	\$ 5.4	No	9/12/2015 to 7/23/2016	43	8	9/12/2015	53%
Mid-Atlantic UFCW and Participating Employers Pension Fund <sup>(4)</sup>	\$ 5.0	NA	NA	NA	10/31/2013 to 10/29/2016	7	4	10/29/2016	97%
Oregon Retail Employees Pension Trust	\$ 4.5	\$ 4.2	\$ 4.1	No	8/31/2013 to 11/5/2016	34	4	7/25/2015	43%

**SAFeway INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

Pension fund	Contributions of Safeway (in millions)			Surcharge imposed <sup>(1)</sup>	Expiration date of collective bargaining agreements	Total collective bargaining agreements	Most significant collective bargaining agreement(s)		
	2013	2012	2011				Count	Expiration	% head-count <sup>(2)</sup>
Washington Meat Industry Pension Trust	\$ 3.2	\$ 3.0	\$ 2.7	No	3/15/2014 to 5/7/2016	12	4	5/7/2016	80%
Alaska United Food and Commercial Workers Pension Trust	\$ 2.0	\$ 1.9	\$ 1.9	Yes	1/31/2013 to 12/11/2015	10	1	5/31/2015	49%
Safeway Multiple Employer Retirement Plan <sup>(3)</sup>	\$ 1.9	\$ 2.4	\$ —	NA	NA	NA	NA	NA	NA
Retail Food Employers and UFCW Local 711 Pension Trust Fund	\$ 1.6	\$ 1.5	\$ 1.5	No	5/19/2013 to 3/1/2015	3	2	3/1/2015	98%
Central Pension Fund of the International Union of Operating Engineers and Participating Employers	\$ 1.5	\$ 1.5	\$ 1.4	No	6/14/2014 to 4/15/2018	6	2	4/15/2018	45%
Alaska Teamster-Employer Pension Plan	\$ 1.0	\$ 1.0	\$ 1.0	No	3/8/2014 to 10/4/2014	3	2	3/8/2014	85%
Other funds	\$ 2.4	\$ 3.2	\$ 2.8						
Total Safeway contributions to U.S. multiemployer pension plans	\$ 259.2	\$ 248.7	\$ 238.2						

NA = not applicable.

<sup>(1)</sup> PPA surcharges are 5% or 10% of eligible contributions and may not apply to all collective bargaining agreements or total contributions made to each plan.

<sup>(2)</sup> Employees on which Safeway may contribute under these most significant collective bargaining agreements as a percent of all employees on which Safeway may contribute to the respective fund.

<sup>(3)</sup> The Safeway Multiple Employer Retirement Plan ("SMERP") is a multiple employer plan as defined in the Internal Revenue Code. However, the SMERP is characterized as a multiemployer plan by the FASB, even though it is not maintained pursuant to any collective bargaining agreements to which Safeway is party. The plan may be subject to statutory annual minimum contributions based on complex actuarial calculations. Additionally, it has no PPA zone status and is not subject to establishment of a funding improvement plan or a rehabilitation plan or other PPA provisions that apply to multiemployer plans.

<sup>(4)</sup> The Mid-Atlantic UFCW & Participating Employers Pension Fund is a multiemployer plan effective January 1, 2013 which provides future service benefits to participants who would have otherwise earned future service under the Food Employers Labor Relations Association and United Food and Commercial Workers Pension Fund. The plan is not expected to be subject to zone status certification or notice or establishment of a funding improvement plan or a rehabilitation plan as per section 432(a) of the Internal Revenue Code since those provisions are required for multiemployer plans in effect on July 16, 2006.

At the date the financial statements were issued, Forms 5500 were generally not available for the plan years ending in 2013. Additionally, for the plan year ending March 31, 2011, Safeway contributed more than 5% of the total contributions to the Southern California United Food and Commercial Workers Union and Food Employers Joint Pension Plan.



**SAFeway INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

**Multiemployer postretirement benefit plans other than pensions** Safeway contributes to a number of multiemployer postretirement benefit plans other than pensions under the terms of its collective bargaining agreements that cover union-represented employees. These plans may provide medical, pharmacy, dental, vision, mental health and other ancillary benefits to active employees and retirees as determined by the trustees of each plan. These benefits are not vested. A significant portion of Safeway contributions benefit active employees and, as such, may not constitute contributions to a postretirement benefit plan. Safeway is unable to separate all contribution amounts paid to benefit active participants in order to separately report contributions paid to provide postretirement benefits for retirees.

Contributions made by Safeway to health and welfare plans providing active and postretirement benefits were \$733.4 million in 2011. Prior to December 28, 2013, certain of these plans split into two plans, separating plans for active employees from plans providing postretirement benefits. This, along with the availability of additional data in 2013 and 2012, allowed for a more precise estimate of contributions for multiemployer postretirement benefit plans other than pension. Based on the data now available, it is estimated that Safeway may have contributed as much as \$302.0 million in 2013 and as much as \$473.3 million in 2012 to fund these plans. Actual funding of postretirement benefit plans other than pensions is likely much lower as this amount continues to include contributions which benefit active employees.

**Note O: Investment in Unconsolidated Affiliates**

At year-end 2013, 2012 and 2011, Safeway's investment in unconsolidated affiliates includes a 49% ownership interest in Casa Ley, which operated 200 food and general merchandise stores in Western Mexico at year-end 2013. See Note U for the Company's consideration to explore alternatives to monetize this investment.

Equity in earnings from Safeway's unconsolidated affiliates, which is included in other income, was income of \$17.6 million in 2013, \$17.5 million in 2012 and \$13.0 million in 2011.

**Note P: Commitments and Contingencies**

**Legal Matters** The Company is subject from time to time to various claims and lawsuits arising in the ordinary course of business, including lawsuits involving trade practices, lawsuits alleging violations of state and/or federal wage and hour laws (including alleged violations of meal and rest period laws and alleged misclassification issues), real estate disputes and other matters. Some of these suits purport or may be determined to be class actions and/or seek substantial damages.

In February 2012, Safeway was served with a subpoena issued by a group of California District Attorneys seeking documents and information related to the handling, disposal and reverse logistics of potential hazardous waste within the State. The subject matter of the subpoena relates to the handling and transportation of unsaleable household items, including, but not limited to, cleaners, aerosols, hair shampoos, dye, lotions, light bulbs, batteries, over-the-counter and similar items.

It is management's opinion that although the amount of liability with respect to certain of the above matters cannot be ascertained at this time, any resulting liability of these and other matters, including any punitive damages, will not have a material effect on the Company's financial statements taken as a whole.

**Commitments** The Company has commitments under contracts for the purchase of property and equipment and for the construction of buildings, marketing development funds, the purchase of energy and other purchase obligations. Portions of such contracts not completed at year end are not reflected in the consolidated financial statements. These purchase commitments were \$568 million at year-end 2013.

**SAFEWAY INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

**Note Q: Segments**

Safeway's retail business operates in the United States. Safeway is organized into seven geographic retail operating segments (Denver, Eastern, Northern California, Phoenix, Northwest, Texas and Southern California). Across all seven retail operating segments, the Company operates primarily one store format, where each store offers the same general mix of products with similar pricing to similar categories of customers. Safeway does not operate supercenters, warehouse formats, combination clothing/grocery stores or discount stores.

The seven operating segments have been aggregated into one reportable segment called Safeway, because, in the Company's judgment, the operating segments have similar historical economic characteristics and are expected to have similar economic characteristics and similar long-term financial performance in the future. The principal measures and factors the Company considered in determining whether the economic characteristics are similar are gross margin percentage, operating profit margin, sales growth, capital expenditures, competitive risks, operational risks and challenges, retail store sales, costs of goods sold and employees. In addition, each operating segment has similar products, similar production processes, similar types of customers, similar methods of distribution and a similar regulatory environment. The Company believes that disaggregating its operating segments would not provide material or meaningful additional information.

As a result of the Blackhawk IPO, the Company presents Blackhawk as a separate reportable segment. Blackhawk is a leading prepaid payment network utilizing proprietary technology to offer a broad range of gift cards, other prepaid products and payment services. Blackhawk's payment network supports its three primary constituents: consumers who purchase the products and services Blackhawk offers, content providers who offer branded products that are redeemable for goods and services, and distribution partners who sell those products. Blackhawk's product offerings include gift cards, prepaid telecom products and prepaid financial services products, including general purpose reloadable ("GPR") cards and Blackhawk's reload network. In the fourth quarter of 2013, Blackhawk acquired InteliSpend Prepaid Solutions TM, a leader in the corporate incentives and consumer promotions marketplace, and Retailo AG, a leading third-party gift card distribution network in Germany, Austria and Switzerland.

The following tables present information about the Company by segment (in millions):

	Safeway	Blackhawk	Total
<b>2013</b>			
<b>Sales and other revenue</b>	<b>\$ 35,010.6</b>	<b>\$ 1,128.5</b>	<b>\$ 36,139.1</b>
<b>Operating profit</b>	<b>551.4</b>	<b>84.0</b>	<b>635.4</b>
<b>Income before income taxes</b>	<b>251.5</b>	<b>84.5</b>	<b>336.0</b>
<b>2012</b>			
Sales and other revenue	\$ 35,119.8	\$ 948.5	\$ 36,068.3
Operating profit	635.5	73.8	709.3
Income before income taxes	361.4	75.0	436.4
<b>2011</b>			
Sales and other revenue	\$ 34,613.4	\$ 743.3	\$ 35,356.7
Operating profit	649.0	59.8	708.8
Income before income taxes	397.7	60.7	458.4

**SAFEWAY INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

	Long-lived Assets, Net	Total Assets
<b>2013</b>		
<b>Safeway U.S.</b>	<b>\$ 7,457.8</b>	<b>\$ 15,129.9</b>
<b>Blackhawk</b>	<b>79.7</b>	<b>1,952.9</b>
<b>Dominick's assets held for sale</b>		<b>136.7</b>
<b>Total</b>	<b>\$ 7,537.5</b>	<b>\$ 17,219.5</b>
<b>2012</b>		
Safeway U.S.	\$ 7,991.1	\$ 11,007.6
Blackhawk	67.0	1,528.1
Canada	1,166.5	2,121.3
Total	\$ 9,224.6	\$ 14,657.0
<b>2011</b>		
Safeway U.S.	\$ 8,395.6	\$ 11,690.3
Blackhawk	60.6	1,291.8
Canada	1,181.4	2,091.5
Total	\$ 9,637.6	\$ 15,073.6

The following table presents sales revenue by type of similar product (dollars in millions):

	2013		2012		2011	
	Amount	% of total	Amount	% of total	Amount	% of total
Non-perishables <sup>(1)</sup>	\$ 14,811.7	41.0%	\$ 14,738.0	40.9%	\$ 14,540.5	41.1%
Perishables <sup>(2)</sup>	12,809.8	35.5%	12,548.1	34.8%	12,595.5	35.6%
Fuel	4,168.4	11.5%	4,594.2	12.7%	4,230.4	12.0%
Pharmacy	2,674.9	7.4%	2,755.4	7.6%	2,780.2	7.9%
Blackhawk	1,128.5	3.1%	948.5	2.6%	743.3	2.1%
Other <sup>(3)</sup>	545.8	1.5%	484.1	1.4%	466.8	1.3%
Total sales and other revenue	\$ 36,139.1	100.0%	\$ 36,068.3	100.0%	\$ 35,356.7	100.0%

<sup>(1)</sup> Consists primarily of grocery, soft drinks and other beverages, general merchandise, meal ingredients, frozen foods and snacks.

<sup>(2)</sup> Consists primarily of produce, meat, dairy, bakery, deli, floral and seafood.

<sup>(3)</sup> Consists primarily of wholesale sales, commissions on gift cards and other revenue.

**Note R: Income Per Share**

The Company computes earnings per share under the two-class method, which is a method of computing earnings per share when an entity has both common stock and participating securities. Unvested restricted stock is considered a participating security because it contains rights to receive nonforfeitable dividends at the same rate as common stock. Under the two-class method, the calculation of basic and diluted earnings per common share excludes the income attributable to participating securities. Additionally, the weighted average shares outstanding exclude the impact of participating securities.

**SAFEWAY INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

The following table provides reconciliations of net earnings and shares used in calculating income per basic common share to those used in calculating income per diluted common share.

(In millions, except per-share amounts)	2013		2012		2011	
	Diluted	Basic	Diluted	Basic	Diluted	Basic
Income from continuing operations, net of tax	\$ 246.3	\$ 246.3	\$ 294.6	\$ 294.6	\$ 367.2	\$ 367.2
Noncontrolling interests	(14.7)	(14.7)	(1.6)	(1.6)	(1.5)	(1.5)
Income from continuing operations attributable to Safeway Inc.	231.6	231.6	293.0	293.0	365.7	365.7
Distributed and undistributed earnings allocated to participating securities	(2.4)	(2.4)	(2.7)	(2.7)	(2.7)	(2.7)
Income from continuing operations available to common stockholders	229.2	229.2	290.3	290.3	363.0	363.0
Income from discontinued operations, net of tax	3,275.9	3,275.9	303.5	303.5	151.0	151.0
Distributed and undistributed earnings allocated to participating securities	(31.8)	(31.8)	(2.7)	(2.7)	(1.1)	(1.1)
Income from discontinued operations available to common stockholders	3,244.1	3,244.1	300.8	300.8	149.9	149.9
Net income	\$ 3,507.5	\$ 3,507.5	\$ 596.5	\$ 596.5	\$ 516.7	\$ 516.7
Distributed and undistributed earnings allocated to participating securities	(34.2)	(34.2)	(5.4)	(5.4)	(3.8)	(3.8)
Net income available to common stockholders after earnings allocated to participating securities	\$ 3,473.3	\$ 3,473.3	\$ 591.1	\$ 591.1	\$ 512.9	\$ 512.9
Weighted-average common shares outstanding	239.1	239.1	245.6	245.6	343.4	343.4
Common share equivalents	2.4		0.3		0.4	
Weighted-average shares outstanding	241.5		245.9		343.8	
Earnings per common share:						
Continuing operations	\$ 0.95	\$ 0.96	\$ 1.18	\$ 1.18	\$ 1.06	\$ 1.06
Discontinued operations	\$ 13.43	\$ 13.57	\$ 1.22	\$ 1.23	\$ 0.43	\$ 0.43
Total	\$ 14.38	\$ 14.53	\$ 2.40	\$ 2.41	\$ 1.49	\$ 1.49

Anti-dilutive shares totaling 7.8 million in 2013, 21.6 million in 2012 and 25.1 million in 2011 have been excluded from diluted weighted-average shares outstanding.

**SAFeway INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

**Note S: Guarantees**

Safeway applies the accounting guidance for guarantees to the Company's agreements that contain guarantee and indemnification clauses. This guidance requires that, upon issuance of a guarantee, the guarantor must disclose and recognize a liability for the fair value of the obligation it assumes under the guarantee. As of December 28, 2013, Safeway did not have any material guarantees.

However, the Company is party to a variety of contractual agreements under which Safeway may be obligated to indemnify the other party for certain matters. These contracts primarily relate to Safeway's commercial contracts, operating leases, including those that have been assigned, and other real estate contracts, trademarks, intellectual property, financial agreements and various other agreements. Under these agreements, the Company may provide certain routine indemnifications relating to representations and warranties (for example, ownership of assets, environmental or tax indemnifications) or personal injury matters. The terms of these indemnifications range in duration and may not be explicitly defined. Historically, Safeway has not made significant payments for these indemnifications. The Company believes that if it were to incur a loss in any of these matters, the loss would not have a material effect on the Company's financial condition or results of operations.

**Note T: Other Comprehensive Income or Loss**

Total comprehensive earnings are defined as all changes in stockholders' equity during a period, other than those resulting from investments by and distributions to stockholders. Generally, for Safeway, total comprehensive earnings equals net earnings plus or minus adjustments for pension and other post-retirement liabilities and foreign currency translation adjustments. Total comprehensive earnings represent the activity for a period net of tax and were \$179.7 million in 2013, a loss of \$12.3 million in 2012 and a loss of \$149.5 million in 2011.

While total comprehensive earnings is the activity in a period and is largely driven by net earnings in that period, accumulated other comprehensive income or loss ("AOCI") represents the cumulative balance of other comprehensive income, net of tax, as of the balance sheet date. For Safeway, AOCI is primarily the cumulative balance related to pension and other post-retirement benefit adjustments and foreign currency translation adjustments. Changes in the AOCI balance by component are shown below (in millions):

	<b>2013</b>			
	<b>Pension and Post- Retirement Benefit Plan Items</b>	<b>Foreign Currency Items</b>	<b>Other</b>	<b>Total Comprehensive (Loss) Income Including Noncontrolling Interests</b>
Beginning balance	\$ (472.3)	\$ 399.0	\$ (0.5)	\$ (73.8)
Other comprehensive income (loss) before reclassifications	266.6	(65.0)	(1.7)	199.9
Amounts reclassified from accumulated other comprehensive income	105.0	—	—	105.0
Tax (benefit) expense	(125.8)	—	0.6	(125.2)
Net current-period other comprehensive income (loss)	245.8	(65.0)	(1.1)	179.7
Sale of CSL	95.8	(472.8)	—	(377.0)
Ending balance	\$ (130.7)	\$ (138.8)	\$ (1.6)	\$ (271.1)

**SAFEWAY INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

<b>2012</b>					
	<b>Pension and Post-Retirement Benefit Plan Items</b>	<b>Foreign Currency Items</b>	<b>Other</b>	<b>Total Comprehensive (Loss) Income Including Noncontrolling Interests</b>	
Beginning balance	\$ (462.1)	\$ 402.1	\$ (1.5)	\$	(61.5)
Other comprehensive (loss) income before reclassifications	(125.2)	(3.1)	1.5		(126.8)
Amounts reclassified from accumulated other comprehensive income	110.0	—	—		110.0
Tax benefit (expense)	5.0	—	(0.5)		4.5
Net current-period other comprehensive (loss) income	(10.2)	(3.1)	1.0		(12.3)
Ending balance	\$ (472.3)	\$ 399.0	\$ (0.5)	\$	(73.8)

<b>2011</b>					
	<b>Pension and Post-Retirement Benefit Plan Items</b>	<b>Foreign Currency Items</b>	<b>Other</b>	<b>Total Comprehensive (Loss) Income Including Noncontrolling Interests</b>	
Beginning balance	\$ (302.8)	\$ 393.3	\$ (2.5)	\$	88.0
Other comprehensive (loss) income before reclassifications	(323.6)	8.8	1.1		(313.7)
Amounts reclassified from accumulated other comprehensive income	82.0	—	—		82.0
Tax benefit (expense)	82.3	—	(0.1)		82.2
Net current-period other comprehensive (loss) income	(159.3)	8.8	1.0		(149.5)
Ending balance	\$ (462.1)	\$ 402.1	\$ (1.5)	\$	(61.5)

**Note U: Subsequent Event**

On February 19, 2014, Safeway announced it is in discussions concerning a possible transaction involving the sale of the Company. Although the discussions are ongoing, the Company has not reached an agreement on a transaction, and there can be no assurance that these discussions will lead to an agreement or a completed transaction.

Safeway also announced that it has decided to distribute the remaining 37.8 million shares it owns of Blackhawk (approximately 72.2% of the outstanding Blackhawk shares) to Safeway stockholders. Currently, the plan is to make the distribution on a pro rata basis to all Safeway stockholders in a transaction intended to be tax-free to Safeway and its stockholders. However, if Safeway consummates a sale transaction, the distribution may be taxable. The timing and details of the distribution will be determined in the near future.

Additionally, Safeway announced that it is exploring alternatives to monetize its investment in its equity affiliate, Casa Ley. While Safeway has discussed its desire to monetize its investment with the majority

**SAFEWAY INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

owners of Casa Ley, there can be no assurance that Safeway will be able to sell its interest in Casa Ley at a price and on terms that the Safeway finds acceptable.

**Note V: Quarterly Information (Unaudited)**

The summarized quarterly financial data presented below reflect all adjustments, which in the opinion of management, are of a normal and recurring nature necessary to present fairly the results of operations for the periods presented. (Rounding affects some totals. In millions, except per-share amounts.)

	52 Weeks	Last 16 Weeks <sup>(2)</sup>	Third 12 Weeks	Second 12 Weeks	First 12 Weeks
<b>2013</b>					
Sales and other revenue	\$ 36,139.1	\$ 11,306.1	\$ 8,293.6	\$ 8,362.5	\$ 8,176.8
Gross profit	9,494.0	2,998.3	2,138.0	2,191.3	2,166.2
Operating profit	635.4	284.5	91.6	144.8	114.4
Income before income taxes	336.0	148.4	33.6	97.4	56.6
Income from continuing operations, net of tax	246.3	100.0	24.8	61.7	59.8
Income (loss) from discontinued operations, net of tax <sup>(1)</sup>	3,275.9	3,228.2	41.6	(52.9)	59.1
Net income attributable to Safeway Inc.	3,507.5	3,314.4	65.8	8.4	118.9
Basic earnings per common share:					
Continuing operations	\$ 0.96	\$ 0.35	\$ 0.10	\$ 0.25	\$ 0.25
Discontinued operations <sup>(1)</sup>	13.57	13.30	0.17	(0.22)	0.25
Total	14.53	13.65	0.27	0.03	0.50
Diluted earnings per common share:					
Continuing operations	\$ 0.95	\$ 0.35	\$ 0.10	\$ 0.25	\$ 0.25
Discontinued operations <sup>(1)</sup>	13.43	13.11	0.17	(0.22)	0.24
Total <sup>(1)</sup>	14.38	13.46	0.27	0.03	0.49

**SAFEWAY INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

	52 Weeks	Last 16 Weeks <sup>(3)</sup>	Third 12 Weeks	Second 12 Weeks	First 12 Weeks
<b>2012</b>					
Sales and other revenue	\$ 36,068.3	\$11,220.8	\$ 8,196.8	\$ 8,489.2	\$ 8,161.4
Gross profit	9,462.4	2,952.8	2,142.5	2,196.9	2,170.2
Operating profit	709.3	324.4	123.5	144.0	117.4
Income before income taxes	436.4	246.2	63.2	74.9	52.1
Income from continuing operations, net of tax	294.6	170.7	41.5	48.8	33.7
Income from discontinued operations, net of tax <sup>(1)</sup>	303.5	74.7	115.5	74.1	39.3
Net income attributable to Safeway Inc.	596.5	245.4	157.0	122.7	72.9
Basic earnings per common share:					
Continuing operations	\$ 1.18	\$ 0.71	\$ 0.17	\$ 0.20	\$ 0.12
Discontinued operations <sup>(1)</sup>	1.23	0.31	0.49	0.31	0.15
Total	2.41	1.02	0.66	0.51	0.27
Diluted earnings per common share:					
Continuing operations	\$ 1.18	\$ 0.71	\$ 0.17	\$ 0.20	\$ 0.12
Discontinued operations <sup>(1)</sup>	1.22	0.31	0.49	0.31	0.15
Total	2.40	1.02	0.66	0.51	0.27

<sup>(1)</sup> See Note B, Discontinued Operations.

<sup>(2)</sup> In the fourth quarter of 2013, the Company recorded a loss on foreign currency translation of \$57.4 million and an impairment of notes receivable of \$30.0 million. Also the fourth quarter of 2013 included a tax expense of \$19.8 million related to the Blackhawk IPO that should have been recorded in the second quarter of 2013.

<sup>(3)</sup> In the fourth quarter of 2012, Safeway results included a pre-tax gain from legal settlements of \$46.5 million.



## SAFEWAY INC. AND SUBSIDIARIES

### Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure

Not applicable.

#### Item 9A. Controls and Procedures

The Company maintains “disclosure controls and procedures,” as such term is defined under Exchange Act Rule 13a-15(e), that are designed to ensure that information required to be disclosed in the Company’s Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to the Company’s management, including its President and Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, the Company’s management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and in reaching a reasonable level of assurance, the Company’s management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. The Company’s disclosure controls and procedures have been designed to provide reasonable assurance of achieving their objectives. The Company also has investments in certain unconsolidated entities, including Casa Ley S.A. de C.V. As the Company does not control or manage these entities, its disclosure controls and procedures with respect to such entities are necessarily more limited than those it maintains with respect to its consolidated subsidiaries.

The Company has carried out an evaluation, under the supervision and with the participation of the Company’s management, including the Company’s Chief Executive Officer along with the Company’s Chief Financial Officer, of the effectiveness of the design and operation of the Company’s disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b). Based upon the foregoing, as of the end of the period covered by this Annual Report on Form 10-K, the Company’s Chief Executive Officer along with the Company’s Chief Financial Officer concluded that the Company’s disclosure controls and procedures were effective at the reasonable assurance level. There has been no change during the Company’s fiscal quarter ended December 28, 2013 in the Company’s internal control over financial reporting that was identified in connection with the evaluation required by Exchange Act Rule 13a-15(d) which has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

Management of Safeway Inc. has prepared an annual report on internal control over financial reporting. The Company’s independent registered public accounting firm has rendered an opinion on the Company’s internal control over financial reporting. Management’s report and the opinion of the independent registered public accounting firm is set forth in Part II, Item 8 of this report.

#### Item 9B. Other Information

None.

## SAFEWAY INC. AND SUBSIDIARIES

### PART III

#### Item 10. Directors, Executive Officers and Corporate Governance

**Directors of the Registrant** Information on the nominees for election as Directors of the Company is incorporated by reference from the Company's definitive proxy statement for the 2014 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A under the Exchange Act no later than 120 days after the end of the Company's 2013 fiscal year.

**Executive Officers of the Registrant** This information has been included in a separate item captioned "Executive Officers of the Registrant" in Part I of this report pursuant to Instruction G(3) of Form 10-K and Instruction 3 to Item 401(b) of Regulation S-K.

**Audit Committee Financial Expert** This information is incorporated by reference from the Company's definitive proxy statement for the 2014 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A under the Exchange Act no later than 120 days after the end of the Company's 2013 fiscal year.

**Audit Committee** This information is incorporated by reference from the Company's definitive proxy statement for the 2014 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A under the Exchange Act no later than 120 days after the end of the Company's 2013 fiscal year.

**Compliance with Section 16(a) of the Exchange Act** The information called for is incorporated by reference from the Company's definitive proxy statement for the 2014 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A under the Exchange Act no later than 120 days after the end of the Company's 2013 fiscal year.

**Code of Ethics** The Company has adopted a Code of Business Conduct and Ethics (the "Code of Ethics"), which is posted on the Company's Web site at [www.safeway.com/investor\\_relations](http://www.safeway.com/investor_relations). The Code of Ethics applies to the Company's principal executive officer, principal financial officer, principal accounting officer, controller and other persons who perform similar functions for the Company, in addition to the corporate directors and employees of the Company. Any amendment to, or waiver from, a provision of the Code of Ethics that (i) applies to our chief executive officer, chief financial officer, principal accounting officer, controller or any person performing functions similar to those performed by such officers, and (ii) relates to any element of the code of ethics definitions, as enumerated in Item 406(b) of SEC Regulation S-K, will be posted on our Web site at [www.safeway.com](http://www.safeway.com) within four business days following the date of the amendment or waiver.

#### Item 11. Executive Compensation

The information called for by Item 11 is incorporated by reference from the Company's definitive proxy statement for the 2014 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A under the Exchange Act no later than 120 days after the end of the Company's 2013 fiscal year.

#### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information called for by Item 12 is incorporated by reference from the Company's definitive proxy statement for the 2014 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A under the Exchange Act no later than 120 days after the end of the Company's 2013 fiscal year.

#### Item 13. Certain Relationships and Related Transactions, and Director Independence

The information called for by Item 13 is incorporated by reference from the Company's definitive proxy statement for the 2014 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A under the Exchange Act no later than 120 days after the end of the Company's 2013 fiscal year.

## SAFEWAY INC. AND SUBSIDIARIES

### **Item 14. Principal Accountant Fees and Services**

The information called for by Item 14 is incorporated by reference from the Company's definitive proxy statement for the 2014 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A under the Exchange Act no later than 120 days after the end of the Company's 2013 fiscal year.

## SAFEWAY INC. AND SUBSIDIARIES

### PART IV

#### Item 15. Exhibits and Financial Statement Schedules

**(a) The following documents are filed as a part of this report:**

1. Consolidated Financial Statements:  
See Index to Consolidated Financial Statements in Part II, Item 8 of this report.

2. Consolidated Financial Statement Schedules:  
None required.

3. The following exhibits are filed as part of this report:

Exhibit 2.1	Asset Purchase Agreement, dated June 12, 2013, among Safeway Inc., Canada Safeway Limited, Canada Safeway Liquor Stores ULC, Safeway New Canada, Inc., Sobeys Inc. and Empire Company Limited (incorporated by reference to Exhibit 2.1 to the registrant's Current Report on Form 8-K filed June 12, 2013).
Exhibit 3.1	Restated Certificate of Incorporation of Safeway Inc., as amended May 19, 2010, June 17, 2004, May 12, 1998 and May 14, 1996, and Certificate of Designations filed September 17, 2013 (incorporated by reference to Exhibit 3.1 to the registrant's Form 10-Q for the quarterly period ended September 7, 2013).
Exhibit 3.2	Amended and Restated By-Laws of Safeway Inc. (incorporated by reference to Exhibit 3.1 to the registrant's Current Report on Form 8-K filed October 21, 2013).
Exhibit 4(i).1	Specimen Common Stock Certificate (incorporated by reference to Exhibit 4(i).2 to Registration Statement No. 33-33388).
Exhibit 4(i).2	Indenture, dated as of September 10, 1997, between Safeway Inc. and The Bank of New York, as Trustee (incorporated by reference to Exhibit 4.1 to the registrant's Current Report on Form 8-K dated September 10, 1997).
Exhibit 4(i).3	Form of Officers' Certificate establishing the terms of the Company's 7.45% Senior Debentures due 2027, including the form of Notes (incorporated by reference to Exhibits 4.2 and 4.6 to the registrant's Current Report on Form 8-K dated September 10, 1997).
Exhibit 4(i).4	Form of Officers' Certificate establishing the terms of the registrant's 7.25% Debentures due 2031, including the form of Notes (incorporated by reference to Exhibits 4.2, 4.3, 4.4, 4.5 and 4.6 to the registrant's Current Report on Form 8-K dated January 31, 2001).
Exhibit 4(i).5	Forms of Officers' Certificates establishing the terms of the registrant's 3.40% Notes due 2016 and 4.75% Notes due 2021, including the forms of Notes (incorporated by reference to Exhibits 4.2, 4.3, 4.4 and 4.5 to the registrant's Current Report on Form 8-K dated December 5, 2011).
Exhibit 4(i).6	Form of Officers' Certificate establishing the terms of the registrant's 5.625% Notes due 2014, including the form of Notes (incorporated by reference to Exhibits 4.2, and 4.4 to the registrant's Current Report on Form 8-K dated August 12, 2004).
Exhibit 4(i).7	Form of Officers' Certificate establishing the terms of the registrant's 6.35% Notes due 2017, including the form of Notes (incorporated by reference to Exhibits 4.2 and 4.3 to the registrant's Current Report on Form 8-K dated August 17, 2007).
Exhibit 4(i).8	Rights Agreement, dated as of September 17, 2013, between Safeway Inc. and Computershare Trust Company, N.A., which includes the Form of Certificate of Designations of Series A Junior Participating Preferred Stock as Exhibit A, the Form of Right Certificate as Exhibit B and the Summary of Rights to Purchase Preferred Shares as Exhibit C (incorporated by reference to Exhibit 4.1 to the registrant's Current Report on Form 8-K filed September 18, 2013).

## SAFEWAY INC. AND SUBSIDIARIES

Exhibit 4(i).9	Form of Officers' Certificate establishing the terms of the registrant's 5.00% Notes due 2019, including the form of Notes (incorporated by reference to Exhibits 4.2 and 4.3 to the registrant's Current Report on Form 8-K dated August 7, 2009).
Exhibit 4(i).10	Form of Officers' Certificate establishing the terms of the registrant's 3.95% Notes due 2020, including the form of Notes (incorporated by reference to Exhibits 4.2 and 4.3 to the registrant's Current Report on Form 8-K dated August 3, 2010).
Exhibit 4(iii)	Registrant agrees to provide the Securities and Exchange Commission, upon request, copies of instruments defining the rights of holders of long-term debt of the registrant and all of its subsidiaries for which consolidated financial statements are required to be filed with the Securities and Exchange Commission.
Exhibit 10(iii).1*	1999 Amended and Restated Equity Participation Plan of Safeway Inc. (incorporated by reference to Exhibit 10(iii).1 to the registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 19, 1999), and Amendment to the 1999 Amended and Restated Equity Participation Plan (incorporated by reference to Exhibit 4.3 to the registrant's Registration Statement on Form S-8 (333-112976)).
Exhibit 10(iii).3*	The 2001 Amended and Restated Operating Performance Bonus Plan for Executive Officers of Safeway Inc. (incorporated by reference to Exhibit 10(ii).10 to the registrant's Form 10-K for the year ended December 30, 2000).
Exhibit 10(iii).4*	Amendment 2002-1 to the 2001 Amended and Restated Operating Performance Bonus Plan for Executive Officers of Safeway Inc., dated March 26, 2002 (incorporated by reference to Exhibit 10(iii).4 to the registrant's Form 10-K for the year ended January 3, 2009).
Exhibit 10(iii).5*	Amendment to the 2001 Amended and Restated Operating Performance Bonus Plan for Executive Officers of Safeway Inc. (incorporated by reference to Exhibit 10(iii).1 to the registrant's Form 10-Q for the quarterly period ended March 28, 2009).
Exhibit 10(iii).6*	Retirement Restoration Plan of Safeway Inc. (incorporated by reference to Exhibit 10(iii).11 to the registrant's Form 10-K for the year ended January 1, 1994).
Exhibit 10(iii).7*	Form of stock option agreement for former directors of The Vons Companies, Inc. (incorporated by reference to Exhibit 10(iii).12 of the registrant's Form 10-K for the year ended December 28, 1996).
Exhibit 10(iii).8*	Safeway Executive Deferred Compensation Plan and Deferral Election Form (incorporated by reference to Exhibit 10(iii).18 to the registrant's Form 10-K for the year ended January 1, 2000).
Exhibit 10(iii).9*	Canada Safeway Limited Executive Deferred Compensation Plan and Deferral Election Form (incorporated by reference to Exhibit 10(iii).19 to the registrant's Form 10-K for the year ended January 1, 2000).
Exhibit 10(iii).10*	Amendment dated February 26, 2004 to the Amended and Restated 1999 Equity Participation Plan of Safeway Inc. (incorporated by reference to Exhibit 10(iii).27 to the registrant's Form 10-Q for the quarterly period ended June 19, 2004).
Exhibit 10(iii).11*	Amendment dated May 2, 2004 to the Amended and Restated 1999 Equity Participation Plan of Safeway Inc. (incorporated by reference to Exhibit 10(iii).28 to the registrant's Form 10-Q for the quarterly period ended June 19, 2004).
Exhibit 10(iii).12*	Amendment dated June 2, 2004 to the Amended and Restated 1999 Equity Participation Plan of Safeway Inc. (incorporated by reference to Exhibit 10(iii).29 to the registrant's Form 10-Q for the quarterly period ended June 19, 2004).
Exhibit 10(iii).13*	Form of Non-Qualified Stock Option Agreement for U.S. Employees for the Amended and Restated 1999 Equity Participation Plan (incorporated by reference to Exhibit 10(iii).30 to the registrant's Form 10-Q for the quarterly period ended June 19, 2004).

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\* Management contract, or compensatory plan or arrangement.

## SAFeway INC. AND SUBSIDIARIES

Exhibit 10(iii).14*	Form of Stock Rights Agreement for the Amended and Restated 1999 Equity Participation Plan of Safeway Inc. and the 2001 Amended and Restated Share Appreciation Rights Plan of Canada Safeway Limited (incorporated by reference to Exhibit 10(iii).34 to the registrant's Form 10-Q for the quarterly period ended June 19, 2004).
Exhibit 10(iii).15*	Amended and Restated Supplemental Retirement Benefit Agreement between Safeway Inc. and Steven A. Burd dated December 15, 2008 (incorporated by reference to Exhibit 10(iii).15 to the registrant's Form 10-K for the year ended January 3, 2009).
Exhibit 10(iii).16*	Amendment dated March 10, 2005 to the Amended and Restated 1999 Equity Participation Plan of Safeway Inc. (incorporated by reference to Exhibit 10.2 to the registrant's Current Report on Form 8-K dated March 10, 2005).
Exhibit 10(iii).17	Credit Agreement dated as of June 1, 2011, by and among Safeway Inc. and Canada Safeway Limited, as borrowers, Merrill Lynch, Pierce, Fenner & Smith Incorporated and JP Morgan Securities, Inc., as joint lead arrangers and joint bookrunners, Deutsche Bank AG New York Branch, as domestic administrative agent, Deutsche Bank AG Canada Branch as Canadian administrative agent, Deutsche Bank Securities Inc., BNP Paribas Securities Corp., U.S. Bank National Association and Wells Fargo Securities, LLC, as joint lead arrangers, Bank of America, N.A. and JPMorgan Chase Bank, N.A. as syndication agents, BNP Paribas, U.S. Bank National Association and Wells Fargo Bank, National Association, as documentation agents, and the lenders that are party to the Credit Agreement (incorporated by reference to Exhibit 10(iii).40 to the registrant's Current Report on Form 8-K dated June 1, 2011).
Exhibit 10(iii).18*	Blackhawk Marketing Services, Inc. 2006 Restricted Stock Plan for Eligible Employees of Safeway Inc. (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on February 28, 2006).
Exhibit 10(iii).19*	Form of Restricted Stock Award Grant Notice and Restricted Stock Agreement under the Blackhawk Marketing Services, Inc. 2006 Restricted Stock Plan for Eligible Employees of Safeway Inc. (incorporated by reference to Exhibit 10.2 to the registrant's Current Report on Form 8-K filed on February 28, 2006).
Exhibit 10(iii).20*	Amendment dated February 25, 2003 to the 1999 Amended and Restated Equity Participation Plan of Safeway Inc. (incorporated by reference to Exhibit B to the registrant's Definitive Proxy Statement on Schedule 14A filed on April 4, 2003).
Exhibit 10(iii).21	Term Credit Agreement dated as of December 19, 2011, by and among Safeway Inc., as borrower, Merrill Lynch, Pierce, Fenner & Smith Incorporated and J.P. Morgan Securities LLC, as joint lead arrangers and joint bookrunners, Bank of America, N.A., as administrative agent, JPMorgan Chase Bank, N.A., as syndication agent, Goldman Sachs Bank USA, as documentation agent, and the lenders that are party to the Term Credit Agreement (incorporated by reference to Exhibit 10(iii).1 to the registrant's Current Report on Form 8-K dated December 19, 2011).
Exhibit 10(iii).22*	Deferred Compensation Plan for Safeway Directors (incorporated by reference to Exhibit 10(iii).11 of the registrant's Form 10-K for the year ended December 31, 1994).
Exhibit 10(iii).23*	Deferred Compensation Plan for Safeway Non-Employee Directors, Amended and Restated June 2, 2004 (incorporated by reference to Exhibit 10(iii).32 to the registrant's Form 10-Q for the quarterly period ended June 19, 2004).
Exhibit 10(iii).24*	Updated Form of Performance Share Award Grant Notice and Performance Share Award Agreement under the Safeway Inc. 2011 Equity and Incentive Award Plan (incorporated by reference to Exhibit 10(iii).1 to the registrant's Current Report on Form 8-K dated March 12, 2012).
Exhibit 10(iii).25*	Safeway Inc. 2007 Equity and Incentive Award Plan (incorporated by reference to Exhibit 10(iii).28 to the registrant's Current Report on Form 8-K dated May 16, 2007).

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\* Management contract, or compensatory plan or arrangement.

## SAFeway INC. AND SUBSIDIARIES

Exhibit 10(iii).26*	Updated Form of Stock Option Grant Notice and Stock Option Agreement under the Safeway Inc. 2007 Equity and Incentive Award Plan (incorporated by reference to Exhibit 10(iii).29 to the registrant's Form 10-Q for the quarterly period ended June 16, 2007).
Exhibit 10(iii).27*	Form of Stock Option Grant Notice (Automatic) and Stock Option Agreement (Automatic) under the Safeway Inc. 2007 Equity and Incentive Award Plan (incorporated by reference to Exhibit 10(iii).30 to the registrant's Current Report on Form 8-K dated May 16, 2007).
Exhibit 10(iii).28*	Form of Restricted Stock Award Grant Notice and Restricted Stock Award Agreement under the Safeway Inc. 2007 Equity and Incentive Award Plan (incorporated by reference to Exhibit 10(iii).31 to the registrant's Current Report on Form 8-K dated May 16, 2007).
Exhibit 10(iii).29*	Amended and Restated Capital Performance Bonus Plan for Executive Officers and Key Employees of Safeway Inc (incorporated by reference to Exhibit 10(iii).32 to the registrant's Current Report on Form 8-K dated May 16, 2007).
Exhibit 10(iii).30*	Form of Stock Option Grant Notice—Canadian Participants and Stock Option Agreement—Canadian Participants under the Safeway Inc. 2007 Equity and Incentive Award Plan (incorporated by reference to Exhibit 10(iii).33 to the registrant's Form 10-Q for the quarterly period ended June 16, 2007).
Exhibit 10(iii).31*	Retirement Restoration Plan II of Safeway Inc., adopted effective as of January 1, 2005; amended October 23, 2007 (incorporated by reference to Exhibit 10(iii).31 to the registrant's Form 10-K for the year ended December 29, 2007).
Exhibit 10(iii).32*	Deferred Compensation Plan for Safeway Non-Employee Directors II, adopted October 20, 2010, amended and restated effective January 1, 2011 (incorporated by reference to the registrant's Form 10-K for the year ended January 1, 2011).
Exhibit 10(iii).33*	Updated Form of Stock Option Grant Notice and Stock Option Agreement under the Safeway Inc. 2007 Equity and Incentive Award Plan (incorporated by reference to Exhibit 10(iii).34 to the registrant's Current Report on Form 8-K dated February 18, 2009).
Exhibit 10(iii).34*	Updated Form of Stock Option Grant Notice—Canadian Participants and Stock Option Agreement—Canadian Participants under the Safeway Inc. 2007 Equity and Incentive Award Plan (incorporated by reference to Exhibit 10(iii).35 to the registrant's Current Report on Form 8-K dated February 18, 2009).
Exhibit 10(iii).35*	Amendment to the Safeway Inc. 2007 Equity and Incentive Award Plan (incorporated by reference to Exhibit 10(iii).35 to the registrant's Form 10-K for the year ended January 2, 2010).
Exhibit 10(iii).36*	Safeway Inc. 2011 Equity and Incentive Award Plan (incorporated by reference to Exhibit 10(iii).36 to the registrant's Current Report on Form 8-K dated May 19, 2011).
Exhibit 10(iii).37*	Form of Stock Option Grant Notice and Stock Option Agreement - Non Canadian Participants under the Safeway Inc. 2011 Equity and Incentive Award Plan (incorporated by reference to Exhibit 10(iii).37 to the registrant's Current Report on Form 8-K dated May 19, 2011).
Exhibit 10(iii).38*	Form of Stock Option Grant Notice and Stock Option Agreement - Canadian Participants under the Safeway Inc. 2011 Equity and Incentive Award Plan (incorporated by reference to Exhibit 10(iii).38 to the registrant's Current Report on Form 8-K dated May 19, 2011).
Exhibit 10(iii).39*	Form of Restricted Stock Award Grant Notice and Restricted Stock Award Agreement under the Safeway Inc. 2011 Equity and Incentive Award Plan (incorporated by reference to Exhibit 10(iii).39 to the registrant's Current Report on Form 8-K dated May 19, 2011).

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\* Management contract, or compensatory plan or arrangement.

## SAFEWAY INC. AND SUBSIDIARIES

Exhibit 10(iii).40*	Updated Form of Performance Share Award Grant Notice and Performance Share Award Agreement under the Safeway Inc. 2007 Equity and Incentive Award Plan (incorporated by reference to Exhibit 10(iii).2 to the registrant's Current Report on Form 8-K dated March 12, 2012).
Exhibit 10(iii).41*	Offer Letter, dated January 23, 2013, by and between Safeway Inc. and Peter J. Bocian (incorporated by reference to Exhibit 99.1 to the registrant's Current Report on Form 8-K dated February 4, 2013).
Exhibit 10(iii).42*	Form of Indemnification Agreement for Directors and Executive Officers (incorporated by reference to Exhibit 10(iii).1 to the registrant's Current Report on Form 8-K dated May 17, 2012).
Exhibit 10(iii).43*	Amendment Number 2013-1 to the Amended and Restated (Effective as of January 1, 2011) Deferred Compensation Plan for Safeway Non-Employee Directors II.
Exhibit 10(iii).44*	Safeway Executive Deferred Compensation Plan II, adopted effective January 1, 2005; amended October 23, 2007 (incorporated by reference to Exhibit 10(iii).30 to the registrant's Form 10-K for the year ended December 29, 2007).
Exhibit 10(iii).45*	Form of Restricted Stock Unit Award Grant Notice and Restricted Stock Unit Award Agreement under the Safeway Inc. 2007 Equity and Incentive Award Plan.
Exhibit 10(iii).46*	Form of Restricted Stock Unit Award Grand Notice and Restricted Stock Unit Award Agreement under the Safeway Inc. 2011 Equity and Incentive Award Plan.
Exhibit 10(iii).47*	Updated Form of Performance Share Award Grant Notice and Performance Share Award Agreement under the Safeway Inc. 2007 Equity and Incentive Award Plan.
Exhibit 10(iii).48*	Updated Form of Performance Share Award Grant Notice and Performance Share Award Agreement under the Safeway Inc. 2011 Equity and Incentive Award Plan.
Exhibit 10(iii).49*	Updated Form of Stock Option Grant Notice and Stock Option Agreement under the Safeway Inc. 2007 Equity and Incentive Award Plan.
Exhibit 10(iii).50*	Updated Form of Stock Option Grant Notice and Stock Option Agreement under the Safeway Inc. 2011 Equity and Incentive Award Plan.
Exhibit 10(iii).51*	Safeway Inc. Executive Severance Plan (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K dated February 19, 2014).
Exhibit 11.1	Computation of Earnings per Share (set forth in Part II, Item 8 of this report).
Exhibit 12.1	Computation of Ratio of Earnings to Fixed Charges.
Exhibit 14	Safeway Inc. Code of Business Conduct and Ethics (incorporated by reference to Exhibit 14 to the registrant's Current Report on Form 8-K dated March 10, 2005).
Exhibit 21.1	Schedule of Subsidiaries.
Exhibit 23.1	Consent of Independent Registered Public Accounting Firm.
Exhibit 31.1	Rule 13(a)-14(a)/15d-14(a) Certification.
Exhibit 31.2	Rule 13(a)-14(a)/15d-14(a) Certification.
Exhibit 32	Section 1350 Certifications.
Exhibit 101	The following materials from the Safeway Inc. Annual Report on Form 10-K for the fiscal year ended December 28, 2013 formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Statements of Income, (ii) the Consolidated Statements of Comprehensive Income, (iii) the Consolidated Balance Sheets, (iv) the Consolidated Statements of Cash Flows, (v) the Consolidated Statements of Stockholders' Equity and (vi) related notes.

\* Management contract, or compensatory plan or arrangement.



## SAFEWAY INC. AND SUBSIDIARIES

### Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SAFEWAY INC.

By	<u>/s/ Robert L. Edwards</u>	Date: <u>February 25, 2014</u>
	Robert L. Edwards	
	President and Chief Executive Officer	
	(Principal Executive Officer)	

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>/s/ Peter J. Bocian</u>	Date: <u>February 25, 2014</u>
Peter J. Bocian	
Executive Vice President and Chief Financial Officer (Principal Financial Officer)	

<u>/s/ David F. Bond</u>	Date: <u>February 25, 2014</u>
David F. Bond	
Senior Vice President, Finance and Control	
(Chief Accounting Officer)	

<u>/s/ Robert L. Edwards</u>	Date: <u>February 25, 2014</u>
Robert L. Edwards	
President, Chief Executive Officer and Director	
(Principal Executive Officer)	

<u>/s/ T. Gary Rogers</u>	Date: <u>February 25, 2014</u>
T. Gary Rogers, Non-Executive Chairman and Director	

<u>/s/ Janet E. Grove</u>	Date: <u>February 25, 2014</u>
Janet E. Grove, Director	

<u>/s/ Mohan Gyani</u>	Date: <u>February 25, 2014</u>
Mohan Gyani, Director	

<u>/s/ Frank C. Herringer</u>	Date: <u>February 25, 2014</u>
Frank C. Herringer, Director	

<u>/s/ George J. Morrow</u>	Date: <u>February 25, 2014</u>
George J. Morrow, Director	

<u>/s/ Kenneth W. Oder</u>	Date: <u>February 25, 2014</u>
Kenneth W. Oder, Director	

**SAFEWAY INC. AND SUBSIDIARIES**

**Signatures**

/s/ Arun Sarin

Arun Sarin, Director

Date: February 25, 2014

/s/ William Y. Tauscher

William Y. Tauscher, Director

Date: February 25, 2014

## Exhibit Index

### LIST OF EXHIBITS FILED WITH FORM 10-K FOR THE YEAR ENDED DECEMBER 28, 2013

Exhibit 10(iii).45*	Form of Restricted Stock Unit Award Grant Notice and Restricted Stock Unit Award Agreement under the Safeway Inc. 2007 Equity and Incentive Award Plan.
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\* Management contract, or compensatory plan or arrangement.

**SAFEWAY INC.**  
**2007 EQUITY AND INCENTIVE AWARD PLAN**

**RESTRICTED STOCK UNIT AWARD GRANT NOTICE AND  
RESTRICTED STOCK UNIT AWARD AGREEMENT**

Safeway Inc., a Delaware corporation, (the “**Company**”), pursuant to its 2007 Equity and Incentive Award Plan, as amended from time to time (the “**Plan**”), hereby grants to the individual listed below (“**Holder**”), an award of restricted stock units (the “**RSUs**”). This award of RSUs is subject to all of the terms and conditions as set forth herein and in the Restricted Stock Unit Award Agreement attached hereto as Exhibit A (the “**Restricted Stock Unit Agreement**”) and the Plan, each of which are incorporated herein by reference. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Grant Notice and the Restricted Stock Unit Agreement.

**Holder:** [ \_\_\_\_\_ ]  
**Grant Date:** [ \_\_\_\_\_ ]  
**Total Number of Restricted Stock Units:** [ \_\_\_\_\_ ]  
**Vesting Commencement Date:** [ \_\_\_\_\_ ]  
**Vesting Schedule:** [To be specified in individual Grant Notices.]

By his or her signature and the Company’s signature below, Holder agrees to be bound by the terms and conditions of the Plan, the Restricted Stock Unit Agreement and this Grant Notice. Holder has reviewed the Restricted Stock Unit Agreement, the Plan and this Grant Notice in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Grant Notice and fully understands all provisions of this Grant Notice, the Restricted Stock Unit Agreement and the Plan. Holder hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions arising under the Plan, this Grant Notice or the Restricted Stock Unit Agreement. If Holder is married, his or her spouse has signed the Consent of Spouse attached hereto as Exhibit B.

**SAFEWAY INC.:**

By: \_\_\_\_\_  
Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Address: \_\_\_\_\_  
\_\_\_\_\_

**HOLDER:**

By: \_\_\_\_\_  
Print Name: \_\_\_\_\_  
Address: \_\_\_\_\_  
\_\_\_\_\_

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## EXHIBIT A

### TO RESTRICTED STOCK UNIT AWARD GRANT NOTICE

#### RESTRICTED STOCK UNIT AWARD AGREEMENT

Pursuant to the Restricted Stock Unit Award Grant Notice (the “**Grant Notice**”) to which this Restricted Stock Award Unit Agreement (this “**Agreement**”) is attached, Safeway Inc., a Delaware corporation (the “**Company**”), has granted to Holder the number of RSUs specified in the Grant Notice upon the terms and conditions set forth in the Safeway Inc. 2007 Equity and Incentive Award Plan, as such plan may be amended from time to time (the “**Plan**”), the Grant Notice and this Agreement.

## ARTICLE I

### GENERAL

1.1 Defined Terms. Capitalized terms not specifically defined herein shall have the meanings specified in the Grant Notice or, if not defined therein, the Plan.

1.2 Incorporation of Terms of Plan. The RSUs and the shares of Common Stock (“**Shares**”) issued to Holder are subject to the terms and conditions of the Plan which are incorporated herein by reference.

## ARTICLE II

### GRANT OF RESTRICTED STOCK UNITS

#### 2.1 Grant of RSUs and Dividend Equivalents.

(a) In consideration of Holder’s agreement to remain in the service or employ of the Company or a Subsidiary and for other good and valuable consideration, effective as of the “Grant Date” set forth in the Grant Notice (the “**Grant Date**”), the Company hereby grants to Holder an award of RSUs, upon the terms and conditions set forth in the Plan, the Grant Notice and this Agreement. Unless and until the RSUs have fully vested in the manner set forth in the Grant Notice, Holder will have no right to receive any Common Stock or other payment in respect of the RSUs.

(b) The Company hereby grants to Holder an award of Dividend Equivalents with respect to each RSU granted pursuant to the Grant Notice for all ordinary cash dividends which are paid to all or substantially all holders of the outstanding Shares between the Grant Date and the date when the applicable RSU is distributed or paid to Holder or is forfeited or expires. The Dividend Equivalents for each RSU shall be equal to the amount of cash which is paid as a dividend on one Share. The Dividend Equivalents shall be paid in cash or shares of Common Stock at the Company’s election, as and when the cash dividends in respect of which such Dividend Equivalent payments arise are paid to holders of Common Stock, without regard to the vested status of the underlying RSUs. Each Dividend Equivalent shall terminate as of the date the share of Common Stock subject to the RSU to which such Dividend Equivalent relates is distributed.

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2.2 Distribution or Payment of RSUs. Each RSU that vests on an applicable vesting date pursuant to Article III hereof shall represent the right to receive payment of one Share.

(a) Holder's RSUs shall be distributed in Shares (either in book-entry form or otherwise) as soon as administratively practicable following the vesting of the applicable RSU pursuant to Article III hereof, and, in any event, within thirty (30) days following such vesting, except as set forth in Section 2.2(c) below.

(b) All distributions made in Shares shall be made by the Company in the form of whole Shares, and any fractional share shall be distributed in cash in an amount equal to the value of such fractional share determined based on the Fair Market Value as of the date immediately preceding the date of such distribution.

(c) In the event of Holder's attainment of Retirement Eligibility or Termination of Employment or Termination of Directorship, as applicable, by reason of Holder's "permanent and total disability" (within the meaning of Section 22(e)(3) of the Code), shares of Stock underlying RSUs that are accelerated pursuant to Section 3.4 or Section 3.3, as applicable, and are issued under this Agreement on or following such date of acceleration shall be paid to the Participant in such amounts and at such times as the vesting schedule that applied to such RSUs immediately prior to such date of acceleration, with each issuance to occur no later than thirty (30) days following each vesting date; provided, that, in the event of the circumstances specifically contemplated by Section 3.5(a) or (b), all such shares shall be issued within thirty (30) days of such event. For purposes of this Section 2.2(c) and Section 3.4, "**Retirement Eligibility**" shall mean such date as when Holder has (i) attained at least 58 years of age, and (ii) completed at least seven consecutive years of service with the Company.

(d) Notwithstanding anything herein to the contrary, no distribution hereunder shall be made to Holder during the six (6)-month period following Holder's "separation from service" within the meaning of Code Section 409A to the extent that the Company determines that paying such amounts at the time set forth in this Section 2.2 would be a prohibited distribution under Code Section 409A(a)(2)(B)(i). If the payment of any such amounts is delayed as a result of the previous sentence, then on the first business day following the end of such six (6)-month period (or such earlier date upon which such amount can be paid under Code Section 409A without resulting in a prohibited distribution, including as a result of Holder's death), the Company shall pay Holder the cumulative amounts that would have otherwise been payable to Holder during such period.

(e) The time of distribution of the RSUs under this Agreement may not be changed except as may be permitted by the Administrator in accordance with the Plan and Code Section 409A and the applicable Treasury Regulations promulgated thereunder.

2.3 Conditions to Issuance of Shares. The Shares, or any portion thereof, may be either previously authorized but unissued shares or issued shares which have then been reacquired by the Company. Such Shares shall be fully paid and nonassessable. The Company shall not be required to issue or deliver any Shares prior to fulfillment of all of the following conditions:

(a) The admission of such Shares to listing on all stock exchanges on which the Stock is then listed;

(b) The completion of any registration or other qualification of such Shares under any federal, state or foreign law or under regulations or rules promulgated by the Securities and Exchange

Commission or any other governmental regulatory body, which the Administrator shall, in its discretion, deem necessary or advisable;

(c) The obtaining of any approval or other clearance from any federal, state or foreign governmental agency which the Administrator shall, in its discretion, determine to be necessary or advisable;

(d) The receipt by the Company of full payment for all amounts which, under federal, state, local or foreign tax law, the Company (or other employer corporation) is required to withhold upon issuance of such Shares; and

(e) The lapse of such reasonable period of time following the satisfaction of all other conditions to issuance as the Administrator may from time to time establish for reasons of administrative convenience.

In the event that the Company delays a distribution or payment in settlement of RSUs because it determines that the issuance of shares of Stock in settlement of such RSUs will violate federal securities laws or other applicable law, such distribution or payment shall be made at the earliest date at which the Company reasonably determines that the making of such distribution or payment will not cause such violation, as required by Treasury Regulation Section 1.409A-2(b)(7)(ii). No payment shall be delayed under this Section 2.3 if such delay will result in a violation of Code Section 409A.

2.4 Rights as Stockholder. Holder shall not have any of the rights and privileges of a stockholder of the Company with respect to any Shares deliverable hereunder unless and until certificates representing such Shares (which may be in book-entry form) will have been issued and recorded on the records of the Company or its transfer agents or registrars, and delivered to Holder (including through electronic delivery to a brokerage account). Except as otherwise provided herein, after such issuance, recordation and delivery, Participant will have all the rights of a stockholder of the Company with respect to such Shares, including, without limitation, the right to receipt of dividends and distributions on such Shares.

### ARTICLE III

#### VESTING OF RSUS

3.1 Vesting of RSUs. The RSUs shall vest in such amounts and at such times as are set forth in the Grant Notice except as otherwise provided in this Article III.

3.2 Termination. Subject to Sections 3.3, 3.4 and 3.5 hereof, upon Holder's Termination of Employment or Termination of Directorship, as applicable, Holder shall immediately forfeit any and all RSUs and Dividend Equivalents granted under this Agreement which have not vested or do not vest on or prior to the date on which such termination occurs, and Holder's rights in any such RSUs and Dividend Equivalents which are not so vested shall lapse and expire.

3.3 Acceleration upon Death and Permanent and Total Disability. Notwithstanding Section 3.2, in the event of Holder's Termination of Employment or Termination of Directorship, as applicable, by reason of Holder's death or "permanent and total disability" (within the meaning of Section 22(e)(3) of the Code), the Restricted Stock Unit Award will become fully vested with respect to all the Shares covered thereby upon the date of such termination; provided, that in the event of Holder's "permanent and total disability" (within the meaning of Section 22(e)(3) of the Code) the vested RSUs are subject to delayed payment dates consistent

with the vesting schedule that applied to such RSUs immediately prior to such termination in accordance with the provisions of Section 2.2 of the Agreement.

3.4 Acceleration upon Retirement Eligibility. The Restricted Stock Unit Award will become fully vested with respect to all the Shares covered thereby upon the later of the date Holder has attained Retirement Eligibility or the date that is twelve (12) months following the Grant Date, provided Holder has not had a termination of service prior to such date, and provided further, that such vested RSUs are subject to delayed payment dates consistent with the vesting schedule that applied to such RSUs immediately prior to such termination in accordance with the provisions of Section 2.2 of the Agreement.

3.5 Acceleration upon Change in Control. Notwithstanding any contrary provision of this Agreement and pursuant to Section 11.3 of the Plan, if a Change in Control occurs and Holder has remained in the service of the Company continuously until at least immediately prior to the Change in Control, the Restricted Stock Unit Award shall vest as follows:

(a) If the Administrator reasonably determines in good faith, prior to the occurrence of the Change in Control, that the Restricted Stock Unit Award will not be honored or assumed, or new rights that substantially preserve the terms of the Restricted Stock Unit Award substituted therefor, by Holder's employer (or the parent of such employer) immediately following the Change in Control, the Restricted Stock Unit Award shall become fully vested with respect to all Shares covered thereby immediately prior to the Change in Control.

(b) If the Administrator determines that the Restricted Stock Unit Award has been assumed and, prior to vesting of the RSUs remaining subject to the Restricted Stock Unit Award, Holder experiences a termination of service, other than for Cause, or Holder experiences a termination of service with Good Reason, within the one year period immediately following the Change in Control, the Restricted Stock Unit Award shall become fully vested with respect to all Shares covered thereby immediately upon such termination of service.

(c) "**Cause**" shall have the meaning ascribed to such term in any written employment agreement between or among the Company and/or any of its subsidiaries and Holder and, if no such written employment agreement shall be in force or effect, shall mean (a) conviction of, or the entry of a plea of guilty or no contest to, a felony or any other crime that causes the Company public disgrace or disrepute, or adversely affects the Company's operations, financial performance, or relationship with its customers; (b) misappropriation of funds or other property of the Company or its affiliates; (c) refusal to perform the lawful and reasonable directives of Holder's supervisor, the Company's Chief Executive Officer or the Board; (d) failure by Holder to perform the duties of his or her employment with the Company or any of its subsidiaries which continues for a period of fourteen (14) days (other than by reason of illness or injury); or (e) material breach of any agreement with or duty owed to the Company or any of its affiliates. However, none of the foregoing events or conditions will constitute Cause unless the Company provides Holder with written notice of the event or condition and thirty (30) days to cure such event or condition (if curable) and the event or condition is not cured within such 30-day period.

(d) "**Good Reason**" shall have the meaning ascribed to such term in any written employment agreement between or among the Company and/or any of its subsidiaries and Holder and, if no such written employment agreement shall be in force or effect, shall mean the occurrence of any of the following, without Holder's prior consent: (a) a material, adverse change in Holder's responsibilities, authority or duties (including as a result of the assignment of duties materially inconsistent with Holder's position); (b) a material reduction in Holder's base salary; (c) a material transfer of Holder's principal place



of employment to a location more than fifty (50) miles away from Holder's principal place of employment immediately prior to the Change in Control; or (d) the Company's material breach of this Agreement. However, none of the foregoing events or conditions will constitute Good Reason unless: (x) Holder provides the Company with written objection to the event or condition within ninety (90) days following the occurrence thereof; (y) the Company does not reverse or otherwise cure the event or condition within thirty (30) days of receiving that written objection; and (z) Holder resigns his or her employment within thirty (30) days following the expiration of that cure period.

## ARTICLE IV

### OTHER PROVISIONS

4.1 Administration. The Administrator shall have the power to (a) interpret the Plan and this Agreement, (b) adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret, amend or revoke any such rules and (c) amend this Agreement, subject to Section 4.8. All actions taken and all interpretations and determinations made by the Administrator in good faith shall be binding, conclusive and final upon Holder, the Company and all other interested persons. No member of the Administrator shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan, this Agreement or the Shares. In its discretion, the Board may at any time and from time to time exercise any and all rights and duties of the Administrator under the Plan, except with respect to matters which under Rule 16b-3 or Section 162(m) of the Code, or any regulations or rules issued thereunder, are required to be determined in the discretion of the Administrator.

4.2 Restrictions on Transfer. Unless otherwise permitted by the Administrator pursuant to the Plan, no RSUs or any interest or right therein or part thereof, shall be liable for the debts, contracts or engagements of Holder or Holder's successors in interest or shall be subject to sale or other disposition by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means whether such sale or other disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy), and any attempted sale or other disposition thereof shall be null and void and of no effect.

4.3 Adjustments. The Administrator may adjust the RSUs and the Shares subject to the RSUs in accordance with the provisions of Section 11.3 of the Plan.

4.4 Notices. Any notice to be given under the terms of this Agreement to the Company shall be addressed to the Company in care of the Secretary of the Company, and any notice to be given to Holder shall be addressed to Holder at the address for Holder appearing on the Grant Notice or at the last known address for Holder contained in the Company's records. By a notice given pursuant to this Section 4.4, either party may hereafter designate a different address for notices to be given to that party. Any notice shall be deemed duly given when sent via email or enclosed in a properly sealed envelope or wrapper addressed as aforesaid, deposited (with postage prepaid) in a post office or branch post office regularly maintained by the United States Postal Service.

4.5 Titles. Titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

4.6 Governing Law; Severability. This Agreement shall be administered, interpreted and enforced under the laws of the State of Delaware, without regard to the conflicts of laws principles thereof.

Should any provision of this Agreement be determined by a court of law to be illegal or unenforceable, the other provisions shall nevertheless remain effective and shall remain enforceable.

4.7 Conformity to Securities Laws. Holder acknowledges that the Plan is intended to conform to the extent necessary with all applicable federal, state and foreign securities laws (including the Securities Act and the Exchange Act) and any and all regulations and rules promulgated thereunder by the Securities and Exchange Commission or any other governmental regulatory body. Notwithstanding anything herein to the contrary, the Plan shall be administered, and the Shares are to be issued, only in such a manner as to conform to such laws, rules and regulations. To the extent permitted by applicable law, the Plan and this Agreement shall be deemed amended to the extent necessary to conform to such laws, rules and regulations.

4.8 Amendments. This Agreement may not be modified, amended or terminated, except by an instrument in writing, signed by a duly authorized representative of the Company and, to the extent any such modification, amendment or termination may adversely affect Holder's rights under this Agreement, by Holder, except as otherwise provided under the terms of the Plan.

4.9 Successors and Assigns. The Company may assign any of its rights under this Agreement to single or multiple assignees, and this Agreement shall inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer herein set forth, this Agreement shall be binding upon Holder and Holder's heirs, executors, administrators, successors and assigns.

4.10 No Employment Rights. Nothing in the Plan or this Agreement shall confer upon Holder any right to continue in the employ or service of the Company or any Subsidiary or shall interfere with or restrict in any way the rights of the Company and its Subsidiaries, which rights are hereby expressly reserved, to discharge or terminate the services of Holder at any time for any reason whatsoever, with or without cause, except to the extent expressly provided otherwise in a written agreement between the Company or a Subsidiary and Holder.

4.11 Taxes. Holder has reviewed with Holder's own tax advisors the federal, state, local and foreign tax consequences of this investment and the transactions contemplated by the Grant Notice and this Agreement. Holder is relying solely on such advisors and not on any statements or representations of the Company or any of its agents. Holder understands that Holder (and not the Company) shall be responsible for Holder's own tax liability that may arise as a result of this investment or the transactions contemplated by this Agreement.

4.12 Tax Withholding. The Company shall have the authority and the right to deduct, withhold or require Holder to remit to the Company an amount sufficient to satisfy federal, state, local and foreign taxes (including without limitation any income and employment tax obligations) required by law to be withheld with respect to any taxable event arising in connection with the RSUs and/or the Dividend Equivalent rights. To the extent that such obligations arise at the time that the RSUs are paid to Holder in shares of Stock, the Administrator may, in its sole discretion and in satisfaction of the foregoing requirement, require Holder to deliver shares of Stock otherwise issuable under this Agreement (or allow the return of shares of Stock) having a Fair Market Value equal to the sums required to be withheld, provided, that the number of shares of Stock which may be so withheld (or returned) with respect to a taxable event arising in connection with the RSUs and/or the Dividend Equivalent rights shall be limited to the number of shares which have a Fair Market Value on the date of withholding equal to the aggregate amount of such liabilities based on the minimum statutory withholding rates for federal, state and local income tax and payroll tax purposes that are applicable to such supplemental taxable income.

4.13 Code Section 409A. To the extent that the Administrator determines that any RSUs and/or Dividend Equivalent rights may not be compliant with or exempt from Code Section 409A, the Administrator may amend this Agreement in a manner intended to comply with the requirements of Code Section 409A or an exemption therefrom (including amendments with retroactive effect), or take any other actions as it deems necessary or appropriate to (a) comply with the requirements of Code Section 409A and/or (b) exempt the RSUs and/or the Dividend Equivalent rights from Code Section 409A and/or preserve the intended tax treatment of the benefits provided with respect to the RSUs. To the extent applicable, this Agreement shall be interpreted in accordance with the provisions of Code Section 409A.

4.14 Limitations Applicable to Section 16 Persons. Notwithstanding any other provision of the Plan or this Agreement, if Holder is subject to Section 16 of the Exchange Act, the Plan, the RSUs, and this Agreement shall be subject to any additional limitations set forth in any applicable exemptive rule under Section 16 of the Exchange Act (including any amendment to Rule 16b-3 of the Exchange Act) that are requirements for the application of such exemptive rule. To the extent permitted by applicable law, this Agreement shall be deemed amended to the extent necessary to conform to such applicable exemptive rule.

4.15 Entire Agreement. The Plan, the Grant Notice (including all Exhibits thereto) and this Agreement constitute the entire agreement of the parties and supersede in their entirety all prior undertakings and agreements of the Company and Holder with respect to the subject matter hereof, except to the extent expressly provided otherwise in a written agreement between the Company or a Subsidiary and Holder.

4.16 Claw-Back Policy. The RSUs shall be subject to any claw-back policy implemented by the Company.

**EXHIBIT B**

**TO RESTRICTED STOCK UNIT AWARD GRANT NOTICE**

**CONSENT OF SPOUSE**

**[See separate form in Grant Packet]**

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**EXHIBIT C**

**TO RESTRICTED STOCK AWARD GRANT NOTICE**

**SAFEWAY INC. 2007 EQUITY AND INCENTIVE AWARD PLAN**

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**EXHIBIT D**

**TO RESTRICTED STOCK AWARD GRANT NOTICE**

**SAFEWAY INC. 2007 EQUITY AND INCENTIVE AWARD PLAN PROSPECTUS**

**SAFEWAY INC.**  
**2011 EQUITY AND INCENTIVE AWARD PLAN**

**RESTRICTED STOCK UNIT AWARD GRANT NOTICE AND  
RESTRICTED STOCK UNIT AWARD AGREEMENT**

Safeway Inc., a Delaware corporation, (the “**Company**”), pursuant to its 2011 Equity and Incentive Award Plan, as amended from time to time (the “**Plan**”), hereby grants to the individual listed below (“**Holder**”), an award of restricted stock units (the “**RSUs**”). This award of RSUs is subject to all of the terms and conditions as set forth herein and in the Restricted Stock Unit Award Agreement attached hereto as Exhibit A (the “**Restricted Stock Unit Agreement**”) and the Plan, each of which are incorporated herein by reference. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Grant Notice and the Restricted Stock Unit Agreement.

**Holder:** [ \_\_\_\_\_ ]  
**Grant Date:** [ \_\_\_\_\_ ]  
**Total Number of  
Restricted Stock Units:** [ \_\_\_\_\_ ]  
**Vesting Commencement Date:** [ \_\_\_\_\_ ]  
**Vesting Schedule:** [To be specified in individual Grant Notices.]

By his or her signature and the Company’s signature below, Holder agrees to be bound by the terms and conditions of the Plan, the Restricted Stock Unit Agreement and this Grant Notice. Holder has reviewed the Restricted Stock Unit Agreement, the Plan and this Grant Notice in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Grant Notice and fully understands all provisions of this Grant Notice, the Restricted Stock Unit Agreement and the Plan. Holder hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions arising under the Plan, this Grant Notice or the Restricted Stock Unit Agreement. If Holder is married, his or her spouse has signed the Consent of Spouse attached hereto as Exhibit B.

**SAFEWAY INC.:**

By: \_\_\_\_\_  
Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Address: \_\_\_\_\_  
\_\_\_\_\_

**HOLDER:**

By: \_\_\_\_\_  
Print Name: \_\_\_\_\_  
Address: \_\_\_\_\_  
\_\_\_\_\_

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## EXHIBIT A

### TO RESTRICTED STOCK UNIT AWARD GRANT NOTICE

#### RESTRICTED STOCK UNIT AWARD AGREEMENT

Pursuant to the Restricted Stock Unit Award Grant Notice (the “**Grant Notice**”) to which this Restricted Stock Award Unit Agreement (this “**Agreement**”) is attached, Safeway Inc., a Delaware corporation (the “**Company**”), has granted to Holder the number of RSUs specified in the Grant Notice upon the terms and conditions set forth in the Safeway Inc. 2011 Equity and Incentive Award Plan, as such plan may be amended from time to time (the “**Plan**”), the Grant Notice and this Agreement.

## ARTICLE I

### GENERAL

1.1 Defined Terms. Capitalized terms not specifically defined herein shall have the meanings specified in the Grant Notice or, if not defined therein, the Plan.

1.2 Incorporation of Terms of Plan. The RSUs and the shares of Common Stock (“**Shares**”) issued to Holder are subject to the terms and conditions of the Plan which are incorporated herein by reference.

## ARTICLE II

### GRANT OF RESTRICTED STOCK UNITS

#### 2.1 Grant of RSUs and Dividend Equivalents.

(a) In consideration of Holder’s agreement to remain in the service or employ of the Company or a Subsidiary and for other good and valuable consideration, effective as of the “Grant Date” set forth in the Grant Notice (the “**Grant Date**”), the Company hereby grants to Holder an award of RSUs, upon the terms and conditions set forth in the Plan, the Grant Notice and this Agreement. Unless and until the RSUs have fully vested in the manner set forth in the Grant Notice, Holder will have no right to receive any Common Stock or other payment in respect of the RSUs.

(b) The Company hereby grants to Holder an award of Dividend Equivalents with respect to each RSU granted pursuant to the Grant Notice for all ordinary cash dividends which are paid to all or substantially all holders of the outstanding Shares between the Grant Date and the date when the applicable RSU is distributed or paid to Holder or is forfeited or expires. The Dividend Equivalents for each RSU shall be equal to the amount of cash which is paid as a dividend on one Share. The Dividend Equivalents shall be paid in cash or shares of Common Stock at the Company’s election, as and when the cash dividends in respect of which such Dividend Equivalent payments arise are paid to holders of Common Stock, without regard to the vested status of the underlying RSUs. Each Dividend Equivalent shall terminate as of the date the share of Common Stock subject to the RSU to which such Dividend Equivalent relates is distributed.

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2.2 Distribution or Payment of RSUs. Each RSU that vests on an applicable vesting date pursuant to Article III hereof shall represent the right to receive payment of one Share.

(a) Holder's RSUs shall be distributed in Shares (either in book-entry form or otherwise) as soon as administratively practicable following the vesting of the applicable RSU pursuant to Article III hereof, and, in any event, within thirty (30) days following such vesting, except as set forth in Section 2.2(c) below.

(b) All distributions made in Shares shall be made by the Company in the form of whole Shares, and any fractional share shall be distributed in cash in an amount equal to the value of such fractional share determined based on the Fair Market Value as of the date immediately preceding the date of such distribution.

(c) In the event of Holder's attainment of Retirement Eligibility or Termination of Employment or Termination of Directorship, as applicable, by reason of Holder's "permanent and total disability" (within the meaning of Section 22(e)(3) of the Code), shares of Stock underlying RSUs that are accelerated pursuant to Section 3.4 or Section 3.3, as applicable, and are issued under this Agreement on or following such date of acceleration shall be paid to the Participant in such amounts and at such times as the vesting schedule that applied to such RSUs immediately prior to such date of acceleration, with each issuance to occur no later than thirty (30) days following each vesting date; provided, that, in the event of the circumstances specifically contemplated by Section 3.5(a) or (b), all such shares shall be issued within thirty (30) days of such event. For purposes of this Section 2.2(c) and Section 3.4, "**Retirement Eligibility**" shall mean such date as when Holder has (i) attained at least 58 years of age, and (ii) completed at least seven consecutive years of service with the Company.

(d) Notwithstanding anything herein to the contrary, no distribution hereunder shall be made to Holder during the six (6)-month period following Holder's "separation from service" within the meaning of Code Section 409A to the extent that the Company determines that paying such amounts at the time set forth in this Section 2.2 would be a prohibited distribution under Code Section 409A(a)(2)(B)(i). If the payment of any such amounts is delayed as a result of the previous sentence, then on the first business day following the end of such six (6)-month period (or such earlier date upon which such amount can be paid under Code Section 409A without resulting in a prohibited distribution, including as a result of Holder's death), the Company shall pay Holder the cumulative amounts that would have otherwise been payable to Holder during such period.

(e) The time of distribution of the RSUs under this Agreement may not be changed except as may be permitted by the Administrator in accordance with the Plan and Code Section 409A and the applicable Treasury Regulations promulgated thereunder.

2.3 Conditions to Issuance of Shares. The Shares, or any portion thereof, may be either previously authorized but unissued shares or issued shares which have then been reacquired by the Company. Such Shares shall be fully paid and nonassessable. The Company shall not be required to issue or deliver any Shares prior to fulfillment of all of the following conditions:

(a) The admission of such Shares to listing on all stock exchanges on which the Stock is then listed;

(b) The completion of any registration or other qualification of such Shares under any federal, state or foreign law or under regulations or rules promulgated by the Securities and Exchange

Commission or any other governmental regulatory body, which the Administrator shall, in its discretion, deem necessary or advisable;

(c) The obtaining of any approval or other clearance from any federal, state or foreign governmental agency which the Administrator shall, in its discretion, determine to be necessary or advisable;

(d) The receipt by the Company of full payment for all amounts which, under federal, state, local or foreign tax law, the Company (or other employer corporation) is required to withhold upon issuance of such Shares; and

(e) The lapse of such reasonable period of time following the satisfaction of all other conditions to issuance as the Administrator may from time to time establish for reasons of administrative convenience.

In the event that the Company delays a distribution or payment in settlement of RSUs because it determines that the issuance of shares of Stock in settlement of such RSUs will violate federal securities laws or other applicable law, such distribution or payment shall be made at the earliest date at which the Company reasonably determines that the making of such distribution or payment will not cause such violation, as required by Treasury Regulation Section 1.409A-2(b)(7)(ii). No payment shall be delayed under this Section 2.3 if such delay will result in a violation of Code Section 409A.

2.4 Rights as Stockholder. Holder shall not have any of the rights and privileges of a stockholder of the Company with respect to any Shares deliverable hereunder unless and until certificates representing such Shares (which may be in book-entry form) will have been issued and recorded on the records of the Company or its transfer agents or registrars, and delivered to Holder (including through electronic delivery to a brokerage account). Except as otherwise provided herein, after such issuance, recordation and delivery, Participant will have all the rights of a stockholder of the Company with respect to such Shares, including, without limitation, the right to receipt of dividends and distributions on such Shares.

### ARTICLE III

#### VESTING OF RSUS

3.1 Vesting of RSUs. The RSUs shall vest in such amounts and at such times as are set forth in the Grant Notice except as otherwise provided in this Article III.

3.2 Termination. Subject to Sections 3.3, 3.4 and 3.5 hereof, upon Holder's Termination of Employment or Termination of Directorship, as applicable, Holder shall immediately forfeit any and all RSUs and Dividend Equivalents granted under this Agreement which have not vested or do not vest on or prior to the date on which such termination occurs, and Holder's rights in any such RSUs and Dividend Equivalents which are not so vested shall lapse and expire.

3.3 Acceleration upon Death and Permanent and Total Disability. Notwithstanding Section 3.2, in the event of Holder's Termination of Employment or Termination of Directorship, as applicable, by reason of Holder's death or "permanent and total disability" (within the meaning of Section 22(e)(3) of the Code), the Restricted Stock Unit Award will become fully vested with respect to all the Shares covered thereby upon the date of such termination; provided, that in the event of Holder's "permanent and total disability" (within the meaning of Section 22(e)(3) of the Code) the vested RSUs are subject to delayed payment dates consistent

with the vesting schedule that applied to such RSUs immediately prior to such termination in accordance with the provisions of Section 2.2 of the Agreement.

3.4 Acceleration upon Retirement Eligibility. The Restricted Stock Unit Award will become fully vested with respect to all the Shares covered thereby upon the later of the date Holder has attained Retirement Eligibility or the date that is twelve (12) months following the Grant Date, provided Holder has not had a Termination of Service prior to such date, and provided further, that such vested RSUs are subject to delayed payment dates consistent with the vesting schedule that applied to such RSUs immediately prior to such termination in accordance with the provisions of Section 2.2 of the Agreement.

3.5 Acceleration upon Change in Control. Notwithstanding any contrary provision of this Agreement and pursuant to Section 11.3 of the Plan, if a Change in Control occurs and Holder has remained in the service of the Company continuously until at least immediately prior to the Change in Control, the Restricted Stock Unit Award shall vest as follows:

(a) If the Administrator reasonably determines in good faith, prior to the occurrence of the Change in Control, that the Restricted Stock Unit Award will not be honored or assumed, or new rights that substantially preserve the terms of the Restricted Stock Unit Award substituted therefor, by Holder's employer (or the parent of such employer) immediately following the Change in Control, the Restricted Stock Unit Award shall become fully vested with respect to all Shares covered thereby immediately prior to the Change in Control.

(b) If the Administrator determines that the Restricted Stock Unit Award has been assumed and, prior to vesting of the RSUs remaining subject to the Restricted Stock Unit Award, Holder experiences a Termination of Services, other than for Cause, or Holder experiences a Termination of Services with Good Reason, within the one year period immediately following the Change in Control, the Restricted Stock Unit Award shall become fully vested with respect to all Shares covered thereby immediately upon such Termination of Services.

(c) "**Cause**" shall have the meaning ascribed to such term in any written employment agreement between or among the Company and/or any of its subsidiaries and Holder and, if no such written employment agreement shall be in force or effect, shall mean (a) conviction of, or the entry of a plea of guilty or no contest to, a felony or any other crime that causes the Company public disgrace or disrepute, or adversely affects the Company's operations, financial performance, or relationship with its customers; (b) misappropriation of funds or other property of the Company or its affiliates; (c) refusal to perform the lawful and reasonable directives of Holder's supervisor, the Company's Chief Executive Officer or the Board; (d) failure by Holder to perform the duties of his or her employment with the Company or any of its subsidiaries which continues for a period of fourteen (14) days (other than by reason of illness or injury); or (e) material breach of any agreement with or duty owed to the Company or any of its affiliates. However, none of the foregoing events or conditions will constitute Cause unless the Company provides Holder with written notice of the event or condition and thirty (30) days to cure such event or condition (if curable) and the event or condition is not cured within such 30-day period.

(d) "**Good Reason**" shall have the meaning ascribed to such term in any written employment agreement between or among the Company and/or any of its subsidiaries and Holder and, if no such written employment agreement shall be in force or effect, shall mean the occurrence of any of the following, without Holder's prior consent: (a) a material, adverse change in Holder's responsibilities, authority or duties (including as a result of the assignment of duties materially inconsistent with Holder's position); (b) a material reduction in Holder's base salary; (c) a material transfer of Holder's principal place

of employment to a location more than fifty (50) miles away from Holder's principal place of employment immediately prior to the Change in Control; or (d) the Company's material breach of this Agreement. However, none of the foregoing events or conditions will constitute Good Reason unless: (x) Holder provides the Company with written objection to the event or condition within ninety (90) days following the occurrence thereof; (y) the Company does not reverse or otherwise cure the event or condition within thirty (30) days of receiving that written objection; and (z) Holder resigns his or her employment within thirty (30) days following the expiration of that cure period.

## ARTICLE IV

### OTHER PROVISIONS

4.1 Administration. The Administrator shall have the power to (a) interpret the Plan and this Agreement, (b) adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret, amend or revoke any such rules and (c) amend this Agreement, subject to Section 4.8. All actions taken and all interpretations and determinations made by the Administrator in good faith shall be binding, conclusive and final upon Holder, the Company and all other interested persons. No member of the Administrator shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan, this Agreement or the Shares. In its discretion, the Board may at any time and from time to time exercise any and all rights and duties of the Administrator under the Plan, except with respect to matters which under Rule 16b-3 or Section 162(m) of the Code, or any regulations or rules issued thereunder, are required to be determined in the discretion of the Administrator.

4.2 Restrictions on Transfer. Unless otherwise permitted by the Administrator pursuant to the Plan, no RSUs or any interest or right therein or part thereof, shall be liable for the debts, contracts or engagements of Holder or Holder's successors in interest or shall be subject to sale or other disposition by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means whether such sale or other disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy), and any attempted sale or other disposition thereof shall be null and void and of no effect.

4.3 Adjustments. The Administrator may adjust the RSUs and the Shares subject to the RSUs in accordance with the provisions of Section 11.3 of the Plan.

4.4 Notices. Any notice to be given under the terms of this Agreement to the Company shall be addressed to the Company in care of the Secretary of the Company, and any notice to be given to Holder shall be addressed to Holder at the address for Holder appearing on the Grant Notice or at the last known address for Holder contained in the Company's records. By a notice given pursuant to this Section 4.4, either party may hereafter designate a different address for notices to be given to that party. Any notice shall be deemed duly given when sent via email or enclosed in a properly sealed envelope or wrapper addressed as aforesaid, deposited (with postage prepaid) in a post office or branch post office regularly maintained by the United States Postal Service.

4.5 Titles. Titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

4.6 Governing Law; Severability. This Agreement shall be administered, interpreted and enforced under the laws of the State of Delaware, without regard to the conflicts of laws principles thereof.

Should any provision of this Agreement be determined by a court of law to be illegal or unenforceable, the other provisions shall nevertheless remain effective and shall remain enforceable.

4.7 Conformity to Securities Laws. Holder acknowledges that the Plan is intended to conform to the extent necessary with all applicable federal, state and foreign securities laws (including the Securities Act and the Exchange Act) and any and all regulations and rules promulgated thereunder by the Securities and Exchange Commission or any other governmental regulatory body. Notwithstanding anything herein to the contrary, the Plan shall be administered, and the Shares are to be issued, only in such a manner as to conform to such laws, rules and regulations. To the extent permitted by applicable law, the Plan and this Agreement shall be deemed amended to the extent necessary to conform to such laws, rules and regulations.

4.8 Amendments. This Agreement may not be modified, amended or terminated, except by an instrument in writing, signed by a duly authorized representative of the Company and, to the extent any such modification, amendment or termination may adversely affect Holder's rights under this Agreement, by Holder, except as otherwise provided under the terms of the Plan.

4.9 Successors and Assigns. The Company may assign any of its rights under this Agreement to single or multiple assignees, and this Agreement shall inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer herein set forth, this Agreement shall be binding upon Holder and Holder's heirs, executors, administrators, successors and assigns.

4.10 No Employment Rights. Nothing in the Plan or this Agreement shall confer upon Holder any right to continue in the employ or service of the Company or any Subsidiary or shall interfere with or restrict in any way the rights of the Company and its Subsidiaries, which rights are hereby expressly reserved, to discharge or terminate the services of Holder at any time for any reason whatsoever, with or without cause, except to the extent expressly provided otherwise in a written agreement between the Company or a Subsidiary and Holder.

4.11 Taxes. Holder has reviewed with Holder's own tax advisors the federal, state, local and foreign tax consequences of this investment and the transactions contemplated by the Grant Notice and this Agreement. Holder is relying solely on such advisors and not on any statements or representations of the Company or any of its agents. Holder understands that Holder (and not the Company) shall be responsible for Holder's own tax liability that may arise as a result of this investment or the transactions contemplated by this Agreement.

4.12 Tax Withholding. The Company shall have the authority and the right to deduct, withhold or require Holder to remit to the Company an amount sufficient to satisfy federal, state, local and foreign taxes (including without limitation any income and employment tax obligations) required by law to be withheld with respect to any taxable event arising in connection with the RSUs and/or the Dividend Equivalent rights. To the extent that such obligations arise at the time that the RSUs are paid to Holder in shares of Stock, the Administrator may, in its sole discretion and in satisfaction of the foregoing requirement, require Holder to deliver shares of Stock otherwise issuable under this Agreement (or allow the return of shares of Stock) having a Fair Market Value equal to the sums required to be withheld, provided, that the number of shares of Stock which may be so withheld (or returned) with respect to a taxable event arising in connection with the RSUs and/or the Dividend Equivalent rights shall be limited to the number of shares which have a Fair Market Value on the date of withholding equal to the aggregate amount of such liabilities based on the minimum statutory withholding rates for federal, state and local income tax and payroll tax purposes that are applicable to such supplemental taxable income.

4.13 Code Section 409A. To the extent that the Administrator determines that any RSUs and/or Dividend Equivalent rights may not be compliant with or exempt from Code Section 409A, the Administrator may amend this Agreement in a manner intended to comply with the requirements of Code Section 409A or an exemption therefrom (including amendments with retroactive effect), or take any other actions as it deems necessary or appropriate to (a) comply with the requirements of Code Section 409A and/or (b) exempt the RSUs and/or the Dividend Equivalent rights from Code Section 409A and/or preserve the intended tax treatment of the benefits provided with respect to the RSUs. To the extent applicable, this Agreement shall be interpreted in accordance with the provisions of Code Section 409A.

4.14 Limitations Applicable to Section 16 Persons. Notwithstanding any other provision of the Plan or this Agreement, if Holder is subject to Section 16 of the Exchange Act, the Plan, the RSUs, and this Agreement shall be subject to any additional limitations set forth in any applicable exemptive rule under Section 16 of the Exchange Act (including any amendment to Rule 16b-3 of the Exchange Act) that are requirements for the application of such exemptive rule. To the extent permitted by applicable law, this Agreement shall be deemed amended to the extent necessary to conform to such applicable exemptive rule.

4.15 Entire Agreement. The Plan, the Grant Notice (including all Exhibits thereto) and this Agreement constitute the entire agreement of the parties and supersede in their entirety all prior undertakings and agreements of the Company and Holder with respect to the subject matter hereof, except to the extent expressly provided otherwise in a written agreement between the Company or a Subsidiary and Holder.

4.16 Claw-Back Policy. The RSUs shall be subject to any claw-back policy implemented by the Company, in accordance with Section 11.7(b) of the Plan.

**EXHIBIT B**

**TO RESTRICTED STOCK UNIT AWARD GRANT NOTICE**

**CONSENT OF SPOUSE**

**[See separate form in Grant Packet]**

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**EXHIBIT C**

**TO RESTRICTED STOCK AWARD GRANT NOTICE**

**SAFEWAY INC. 2011 EQUITY AND INCENTIVE AWARD PLAN**

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**EXHIBIT D**

**TO RESTRICTED STOCK AWARD GRANT NOTICE**

**SAFEWAY INC. 2011 EQUITY AND INCENTIVE AWARD PLAN PROSPECTUS**

**SAFEWAY INC.**  
**2007 EQUITY AND INCENTIVE AWARD PLAN**

**PERFORMANCE SHARE AWARD GRANT NOTICE**

Safeway Inc., a Delaware corporation, (the “**Company**”), pursuant to its 2007 Equity and Incentive Award Plan, as amended from time to time (the “**Plan**”), hereby grants to the holder listed below (“**Participant**”) an award of performance shares (“**Performance Shares**”). Each Performance Share represents the right to receive one share of common stock of Safeway Inc. (a “**Share**”) upon the achievement of certain performance goals. This award of Performance Shares is subject to all of the terms and conditions set forth herein and in the Performance Share Award Agreement attached hereto as Exhibit A (the “**Performance Share Award Agreement**”) and the Plan, each of which are incorporated herein by reference. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Grant Notice and the Performance Share Award Agreement.

<b>Participant:</b>	[_____]
<b>Grant Date:</b>	[_____, 20__]
<b>Target Number of Performance Shares:</b>	[_____]
<b>Performance Commencement Date:</b>	[_____]
<b>Performance Goals:</b>	See Section 2.2 of the Performance Share Award Agreement
<b>Termination:</b>	Pursuant and subject to Section 2.5 of the Performance Share Award Agreement, if Participant ceases to be an Employee, Consultant or Director prior to the applicable Payment Date, all Performance Shares that have not been paid on or prior to the date of such termination of services will thereupon be forfeited automatically by Participant without payment of any consideration therefor.

By his or her signature and the Company’s signature below, Participant agrees to be bound by the terms and conditions of the Plan, the Performance Share Award Agreement and this Grant Notice. Participant has reviewed the Performance Share Award Agreement, the Plan and this Grant Notice in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Grant Notice and fully understands all provisions of this Grant Notice, the Performance Share Award Agreement and the Plan. Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions arising under the Plan, this Grant Notice or the Performance Share Award Agreement. If Participant is married, his or her spouse has signed the Consent of Spouse attached to this Grant Notice as Exhibit B.

**SAFEWAY INC.:**

By: \_\_\_\_\_  
Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Address: \_\_\_\_\_  
\_\_\_\_\_

**PARTICIPANT:**

By: \_\_\_\_\_  
Print Name: \_\_\_\_\_  
Address: \_\_\_\_\_  
\_\_\_\_\_

**EXHIBIT A  
TO PERFORMANCE SHARE AWARD GRANT NOTICE**

**SAFEWAY INC. PERFORMANCE SHARE AWARD AGREEMENT**

Pursuant to the Performance Share Award Grant Notice (the “**Grant Notice**”) to which this Performance Share Award Agreement (this “**Agreement**”) is attached, Safeway Inc., a Delaware corporation (the “**Company**”), has granted to Participant an award of performance shares (“**Performance Shares**”), specified in the Grant Notice, upon the terms and conditions set forth in the Safeway Inc. 2007 Equity and Incentive Award Plan, as such plan may be amended from time to time (the “**Plan**”), the Grant Notice and this Agreement.

**ARTICLE I**

**GENERAL**

1.1 **Defined Terms.** Wherever the following terms are used in this Agreement they shall have the meanings specified below, unless the context clearly indicates otherwise. Capitalized terms not specifically defined herein shall have the meanings specified in the Plan and the Grant Notice.

(a) “**Cause**” shall have the meaning ascribed to such term in any written employment agreement between or among the Company and/or any of its subsidiaries and Participant and, if no such written employment agreement shall be in force or effect, shall mean (a) conviction of, or the entry of a plea of guilty or no contest to, a felony or any other crime that causes the Company public disgrace or disrepute, or adversely affects the Company’s operations, financial performance, or relationship with its customers; (b) misappropriation of funds or other property of the Company or its affiliates; (c) refusal to perform the lawful and reasonable directives of Participant’s supervisor, the Company’s Chief Executive Officer or the Board; (d) failure by Participant to perform the duties of his or her employment with the Company or any of its subsidiaries which continues for a period of fourteen (14) days (other than by reason of illness or injury); or (e) material breach of any agreement with or duty owed to the Company or any of its affiliates. However, none of the foregoing events or conditions will constitute Cause unless the Company provides Participant with written notice of the event or condition and thirty (30) days to cure such event or condition (if curable) and the event or condition is not cured within such 30-day period.

(b) “**Determination Date**” shall mean the date, as determined by the Administrator, on which the Administrator determines whether and to what extent the Performance Goals have been attained; *provided, however*, that the Determination Date with respect to the applicable Performance Period shall be no later than March 15 of the calendar year following the end of such Performance Period.

(c) “**Good Reason**” shall have the meaning ascribed to such term in any written employment agreement between or among the Company and/or any of its subsidiaries and Participant and, if no such written employment agreement shall be in force or effect, shall mean the occurrence of any of the following, without Participant’s prior consent: (a) a material, adverse change in Participant’s responsibilities, authority or duties (including as a result of the assignment of duties materially inconsistent with Participant’s position); (b) a material reduction in Participant’s base salary; (c) a material transfer of Participant’s principal place of employment to a location more than fifty (50) miles away from Participant’s principal place of employment immediately prior to the Change in Control; or (d) the Company’s material breach of this Agreement. However, none of the foregoing events or conditions will constitute Good

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Reason unless: (x) Participant provides the Company with written objection to the event or condition within ninety (90) days following the occurrence thereof; (y) the Company does not reverse or otherwise cure the event or condition within thirty (30) days of receiving that written objection; and (z) Participant resigns his or her employment within thirty (30) days following the expiration of that cure period.

(d) “**Payment Date**” shall mean the date the Administrator determines that the Shares payable upon achievement of the Performance Goals shall be paid, which shall in no event be later than sixty (60) days after the Determination Date.

(e) “**Performance Share**” shall mean a nonvoting unit of measurement which is deemed for bookkeeping purposes to be equivalent to one outstanding Share (subject to adjustment as provided in Section 11.3 of the Plan) solely for purposes of the Plan and this Agreement. The Performance Shares shall be used solely as a device for the determination of the payment to be made to Participant if such Performance Shares become payable pursuant to Section 2.2 hereof. The Performance Shares shall not be treated as property or as a trust fund of any kind.

(f) “**Retirement**” shall mean a Termination of Services other than for Cause, after the Participant has (i) attained at least 58 years of age, and (ii) completed at least seven consecutive years of service with the Company.

(g) “**Termination of Services**” shall mean Participant’s Termination of Consultancy, Termination of Directorship or Termination of Employment, as applicable. Notwithstanding anything in this Agreement to the contrary, to the extent that any payment or benefit constitutes non-exempt “nonqualified deferred compensation” for purposes of Section 409A of the Code, and such payment or benefit would otherwise be payable or distributable hereunder by reason of Participant’s Termination of Services, all references to Participant’s Termination of Services shall be construed to mean a “separation from service,” as defined in Treasury Regulation Section 1.409A-1(h) (a “**Separation from Service**”), and Participant shall not be considered to have a Termination of Services unless such termination constitutes a Separation from Service with respect to Participant.

1.2 Incorporation of Terms of Plan. The Performance Shares are subject to the terms and conditions of the Plan which are incorporated herein by reference. In the event of any inconsistency between the Plan and this Agreement, the terms of the Plan shall control.

## ARTICLE II

### GRANT OF PERFORMANCE SHARES

2.1 Grant of Performance Shares. In consideration of Participant’s agreement to remain in the service or employ of the Company or a Subsidiary and for other good and valuable consideration, effective as of the “Grant Date” set forth in the Grant Notice (the “**Grant Date**”), the Company grants to Participant an award of Performance Shares as set forth in the Grant Notice, upon the terms and conditions set forth in the Plan and this Agreement.

#### 2.2 Performance-Based Right to Payment.

(a) The number of Shares that shall be issued pursuant to the Performance Shares shall be determined based on the Company’s achievement of annual goals related to return on invested

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capital and Company revenue growth (the “**Company Performance Measures**”) and the relative total shareholder return (“**TSR**,” and together with the Company Performance Measures, the “**Performance Goals**”) during the period beginning on December 29, 2013 and ending on December 31, 2016 (the “**Performance Period**”), in each case, as determined by the Administrator. On the Determination Date, the Administrator in its sole discretion shall determine whether and to what extent the Performance Goals have been attained. The payment of Shares with respect to Participant’s Performance Shares is contingent on the attainment of the Performance Goals. Accordingly, Participant will not become entitled to payment with respect to the Performance Shares subject to this Agreement unless and until the Administrator determines that the Performance Goals have been attained. Upon such determination by the Administrator and subject to the provisions of the Plan and this Agreement, Participant shall be entitled to payment of that portion of the Performance Shares as corresponds to the Performance Goals attained (as determined by the Administrator in its sole discretion). Furthermore, pursuant to Section 2.5 (except as otherwise provided therein), in order to be entitled to payment with respect to any Performance Shares, Participant must be employed by the Company or an Affiliate on the Payment Date.

(b) As soon as administratively practicable following the Payment Date, but in no event later than sixty (60) days after the Determination Date (for the avoidance of doubt, this deadline is intended to comply with the “short-term deferral” exemption from Section 409A of the Code), the Company shall deliver to Participant (or any transferee permitted under Section 3.2 hereof) a number of Shares (either by delivering one or more certificates for such shares or by entering such shares in book entry form, as determined by the Company in its sole discretion) equal to the number of Performance Shares subject to this award that are payable pursuant to the achievement of the Performance Goals. Notwithstanding the foregoing, in the event Shares cannot be issued pursuant to Section 2.7(a), (b) or (c) hereof, then the Shares shall be issued pursuant to the preceding sentence as soon as administratively practicable after the Administrator determines that Shares can again be issued in accordance with Sections 2.7(a), (b) and (c) hereof.

2.3 Change in Control. Notwithstanding any contrary provision of this Agreement and pursuant to Section 11.3 of the Plan, if a Change in Control occurs and Participant has remained in the service of the Company continuously until at least immediately prior to the Change in Control, the Performance Shares shall be earned as follows:

(a) If the Administrator reasonably determines in good faith, prior to the occurrence of the Change in Control, that the Performance Shares will not be honored or assumed, or new rights that substantially preserve the terms of the Performance Shares substituted therefor, by Participant’s employer (or the parent of such employer) immediately following the Change in Control, the Performance Shares shall become fully vested and nonforfeitable immediately prior to the Change in Control and the number of Shares earned and issued pursuant to the Performance Shares shall equal the greater of (a) the target number of Performance Shares set forth in the Grant Notice, and (b) the number of Performance Shares that would have been earned based on actual achievement of the Company’s Performance Goals through the most recently completed fiscal year prior to such Change in Control (calculated as if the most recently completed fiscal year prior to such Change in Control had been the end of the Performance Period).

(b) If the Administrator determines that the Performance Shares have been assumed and, before the Payment Date, Participant experiences a Termination of Services, other than for Cause, or Participant experiences a Termination of Services with Good Reason, within the one year period immediately following the Change in Control, the Performance Shares shall become fully vested and nonforfeitable upon such Termination of Services and the number of Shares earned and issued pursuant to the Performance Shares shall equal the greater of (a) the target number of Performance Shares set forth

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in the Grant Notice, and (b) the number of Performance Shares that would have been earned based on actual achievement of the Company's Performance Goals through the most recently completed fiscal year prior to such Change in Control (calculated as if the most recently completed fiscal year prior to such Change in Control had been the end of the Performance Period).

(c) Any Performance Shares which are earned pursuant to this Section 2.3 shall be settled within 60 days of the Change in Control or Termination of Services, as applicable, in accordance with Section 2.2.

2.4 Consideration to the Company; No Employment Rights. In consideration of the grant of the award of Performance Shares by the Company, Participant agrees to render faithful and efficient services to the Company or any Subsidiary. Nothing in the Plan or this Agreement shall confer upon Participant any right to continue in the employ or service of the Company or any Subsidiary or shall interfere with or restrict in any way the rights of the Company and its Subsidiaries, which rights are hereby expressly reserved, to discharge or terminate the services of Participant at any time for any reason whatsoever, with or without cause, except to the extent expressly provided otherwise in a written agreement between the Company or a Subsidiary and Participant.

2.5 Forfeiture, Termination and Cancellation upon Termination of Services. Notwithstanding any contrary provision of this Agreement, upon Participant's Termination of Services for any or no reason, all rights with respect to any unpaid Performance Shares awarded pursuant to this Agreement shall immediately terminate, and Participant, or Participant's beneficiary or personal representative, as the case may be, will be entitled to no payments or benefits with respect thereto, unless the Administrator, as permitted pursuant to the terms of the Plan, determines in its sole discretion otherwise (in which case any payment to be made pursuant to this Award Agreement will be made on the Payment Date and, for the avoidance of doubt, within the period required by Section 409A of the Code, such that it qualifies as a "short-term deferral" pursuant to Section 1.409A-1(b)(4) of the Department of Treasury regulations); *provided, however*, that in the event of Participant's Termination of Services during the Performance Period by reason of death, disability or Retirement, Participant shall be entitled to receive, on the Payment Date, a portion of the unpaid Performance Shares awarded pursuant to this Agreement that would have been paid had Participant remained employed to the end of the Performance Period, prorated according to the number of full months that Participant was employed during the Performance Period.

## 2.6 Withholding.

(a) Notwithstanding anything to the contrary in this Agreement, the Company shall be entitled to require payment by Participant of any sums required by federal, state or local tax law to be withheld with respect to the grant of the Performance Shares or the issuance of the Shares, or any other taxable event related thereto. The Company may permit Participant to make such payment in one or more of the forms specified below:

(i) by cash or check made payable to the Company;

(ii) by the deduction of such amount from other compensation payable to Participant;

(iii) by tendering Shares (including, without limitation, Shares otherwise payable pursuant to the Performance Shares) which have a then-current Fair Market Value on the date of delivery not greater than the amount necessary to satisfy the Company's withholding obligation based on the minimum statutory withholding rates for federal, state and local income tax and payroll tax purposes;

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(iv) by surrendering other property acceptable to the Administrator (including, without limitation, through the delivery of a notice that Participant has placed a market sell order with a broker with respect to Shares payable pursuant to the Performance Shares, and that the broker has been directed to pay a sufficient portion of the net proceeds of the sale to the Company in satisfaction of its withholding obligations; *provided* that payment of such proceeds is then made to the Company at such time as may be required by the Company, but in any event not later than the settlement of such sale); or

(v) in any combination of the foregoing.

(b) In the event Participant fails to provide timely payment of all sums required by the Company pursuant to Section 2.6(a), the Company shall have the right and option, but not the obligation, to treat such failure as an election by Participant to provide all or any portion of such required payment by means of tendering Shares in accordance with Section 2.6(a)(iii).

(c) The Company shall not be obligated to deliver any new certificate representing Shares to Participant or Participant's legal representative or enter such Shares in book entry form unless and until Participant or Participant's legal representative shall have paid or otherwise satisfied in full the amount of all federal, state and local taxes applicable to the taxable income of Participant resulting from the grant of the Performance Shares or the issuance of Shares pursuant to the Performance Shares.

2.7 Conditions to Delivery of Shares. Subject to Section 2.6, the Shares deliverable hereunder, or any portion thereof, may be either previously authorized but unissued Shares or issued Shares which have then been reacquired by the Company. Such Shares shall be fully paid and nonassessable. The Company shall not be required to issue or deliver any Shares deliverable hereunder or portion thereof prior to fulfillment of all of the following conditions:

(a) The admission of such Shares to listing on all stock exchanges on which the Common Stock is then listed;

(b) The completion of any registration or other qualification of such Shares under any federal, state or foreign law or under regulations or rules promulgated by the Securities and Exchange Commission or any other governmental regulatory body, which the Administrator shall, in its discretion, deem necessary or advisable;

(c) The obtaining of any approval or other clearance from any federal, state or foreign governmental agency which the Administrator shall, in its discretion, determine to be necessary or advisable; and

(d) The receipt by the Company of full payment for all amounts which, under federal, state, local or foreign tax law, the Company (or other employer corporation) is required to withhold upon issuance of such Shares.

2.8 Rights as Stockholder. The holder of the Performance Shares shall not be, nor have any of the rights or privileges of, a stockholder of the Company, including, without limitation, voting rights and rights to dividends, in respect of the Performance Shares and any Shares underlying the Performance Shares and deliverable hereunder unless and until such Shares shall have been issued by the Company and held of record by such holder (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). No adjustment will be made for a dividend or other

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right for which the record date is prior to the date the Shares are issued, except as provided in Section 11.3 of the Plan.

## ARTICLE III

### OTHER PROVISIONS

3.1 Administration. The Administrator shall have the power to (a) interpret the Plan and this Agreement, (b) adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret, amend or revoke any such rules and (c) amend this Agreement, subject to Section 3.11. All actions taken and all interpretations and determinations made by the Administrator in good faith shall be binding, conclusive and final upon Participant, the Company and all other interested persons. No member of the Administrator shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan, this Agreement or the Performance Shares. In its discretion, the Board may at any time and from time to time exercise any and all rights and duties of the Administrator under the Plan, except with respect to matters which under Rule 16b-3 or Section 162(m) of the Code, or any regulations or rules issued thereunder, are required to be determined in the discretion of the Administrator.

3.2 Grant Is Not Transferable. During the lifetime of Participant, the Performance Shares may not be sold, pledged, assigned or transferred in any manner other than by will or the laws of descent and distribution, unless and until the Shares underlying the Performance Shares have been issued, and all restrictions applicable to such Shares have lapsed. Neither the Performance Shares nor any interest or right therein or part thereof shall be liable for the debts, contracts or engagements of Participant or his or her successors in interest or shall be subject to sale or other disposition by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means whether such sale or other disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy), and any attempted sale or other disposition thereof shall be null and void and of no effect, except to the extent that such sale or other disposition is permitted by the preceding sentence.

3.3 Restrictive Legends and Stop-Transfer Orders.

(a) The share certificate(s) evidencing the Shares issued hereunder shall be endorsed with any legends that may be required by an applicable federal, state or foreign securities laws.

(b) Participant agrees that, in order to ensure compliance with the restrictions referred to herein, the Company may issue appropriate “stop transfer” instructions to its transfer agent, if any, and that, if the Company transfers its own securities, it may make appropriate notations to the same effect in its own records.

(c) The Company shall not be required: (i) to transfer on its books any Shares that have been sold or otherwise transferred in violation of any of the provisions of this Agreement, or (ii) to treat as owner of such Shares or to accord the right to vote or pay dividends to any purchaser or other transferee to whom such Shares shall have been so transferred.

3.4 Shares To Be Reserved. The Company shall at all times prior to the Payment Date reserve and keep available such number of Shares as will be sufficient to satisfy the requirements of this Agreement.

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3.5 Binding Agreement. Subject to the limitation on the transferability of the Performance Shares contained herein, this Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

3.6 Adjustments upon Specified Events. The Administrator may accelerate payment of the Performance Shares in such circumstances as it, in its sole discretion, may determine. In addition, upon the occurrence of certain events relating to the Shares contemplated by Section 11.3 of the Plan (including, without limitation, an extraordinary cash dividend on such Shares), the Administrator shall make such adjustments the Administrator deems appropriate in the number of Performance Shares then outstanding and the number and kind of securities that may be issued in respect of the Performance Shares. Participant acknowledges that the Performance Shares are subject to amendment, modification and termination in certain events as provided in this Agreement and Section 11.3 of the Plan.

3.7 Notices. Any notice to be given under the terms of this Agreement to the Company shall be addressed to the Company in care of the Secretary of the Company, and any notice to be given to Participant shall be addressed to Participant at the address for Participant appearing on the Grant Notice or at the last known address for Participant contained in the Company's records. By a notice given pursuant to this Section 3.7, either party may hereafter designate a different address for notices to be given to that party. Any notice shall be deemed duly given when sent via email or enclosed in a properly sealed envelope or wrapper addressed as aforesaid, deposited (with postage prepaid) in a post office or branch post office regularly maintained by the United States Postal Service.

3.8 Titles. Titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

3.9 Governing Law; Severability. This Agreement shall be administered, interpreted and enforced under the laws of the State of Delaware, without regard to the conflicts of laws principles thereof. Should any provision of this Agreement be determined by a court of law to be illegal or unenforceable, the other provisions shall nevertheless remain effective and shall remain enforceable.

3.10 Conformity to Securities Laws. Participant acknowledges that the Plan and this Agreement are intended to conform to the extent necessary with all applicable federal, state and foreign securities laws (including the Securities Act and the Exchange Act) and any and all regulations and rules promulgated thereunder by the Securities and Exchange Commission or any other governmental regulatory body. Notwithstanding anything herein to the contrary, the Plan shall be administered, the Performance Shares are granted and the Shares are to be issued, only in such a manner as to conform to such laws, rules and regulations. To the extent permitted by applicable law, the Plan and this Agreement shall be deemed amended to the extent necessary to conform to such laws, rules and regulations.

3.11 Amendments. This Agreement may not be modified, amended or terminated, except by an instrument in writing, signed by a duly authorized representative of the Company and, to the extent any such modification, amendment or termination may adversely affect Participant's rights under this Agreement, by Participant, except as otherwise provided under the terms of the Plan.

3.12 Successors and Assigns. The Company may assign any of its rights under this Agreement to single or multiple assignees, and this Agreement shall inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer herein set forth in Section 3.2 hereof, this Agreement shall be binding upon Participant and his or her heirs, executors, administrators, successors and assigns.

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3.13 Limitations Applicable to Section 16 Persons. Notwithstanding any other provision of the Plan or this Agreement, if Participant is subject to Section 16 of the Exchange Act, the Plan, the Performance Shares and this Agreement shall be subject to any additional limitations set forth in any applicable exemptive rule under Section 16 of the Exchange Act (including any amendment to Rule 16b-3 under the Exchange Act) that are requirements for the application of such exemptive rule. To the extent permitted by applicable law, this Agreement shall be deemed amended to the extent necessary to conform to such applicable exemptive rule.

3.14 Entire Agreement. The Plan, the Grant Notice (including all Exhibits thereto) and this Agreement constitute the entire agreement of the parties and supersede in their entirety all prior undertakings and agreements of the Company and Participant with respect to the subject matter hereof, except to the extent expressly provided otherwise in a written agreement between the Company or a Subsidiary and Participant.

3.15 Section 409A. The Performance Shares are not intended to constitute “nonqualified deferred compensation” within the meaning of Section 409A of the Code (together with any Department of Treasury regulations and other interpretive guidance issued thereunder, including without limitation any such regulations or other guidance that may be issued after the date hereof, “**Section 409A**”). However, notwithstanding any other provision of the Plan, the Grant Notice or this Agreement, if at any time the Administrator determines that the Performance Shares (or any portion thereof) may be subject to Section 409A, the Administrator shall have the right in its sole discretion (without any obligation to do so or to indemnify Participant or any other person for failure to do so) to adopt such amendments to the Plan, the Grant Notice or this Agreement, or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, as the Administrator determines are necessary or appropriate either for the Performance Shares to be exempt from the application of Section 409A or to comply with the requirements of Section 409A.

3.16 Limitation on Participant’s Rights. Participation in the Plan confers no rights or interests other than as herein provided. This Agreement creates only a contractual obligation on the part of the Company as to amounts payable and shall not be construed as creating a trust. Neither the Plan nor any underlying program, in and of itself, has any assets. Participant shall have only the rights of a general unsecured creditor of the Company with respect to amounts credited and benefits payable, if any, with respect to the Performance Shares, and rights no greater than the right to receive the Shares as a general unsecured creditor with respect to Performance Shares, as and when payable hereunder.

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**EXHIBIT B**  
**TO PERFORMANCE SHARE AWARD GRANT NOTICE**

**CONSENT OF SPOUSE**

I, \_\_\_\_\_, spouse of \_\_\_\_\_, have read and approve the foregoing Safeway Inc. Performance Share Award Agreement (the “***Agreement***”). In consideration of issuing to my spouse the shares of the common stock of Safeway Inc. set forth in the Agreement, I hereby appoint my spouse as my attorney-in-fact in respect to the exercise of any rights under the Agreement and agree to be bound by the provisions of the Agreement insofar as I may have any rights in said Agreement or any shares of the common stock of Safeway Inc. issued pursuant thereto under the community property laws or similar laws relating to marital property in effect in the state of our residence as of the date of the signing of the foregoing Agreement.

Dated: \_\_\_\_\_, 20\_\_\_\_

\_\_\_\_\_  
Signature of Spouse

**EXHIBIT C  
TO PERFORMANCE SHARE AWARD GRANT NOTICE**

**SAFEWAY INC. 2007 EQUITY AND INCENTIVE AWARD PLAN**

**The Safeway Inc. 2007 Equity and Incentive Award Plan can be viewed at  
<http://home.safeway.com/hr/benefits/stockoption/plan.html>**

**EXHIBIT D**  
**TO PERFORMANCE SHARE AWARD GRANT NOTICE**  
**SAFEWAY INC. 2007 EQUITY AND INCENTIVE AWARD PLAN PROSPECTUS**

The Prospectus can be viewed at  
<http://home.safeway.com/hr/benefits/stockoption/plan.html>

**SAFEWAY INC.  
2011 EQUITY AND INCENTIVE AWARD PLAN**

**PERFORMANCE SHARE AWARD GRANT NOTICE**

Safeway Inc., a Delaware corporation, (the “**Company**”), pursuant to its 2011 Equity and Incentive Award Plan, as amended from time to time (the “**Plan**”), hereby grants to the holder listed below (“**Participant**”) an award of performance shares (“**Performance Shares**”). Each Performance Share represents the right to receive one share of common stock of Safeway Inc. (a “**Share**”) upon the achievement of certain performance goals. This award of Performance Shares is subject to all of the terms and conditions set forth herein and in the Performance Share Award Agreement attached hereto as Exhibit A (the “**Performance Share Award Agreement**”) and the Plan, each of which are incorporated herein by reference. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Grant Notice and the Performance Share Award Agreement.

<b>Participant:</b>	[_____]
<b>Grant Date:</b>	[_____] , 20__
<b>Target Number of Performance Shares:</b>	[_____]
<b>Performance Commencement Date:</b>	[_____]
<b>Performance Goals:</b>	See Section 2.2 of the Performance Share Award Agreement
<b>Termination:</b>	Pursuant and subject to Section 2.5 of the Performance Share Award Agreement, if Participant ceases to be an Employee, Consultant or Director prior to the applicable Payment Date, all Performance Shares that have not been paid on or prior to the date of such termination of services will thereupon be forfeited automatically by Participant without payment of any consideration therefor.

By his or her signature and the Company’s signature below, Participant agrees to be bound by the terms and conditions of the Plan, the Performance Share Award Agreement and this Grant Notice. Participant has reviewed the Performance Share Award Agreement, the Plan and this Grant Notice in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Grant Notice and fully understands all provisions of this Grant Notice, the Performance Share Award Agreement and the Plan. Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions arising under the Plan, this Grant Notice or the Performance Share Award Agreement. If Participant is married, his or her spouse has signed the Consent of Spouse attached to this Grant Notice as Exhibit B.

**SAFEWAY INC.:**

Robert L. Edwards,  
President and CEO

**PARTICIPANT:**

By: \_\_\_\_\_

Print Name: \_\_\_\_\_

Address: \_\_\_\_\_

\_\_\_\_\_

**EXHIBIT A  
TO PERFORMANCE SHARE AWARD GRANT NOTICE**

**SAFEWAY INC. PERFORMANCE SHARE AWARD AGREEMENT**

Pursuant to the Performance Share Award Grant Notice (the “**Grant Notice**”) to which this Performance Share Award Agreement (this “**Agreement**”) is attached, Safeway Inc., a Delaware corporation (the “**Company**”), has granted to Participant an award of performance shares (“**Performance Shares**”), specified in the Grant Notice, upon the terms and conditions set forth in the Safeway Inc. 2011 Equity and Incentive Award Plan, as such plan may be amended from time to time (the “**Plan**”), the Grant Notice and this Agreement.

**ARTICLE I**

**GENERAL**

1.1 **Defined Terms.** Wherever the following terms are used in this Agreement they shall have the meanings specified below, unless the context clearly indicates otherwise. Capitalized terms not specifically defined herein shall have the meanings specified in the Plan and the Grant Notice.

(a) “**Cause**” shall have the meaning ascribed to such term in any written employment agreement between or among the Company and/or any of its subsidiaries and Participant and, if no such written employment agreement shall be in force or effect, shall mean (a) conviction of, or the entry of a plea of guilty or no contest to, a felony or any other crime that causes the Company public disgrace or disrepute, or adversely affects the Company’s operations, financial performance, or relationship with its customers; (b) misappropriation of funds or other property of the Company or its affiliates; (c) refusal to perform the lawful and reasonable directives of Participant’s supervisor, the Company’s Chief Executive Officer or the Board; (d) failure by Participant to perform the duties of his or her employment with the Company or any of its subsidiaries which continues for a period of fourteen (14) days (other than by reason of illness or injury); or (e) material breach of any agreement with or duty owed to the Company or any of its affiliates. However, none of the foregoing events or conditions will constitute Cause unless the Company provides Participant with written notice of the event or condition and thirty (30) days to cure such event or condition (if curable) and the event or condition is not cured within such 30-day period.

(b) “**Determination Date**” shall mean the date, as determined by the Administrator, on which the Administrator determines whether and to what extent the Performance Goals have been attained; *provided, however*, that the Determination Date with respect to the applicable Performance Period shall be no later than March 15 of the calendar year following the end of such Performance Period.

(c) “**Good Reason**” shall have the meaning ascribed to such term in any written employment agreement between or among the Company and/or any of its subsidiaries and Participant and, if no such written employment agreement shall be in force or effect, shall mean the occurrence of any of the following, without Participant’s prior consent: (a) a material, adverse change in Participant’s responsibilities, authority or duties (including as a result of the assignment of duties materially inconsistent with Participant’s position); (b) a material reduction in Participant’s base salary; (c) a material transfer of Participant’s principal place of employment to a location more than fifty (50) miles away from Participant’s principal place of employment immediately prior to the Change in Control; or (d) the Company’s material breach of this Agreement. However, none of the foregoing events or conditions will constitute Good

Reason unless: (x) Participant provides the Company with written objection to the event or condition within ninety (90) days following the occurrence thereof; (y) the Company does not reverse or otherwise cure the event or condition within thirty (30) days of receiving that written objection; and (z) Participant resigns his or her employment within thirty (30) days following the expiration of that cure period.

(d) “**Payment Date**” shall mean the date the Administrator determines that the Shares payable upon achievement of the Performance Goals shall be paid, which shall in no event be later than sixty (60) days after the Determination Date.

(e) “**Performance Share**” shall mean a nonvoting unit of measurement which is deemed for bookkeeping purposes to be equivalent to one outstanding Share (subject to adjustment as provided in Section 11.3 of the Plan) solely for purposes of the Plan and this Agreement. The Performance Shares shall be used solely as a device for the determination of the payment to be made to Participant if such Performance Shares become payable pursuant to Section 2.2 hereof. The Performance Shares shall not be treated as property or as a trust fund of any kind.

(f) “**Retirement**” shall mean a Termination of Services other than for Cause, after Participant has (i) attained at least 58 years of age, and (ii) completed at least seven consecutive years of service with the Company.

(g) “**Termination of Services**” shall mean Participant’s Termination of Consultancy, Termination of Directorship or Termination of Employment, as applicable. Notwithstanding anything in this Agreement to the contrary, to the extent that any payment or benefit constitutes non-exempt “nonqualified deferred compensation” for purposes of Section 409A of the Code, and such payment or benefit would otherwise be payable or distributable hereunder by reason of Participant’s Termination of Services, all references to Participant’s Termination of Services shall be construed to mean a “separation from service,” as defined in Treasury Regulation Section 1.409A-1(h) (a “**Separation from Service**”), and Participant shall not be considered to have a Termination of Services unless such termination constitutes a Separation from Service with respect to Participant.

1.2 Incorporation of Terms of Plan. The Performance Shares are subject to the terms and conditions of the Plan which are incorporated herein by reference. In the event of any inconsistency between the Plan and this Agreement, the terms of the Plan shall control.

## ARTICLE II

### GRANT OF PERFORMANCE SHARES

2.1 Grant of Performance Shares. In consideration of Participant’s agreement to remain in the service or employ of the Company or a Subsidiary and for other good and valuable consideration, effective as of the “Grant Date” set forth in the Grant Notice (the “**Grant Date**”), the Company grants to Participant an award of Performance Shares as set forth in the Grant Notice, upon the terms and conditions set forth in the Plan and this Agreement.

#### 2.2 Performance-Based Right to Payment.

(a) The number of Shares that shall be issued pursuant to the Performance Shares shall be determined based on the Company’s achievement of annual goals related to return on invested



capital and Company revenue growth (the “**Company Performance Measures**”) and the relative total shareholder return (“**TSR**,” and together with the Company Performance Measures, the “**Performance Goals**”) during the period beginning on December 29, 2013 and ending on December 31, 2016 (the “**Performance Period**”), in each case, as determined by the Administrator. On the Determination Date, the Administrator in its sole discretion shall determine whether and to what extent the Performance Goals have been attained. The payment of Shares with respect to Participant’s Performance Shares is contingent on the attainment of the Performance Goals. Accordingly, Participant will not become entitled to payment with respect to the Performance Shares subject to this Agreement unless and until the Administrator determines that the Performance Goals have been attained. Upon such determination by the Administrator and subject to the provisions of the Plan and this Agreement, Participant shall be entitled to payment of that portion of the Performance Shares as corresponds to the Performance Goals attained (as determined by the Administrator in its sole discretion). Furthermore, pursuant to Section 2.5 (except as otherwise provided therein), in order to be entitled to payment with respect to any Performance Shares, Participant must be employed by the Company or an Affiliate on the Payment Date.

(b) As soon as administratively practicable following the Payment Date, but in no event later than sixty (60) days after the Determination Date (for the avoidance of doubt, this deadline is intended to comply with the “short-term deferral” exemption from Section 409A of the Code), the Company shall deliver to Participant (or any transferee permitted under Section 3.2 hereof) a number of Shares (either by delivering one or more certificates for such shares or by entering such shares in book entry form, as determined by the Company in its sole discretion) equal to the number of Performance Shares subject to this award that are payable pursuant to the achievement of the Performance Goals set forth on Exhibit B. Notwithstanding the foregoing, in the event Shares cannot be issued pursuant to Section 2.7(a), (b) or (c) hereof, then the Shares shall be issued pursuant to the preceding sentence as soon as administratively practicable after the Administrator determines that Shares can again be issued in accordance with Sections 2.7(a), (b) and (c) hereof.

2.3 Change in Control. Notwithstanding any contrary provision of this Agreement and pursuant to Section 11.3 of the Plan, if a Change in Control occurs and Participant has remained in the service of the Company continuously until at least immediately prior to the Change in Control, the Performance Shares shall be earned as follows:

(a) If the Administrator reasonably determines in good faith, prior to the occurrence of the Change in Control, that the Performance Shares will not be honored or assumed, or new rights that substantially preserve the terms of the Performance Shares substituted therefor, by Participant’s employer (or the parent of such employer) immediately following the Change in Control, the Performance Shares shall become fully vested and nonforfeitable immediately prior to the Change in Control and the number of Shares earned and issued pursuant to the Performance Shares shall equal the greater of (a) the target number of Performance Shares set forth in the Grant Notice, and (b) the number of Performance Shares that would have been earned based on actual achievement of the Company’s Performance Goals through the most recently completed fiscal year prior to such Change in Control (calculated as if the most recently completed fiscal year prior to such Change in Control had been the end of the Performance Period).

(b) If the Administrator determines that the Performance Shares have been assumed and, before the Payment Date, Participant experiences a Termination of Services, other than for Cause, or Participant experiences a Termination of Services with Good Reason, within the one year period immediately following the Change in Control, the Performance Shares shall become fully vested and nonforfeitable upon such Termination of Services and the number of Shares earned and issued pursuant to the Performance Shares shall equal the greater of (a) the target number of Performance Shares set forth

in the Grant Notice, and (b) the number of Performance Shares that would have been earned based on actual achievement of the Company's Performance Goals through the most recently completed fiscal year prior to such Change in Control (calculated as if the most recently completed fiscal year prior to such Change in Control had been the end of the Performance Period).

(c) Any Performance Shares which are earned pursuant to this Section 2.3 shall be settled within 60 days of the Change in Control or Termination of Services, as applicable, in accordance with Section 2.2.

2.4 Consideration to the Company; No Employment Rights. In consideration of the grant of the award of Performance Shares by the Company, Participant agrees to render faithful and efficient services to the Company or any Subsidiary. Nothing in the Plan or this Agreement shall confer upon Participant any right to continue in the employ or service of the Company or any Subsidiary or shall interfere with or restrict in any way the rights of the Company and its Subsidiaries, which rights are hereby expressly reserved, to discharge or terminate the services of Participant at any time for any reason whatsoever, with or without cause, except to the extent expressly provided otherwise in a written agreement between the Company or a Subsidiary and Participant.

2.5 Forfeiture, Termination and Cancellation upon Termination of Services. Notwithstanding any contrary provision of this Agreement, upon Participant's Termination of Services for any or no reason, all rights with respect to any unpaid Performance Shares awarded pursuant to this Agreement shall immediately terminate, and Participant, or Participant's beneficiary or personal representative, as the case may be, will be entitled to no payments or benefits with respect thereto, unless the Administrator, as permitted pursuant to the terms of the Plan, determines in its sole discretion otherwise (in which case any payment to be made pursuant to this Award Agreement will be made on the Payment Date and, for the avoidance of doubt, within the period required by Section 409A of the Code, such that it qualifies as a "short-term deferral" pursuant to Section 1.409A-1(b)(4) of the Department of Treasury regulations); *provided, however*, that in the event of Participant's Termination of Services during the Performance Period by reason of death, disability or Retirement, Participant shall be entitled to receive, on the Payment Date, a portion of the unpaid Performance Shares awarded pursuant to this Agreement that would have been paid had Participant remained employed to the end of the Performance Period, prorated according to the number of full months that Participant was employed during the Performance Period.

2.6 Withholding.

(a) Notwithstanding anything to the contrary in this Agreement, the Company shall be entitled to require payment by Participant of any sums required by federal, state or local tax law to be withheld with respect to the grant of the Performance Shares or the issuance of the Shares, or any other taxable event related thereto. The Company may permit Participant to make such payment in one or more of the forms specified below:

(i) by cash or check made payable to the Company;

(ii) by the deduction of such amount from other compensation payable to Participant;

(iii) by tendering Shares (including, without limitation, Shares otherwise payable pursuant to the Performance Shares) which have a then-current Fair Market Value on the date of

delivery not greater than the amount necessary to satisfy the Company's withholding obligation based on the minimum statutory withholding rates for federal, state and local income tax and payroll tax purposes;

(iv) by surrendering other property acceptable to the Administrator (including, without limitation, through the delivery of a notice that Participant has placed a market sell order with a broker with respect to Shares payable pursuant to the Performance Shares, and that the broker has been directed to pay a sufficient portion of the net proceeds of the sale to the Company in satisfaction of its withholding obligations; *provided* that payment of such proceeds is then made to the Company at such time as may be required by the Company, but in any event not later than the settlement of such sale); or

(v) in any combination of the foregoing.

(b) In the event Participant fails to provide timely payment of all sums required by the Company pursuant to Section 2.6(a), the Company shall have the right and option, but not the obligation, to treat such failure as an election by Participant to provide all or any portion of such required payment by means of tendering Shares in accordance with Section 2.6(a)(iii).

(c) The Company shall not be obligated to deliver any new certificate representing Shares to Participant or Participant's legal representative or enter such Shares in book entry form unless and until Participant or Participant's legal representative shall have paid or otherwise satisfied in full the amount of all federal, state and local taxes applicable to the taxable income of Participant resulting from the grant of the Performance Shares or the issuance of Shares pursuant to the Performance Shares.

2.7 Conditions to Delivery of Shares. Subject to Section 2.6, the Shares deliverable hereunder, or any portion thereof, may be either previously authorized but unissued Shares or issued Shares which have then been reacquired by the Company. Such Shares shall be fully paid and nonassessable. The Company shall not be required to issue or deliver any Shares deliverable hereunder or portion thereof prior to fulfillment of all of the following conditions:

(a) The admission of such Shares to listing on all stock exchanges on which the Common Stock is then listed;

(b) The completion of any registration or other qualification of such Shares under any federal, state or foreign law or under regulations or rules promulgated by the Securities and Exchange Commission or any other governmental regulatory body, which the Administrator shall, in its discretion, deem necessary or advisable;

(c) The obtaining of any approval or other clearance from any federal, state or foreign governmental agency which the Administrator shall, in its discretion, determine to be necessary or advisable; and

(d) The receipt by the Company of full payment for all amounts which, under federal, state, local or foreign tax law, the Company (or other employer corporation) is required to withhold upon issuance of such Shares.

2.8 Rights as Stockholder. The holder of the Performance Shares shall not be, nor have any of the rights or privileges of, a stockholder of the Company, including, without limitation, voting rights and rights to dividends, in respect of the Performance Shares and any Shares underlying the Performance Shares and deliverable hereunder unless and until such Shares shall have been issued by the Company and

held of record by such holder (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). No adjustment will be made for a dividend or other right for which the record date is prior to the date the Shares are issued, except as provided in Section 11.3 of the Plan.

### ARTICLE III

#### OTHER PROVISIONS

3.1 Administration. The Administrator shall have the power to (a) interpret the Plan and this Agreement, (b) adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret, amend or revoke any such rules and (c) amend this Agreement, subject to Section 3.11. All actions taken and all interpretations and determinations made by the Administrator in good faith shall be binding, conclusive and final upon Participant, the Company and all other interested persons. No member of the Administrator shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan, this Agreement or the Performance Shares. In its discretion, the Board may at any time and from time to time exercise any and all rights and duties of the Administrator under the Plan, except with respect to matters which under Rule 16b-3 or Section 162(m) of the Code, or any regulations or rules issued thereunder, are required to be determined in the discretion of the Administrator.

3.2 Grant Is Not Transferable. During the lifetime of Participant, the Performance Shares may not be sold, pledged, assigned or transferred in any manner other than by will or the laws of descent and distribution, unless and until the Shares underlying the Performance Shares have been issued, and all restrictions applicable to such Shares have lapsed. Neither the Performance Shares nor any interest or right therein or part thereof shall be liable for the debts, contracts or engagements of Participant or his or her successors in interest or shall be subject to sale or other disposition by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means whether such sale or other disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy), and any attempted sale or other disposition thereof shall be null and void and of no effect, except to the extent that such sale or other disposition is permitted by the preceding sentence.

3.3 Restrictive Legends and Stop-Transfer Orders.

(a) The share certificate(s) evidencing the Shares issued hereunder shall be endorsed with any legends that may be required by an applicable federal, state or foreign securities laws.

(b) Participant agrees that, in order to ensure compliance with the restrictions referred to herein, the Company may issue appropriate “stop transfer” instructions to its transfer agent, if any, and that, if the Company transfers its own securities, it may make appropriate notations to the same effect in its own records.

(c) The Company shall not be required: (i) to transfer on its books any Shares that have been sold or otherwise transferred in violation of any of the provisions of this Agreement, or (ii) to treat as owner of such Shares or to accord the right to vote or pay dividends to any purchaser or other transferee to whom such Shares shall have been so transferred.

3.4 Shares To Be Reserved. The Company shall at all times prior to the Payment Date reserve and keep available such number of Shares as will be sufficient to satisfy the requirements of this Agreement.

3.5 Binding Agreement. Subject to the limitation on the transferability of the Performance Shares contained herein, this Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

3.6 Adjustments upon Specified Events. The Administrator may accelerate payment of the Performance Shares in such circumstances as it, in its sole discretion, may determine. In addition, upon the occurrence of certain events relating to the Shares contemplated by Section 11.3 of the Plan (including, without limitation, an extraordinary cash dividend on such Shares), the Administrator shall make such adjustments the Administrator deems appropriate in the number of Performance Shares then outstanding and the number and kind of securities that may be issued in respect of the Performance Shares. Participant acknowledges that the Performance Shares are subject to amendment, modification and termination in certain events as provided in this Agreement and Section 11.3 of the Plan.

3.7 Notices. Any notice to be given under the terms of this Agreement to the Company shall be addressed to the Company in care of the Secretary of the Company, and any notice to be given to Participant shall be addressed to Participant at the address for Participant appearing on the Grant Notice or at the last known address for Participant contained in the Company's records. By a notice given pursuant to this Section 3.7, either party may hereafter designate a different address for notices to be given to that party. Any notice shall be deemed duly given when sent via email or enclosed in a properly sealed envelope or wrapper addressed as aforesaid, deposited (with postage prepaid) in a post office or branch post office regularly maintained by the United States Postal Service.

3.8 Titles. Titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

3.9 Governing Law; Severability. This Agreement shall be administered, interpreted and enforced under the laws of the State of Delaware, without regard to the conflicts of laws principles thereof. Should any provision of this Agreement be determined by a court of law to be illegal or unenforceable, the other provisions shall nevertheless remain effective and shall remain enforceable.

3.10 Conformity to Securities Laws. Participant acknowledges that the Plan and this Agreement are intended to conform to the extent necessary with all applicable federal, state and foreign securities laws (including the Securities Act and the Exchange Act) and any and all regulations and rules promulgated thereunder by the Securities and Exchange Commission or any other governmental regulatory body. Notwithstanding anything herein to the contrary, the Plan shall be administered, the Performance Shares are granted and the Shares are to be issued, only in such a manner as to conform to such laws, rules and regulations. To the extent permitted by applicable law, the Plan and this Agreement shall be deemed amended to the extent necessary to conform to such laws, rules and regulations.

3.11 Amendments. This Agreement may not be modified, amended or terminated, except by an instrument in writing, signed by a duly authorized representative of the Company and, to the extent any such modification, amendment or termination may adversely affect Participant's rights under this Agreement, by Participant, except as otherwise provided under the terms of the Plan.

3.12 Successors and Assigns. The Company may assign any of its rights under this Agreement to single or multiple assignees, and this Agreement shall inure to the benefit of the successors and assigns

of the Company. Subject to the restrictions on transfer herein set forth in Section 3.2 hereof, this Agreement shall be binding upon Participant and his or her heirs, executors, administrators, successors and assigns.

3.13 Limitations Applicable to Section 16 Persons. Notwithstanding any other provision of the Plan or this Agreement, if Participant is subject to Section 16 of the Exchange Act, the Plan, the Performance Shares and this Agreement shall be subject to any additional limitations set forth in any applicable exemptive rule under Section 16 of the Exchange Act (including any amendment to Rule 16b-3 under the Exchange Act) that are requirements for the application of such exemptive rule. To the extent permitted by applicable law, this Agreement shall be deemed amended to the extent necessary to conform to such applicable exemptive rule.

3.14 Entire Agreement. The Plan, the Grant Notice (including all Exhibits thereto) and this Agreement constitute the entire agreement of the parties and supersede in their entirety all prior undertakings and agreements of the Company and Participant with respect to the subject matter hereof, except to the extent expressly provided otherwise in a written agreement between the Company or a Subsidiary and Participant.

3.15 Section 409A. The Performance Shares are not intended to constitute “nonqualified deferred compensation” within the meaning of Section 409A of the Code (together with any Department of Treasury regulations and other interpretive guidance issued thereunder, including without limitation any such regulations or other guidance that may be issued after the date hereof, “**Section 409A**”). However, notwithstanding any other provision of the Plan, the Grant Notice or this Agreement, if at any time the Administrator determines that the Performance Shares (or any portion thereof) may be subject to Section 409A, the Administrator shall have the right in its sole discretion (without any obligation to do so or to indemnify Participant or any other person for failure to do so) to adopt such amendments to the Plan, the Grant Notice or this Agreement, or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, as the Administrator determines are necessary or appropriate either for the Performance Shares to be exempt from the application of Section 409A or to comply with the requirements of Section 409A.

3.16 Limitation on Participant’s Rights. Participation in the Plan confers no rights or interests other than as herein provided. This Agreement creates only a contractual obligation on the part of the Company as to amounts payable and shall not be construed as creating a trust. Neither the Plan nor any underlying program, in and of itself, has any assets. Participant shall have only the rights of a general unsecured creditor of the Company with respect to amounts credited and benefits payable, if any, with respect to the Performance Shares, and rights no greater than the right to receive the Shares as a general unsecured creditor with respect to Performance Shares, as and when payable hereunder.

3.17 Claw-Back Policy. The Shares shall be subject to any claw-back policy implemented by the Company, in accordance with Section 11.7(b) of the Plan.

**EXHIBIT B**  
**TO PERFORMANCE SHARE AWARD GRANT NOTICE**

**CONSENT OF SPOUSE**

I, \_\_\_\_\_, spouse of \_\_\_\_\_, have read and approve the foregoing Safeway Inc. Performance Share Award Agreement (the “***Agreement***”). In consideration of issuing to my spouse the shares of the common stock of Safeway Inc. set forth in the Agreement, I hereby appoint my spouse as my attorney-in-fact in respect to the exercise of any rights under the Agreement and agree to be bound by the provisions of the Agreement insofar as I may have any rights in said Agreement or any shares of the common stock of Safeway Inc. issued pursuant thereto under the community property laws or similar laws relating to marital property in effect in the state of our residence as of the date of the signing of the foregoing Agreement.

Dated: \_\_\_\_\_, 20\_\_\_\_

\_\_\_\_\_  
Signature of Spouse

**EXHIBIT C**  
**TO PERFORMANCE SHARE AWARD GRANT NOTICE**  
**SAFEWAY INC. 2011 EQUITY AND INCENTIVE AWARD PLAN**

The Safeway Inc. 2011 Equity and Incentive Award Plan can be viewed at  
<http://home.safeway.com/hr/benefits/stockoption/plan.html>

C-1

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**EXHIBIT D**  
**TO PERFORMANCE SHARE AWARD GRANT NOTICE**  
**SAFEWAY INC. 2011 EQUITY AND INCENTIVE AWARD PLAN PROSPECTUS**

The Prospectus can be viewed at  
<http://home.safeway.com/hr/benefits/stockoption/plan.html>

**SAFEWAY INC.**  
**2007 EQUITY AND INCENTIVE AWARD PLAN**

**STOCK OPTION GRANT NOTICE**

Safeway Inc., a Delaware corporation, (the “**Company**”), pursuant to its 2007 Equity and Incentive Award Plan, as amended from time to time (the “**Plan**”), hereby grants to the holder listed below (“**Participant**”), an option to purchase the number of shares of Common Stock set forth below (the “**Option**”). This Option is subject to all of the terms and conditions set forth herein and in the Stock Option Agreement attached hereto as Exhibit A (the “**Stock Option Agreement**”) and the Plan, each of which are incorporated herein by reference. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Grant Notice and the Stock Option Agreement.

**Participant:** [ \_\_\_\_\_ ]  
**Grant Date:** [ \_\_\_\_\_ ]  
**Exercise Price per Share:** \$[ \_\_\_\_\_ ]  
**Total Exercise Price:** \$[ \_\_\_\_\_ ]  
**Total Number of Shares**  
**Subject to the Option:** [ \_\_\_\_\_ ] shares  
**Expiration Date:** [ \_\_\_\_\_ ]  
**Vesting Schedule:** [To be specified in individual agreements]

**Type of Option:**    ☐ Incentive Stock Option   ☐ Non-Qualified Stock Option

By his or her signature and the Company’s signature below, Participant agrees to be bound by the terms and conditions of the Plan, the Stock Option Agreement and this Grant Notice. Participant has reviewed the Stock Option Agreement, the Plan and this Grant Notice in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Grant Notice and fully understands all provisions of this Grant Notice, the Stock Option Agreement and the Plan. Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions arising under the Plan, this Grant Notice or the Stock Option Agreement.

**SAFEWAY INC.:**

By: \_\_\_\_\_  
Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Address: \_\_\_\_\_  
\_\_\_\_\_

**PARTICIPANT:**

By: \_\_\_\_\_  
Print Name: \_\_\_\_\_  
Address: \_\_\_\_\_  
\_\_\_\_\_

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## EXHIBIT A

### TO STOCK OPTION GRANT NOTICE

#### STOCK OPTION AGREEMENT

Pursuant to the Stock Option Grant Notice (the “**Grant Notice**”) to which this Stock Option Agreement (this “**Agreement**”) is attached, Safeway Inc., a Delaware corporation (the “**Company**”), has granted to Participant an option to purchase the number of shares of the Company’s common stock, par value \$0.01 per share (“**Stock**”), specified in the Grant Notice, upon the terms and conditions set forth in the Safeway Inc. 2007 Equity and Incentive Award Plan (the “**Plan**”), the Grant Notice and this Agreement.

## ARTICLE I

### GENERAL

1.1 Defined Terms. Wherever the following terms are used in this Agreement they shall have the meanings specified below, unless the context clearly indicates otherwise. Capitalized terms not specifically defined herein shall have the meanings specified in the Grant Notice or, if not defined therein, the Plan.

“**Cause**” shall have the meaning ascribed to such term in any written employment agreement between or among the Company and/or any of its subsidiaries and Participant and, if no such written employment agreement shall be in force or effect, shall mean (a) conviction of, or the entry of a plea of guilty or no contest to, a felony or any other crime that causes the Company public disgrace or disrepute, or adversely affects the Company’s operations, financial performance, or relationship with its customers; (b) misappropriation of funds or other property of the Company or its affiliates; (c) refusal to perform the lawful and reasonable directives of Participant’s supervisor, the Company’s Chief Executive Officer or the Board; (d) failure by Participant to perform the duties of his or her employment with the Company or any of its subsidiaries which continues for a period of fourteen (14) days (other than by reason of illness or injury); or (e) material breach of any agreement with or duty owed to the Company or any of its affiliates. However, none of the foregoing events or conditions will constitute Cause unless the Company provides Participant with written notice of the event or condition and thirty (30) days to cure such event or condition (if curable) and the event or condition is not cured within such 30-day period.

“**Demotion**” shall mean the demotion of Participant to a position within the Company or a Subsidiary which is not then eligible for grants of stock options or to a position that is eligible for stock option grants at a lower level than the level for which Participant was eligible on the Grant Date. Notwithstanding the foregoing, the Chief Executive Officer of the Company may make adjustments, in his discretion, to the foregoing definition in the event of the transfer, illness or disability of Participant, the occurrence of a force majeure event (including without limitation acts of God, strikes or labor disturbances) affecting Participant’s position or other similar circumstances.

“**Good Reason**” shall have the meaning ascribed to such term in any written employment agreement between or among the Company and/or any of its subsidiaries and Participant and, if no such written employment agreement shall be in force or effect, shall mean the occurrence of any of the following, without Participant’s prior consent: (a) a material, adverse change in Participant’s responsibilities, authority or duties (including as a result of the assignment of duties materially inconsistent with Participant’s position); (b) a

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material reduction in Participant's base salary; (c) a material transfer of Participant's principal place of employment to a location more than fifty (50) miles away from Participant's principal place of employment immediately prior to the Change in Control; or (d) the Company's material breach of this Agreement. However, none of the foregoing events or conditions will constitute Good Reason unless: (x) Participant provides the Company with written objection to the event or condition within ninety (90) days following the occurrence thereof; (y) the Company does not reverse or otherwise cure the event or condition within thirty (30) days of receiving that written objection; and (z) Participant resigns his or her employment within thirty (30) days following the expiration of that cure period.

**"Retirement"** shall mean a Participant's Termination of Employment or Termination of Directorship, as applicable, other than as a result of any circumstance specifically contemplated by Section 3.4(a), (b)(ii) or (c) or termination by the Company for Cause, at a time when the Participant has (i) attained at least 58 years of age, and (ii) completed at least seven consecutive years of service with the Company.

1.2 Incorporation of Terms of Plan. The Option is subject to the terms and conditions of the Plan which are incorporated herein by reference.

## ARTICLE II

### GRANT OF OPTION

2.1 Grant of Option. In consideration of Participant's agreement to remain in the service or employ of the Company or a Subsidiary and for other good and valuable consideration, effective as of the "Grant Date" set forth in the Grant Notice (the "**Grant Date**"), the Company irrevocably grants to Participant an option to purchase any part or all of an aggregate of the number of shares of Stock set forth in the Grant Notice, upon the terms and conditions set forth in the Plan, the Grant Notice and this Agreement. Unless designated as an Incentive Stock Option in the Grant Notice, the Option shall be a Non-Qualified Stock Option.

2.2 Exercise Price. The exercise price of the shares of Stock subject to the Option shall be as set forth in the Grant Notice, without commission or other charge; *provided, however*, that the exercise price per share of Stock subject to the Option shall not be less than 100% of the Fair Market Value of a share of Stock on the Grant Date. Notwithstanding the foregoing, if this Option is designated as an Incentive Stock Option and Participant owns (within the meaning of Section 424(d) of the Code) more than 10% of the total combined voting power of all classes of stock of the Company or any Subsidiary Corporation or "parent corporation" of the Company (as defined in Section 424(e) of the Code), the exercise price per share of Stock subject to the Option shall not be less than 110% of the Fair Market Value of a share of Stock on the Grant Date (or the date the Option is modified, extended or renewed for purposes of Section 424(h) of the Code).

2.3 Consideration to the Company; No Employment Rights. In consideration of the grant of the Option by the Company, Participant agrees to render faithful and efficient services to the Company or any Subsidiary. Nothing in the Plan or this Agreement shall confer upon Participant any right to continue in the employ or service of the Company or any Subsidiary or shall interfere with or restrict in any way the rights of the Company and its Subsidiaries, which rights are hereby expressly reserved, to discharge or terminate the services of Participant at any time for any reason whatsoever, with or without cause, except to the extent expressly provided otherwise in a written agreement between the Company or a Subsidiary and Participant.

## ARTICLE III

### PERIOD OF EXERCISABILITY

#### 3.1 Commencement of Exercisability.

(a) Subject to Sections 3.2, 3.3 and 3.4 the Option shall become vested and exercisable in such amounts and at such times as are set forth in the Grant Notice.

(b) No portion of the Option which has not become vested and exercisable at the date of Participant's Termination of Employment, Termination of Directorship or Termination of Consultancy, as applicable, shall thereafter become vested and exercisable, except as set forth in Section 3.4 below or as may be otherwise provided by the Administrator or as set forth in a written agreement between the Company and Participant.

(c) No portion of the Option which has not become vested and exercisable at the date of Participant's Demotion shall thereafter become vested and exercisable. Notwithstanding the foregoing, in the event of Participant's Demotion to a position that is eligible for stock option grants at a lower level than the level for which Participant was eligible on the Grant Date (the "***New Position***"), the immediately preceding sentence shall apply only to that part (if any) of the portion of the Option which has not become vested and exercisable which exceeds the minimum number of stock options to which the New Position is eligible (the Option minus such portion, the "***Remaining Portion***").

3.2 Duration of Exercisability. The installments provided for in the vesting schedule set forth in the Grant Notice are cumulative. Each such installment which becomes vested and exercisable pursuant to the vesting schedule set forth in the Grant Notice shall remain vested and exercisable until it becomes unexercisable under Section 3.3.

3.3 Expiration of Option. The Option may not be exercised to any extent by anyone after the first to occur of the following events:

(a) The expiration of ten years following the Grant Date;

(b) If this Option is designated as an Incentive Stock Option and Participant owned (within the meaning of Section 424(d) of the Code), at the time the Option was granted, more than 10% of the total combined voting power of all classes of stock of the Company or any Subsidiary Corporation or any "parent corporation" of the Company (as defined in Section 424(e) of the Code), the expiration of five years from the Grant Date;

(c) The expiration of three months following the date of Participant's Termination of Employment, Termination of Directorship or Termination of Consultancy, as applicable, unless such termination occurs by reason of Participant's Retirement, Participant's death, Participant's "permanent and total disability" (within the meaning of Section 22(e)(3) of the Code) or Participant's engagement in willful misconduct that injures the Company or any of its Subsidiaries;

(d) The expiration of 12 months following the date of Participant's Termination of Employment, Termination of Directorship or Termination of Consultancy, as applicable, by reason of Participant's death;

(e) With respect to Options that are vested and exercisable as of the date of Participant's Retirement or Participant's "permanent and total disability" (within the meaning of Section 22(e)(3) of the Code), the expiration of 12 months following the date of such termination, and with respect to each installment that vests and becomes exercisable following such date of termination in accordance with Section 3.4(c) and (d), the expiration of 12 months following each such vesting date with respect to each such installment; or

(f) The date of Participant's Termination of Employment, Termination of Directorship or Termination of Consultancy by the Company or any Parent or Subsidiary by reason of Participant's engagement in willful misconduct that injures the Company or any of its Subsidiaries; or

Participant acknowledges that an Incentive Stock Option exercised more than three months after Participant's Termination of Employment, other than by reason of death or Participant's "permanent and total disability" (within the meaning of Section 22(e)(3) of the Code), will be taxed as a Non-Qualified Stock Option.

3.4 Acceleration/Continuation of Exercisability. After giving effect to Section 3.1(c) and notwithstanding any contrary provision of this Agreement:

(a) In the event of Participant's Termination of Employment, Termination of Directorship or Termination of Consultancy, as applicable, by reason of Participant's death, the Option shall become fully vested and exercisable with respect to all shares of Stock covered thereby upon the date of such termination.

(b) Pursuant to Section 11.3 of the Plan, if a Change in Control occurs and Participant has remained in the service of the Company continuously until at least immediately prior to the Change in Control, the Option shall vest and become exercisable as follows:

(i) If the Administrator reasonably determines in good faith, prior to the occurrence of the Change in Control, that the Option will not be honored or assumed, or new rights that substantially preserve the terms of the Option substituted therefor, by Participant's employer (or the parent of such employer) immediately following the Change in Control, the Option shall become fully vested and exercisable with respect to all shares of Stock covered thereby immediately prior to the Change in Control.

(ii) If the Administrator determines that the Options have been assumed and, prior to vesting of the Option, Participant experiences a Termination of Services, other than for Cause, or Participant experiences a Termination of Services with Good Reason, within the one year period immediately following the Change in Control, the Option shall become fully vested and exercisable with respect to all shares of Stock covered thereby immediately upon such Termination of Services.

(c) In the event of Participant's Termination of Employment, Termination of Directorship or Termination of Consultancy, as applicable, by reason of the Participant's "permanent and total disability" (within the meaning of Section 22(e)(3) of the Code), the Option shall continue to become vested and exercisable in such amounts and at such times as are set forth in the Grant Notice following the date of such termination; provided, that in the event of Participant's subsequent death or the circumstances specifically contemplated by Sections 3.4(b)(i) and 3.4(b)(ii), the Option shall become fully vested and exercisable with respect to all shares of Stock covered thereby immediately prior to or upon such event.

(d) In the event of Participant's Termination of Employment or Termination of Directorship, as applicable, by reason of the Participant's Retirement at least 12 months following the Grant

Date, the Option shall continue to become vested and exercisable in such amounts and at such times as are set forth in the Grant Notice following the date of such termination; provided, that in the event of Participant's subsequent death or the circumstances specifically contemplated by Sections 3.4(b)(i) and 3.4(b)(ii), the Option shall become fully vested and exercisable with respect to all shares of Stock covered thereby immediately prior to or upon such date.

(e) For the avoidance of doubt, in the event Participant experiences a Demotion, references to the "Option" in this Section 3.4 shall refer to the Remaining Option, if any.

3.5 Special Tax Consequences. Participant acknowledges that, to the extent that the aggregate Fair Market Value (determined as of the time the Option is granted) of all shares of Stock with respect to which Incentive Stock Options, including the Option, are exercisable for the first time by Participant in any calendar year exceeds \$100,000, the Option and such other options shall be Non-Qualified Stock Options to the extent necessary to comply with the limitations imposed by Section 422(d) of the Code. Participant further acknowledges that the rule set forth in the preceding sentence shall be applied by taking the Option and other "incentive stock options" into account in the order in which they were granted, as determined under Section 422(d) of the Code and the Treasury Regulations thereunder.

## ARTICLE IV

### EXERCISE OF OPTION

4.1 Person Eligible to Exercise. Except as provided in Sections 5.2(b) and 5.2(c), during the lifetime of Participant, only Participant may exercise the Option or any portion thereof. After the death of Participant, any exercisable portion of the Option may, prior to the time when the Option becomes unexercisable under Section 3.3, be exercised by Participant's personal representative or by any person empowered to do so under the deceased Participant's will or under the then applicable laws of descent and distribution.

4.2 Partial Exercise. Any exercisable portion of the Option or the entire Option, if then wholly exercisable, may be exercised in whole or in part at any time prior to the time when the Option or portion thereof becomes unexercisable under Section 3.3; *provided, however*, that each partial exercise shall be for not less than 100 shares (or, if less, the maximum number of shares for which the Option is vested and exercisable at such time) and shall be for whole shares only.

4.3 Manner of Exercise. The Option, or any exercisable portion thereof, may be exercised solely by delivery to the Secretary of the Company or the Secretary's office of all of the following prior to the time when the Option or such portion thereof becomes unexercisable under Section 3.3:

(a) An Exercise Notice in writing signed by Participant or any other person then entitled to exercise the Option or portion thereof, stating that the Option or portion thereof is thereby exercised, such notice complying with all applicable rules established by the Administrator. Such notice shall be substantially in the form attached as Exhibit B to the Grant Notice (or such other form as is prescribed by the Administrator);

(b) The receipt by the Company of full payment for the shares with respect to which the Option or portion thereof is exercised, including payment of any applicable withholding tax, which may be in one or more of the forms of consideration permitted under Section 4.4;

(c) Such representations and documents as the Administrator, in its discretion, deems necessary or advisable to effect compliance with all applicable provisions of the Securities Act and any other federal, state or foreign securities laws or regulations. The Administrator may, in its discretion, also take whatever additional actions it deems appropriate to effect such compliance including, without limitation, placing legends on share certificates and issuing stop-transfer orders to transfer agents and registrars; and

(d) In the event the Option or portion thereof shall be exercised pursuant to Section 4.1 by any person or persons other than Participant, appropriate proof of the right of such person or persons to exercise the Option.

4.4 Method of Payment. Payment of the exercise price shall be by any of the following, or a combination thereof, at the election of Participant:

(a) cash;

(b) check;

(c) to the extent permitted under applicable laws, delivery of a notice that Participant has placed a market sell order with a broker with respect to shares of Stock then issuable upon exercise of the Option, and that the broker has been directed to pay a sufficient portion of the net proceeds of the sale to the Company in satisfaction of the aggregate exercise price; *provided*, that payment of such proceeds is then made to the Company upon settlement of such sale;

(d) with the consent of the Administrator, through the delivery of shares of Stock which have been owned by Participant for at least six months, duly endorsed for transfer to the Company with a Fair Market Value on the date of exercise equal to the aggregate exercise price of the Option or exercised portion thereof; or

(e) any combination of the foregoing.

4.5 Conditions to Issuance of Shares. The shares of Stock deliverable upon the exercise of the Option, or any portion thereof, may be either previously authorized but unissued shares or issued shares which have then been reacquired by the Company. Such shares shall be fully paid and nonassessable. The Company shall not be required to issue or deliver any shares of Stock purchased upon the exercise of the Option or portion thereof prior to fulfillment of all of the following conditions:

(a) The admission of such shares to listing on all stock exchanges on which such Stock is then listed;

(b) The completion of any registration or other qualification of such shares under any federal, state or foreign law or under rulings or regulations promulgated by the Securities and Exchange Commission or any other governmental regulatory body, which the Administrator shall, in its discretion, deem necessary or advisable;

(c) The obtaining of any approval or other clearance from any federal, state or foreign governmental agency which the Administrator shall, in its discretion, determine to be necessary or advisable;



(d) The receipt by the Company of full payment for such shares, including payment of any applicable withholding tax, which may be in one or more of the forms of consideration permitted under Section 4.4;

(e) Unless a Registration Statement under the Securities Act is in effect with respect to the shares of Stock to be issued, the receipt of a written representation of Participant that the shares of Stock are being acquired by Participant for investment and with no present intention of selling or transferring them and that Participant will not sell or otherwise transfer the shares except in compliance with all applicable securities laws; and

(f) The lapse of such reasonable period of time following the exercise of the Option and the satisfaction of all other conditions to issuance as the Administrator may from time to time establish for reasons of administrative convenience.

4.6 Rights as Stockholder. The holder of the Option shall not be, nor have any of the rights or privileges of, a stockholder of the Company in respect of any shares purchasable upon the exercise of any part of the Option unless and until such shares shall have been issued by the Company to such holder (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). No adjustment will be made for a dividend or other right for which the record date is prior to the date the shares are issued, except as provided in Section 11.3 of the Plan.

## ARTICLE V

### OTHER PROVISIONS

5.1 Administration. The Administrator shall have the power to (a) interpret the Plan and this Agreement, (b) adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret, amend or revoke any such rules **and (c) amend this Agreement, subject to Section 5.9**. All actions taken and all interpretations and determinations made by the Administrator in good faith shall be binding, conclusive and final upon Participant, the Company and all other interested persons. No member of the Administrator shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan, this Agreement or the Option. In its discretion, the Board may at any time and from time to time exercise any and all rights and duties of the Administrator under the Plan except with respect to matters which under Rule 16b-3 or Section 162(m) of the Code, or any regulations or rules issued thereunder, are required to be determined in the discretion of the Administrator.

#### 5.2 Option Not Transferable.

(a) Subject to Section 5.2(b), the Option may not be sold, pledged, assigned or transferred in any manner other than by will or the laws of descent and distribution. Neither the Option nor any interest or right therein or part thereof shall be liable for the debts, contracts or engagements of Participant or Participant's successors in interest or shall be subject to sale or other disposition by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means whether such sale or other disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy), and any attempted sale or other disposition thereof shall be null and void and of no effect, except to the extent that such sale or other disposition is permitted by the preceding sentence.

(b) Notwithstanding any other provision in this Agreement, with the consent of the Administrator and to the extent the Option is not intended to qualify as an Incentive Stock Option, the Option may be transferred to one or more Permitted Transferees, subject to the terms and conditions set forth in Section 11.1(b) of the Plan.

(c) Unless transferred to a Permitted Transferee in accordance with Section 5.2(b), during the lifetime of Participant, only Participant may exercise the Option or any portion thereof. Subject to such conditions and procedures as the Administrator may require, a Permitted Transferee may exercise the Option or any portion thereof during Participant's lifetime. After the death of Participant, any exercisable portion of the Option may, prior to the time when the Option becomes unexercisable under Section 3.3, be exercised by Participant's personal representative or by any person empowered to do so under the deceased Participant's will or under the then applicable laws of descent and distribution.

### 5.3 Restrictive Legends and Stop-Transfer Orders.

(a) The share certificate or certificates evidencing the shares of Stock purchased hereunder shall be endorsed with any legends that may be required by any applicable federal, state or foreign securities laws.

(b) Participant agrees that, in order to ensure compliance with the restrictions referred to herein, the Company may issue appropriate "stop transfer" instructions to its transfer agent, if any, and that, if the Company transfers its own securities, it may make appropriate notations to the same effect in its own records.

(c) The Company shall not be required: (i) to transfer on its books any shares of Stock that have been sold or otherwise transferred in violation of any of the provisions of this Agreement, or (ii) to treat as owner of such shares of Stock or to accord the right to vote or pay dividends to any purchaser or other transferee to whom such shares shall have been so transferred.

5.4 Shares to Be Reserved. The Company shall at all times during the term of the Option reserve and keep available such number of shares of Stock as will be sufficient to satisfy the requirements of this Agreement.

5.5 Notices. Any notice to be given under the terms of this Agreement to the Company shall be addressed to the Company in care of the Secretary of the Company at the address for the Company appearing on the Grant Notice, and any notice to be given to Participant shall be addressed to Participant at the address appearing for the Participant on the Grant Notice or at the last known address for Participant contained in the Company's records. By a notice given pursuant to this Section 5.5, either party may thereafter designate a different address for notices to be given to that party. Any notice which is required to be given to Participant shall, if Participant is then deceased, be given to the person entitled to exercise Participant's Option pursuant to Section 4.1 by written notice under this Section 5.5. Any notice shall be deemed duly given when sent via email or enclosed in a properly sealed envelope or wrapper addressed as aforesaid, deposited (with postage prepaid) in a post office or branch post office regularly maintained by the United States Postal Service.

5.6 Titles. Titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

5.7 Governing Law; Severability. This Agreement shall be administered, interpreted and enforced under the laws of the State of Delaware, without regard to the conflicts of laws principles thereof. Should any provision of this Agreement be determined by a court of law to be illegal or unenforceable, the other provisions shall nevertheless remain effective and shall remain enforceable.

5.8 Conformity to Securities Laws. Participant acknowledges that the Plan is intended to conform to the extent necessary with all applicable federal, state and foreign securities laws (including the Securities Act and the Exchange Act) and any and all regulations and rules promulgated thereunder by the Securities and Exchange Commission or any other governmental regulatory body. Notwithstanding anything herein to the contrary, the Plan shall be administered, and the Option is granted and may be exercised, only in such a manner as to conform to such laws, rules and regulations. To the extent permitted by applicable law, the Plan and this Agreement shall be deemed amended to the extent necessary to conform to such laws, rules and regulations.

5.9 Amendments. This Agreement may not be modified, amended or terminated, except by an instrument in writing, signed by a duly authorized representative of the Company and, to the extent any such modification, amendment or termination may adversely affect the rights of Participant or such other person as may be permitted to exercise the Option pursuant to Section 4.1, by Participant or such other person, except as otherwise provided under the terms of the Plan.

5.10 Successors and Assigns. The Company may assign any of its rights under this Agreement to single or multiple assignees, and this Agreement shall inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer herein set forth in Section 5.2, this Agreement shall be binding upon Participant and Participant's heirs, executors, administrators, successors and assigns.

5.11 Notification of Disposition. If this Option is designated as an Incentive Stock Option, Participant shall give prompt notice to the Company of any disposition or other transfer of any shares of Stock acquired under this Agreement if such disposition or transfer is made (a) within two years from the Grant Date or (b) within one year after the transfer of such shares to Participant. Such notice shall specify the date of such disposition or other transfer and the amount realized, in cash, other property, assumption of indebtedness or other consideration, by Participant in such disposition or other transfer.

5.12 Limitations Applicable to Section 16 Persons. Notwithstanding any other provision of the Plan or this Agreement, if Participant is subject to Section 16 of the Exchange Act, the Plan, the Option and this Agreement shall be subject to any additional limitations set forth in any applicable exemptive rule under Section 16 of the Exchange Act (including any amendment to Rule 16b-3 of the Exchange Act) that are requirements for the application of such exemptive rule. To the extent permitted by applicable law, this Agreement shall be deemed amended to the extent necessary to conform to such applicable exemptive rule.

5.13 Entire Agreement. The Plan, the Grant Notice (including all Exhibits thereto) and this Agreement constitute the entire agreement of the parties and supersede in their entirety all prior undertakings and agreements of the Company and Participant with respect to the subject matter hereof, except to the extent expressly provided otherwise in a written agreement between the Company or a Subsidiary and Participant.

**EXHIBIT B**

**TO STOCK OPTION GRANT NOTICE**

**FORM OF EXERCISE NOTICE**

**(See Stock Administration for Form)**

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**EXHIBIT C**

**TO STOCK OPTION GRANT NOTICE**

**SAFEWAY INC. 2007 EQUITY AND INCENTIVE AWARD PLAN**

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**EXHIBIT D**

**TO STOCK OPTION GRANT NOTICE**

**SAFEWAY INC. 2007 EQUITY AND INCENTIVE AWARD PLAN PROSPECTUS**

**SAFEWAY INC.**  
**2011 EQUITY AND INCENTIVE AWARD PLAN**

**STOCK OPTION GRANT NOTICE**

Safeway Inc., a Delaware corporation, (the “**Company**”), pursuant to its 2011 Equity and Incentive Award Plan, as amended from time to time (the “**Plan**”), hereby grants to the holder listed below (“**Participant**”), an option to purchase the number of shares of Common Stock set forth below (the “**Option**”). This Option is subject to all of the terms and conditions set forth herein and in the Stock Option Agreement attached hereto as Exhibit A (the “**Stock Option Agreement**”) and the Plan, each of which are incorporated herein by reference. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Grant Notice and the Stock Option Agreement.

**Participant:** [ \_\_\_\_\_ ]  
**Grant Date:** [ \_\_\_\_\_ ]  
**Exercise Price per Share:** \$[ \_\_\_\_\_ ]  
**Total Exercise Price:** \$[ \_\_\_\_\_ ]  
**Total Number of Shares**  
**Subject to the Option:** [ \_\_\_\_\_ ] shares  
**Expiration Date:** [ \_\_\_\_\_ ]  
**Vesting Schedule:** [To be specified in individual agreements]

**Type of Option:**    ☐ Incentive Stock Option    ☐ Non-Qualified Stock Option

By his or her signature and the Company’s signature below, Participant agrees to be bound by the terms and conditions of the Plan, the Stock Option Agreement and this Grant Notice. Participant has reviewed the Stock Option Agreement, the Plan and this Grant Notice in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Grant Notice and fully understands all provisions of this Grant Notice, the Stock Option Agreement and the Plan. Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions arising under the Plan, this Grant Notice or the Stock Option Agreement.

**SAFEWAY INC.:**

By: \_\_\_\_\_  
Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Address: \_\_\_\_\_  
\_\_\_\_\_

**PARTICIPANT:**

By: \_\_\_\_\_  
Print Name: \_\_\_\_\_  
Address: \_\_\_\_\_  
\_\_\_\_\_

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## EXHIBIT A

### TO STOCK OPTION GRANT NOTICE

#### STOCK OPTION AGREEMENT – NON CANADIAN PARTICIPANTS

Pursuant to the Stock Option Grant Notice (the “**Grant Notice**”) to which this Stock Option Agreement (this “**Agreement**”) is attached, Safeway Inc., a Delaware corporation (the “**Company**”), has granted to Participant an option (the “**Option**”) to purchase the number of shares of the Company’s Common Stock, par value \$0.01 per share (“**Stock**”), specified in the Grant Notice, upon the terms and conditions set forth in the Safeway Inc. 2011 Equity and Incentive Award Plan, as such plan may be amended from time to time (the “**Plan**”), the Grant Notice and this Agreement.

### ARTICLE I

#### GENERAL

1.1 Defined Terms. Wherever the following terms are used in this Agreement they shall have the meanings specified below, unless the context clearly indicates otherwise. Capitalized terms not specifically defined herein shall have the meanings specified in the Grant Notice or, if not defined therein, the Plan.

“**Cause**” shall have the meaning ascribed to such term in any written employment agreement between or among the Company and/or any of its subsidiaries and Participant and, if no such written employment agreement shall be in force or effect, shall mean (a) conviction of, or the entry of a plea of guilty or no contest to, a felony or any other crime that causes the Company public disgrace or disrepute, or adversely affects the Company’s operations, financial performance, or relationship with its customers; (b) misappropriation of funds or other property of the Company or its affiliates; (c) refusal to perform the lawful and reasonable directives of Participant’s supervisor, the Company’s Chief Executive Officer or the Board; (d) failure by Participant to perform the duties of his or her employment with the Company or any of its subsidiaries which continues for a period of fourteen (14) days (other than by reason of illness or injury); or (e) material breach of any agreement with or duty owed to the Company or any of its affiliates. However, none of the foregoing events or conditions will constitute Cause unless the Company provides Participant with written notice of the event or condition and thirty (30) days to cure such event or condition (if curable) and the event or condition is not cured within such 30-day period.

“**Demotion**” shall mean the demotion of Participant to a position within the Company or a Subsidiary which is not then eligible for grants of stock options or to a position that is eligible for stock option grants at a lower level than the level for which Participant was eligible on the Grant Date. Notwithstanding the foregoing, the Chief Executive Officer of the Company may make adjustments, in his discretion, to the foregoing definition in the event of the transfer, illness or disability of Participant, the occurrence of a force majeure event (including without limitation acts of God, strikes or labor disturbances) affecting Participant’s position or other similar circumstances.

“**Good Reason**” shall have the meaning ascribed to such term in any written employment agreement between or among the Company and/or any of its subsidiaries and Participant and, if no such written employment agreement shall be in force or effect, shall mean the occurrence of any of the following, without Participant’s prior consent: (a) a material, adverse change in Participant’s responsibilities, authority or duties

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(including as a result of the assignment of duties materially inconsistent with Participant's position); (b) a material reduction in Participant's base salary; (c) a material transfer of Participant's principal place of employment to a location more than fifty (50) miles away from Participant's principal place of employment immediately prior to the Change in Control; or (d) the Company's material breach of this Agreement. However, none of the foregoing events or conditions will constitute Good Reason unless: (x) Participant provides the Company with written objection to the event or condition within ninety (90) days following the occurrence thereof; (y) the Company does not reverse or otherwise cure the event or condition within thirty (30) days of receiving that written objection; and (z) Participant resigns his or her employment within thirty (30) days following the expiration of that cure period.

**"Retirement"** shall mean a Participant's Termination of Employment or Termination of Directorship, as applicable, other than as a result of any circumstance specifically contemplated by Section 3.4(a), (b)(ii) or (c) or termination by the Company for Cause, at a time when the Participant has (i) attained at least 58 years of age, and (ii) completed at least seven consecutive years of service with the Company.

1.2 Incorporation of Terms of Plan. The Option is subject to the terms and conditions of the Plan which are incorporated herein by reference.

## ARTICLE II

### GRANT OF OPTION

2.1 Grant of Option. In consideration of Participant's agreement to remain in the service or employ of the Company or a Subsidiary and for other good and valuable consideration, effective as of the "Grant Date" set forth in the Grant Notice (the "**Grant Date**"), the Company irrevocably grants to Participant an Option to purchase any part or all of an aggregate of the number of shares of Stock set forth in the Grant Notice, upon the terms and conditions set forth in the Plan, the Grant Notice and this Agreement, subject to adjustment as provided in Section 11.3 of the Plan. Unless designated as an Incentive Stock Option in the Grant Notice, the Option shall be a Non-Qualified Stock Option.

2.2 Exercise Price. The exercise price of the shares of Stock subject to the Option shall be as set forth in the Grant Notice, without commission or other charge; *provided, however*, that the exercise price per share of Stock subject to the Option shall not be less than 100% of the Fair Market Value of a share of Stock on the Grant Date. Notwithstanding the foregoing, if this Option is designated as an Incentive Stock Option and Participant owns (within the meaning of Section 424(d) of the Code) more than 10% of the total combined voting power of all classes of stock of the Company or any Subsidiary Corporation or "parent corporation" of the Company (as defined in Section 424(e) of the Code), the exercise price per share of Stock subject to the Option shall not be less than 110% of the Fair Market Value of a share of Stock on the Grant Date (or the date the Option is modified, extended or renewed for purposes of Section 424(h) of the Code).

2.3 Consideration to the Company; No Employment Rights. In consideration of the grant of the Option by the Company, Participant agrees to render faithful and efficient services to the Company or any Subsidiary. Nothing in the Plan or this Agreement shall confer upon Participant any right to continue in the employ or service of the Company or any Subsidiary or shall interfere with or restrict in any way the rights of the Company and its Subsidiaries, which rights are hereby expressly reserved, to discharge or terminate the services of Participant at any time for any reason whatsoever, with or without cause, except to the extent expressly provided otherwise in a written agreement between the Company or a Subsidiary and Participant.

## ARTICLE III

### PERIOD OF EXERCISABILITY

#### 3.1 Commencement of Exercisability.

(a) Subject to Sections 3.2, 3.3 and 3.4, the Option shall become vested and exercisable in such amounts and at such times as are set forth in the Grant Notice.

(b) No portion of the Option which has not become vested and exercisable at the date of Participant's Termination of Employment, Termination of Directorship or Termination of Consultancy, as applicable, shall thereafter become vested and exercisable, except as set forth in Section 3.4 below or as may be otherwise provided by the Administrator or as set forth in a written agreement between the Company and Participant.

(c) No portion of the Option which has not become vested and exercisable at the date of Participant's Demotion shall thereafter become vested and exercisable. Notwithstanding the foregoing, in the event of Participant's Demotion to a position that is eligible for stock option grants at a lower level than the level for which Participant was eligible on the Grant Date (the "***New Position***"), the immediately preceding sentence shall apply only to that part (if any) of the portion of the Option which has not become vested and exercisable which exceeds the minimum number of stock options to which the New Position is eligible (the Option minus such portion, the "***Remaining Option***").

3.2 Duration of Exercisability. The installments provided for in the vesting schedule set forth in the Grant Notice are cumulative. Each such installment which becomes vested and exercisable pursuant to the vesting schedule set forth in the Grant Notice shall remain vested and exercisable until it becomes unexercisable under Section 3.3.

3.3 Expiration of Option. The Option may not be exercised to any extent by anyone after the first to occur of the following events:

(a) The expiration of ten years following the Grant Date;

(b) If this Option is designated as an Incentive Stock Option and Participant owned (within the meaning of Section 424(d) of the Code), at the time the Option was granted, more than 10% of the total combined voting power of all classes of stock of the Company or any Subsidiary Corporation or any "parent corporation" of the Company (as defined in Section 424(e) of the Code), the expiration of five years from the Grant Date;

(c) The expiration of three months following the date of Participant's Termination of Employment, Termination of Directorship or Termination of Consultancy, as applicable, unless such termination occurs by reason of Participant's Retirement, Participant's death, Participant's "permanent and total disability" (within the meaning of Section 22(e)(3) of the Code) or Participant's engagement in willful misconduct that injures the Company or any of its Subsidiaries;

(d) The expiration of 12 months following the date of Participant's Termination of Employment, Termination of Directorship or Termination of Consultancy, as applicable, by reason of Participant's death;

(e) With respect to Options that are vested and exercisable as of the date of Participant's Retirement or Participant's "permanent and total disability" (within the meaning of Section 22(e)(3) of the Code), the expiration of 12 months following such date of termination, and with respect to each installment that vests and becomes exercisable following such date of termination in accordance with Section 3.4(c) and (d), the expiration of 12 months following each such vesting date with respect to each such installment; or

(f) The date of Participant's Termination of Employment, Termination of Directorship or Termination of Consultancy by the Company or any Parent or Subsidiary by reason of Participant's engagement in willful misconduct that injures the Company or any of its Subsidiaries.

Participant acknowledges that an Incentive Stock Option exercised more than three months after Participant's Termination of Employment, other than by reason of death or Participant's "permanent and total disability" (within the meaning of Section 22(e)(3) of the Code), will be taxed as a Non-Qualified Stock Option.

3.4 Acceleration/Continuation of Exercisability. After giving effect to Section 3.1(c) and notwithstanding any other contrary provision of this Agreement:

(a) In the event of Participant's Termination of Employment, Termination of Directorship or Termination of Consultancy, as applicable, by reason of Participant's death, the Option shall become fully vested and exercisable with respect to all shares of Stock covered thereby upon the date of such termination.

(b) Pursuant to Section 11.3 of the Plan, if a Change in Control occurs and Participant has remained in the service of the Company continuously until at least immediately prior to the Change in Control, the Option shall vest and become exercisable as follows:

(i) If the Administrator reasonably determines in good faith, prior to the occurrence of the Change in Control, that the Option will not be honored or assumed, or new rights that substantially preserve the terms of the Option substituted therefor, by Participant's employer (or the parent of such employer) immediately following the Change in Control, the Option shall become fully vested and exercisable with respect to all shares of Stock covered thereby immediately prior to the Change in Control.

(ii) If the Administrator determines that the Options have been assumed and, prior to vesting of the Option, Participant experiences a Termination of Services, other than for Cause, or Participant experiences a Termination of Services with Good Reason, within the one year period immediately following the Change in Control, the Option shall become fully vested and exercisable with respect to all shares of Stock covered thereby immediately upon such Termination of Services.

(c) In the event of Participant's Termination of Employment, Termination of Directorship or Termination of Consultancy, as applicable, by reason of the Participant's "permanent and total disability" (within the meaning of Section 22(e)(3) of the Code), the Option shall continue to become vested and exercisable in such amounts and at such times as are set forth in the Grant Notice following the date of such termination; provided, that in the event of Participant's subsequent death or the circumstances specifically contemplated by Sections 3.4(b)(i) and 3.4(b)(ii), the Option shall become fully vested and exercisable with respect to all shares of Stock covered thereby immediately prior to or upon such event.

(d) In the event of Participant's Termination of Employment, Termination of Directorship or Termination of Consultancy, as applicable, by reason of the Participant's Retirement at least 12 months following the Grant Date, the Option shall continue to become vested and exercisable in such amounts and at such times as are set forth in the Grant Notice following the date of such termination; provided, that in the event of Participant's subsequent death or the circumstances specifically contemplated by Sections 3.4(b)(i) and 3.4(b)(ii), the Option shall become fully vested and exercisable with respect to all shares of Stock covered thereby immediately prior to or upon such date.

(e) For the avoidance of doubt, in the event Participant experiences a Demotion, references to the "Option" in this Section 3.4 shall refer to the Remaining Option, if any.

3.5 Special Tax Consequences. Participant acknowledges that, to the extent that the aggregate Fair Market Value (determined as of the time the Option is granted) of all shares of Stock with respect to which Incentive Stock Options, including the Option, are exercisable for the first time by Participant in any calendar year exceeds \$100,000, the Option and such other options shall be Non-Qualified Stock Options to the extent necessary to comply with the limitations imposed by Section 422(d) of the Code. Participant further acknowledges that the rule set forth in the preceding sentence shall be applied by taking the Option and other "incentive stock options" into account in the order in which they were granted, as determined under Section 422(d) of the Code and the Treasury Regulations thereunder.

## ARTICLE IV

### EXERCISE OF OPTION

4.1 Person Eligible to Exercise. Except as provided in Sections 5.2(b) and 5.2(c), during the lifetime of Participant, only Participant may exercise the Option or any portion thereof. After the death of Participant, any exercisable portion of the Option may, prior to the time when the Option becomes unexercisable under Section 3.3, be exercised by Participant's personal representative or by any person empowered to do so under the deceased Participant's will or under the then applicable laws of descent and distribution.

4.2 Partial Exercise. Any exercisable portion of the Option or the entire Option, if then wholly exercisable, may be exercised in whole or in part at any time prior to the time when the Option or portion thereof becomes unexercisable under Section 3.3; *provided, however*, that each partial exercise shall be for not less than 100 shares (or, if less, the maximum number of shares for which the Option is vested and exercisable at such time) and shall be for whole shares only.

4.3 Manner of Exercise. The Option, or any exercisable portion thereof, may be exercised solely by delivery to the Secretary of the Company or the Secretary's office of all of the following prior to the time when the Option or such portion thereof becomes unexercisable under Section 3.3:

(a) Written evidence of exercise of the Option or any portion thereof by Participant or any other person then entitled to exercise the Option or portion thereof, in such form or forms deemed acceptable by the Company (including an exercise notification confirmation statement provided by a broker), stating that the Option or portion thereof is thereby exercised, such written evidence complying with all applicable rules established by the Administrator;

(b) The receipt by the Company of full payment for the shares with respect to which the Option or portion thereof is exercised, including payment of any applicable withholding tax, which may be in one or more of the forms of consideration permitted under Section 4.4;

(c) Such representations and documents as the Administrator, in its discretion, deems necessary or advisable to effect compliance with all applicable provisions of the Securities Act and any other federal, state or foreign securities laws or regulations. The Administrator may, in its discretion, also take whatever additional actions it deems appropriate to effect such compliance including, without limitation, placing legends on share certificates and issuing stop-transfer orders to transfer agents and registrars; and

(d) In the event the Option or portion thereof shall be exercised pursuant to Section 4.1 by any person or persons other than Participant, appropriate proof of the right of such person or persons to exercise the Option.

4.4 Method of Payment. Payment of the exercise price shall be by any of the following, or a combination thereof, at the election of Participant:

(a) cash;

(b) check;

(c) to the extent permitted under applicable laws, delivery of a notice that Participant has placed a market sell order with a broker with respect to shares of Stock then issuable upon exercise of the Option, and that the broker has been directed to pay a sufficient portion of the net proceeds of the sale to the Company in satisfaction of the aggregate exercise price; *provided*, that payment of such proceeds is then made to the Company upon settlement of such sale;

(d) with the consent of the Administrator, through the delivery of shares of Stock which have been owned by Participant for at least six months, duly endorsed for transfer to the Company with a Fair Market Value on the date of exercise equal to the aggregate exercise price of the Option or exercised portion thereof; or

(a) any combination of the foregoing.

4.5 Conditions to Issuance of Shares. The shares of Stock deliverable upon the exercise of the Option, or any portion thereof, may be either previously authorized but unissued shares or issued shares which have then been reacquired by the Company. Such shares shall be fully paid and nonassessable. The Company shall not be required to issue or deliver any shares of Stock purchased upon the exercise of the Option or portion thereof prior to fulfillment of all of the following conditions:

(a) The admission of such shares to listing on all stock exchanges on which such Stock is then listed;

(b) The completion of any registration or other qualification of such shares under any federal, state or foreign law or under rulings or regulations promulgated by the Securities and Exchange Commission or any other governmental regulatory body, which the Administrator shall, in its discretion, deem necessary or advisable;

(c) The obtaining of any approval or other clearance from any federal, state or foreign governmental agency which the Administrator shall, in its discretion, determine to be necessary or advisable;

(d) The receipt by the Company of full payment for such shares, including payment of any applicable withholding tax, which may be in one or more of the forms of consideration permitted under Section 4.4;

(e) Unless a Registration Statement under the Securities Act is in effect with respect to the shares of Stock to be issued, the receipt of a written representation of Participant that the shares of Stock are being acquired by Participant for investment and with no present intention of selling or transferring them and that Participant will not sell or otherwise transfer the shares except in compliance with all applicable securities laws; and

(f) The lapse of such reasonable period of time following the exercise of the Option and the satisfaction of all other conditions to issuance as the Administrator may from time to time establish for reasons of administrative convenience.

4.6 Rights as Stockholder. The holder of the Option shall not be, nor have any of the rights or privileges of, a stockholder of the Company in respect of any shares purchasable upon the exercise of any part of the Option unless and until such shares shall have been issued by the Company to such holder (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). No adjustment will be made for a dividend or other right for which the record date is prior to the date the shares are issued, except as provided in Section 11.3 of the Plan.

## ARTICLE V

### OTHER PROVISIONS

5.1 Administration. The Administrator shall have the power to (a) interpret the Plan and this Agreement, (b) adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret, amend or revoke any such rules and (c) amend this Agreement, subject to Section 5.9. All actions taken and all interpretations and determinations made by the Administrator in good faith shall be binding, conclusive and final upon Participant, the Company and all other interested persons. No member of the Administrator shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan, this Agreement or the Option. In its discretion, the Board may at any time and from time to time exercise any and all rights and duties of the Administrator under the Plan except with respect to matters which under Rule 16b-3 or Section 162(m) of the Code, or any regulations or rules issued thereunder, are required to be determined in the discretion of the Administrator.

5.2 Option Not Transferable.

(a) Subject to Section 5.2(b), the Option may not be sold, pledged, assigned or transferred in any manner other than by will or the laws of descent and distribution. Neither the Option nor any interest or right therein or part thereof shall be liable for the debts, contracts or engagements of Participant or Participant's successors in interest or shall be subject to sale or other disposition by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means whether such sale or other disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy), and any attempted sale or other disposition thereof

shall be null and void and of no effect, except to the extent that such sale or other disposition is permitted by the preceding sentence.

(b) Notwithstanding any other provision in this Agreement, with the consent of the Administrator and to the extent the Option is not intended to qualify as an Incentive Stock Option, the Option may be transferred to one or more Permitted Transferees, subject to the terms and conditions set forth in Section 11.1(b) of the Plan.

(c) Unless transferred to a Permitted Transferee in accordance with Section 5.2(b), during the lifetime of Participant, only Participant may exercise the Option or any portion thereof. Subject to such conditions and procedures as the Administrator may require, a Permitted Transferee may exercise the Option or any portion thereof during Participant's lifetime. After the death of Participant, any exercisable portion of the Option may, prior to the time when the Option becomes unexercisable under Section 3.3, be exercised by Participant's personal representative or by any person empowered to do so under the deceased Participant's will or under the then applicable laws of descent and distribution.

### 5.3 Restrictive Legends and Stop-Transfer Orders.

(a) The share certificate or certificates evidencing the shares of Stock purchased hereunder shall be endorsed with any legends that may be required by any applicable federal, state or foreign securities laws.

(b) Participant agrees that, in order to ensure compliance with the restrictions referred to herein, the Company may issue appropriate "stop transfer" instructions to its transfer agent, if any, and that, if the Company transfers its own securities, it may make appropriate notations to the same effect in its own records.

(c) The Company shall not be required: (i) to transfer on its books any shares of Stock that have been sold or otherwise transferred in violation of any of the provisions of this Agreement, or (ii) to treat as owner of such shares of Stock or to accord the right to vote or pay dividends to any purchaser or other transferee to whom such shares shall have been so transferred.

5.4 Shares to Be Reserved. The Company shall at all times during the term of the Option reserve and keep available such number of shares of Stock as will be sufficient to satisfy the requirements of this Agreement.

5.5 Notices. Any notice to be given under the terms of this Agreement to the Company shall be addressed to the Company in care of the Secretary of the Company at the address for the Company appearing on the Grant Notice, and any notice to be given to Participant shall be addressed to Participant at the address appearing for the Participant on the Grant Notice or at the last known address for Participant contained in the Company's records. By a notice given pursuant to this Section 5.5, either party may thereafter designate a different address for notices to be given to that party. Any notice which is required to be given to Participant shall, if Participant is then deceased, be given to the person entitled to exercise Participant's Option pursuant to Section 4.1 by written notice under this Section 5.5. Any notice shall be deemed duly given when sent via email or enclosed in a properly sealed envelope or wrapper addressed as aforesaid, deposited (with postage prepaid) in a post office or branch post office regularly maintained by the United States Postal Service.

5.6 Titles. Titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

5.7 Governing Law; Severability. This Agreement shall be administered, interpreted and enforced under the laws of the State of Delaware, without regard to the conflicts of laws principles thereof. Should any provision of this Agreement be determined by a court of law to be illegal or unenforceable, the other provisions shall nevertheless remain effective and shall remain enforceable.

5.8 Conformity to Securities Laws. Participant acknowledges that the Plan is intended to conform to the extent necessary with all applicable federal, state and foreign securities laws (including the Securities Act and the Exchange Act) and any and all regulations and rules promulgated thereunder by the Securities and Exchange Commission or any other governmental regulatory body. Notwithstanding anything herein to the contrary, the Plan shall be administered, and the Option is granted and may be exercised, only in such a manner as to conform to such laws, rules and regulations. To the extent permitted by applicable law, the Plan and this Agreement shall be deemed amended to the extent necessary to conform to such laws, rules and regulations.

5.9 Amendments. This Agreement may not be modified, amended or terminated, except by an instrument in writing, signed by a duly authorized representative of the Company and, to the extent any such modification, amendment or termination may adversely affect the rights of Participant or such other person as may be permitted to exercise the Option pursuant to Section 4.1, by Participant or such other person, except as otherwise provided under the terms of the Plan.

5.10 Successors and Assigns. The Company may assign any of its rights under this Agreement to single or multiple assignees, and this Agreement shall inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer herein set forth in Section 5.2, this Agreement shall be binding upon Participant and Participant's heirs, executors, administrators, successors and assigns.

5.11 Notification of Disposition. If this Option is designated as an Incentive Stock Option, Participant shall give prompt notice to the Company of any disposition or other transfer of any shares of Stock acquired under this Agreement if such disposition or transfer is made (a) within two years from the Grant Date or (b) within one year after the transfer of such shares to Participant. Such notice shall specify the date of such disposition or other transfer and the amount realized, in cash, other property, assumption of indebtedness or other consideration, by Participant in such disposition or other transfer.

5.12 Limitations Applicable to Section 16 Persons. Notwithstanding any other provision of the Plan or this Agreement, if Participant is subject to Section 16 of the Exchange Act, the Plan, the Option and this Agreement shall be subject to any additional limitations set forth in any applicable exemptive rule under Section 16 of the Exchange Act (including any amendment to Rule 16b-3 of the Exchange Act) that are requirements for the application of such exemptive rule. To the extent permitted by applicable law, this Agreement shall be deemed amended to the extent necessary to conform to such applicable exemptive rule.

5.13 Entire Agreement. The Plan, the Grant Notice (including all Exhibits thereto) and this Agreement constitute the entire agreement of the parties and supersede in their entirety all prior undertakings and agreements of the Company and Participant with respect to the subject matter hereof, except to the extent expressly provided otherwise in a written agreement between the Company or a Subsidiary and Participant.

5.14 Section 409A. This Option is not intended to constitute "nonqualified deferred compensation" within the meaning of Section 409A of the Code (together with any Department of Treasury



regulations and other interpretive guidance issued thereunder, including without limitation any such regulations or other guidance that may be issued after the date hereof, “**Section 409A**”). However, notwithstanding any other provision of the Plan, the Grant Notice or this Agreement, if at any time the Administrator determines that the Option (or any portion thereof) may be subject to Section 409A, the Administrator shall have the right in its sole discretion (without any obligation to do so or to indemnify Participant or any other person for failure to do so) to adopt such amendments to the Plan, the Grant Notice or this Agreement, or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, as the Administrator determines are necessary or appropriate either for the Option to be exempt from the application of Section 409A or to comply with the requirements of Section 409A.

5.15 Limitation on Participant’s Rights. Participation in the Plan confers no rights or interests other than as herein provided. This Agreement creates only a contractual obligation on the part of the Company as to amounts payable and shall not be construed as creating a trust. Neither the Plan nor any underlying program, in and of itself, has any assets. Participant shall have only the rights of a general unsecured creditor of the Company with respect to amounts credited and benefits payable, if any, with respect to the Option, and rights no greater than the right to receive the Stock as a general unsecured creditor with respect to options, as and when exercised pursuant to the terms hereof.

5.16 Claw-Back Policy. The Option shall be subject to any claw-back policy implemented by the Company, in accordance with Section 11.7(b) of the Plan.

**EXHIBIT B**

**TO STOCK OPTION GRANT NOTICE**

**SAFEWAY INC. 2011 EQUITY AND INCENTIVE AWARD PLAN**

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**EXHIBIT C**

**TO STOCK OPTION GRANT NOTICE**

**SAFEWAY INC. 2011 EQUITY AND INCENTIVE AWARD PLAN PROSPECTUS**

SAFeway INC.  
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES  
(Dollars in millions)

	52 Weeks 2013	52 Weeks 2012	52 Weeks 2011	52 Weeks 2010	53 Weeks 2009
Income (loss) before income taxes	\$ 336.0	\$ 436.4	\$ 458.4	\$ 515.9	\$ (1,293.2)
Add interest expense	273.0	300.7	268.1	294.9	327.8
Add interest on rental expense (a)	200.4	194.3	194.3	192.7	196.6
Less equity in earnings of unconsolidated affiliate, net	(17.6)	(17.5)	(13.0)	(15.3)	(8.5)
Noncontrolling interests	(14.7)	(1.6)	(1.5)	(0.8)	—
Earnings (loss)	\$ 777.1	\$ 912.3	\$ 906.3	\$ 987.4	\$ (777.3)
Interest expense	\$ 273.0	\$ 300.7	\$ 268.1	\$ 294.9	\$ 327.8
Add capitalized interest	8.8	10.9	14.0	10.5	7.3
Add interest on rental expense (a)	200.4	194.3	194.3	192.7	196.6
Fixed charges	\$ 482.2	\$ 505.9	\$ 476.4	\$ 498.1	\$ 531.7
Ratio of earnings to fixed charges (b)	1.6	1.8	1.9	2.0	NM

(a) Based on an 8.5% discount factor on the estimated present value of future operating lease payments.

(b) NM indicates not meaningful. In 2009, earnings were inadequate to cover fixed charges by approximately \$1,309.0 million due to our recording non-cash goodwill impairment charges of \$1,974.2 million, before tax.

## **SAFEWAY INC.**

### **SCHEDULE OF SUBSIDIARIES**

**As of December 28, 2013**

The following is a list of the Company's subsidiaries and includes all subsidiaries deemed significant. The jurisdiction of each company is listed in parentheses. Forty-two (42) companies are not listed because they are not actively conducting business, they are maintained solely for the purpose of holding licenses, they hold no assets or because they are less than majority owned.

Blackhawk Network Holdings, Inc. and its subsidiaries: (DE)  
    Blackhawk Network Asia Pacific Holdings Limited and its subsidiary: (Hong Kong)  
        Blackhawk Information Technology Service (Shanghai) Co., Ltd. (China)  
Blackhawk Network California, Inc. (CA)  
Blackhawk Network, Inc. and its subsidiaries: (AZ)  
    Blackhawk Network (Australia) Pty Ltd. (Australia)  
    Blackhawk Network Brasil S.A. (Brazil)  
    Blackhawk Network (Canada) Ltd. (Canada)  
    Blackhawk Network (Europe) Limited (United Kingdom)  
    Blackhawk Network (Japan) KK (Japan)  
    Blackhawk Network (Korea), LLC (South Korea)  
    Blackhawk Network (UK) Ltd. (United Kingdom)  
BH Network Holdings (Europe) B.V. and its subsidiaries: (The Netherlands)  
    Blackhawk Network (France) SARL (France)  
    Blackhawk Network Germany GmbH (Germany)  
        Retailo AG and its subsidiaries: (Germany)  
            Retailo Switzerland AG (Switzerland)  
            Retailo Austria GmbH (Austria)  
            Advano GmbH (Germany)  
            Retailo Filialbetriebs GmbH (Germany)  
            Retailo Suppliers GmbH (Germany)  
            Retailo Convenience GmbH (Germany)  
Blackhawk Network (Overseas Territories), LLC (DE)  
    Blackhawk Network (Singapore) Pte. Ltd. (Singapore)  
Blackhawk Support Services (El Salvador), Ltda. de C.V. (El Salvador)  
Cardpool, Inc. (DE)  
EWI Holdings, Inc. and its subsidiary: (DE)  
    Blackhawk Network Mexico S. de R.L. de C.V. (Mexico)  
Casa Ley Services, Inc. (DE)  
Cayam Energy, LLC (DE)  
Divario Ventures LLC (DE)  
Dominick's Supermarkets, LLC and its subsidiary: (DE)  
    Dominick's Finer Foods, LLC and its subsidiary: (DE)  
        Dominick's Finer Foods, Inc. of Illinois (IL)  
Eureka Land Management LLC and its subsidiary: (WA)  
    Eureka Development LLC (WA)  
GFM Holdings I, Inc. and its subsidiary: (DE)  
    GFM Holdings LLC, general partner of: (DE)  
        Genuardi's Family Markets LP (DE)  
Lehua Insurance Company, Inc. (HI)  
Lucerne Foods, Inc. and its subsidiaries: (DE)  
    Eating Right LLC (DE)  
    Lucerne Dairy Products LLC (DE)  
    Lucerne North America LLC (DE)  
    O Organics LLC (DE)  
Milford Insurance (Bermuda) Ltd. (Bermuda)

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## SCHEDULE OF SUBSIDIARIES, Continued

Oakland Property Brokerage Inc. (DE)  
Pak 'N Save, Inc. (CA)  
PDC I, Inc. (DE)  
Point Fosdick Square LLC (WA)  
Property Development Centers LLC and its subsidiaries: (DE)  
    PDC Lahaina, LLC (DE)  
    PDC-Rancho Del Mar LLC (DE)  
Randall's Holdings, Inc. and its subsidiaries: (DE)  
    Randall's Finance Company, Inc. (DE)  
    Randall's Food Markets, Inc., general partner of: (DE)  
        Randall's Food & Drugs LP and its subsidiary: (DE)  
            Randall's Management Company, Inc. and its subsidiary: (DE)  
            Randall's Beverage Company, Inc. (TX)  
    Randall's Investments, Inc. (DE)  
Safeway #0638 Exchange, LLC (OR)  
Safeway Australia Holdings, Inc. (DE)  
Safeway Canada Holdings, Inc. and its subsidiary: (DE)  
    Safeway New Canada, Inc. and its subsidiary: (DE)  
        CSL IT Services ULC (formerly Canada Safeway Limited) and its subsidiaries:  
        (British Columbia)  
            0984354 B.C. Unlimited Liability Company (formerly Canada Safeway Liquor  
            Stores ULC) (British Columbia)  
            0984457 B.C. Unlimited Liability Company (formerly Safeway Int'l Finance Corp.  
            of Canada ULC) (British Columbia)  
            0984470 B.C. Unlimited Liability Company (formerly Safeway Ontario Finance  
            ULC) (British Columbia)  
Safeway Corporate, Inc. and its subsidiaries: (DE)  
    Safeway Stores 67, Inc. (DE)  
    Safeway Stores 68, Inc. (DE)  
    Safeway Stores 69, Inc. (DE)  
    Safeway Stores 70, Inc. (DE)  
Safeway Dallas, Inc. and its subsidiaries: (DE)  
    Avia Partners, Inc. (DE)  
    Safeway Stores 78, Inc. (DE)  
    Safeway Stores 79, Inc. (DE)  
    Safeway Stores 80, Inc. (DE)  
    Safeway Stores 82, Inc. (DE)  
    Safeway Stores 85, Inc. (DE)  
    Safeway Stores 86, Inc. (DE)  
    Safeway Stores 87, Inc. (DE)  
    Safeway Stores 88, Inc. (DE)  
    Safeway Stores 89, Inc. (DE)  
    Safeway Stores 90, Inc. (DE)  
    Safeway Stores 91, Inc. (DE)  
    Safeway Stores 92, Inc. (DE)  
    Safeway Stores 96, Inc. (DE)  
    Safeway Stores 97, Inc. (DE)  
    Safeway Stores 98, Inc. (DE)  
Safeway Denver, Inc. and its subsidiaries: (DE)  
    Safeway Stores 44, Inc. (DE)  
    Safeway Stores 45, Inc. (DE)  
    Safeway Stores 46, Inc. (DE)  
    Safeway Stores 47, Inc. (DE)  
    Safeway Stores 48, Inc. (DE)

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SCHEDULE OF SUBSIDIARIES, Continued

Safeway Stores 49, Inc. (DE)  
Safeway Stores 50, Inc. (DE)  
Safeway Gift Cards, LLC (AZ)  
Safeway Global Sourcing Holdings Ltd. and its subsidiaries: (BVI)  
Safeway Global Sourcing Limited (Hong Kong)  
Safeway Global Sourcing (Macao Commercial Offshore) Limited (Macao)  
Safeway Holdings I, LLC and its subsidiary: (DE)  
Groceryworks.com, LLC and its subsidiary: (DE)  
Groceryworks.com Operating Company, LLC (DE)  
Safeway Leasing, Inc. (DE)  
Safeway Philtech Holdings, Inc. and its subsidiary: (DE)  
Safeway Philtech Inc. (Philippines)  
Safeway Richmond, Inc. and its subsidiary: (DE)  
Safeway Stores 58, Inc. and its subsidiary: (DE)  
Safelease, Inc. (DE)  
Safeway Select Gift Source, Inc. (DE)  
Safeway Southern California, Inc. and its subsidiaries: (DE)  
Safeway Stores 18, Inc. (DE)  
Safeway Stores 26, Inc. (DE)  
Safeway Stores 28, Inc. (DE)  
Safeway Stores 31, Inc. (DE)  
The Vons Companies, Inc. (MI)  
Safeway Stores 42, Inc. (DE)  
Safeway Stores 43, Inc. (DE)  
Safeway Stores 99, Inc. (DE)  
Safeway Supply, Inc. and its subsidiaries: (DE)  
Consolidated Procurement Services, Inc. (DE)  
Safeway Stores 71, Inc. (DE)  
Safeway Stores 72, Inc. (DE)  
Safeway Stores 73, Inc. (DE)  
Safeway Stores 74, Inc. (DE)  
Safeway Stores 75, Inc. (DE)  
Safeway Stores 76, Inc. (DE)  
Safeway Stores 77, Inc. (DE)  
Safeway Trucking, Inc. (DE)  
SRG, Inc. (DE)  
SSI - AK Holdings, Inc. and its subsidiary: (DE)  
Carr-Gottstein Foods Co. and its subsidiaries: (DE)  
AOL Express, Inc. (AK)  
APR Forwarders, Inc. (AK)  
Stoneridge Holdings, LLC and its subsidiary: (DE)  
Safeway Health Inc. (DE)  
Strategic Global Sourcing, LLC (DE)  
Taylor Properties, Inc. (DE)  
Vons Sherman Oaks, LLC (OR)

## CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following registration statements of our report dated February 25, 2014, relating to the consolidated financial statements of Safeway Inc. and subsidiaries, and the effectiveness of Safeway Inc.'s internal control over financial reporting, appearing in this Annual Report on Form 10-K of Safeway Inc. and subsidiaries for the year ended December 28, 2013:

- No. 33-37207 on Form S-8 regarding the Profit Sharing Plan of Safeway Inc. and its United States Subsidiaries,
- No. 33-42432 on Form S-8 and Form S-3 regarding the 1994 Amended and Restated Stock Option and Incentive Plan for Key Employees of Safeway Inc.,
- No. 33-48884 on Form S-8 regarding the 1994 Amended and Restated Stock Option and Incentive Plan for Key Employees of Safeway Inc.,
- No. 33-63803 on Form S-8 regarding the 1994 Amended and Restated Stock Option and Incentive Plan for Key Employees of Safeway Inc.,
- No. 33-54581 on Form S-8 regarding the Employee Stock Purchase Plan of Safeway Inc.,
- No. 333-87289 on Form S-8 regarding the 1999 Amended and Restated Equity Participation Plan,
- No. 333-112976 on Form S-8 regarding the 1999 Amended and Restated Equity Participation Plan,
- No. 333-91975 on Form S-8 regarding the Dominick's Finer Foods, Inc. 401(k) Retirement Plan for Union Employees, as amended, and the Randall's Food Markets, Inc. ESOP/401(k) Savings Plan,
- No. 333-30820 on Form S-8 regarding the Safeway Executive Deferred Compensation Plan and Canada Safeway Limited Executive Deferred Compensation Plan,
- No. 333-45920 on Form S-8 regarding the Safeway 401(k) Plan,
- No. 333-169022 on Form S-8 regarding the Safeway 401(k) Plan,
- No. 333-64354 on Form S-8 regarding the 2001 Restatement of the Vons Companies, Inc. Pharmacists' 401(k) Plan and Trust,
- No. 333-169021 on Form S-8 regarding the Vons Companies, Inc. Pharmacists' 401(k) Plan,
- No. 333-143255 on Form S-8 regarding the 2007 Equity and Incentive Award Plan of Safeway Inc.,
- No. 333-174465 on Form S-8 regarding the Safeway Inc. 2011 Equity and Incentive Award Plan,
- No. 333-177489 on Form S-3 regarding Debt and Equity Securities, and
- No. 333-190634 on Form S-8 regarding the Safeway 401(k) Plan.

**/s/ DELOITTE & TOUCHE LLP**

San Francisco, California  
February 25, 2014



**EXHIBIT 31.1**  
**Certification**

I, Robert L. Edwards, certify that:

1. I have reviewed this Annual Report on Form 10-K of Safeway Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 25, 2014

/s/ Robert L. Edwards

Robert L. Edwards

President and Chief Executive Officer

**EXHIBIT 31.2**  
**Certification**

I, Peter J. Bocian, certify that:

1. I have reviewed this Annual Report on Form 10-K of Safeway Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 25, 2014

/s/ Peter J. Bocian

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Peter J. Bocian  
Executive Vice President  
and Chief Financial Officer

**EXHIBIT 32**  
**Certifications**

**Certification of Chief Executive Officer**

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Safeway Inc. (the "Company") hereby certifies that:

- (i) the Annual Report on Form 10-K of the Company for the fiscal year ended December 28, 2013 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 25, 2014

/s/ Robert L. Edwards

Robert L. Edwards

Chief Executive Officer

**Certification of Chief Financial Officer**

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Safeway Inc. (the "Company") hereby certifies that:

- (i) the Annual Report on Form 10-K of the Company for the fiscal year ended December 28, 2013 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 25, 2014

/s/ Peter J. Bocian

Peter J. Bocian

Chief Financial Officer

The foregoing certifications are being furnished solely to accompany the Report pursuant to 18 U.S.C. § 1350, and are not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and are not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

A signed original of this written statement as required by Section 906 has been provided to Safeway Inc., and will be retained by Safeway Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

