



IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

IN RE SAFEWAY INC.  
STOCKHOLDERS LITIGATION

CONSOLIDATED  
C.A. NO. 9445-VCL

**MEMORANDUM OF UNDERSTANDING**

This Memorandum of Understanding (“MOU”) is entered into as of June 13, 2014, by and among (i) plaintiffs Pipefitters Local 636 Defined Benefit Fund, Oklahoma Firefighters Pension and Retirement System, Cleveland Bakers and Teamsters Pension and Health & Welfare Funds, and The City of Atlanta Firefighters’ Pension Fund (collectively, “Plaintiffs”), and (ii) defendants Safeway, Inc. (“Safeway” or the “Company”); Robert Edwards, T. Gary Rogers, Janet E. Grove, Mohan Gyani, Frank C. Herringer, George J. Morrow, Kenneth W. Oder, Arun Sarin, and William Y. Tauscher (collectively, the “Safeway Board” or the “Individual Defendants”); Cerberus Capital Management, L.P. (“Cerberus”), AB Acquisition LLC (“AB Acquisition”), Albertson’s Holdings LLC (“Albertson’s Holdings”), Albertson’s LLC (“Albertson’s”), and Saturn Acquisition Merger Sub, Inc. (“Merger Sub”) (collectively, the “Buyout Group”; together with Safeway and the Individual Defendants, “Defendants”; and together with Plaintiffs, the “Settling Parties”), by and through their respective undersigned counsel, to document the agreement in principle for the settlement of the above-captioned consolidated

stockholder class action (the “Consolidated Action” or “Action”) on the terms and subject to the conditions set forth herein.

**WHEREAS,**

A. On March 6, 2014, Safeway announced that the Safeway Board had agreed to sell the Company to AB Acquisition (the “Proposed Transaction”).

B. Starting on March 13, 2014, Safeway stockholders filed seven class actions in the Court of Chancery of the State of Delaware (the “Court”) asserting claims in connection with the Proposed Transaction, bearing Civil Action Nos. 9445-VCL, 9454-VCL, 9455-VCL, 9461-VCL, 9466-VCL, 9492-VCL, and 9495-VCL.<sup>1</sup>

C. On April 8, 2014, the Court entered an Order: (i) consolidating the above-referenced stockholder class actions under the caption *In re Safeway Inc. Stockholders Litigation*, Consolidated C.A. NO. 9445-VCL; (ii) appointing the law firms Bernstein Litowitz Berger & Grossmann LLP, Grant & Eisenhofer, P.A., Kessler Topaz Meltzer & Check LLP, and Saxena White P.A. as co-lead counsel in the Action (“Co-Lead Counsel”); and (iii) appointing the law firms Labaton

---

<sup>1</sup> The actions consist of *Barnhard v. Safeway Inc.*, C.A. No. 9445-VCL; *Ogurkiewicz v. Safeway Inc.*, C.A. No. 9454-VCL; *Morales v. Safeway Inc.*, C.A. No. 9455-VCL; *Pipefitters Local 636 Defined Benefit Fund and Oklahoma Firefighters Pension And Retirement System v. Safeway Inc.*, C.A. No. 9461-VCL; *Cleveland Bakers v. Safeway Inc.*, C.A. No. 9466-VCL; *KBC Asset Management NV, et al. v. Safeway Inc.*, C.A. No. 9492-VCL; and *City of Atlanta Firefighters Pension Fund v. Safeway Inc.*, C.A. No. 9495-VCL.

Sucharow LLP, Kirby McInerney LLP, and Girard Gibbs LLP to serve on an executive committee supporting Co-Lead Counsel in the Action.

D. The parties engaged in expedited discovery between March 31, 2014 and May 30, 2014, including the production, review and analysis of documents, and depositions of members of the Safeway Board, corporate representative of the Safeway Board's financial advisors Goldman Sachs and Greenhill, and representatives of Cerberus and Albertson's.

E. Co-Lead Counsel and counsel for Defendants have engaged in arms' length negotiations concerning a possible settlement of the Consolidated Action.

F. In connection with settlement negotiations, the parties did not discuss the amount of any potential application by Co-Lead Counsel for attorneys' fees and costs.

G. Defendants each have denied, and continue to deny, that they have committed, or aided and abetted in the commission of, any violation of law or breaches of duty or engaged in any of the wrongful acts alleged in the Action, and expressly maintain that they diligently complied with their fiduciary, disclosure, and other legal duties, and that they are entering into this MOU solely to eliminate the risk, burden and expense of further litigation.

H. Plaintiffs and Co-Lead Counsel believe that the claims asserted by the Plaintiffs have merit, that entry by Plaintiffs into this MOU is not an admission

as to the lack of merit of any claims asserted in the Action, and that Plaintiffs are only entering into the MOU to secure the substantial relief for the Class described herein and to eliminate the risk, burden and expense of further litigation.

I. Plaintiffs and Co-Lead Counsel believe that the terms contained in this MOU are fair and adequate consideration for settlement of the Class's claims asserted in this action and that it is reasonable to pursue a settlement of the Action based on the substantial benefits and protections offered herein.

NOW THEREFORE, the Settling Parties have reached an agreement in principle for the settlement of the Consolidated Action (the "Settlement"). The Settling Parties agree to negotiate in good faith the terms of a Stipulation and Agreement of Settlement (the "Stipulation") and related exhibits, which shall include the terms of this MOU, and other customary settlement terms and provisions, and present the Stipulation to the Court for approval.

1. **Conditions to Settlement:** The consummation of the Settlement is subject to the following conditions: (a) execution of the Stipulation implementing the terms of this MOU and other terms that are customarily included in settlements of this type and approved by the Court; (b) closing of the Proposed Transaction; (c) certification of the non-opt out Class (as defined below) for settlement purposes; (d) final approval of the Settlement by the Court and the affirmance of such approval on appeal or the expiration of the time to take any further appeal; (e)

approval of a complete release of Defendants, Defendants' Releasees, Plaintiffs and Plaintiffs' Releasees by the Court, in a form customarily approved by the Court in connection with settlements of this type; (f) the inclusion in the final judgment of a provision barring all members of the Class from asserting any of the Released Plaintiffs' Claims; and (g) dismissal with prejudice of the Action. In the event any of these conditions are not met or otherwise waived, this MOU shall be null and void and of no force and effect and this MOU shall not be deemed to prejudice in any way the respective positions of the parties with respect to the Action. Notwithstanding the foregoing, the Settling Parties expressly intend for this MOU to be a binding agreement and agree that: (i) all material terms of the Settlement are included herein; (ii) the Settling Parties will not renegotiate the terms of this MOU in connection with the implementation of the MOU into a Stipulation; (iii) the Settling Parties will negotiate in good faith the remaining customary terms of the Stipulation; and (iv) a Settling Party may seek specific performance of the terms of this MOU if another Settling Party does not negotiate the remaining customary terms of the Stipulation in good faith. This paragraph shall be immediately binding on the Parties.

2. **Settlement Class Certification:** Defendants will stipulate for settlement purposes only to certification of the following non-opt out class pursuant to Delaware Court of Chancery Rules 23(a), 23(b)(1) and (b)(2): all

holders of the common stock of the Company from March 6, 2014 through and including the effective time of the closing of the Proposed Transaction or the withdrawal or termination of the Proposed Transaction (the “Class Period”), excluding Defendants and any person, firm, trust, corporation, or other entity related to or affiliated with any of the Defendants (the “Class”). Defendants will not oppose, for settlement purposes only, the appointment of Plaintiffs as Class representatives, and to the appointment of Co-Lead Counsel as Class Counsel.

3. **Settlement Consideration:** As consideration for the Settlement, Defendants agree to the following:

(a) **Casa Ley:**

(i) The final monetization date of the Casa Ley CVR will be accelerated from 4 years to 3 years from closing (the “CL monetization date”).

(ii) If Safeway’s interest in Casa Ley is not sold by the final CL monetization date, stockholders will receive their *pro rata* share of the fair value of Casa Ley, which will be valued at fair value (and not fair market value, which would have included discounts for Safeway’s minority status and for the lack of marketability of Safeway’s interest in Casa Ley) (the “CL monetization event”).

(iii) If Safeway’s interest in Casa Ley is sold (or an agreement is executed for a sale (provided that such sale is thereafter consummated)) before the net proceeds from the CL monetization event are distributed to CVR holders and at a sale price that results in net sale proceeds greater than those from the CL monetization event, stockholders will receive their *pro rata* share of the actual net proceeds of such sale.

(b) **PDC:**

(i) If any or all of PDC is not sold within 2 years of closing, the unsold portion of PDC will be monetized, with the stockholders receiving (i) their *pro rata* share of the net proceeds of PDC or its assets that have been sold plus (ii) their *pro rata* share of the fair market value of the unsold portion of PDC as determined by a nationally recognized real estate appraiser (the “PDC monetization date”; the “PDC monetization event” shall be the date on which stockholders receive their *pro rata* share of the fair market value of PDC).

(ii) The process for selecting a real estate appraiser for PDC upon a PDC monetization event shall be consistent with the process for selecting the valuation expert for Casa Ley. The process for selecting a valuation expert for Casa Ley is set forth in Section 2.4(d)(i) of the Form of Casa Ley Contingent Value Rights Agreement. Eastdil is not a candidate for selection.

(iii) For the appraisal of unsold assets, the appraiser will assume: (1) lease payments in accord with the rates that have been previously negotiated and included in Disclosure Schedule 5.4(b); and (2) where previously agreed, that Safeway will lease the anchor store if the project is completed.

(iv) If the unsold portion of PDC is sold (or an agreement is executed for such sale (provided that such sale is thereafter consummated)) before the net proceeds of the PDC monetization event are distributed to stockholders and at a price that results in net sales proceeds greater than those from the PDC monetization event, the stockholders will receive their *pro rata* share of the actual net proceeds of such sale.

(c) **Stockholders Rights Plan:** Safeway will terminate the stockholders rights plan adopted in September 2013 within ten (10) business days after the date of execution of this MOU.

(d) **Disclosures:** Co-Lead Counsel provided counsel for the Defendants with proposed supplemental disclosures. Pursuant to a good faith meet-and-confer process, the parties agree that Defendants will make the supplemental disclosures that are set forth in Exhibit A hereto on a Form 8-K or in the definitive proxy statement.

4. **Release of Claims:** Pursuant to the Judgment to be entered in the Consolidated Action, upon the Effective Date of the Settlement:

(a) Plaintiffs and each of the other Class members, on behalf of themselves, and their respective heirs, executors, administrators, predecessors, successors, affiliates and assigns in their capacities as such, shall be deemed to have, and by operation of law and of the Judgment shall have, fully, finally and forever compromised, settled, released, resolved, relinquished, waived and discharged each and every Released Plaintiffs' Claim (defined below) against the Defendants and the other Defendants' Releasees (defined below), and shall be forever barred from commencing or instituting any Released Plaintiffs' Claims against any of the Defendants' Releasees. "Released Plaintiffs' Claims" means all claims and causes of action of every nature and description, whether known claims or Unknown Claims pursuant to California Civil Code § 1542 or any law of any state or territory of the United States, or principle of common law, which is similar, comparable or equivalent to California Civil Code § 1542 (as will be defined in the Stipulation), whether arising under state, local, foreign, federal, statutory, regulatory, common or other law or rule (including, but not limited to, any claims under the federal securities laws or state disclosure laws, and any claims for attorneys' fees or expenses except as set forth in paragraph 8

below), that Plaintiffs or any other member of the Class (i) asserted in the complaints filed in the Consolidated Action, or (ii) could have asserted in any forum that arise out of or are based upon the allegations, transactions, facts, matters or occurrences, representations or omissions involved, set forth, or referred to in the complaints filed in the Consolidated Action and that relate to: (i) the ownership of Safeway common stock during the Class Period; and (ii) the Proposed Transaction. Released Plaintiffs' Claims do not include (i) any claims relating to the enforcement of the Settlement; or (ii) any claims solely for statutory appraisal with respect to the Proposed Transaction pursuant to Section 262 of the Delaware General Corporation Law of the State of Delaware by Safeway stockholders who properly perfected such claims for appraisal and have not otherwise waived their appraisal rights. "Defendants' Releasees" means Defendants, each of Defendants' consultants, financial advisors and attorneys, and each of their respective current and former officers, directors, agents, parents, affiliates, subsidiaries, successors, predecessors, assigns, assignees, and employees.

(b) Defendants, on behalf of themselves, and their respective heirs, executors, administrators, predecessors, successors, affiliates and assigns in their capacities as such, shall be deemed to have, and by operation of law and of the judgment shall have, fully, finally and forever compromised,

settled, released, resolved, relinquished, waived and discharged each and every Released Defendants' Claim (defined below) against Plaintiffs and the other Plaintiffs' Releasees (defined below), and shall forever be barred from commencing or instituting any or all of the Released Defendants' Claims against any of the Plaintiffs' Releasees. "Released Defendants' Claims" means all claims and causes of action of every nature and description, whether known claims or Unknown Claims pursuant to California Civil Code § 1542 or any law of any state or territory of the United States, or principle of common law, which is similar, comparable or equivalent to California Civil Code § 1542 (as will be defined in the Stipulation), whether arising under state, local, foreign, federal, statutory, regulatory, common or other law or rule (including, but not limited to, any claims for attorneys' fees or expenses), that arise out of or relate in any way to the institution, prosecution, or settlement of the claims asserted in the Consolidated Action against the Defendants. Released Defendants' Claims do not include any claims relating to the enforcement of the Settlement. "Plaintiffs' Releasees" means Plaintiffs, each of Plaintiffs' consultants, financial advisors and attorneys, and any other Class member, and each of their respective current and former officers, directors, agents, parents, affiliates, subsidiaries, successors, predecessors, assigns, assignees, employees, and attorneys.

5. **Procedure for Approval:** The Settling Parties will use their best efforts to agree upon and execute the Stipulation (and such other documents as may be necessary to obtain final approval of the Settlement) by no later than June 20, 2014. It is the intent of the Settling Parties to seek immediate judicial approval of the Settlement, subject to the conditions set forth in the MOU. Promptly after the Stipulation has been fully executed, the Settling Parties shall submit the Stipulation to the Court and apply for entry of a scheduling order, which shall, among other things, (i) approve the form and content of notice of the Settlement; (ii) subject to the Court's availability, schedule the date for the final Settlement approval hearing sixty (60) days after the Company or its successor-in-interest sends out the notice of proposed Settlement; and (iii) pending final determination by the Court of whether the Settlement should be approved, bar and enjoin Plaintiffs and all other members of the Class from commencing or prosecuting any of the Released Plaintiffs' Claims against any of the Defendants' Releasees. If the form and content of notice of the Settlement is approved, the Company or its successor-in-interest will send out the notice of proposed Settlement to the Class within ten (10) business days after the Court's approval. If the proposed Settlement is approved by the Court, the Settling Parties shall request that the Court enter an order of final judgment (the "Judgment") which shall, among other things, dismiss

the Action with prejudice and provide for the release of claims as set forth in paragraph 4 above.

6. **Effective Date:** The “Effective Date” of the Settlement shall be the first date by which the Court has entered the Judgment and such Judgment has become Final (defined below). “Final” with respect to the Judgment or any other court order means: (i) if no appeal is filed, the expiration date of the time for filing or noticing of any appeal of the Judgment or order; or (ii) if there is an appeal from the Judgment or order, (a) the date of final dismissal of all such appeals, or the final dismissal of any proceeding on certiorari or otherwise, or (b) the date the Judgment or order is finally affirmed on an appeal, the expiration of the time to file a petition for a writ of certiorari or other form of review, or the denial of a writ of certiorari or other form of review, and, if certiorari or other form of review is granted, the date of final affirmance following review pursuant to that grant. However, any appeal or proceeding seeking subsequent judicial review pertaining solely to an order issued with respect to attorneys’ fees or expenses shall not in any way delay or preclude the Judgment from becoming Final.

7. **Notice of Proposed Settlement:** The Company or its successor-in-interest shall be responsible for providing notice of the proposed Settlement to the Class, and the Company or its successor-in-interest shall pay any and all costs and expenses related to providing notice of the proposed Settlement (“Notice Costs”) to

the Class regardless of whether the Court approves the Settlement, and in no event shall Plaintiffs, any Class member, or their attorneys be responsible for any such Notice Costs.

8. **Attorneys' Fees and Expenses:** Co-Lead Counsel, on behalf of themselves and all other counsel who filed stockholder class actions that were consolidated into the Action or are listed in the Stipulation of Settlement (collectively, "Plaintiffs' Counsel"), intend to petition the Court for an award of attorneys' fees and litigation expenses. Defendants acknowledge Plaintiffs' Counsel's right to an award of attorneys' fees and reimbursement of litigation expenses but reserve the right to oppose the amount of attorneys' fees requested. Co-Lead Counsel and counsel for Defendants will attempt in good faith to negotiate the amount of attorneys' fees and expenses that, subject to Court approval, would be paid to Plaintiffs' Counsel.

9. The Company, its successor-in-interest or their insurers shall (on behalf of all Defendants) pay or cause to be paid to Co-Lead Counsel any attorneys' fees and litigation expenses that are awarded by the Court (the "Fee and Expense Award"), subject to the right to appeal the Fee and Expense Award. The Fee and Expense Award shall be paid to Co-Lead Counsel within 10 business days after the later of: (1) entry of an Order by the Court approving the Fee and Expense Award; or (2) the date that Plaintiffs provide complete payment instructions. Such

payment shall be subject to the obligation of Co-Lead Counsel to refund amounts received within 10 business days of receiving written notice from the Company or its successor-in-interest that the Proposed Transaction will not close, or when, as a result of any appeal or successful collateral proceeding, the Fee and Expense Award is reduced or reversed or if the award does not become Final, if the Settlement is voided by any of the Settling Parties as provided herein or in the Stipulation, if the approval of the Settlement is reversed by any court, or the Settlement does not become Final as defined herein. An award of attorneys' fees and/or litigation expenses is not a necessary term of the Settlement and shall not be a condition of the Settlement. Neither Plaintiffs nor Co-Lead Counsel may cancel or terminate the Settlement based on the Court's or any appellate court's ruling with respect to attorneys' fees and/or litigation expenses. Notwithstanding any of the foregoing, any failure of the Court to approve the Settlement or failure of the Settlement to become Final or failure of the Proposed Transaction to close shall not preclude Co-Lead Counsel from applying for an award of attorneys' fees and expenses on the grounds of mootness or any other reason.

10. Co-Lead Counsel shall allocate the Fee and Expense Award amongst Plaintiffs' Counsel in a manner which they, in good faith, believe reflects the contributions of such counsel to the institution, prosecution and settlement of the Consolidated Action. No payment from the Fee and Expense Award shall be made

to any counsel not affiliated with Plaintiffs' Counsel and not listed in the Stipulation of Settlement. Defendants' Releasees shall have no responsibility for or liability whatsoever with respect to the allocation of the Fee and Expense Award.

11. **Termination:** In the event that the Settlement is terminated pursuant to the terms of the Stipulation or the Effective Date of the Settlement otherwise fails to occur, then: (i) this MOU, the Stipulation, and the Settlement, including, but not limited to, the releases under paragraph 4 above, shall be null and void; (ii) the fact of the Settlement shall not be admissible in any trial of the Action; (iii) the Settling Parties shall be deemed to have reverted to their respective litigation positions in the Action immediately prior to the date of execution of MOU; and (iv) the Settling Parties shall proceed in all respects as if this MOU and the Stipulation and any related orders had not been entered.

12. **No Admission of Wrongdoing:** This MOU nor its negotiation, nor any proceedings taken pursuant to the MOU, shall (i) be offered against any of the Defendants' Releasees as evidence of, or construed as, or deemed to be evidence of any presumption, concession, or admission by any of the Defendants' Releasees with respect to the truth of any fact alleged by Plaintiffs or the validity of any claim that was or could have been asserted or the deficiency of any defense that has been or could have been asserted in the Action or in any litigation, or of any

liability, fault, or other wrongdoing of any kind of any of the Defendants' Releasees; or (ii) be construed against the Plaintiffs' Releasees that any of their claims are without merit, that any of the Defendants' Releasees had meritorious defenses, or that the consideration to be given under the Settlement represents the consideration which could be or would have been recovered after trial.

13. **Binding Effect:** The Settling Parties intend this MOU to be a binding agreement, and this MOU shall be binding upon and inure to the benefit of the Settling Parties and their respective agents, executors, heirs, successors, and assigns. The Settling Parties agree to negotiate in good faith the terms of the Stipulation of Settlement and related exhibits incorporating the terms of this MOU. Defendants' Releasees who are not Settling Parties shall be third party beneficiaries under this MOU and the Settlement entitled to enforce them in accordance with their terms.

14. **Authority:** All counsel executing this MOU warrant and represent that they have the full authority to do so on behalf of their respective clients and that they have the authority to take appropriate action required or permitted to be taken pursuant to this MOU to effectuate its terms.

15. **Governing Law:** This MOU, the Stipulation, and the Settlement shall be governed by and construed in accordance with the laws of the State of Delaware, without regard to conflict of laws principles.

16. **Modifications:** This MOU may not be amended or modified except in a writing signed by all counsel who have executed this MOU.

17. **Execution by Counterparts:** This MOU may be executed in one or more counterparts, including by signature transmitted via facsimile, or by a .pdf/.tiff image of the signature transmitted via email. All executed counterparts and each of them shall be deemed to be one and the same instrument provided that counsel for the signatories of this MOU shall exchange among themselves original signed counterparts.

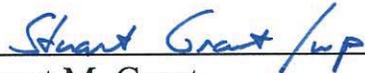
– remainder of the page intentionally left blank –

DATED: June 13, 2014

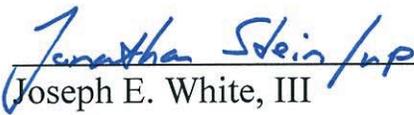
**BERNSTEIN LITOWITZ BERGER  
& GROSSMANN LLP**

By:   
Mark Lebovitch  
Jeroen van Kwawegen  
1285 Avenue of the Americas  
New York, NY 10022  
(212) 554-1400

**GRANT & EISENHOFER P.A.**

By:   
Stuart M. Grant  
John C. Kairis  
Cynthia A. Calder  
123 S. Justison Street  
Wilmington, DE 19801  
(302) 622-7000

**SAXENA WHITE P.A.**

By:   
Joseph E. White, III  
Jonathan M. Stein  
2424 North Federal Highway, Suite  
257  
Boca Raton, FL 33431  
(561) 394-3399

**KESSLER TOPAZ MELTZER  
& CHECK, LLP**

By:   
Lee D. Rudy  
J. Daniel Albert  
280 King of Prussia Road  
Radnor, PA 19087  
(610) 667-7706

*Co-Lead Counsel for Plaintiffs*

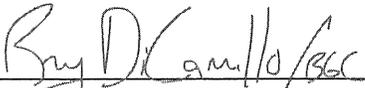
**LATHAM AND WATKINS LLP**

By:   
Blair Connelly  
885 Third Avenue  
New York, NY 10022-4834  
(212) 906-1200

**SCHULTE ROTH & ZABEL LLP**

By: \_\_\_\_\_  
Howard O. Godnick  
Michael E. Swartz  
919 Third Avenue  
New York, NY 10022  
(212) 756-2000

**RICHARDS, LAYTON & FINGER,  
P.A.**

By:   
Raymond J. DiCamillo  
920 North King Street  
Wilmington, Delaware 19801  
(302) 651-7700

*Counsel for Defendants  
Safeway Inc., Robert Edwards,  
Janet E. Grove, Mohan Gyani,  
Frank C. Herringer, George J.  
Morrow, Kenneth W. Oder, T.,  
Gary Rogers, Arun Sarin, and  
William Y. Tauscher*

**MORRIS NICHOLS ARSHT &  
TUNNELL LLP**

By:   
Megan W. Cascio .  
1201 North Market Street  
Wilmington, Delaware 19801  
(302) 658-9200

*Counsel for Defendants Cerberus  
Capital Management LP*

**LATHAM AND WATKINS LLP**

By: \_\_\_\_\_

Blair Connelly  
885 Third Avenue  
New York, NY 10022-4834  
(212) 906-1200

**RICHARDS, LAYTON & FINGER,  
P.A.**

By: \_\_\_\_\_

Raymond J. DiCamillo  
920 North King Street  
Wilmington, Delaware 19801  
(302) 651-7700

*Counsel for Defendants  
Safeway Inc., Robert Edwards,  
Janet E. Grove, Mohan Gyani,  
Frank C. Herringer, George J.  
Morrow, Kenneth W. Oder, T.  
Gary Rogers, Arun Sarin, and  
William Y. Tauscher*

**SCHULTE ROTH & ZABEL LLP**

By: \_\_\_\_\_

Howard O. Godnick  
Michael E. Swartz  
919 Third Avenue  
New York, NY 10022  
(212) 756-2000

**MORRIS NICHOLS ARSHT &  
TUNNELL LLP**

By: \_\_\_\_\_

Megan W. Cascio  
1201 North Market Street  
Wilmington, Delaware 19801  
(302) 658-9200

*Counsel for Defendants Cerberus  
Capital Management LP*

**DECHERT LLP**

By: Joshua Hess/BGC  
Matthew L. Larrabee  
Joshua D.N. Hess  
1095 Avenue of the Americas  
New York, NY 10036-6797

**YOUNG CONAWAY STARGATT &  
TAYLOR, LLP**

By: Bruce Silverstein/BGC  
Bruce L. Silverstein  
Martin S. Lessner  
1000 North King Street  
Wilmington, Delaware 19801  
(302) 571-6600

*Counsel for Defendants Albertsons  
Holding LLC, Albertson's LLC, AB  
Acquisitions LLC and Saturn  
Acquisition Corp.*

# **EXHIBIT A**

## Safeway's Supplemental Disclosures

1. Add the following bolded language to the disclosure on page 55 of the Revised Preliminary Proxy filed on May 23, 2014 (the "Proxy"):

"The discussions remained at a high level and included a discussion of possible synergies that could be realized from a combination of the companies based on Cerberus' and Albertson's LLC's review of publicly available information concerning Safeway, **a high level estimate of the value of Safeway's real estate assets (which Safeway's management estimated to be approximately \$11 billion as of November 1, 2013), and business opportunities arising from a potential combination of the two companies. This high level estimate of real estate value was prepared using information and estimates developed by Safeway management, including estimated values of leasehold interests based on internal estimates of market rental rates. The estimate is based on numerous estimates and assumptions made by the Company and reflect subjective judgment in many respects. The estimates constitute forward-looking information and are subject to risks and uncertainties that could cause the actual value of the real estate to differ materially. The estimate did not include information derived from third party appraisals and did not take into account indebtedness relating to such real estate or otherwise. As discussions between Albertson's LLC and Safeway progressed, Albertson's LLC developed its own estimates of real estate value (including by using third party appraisers) and did not rely on this high level estimate.**"

2. Add the following new paragraph on Page 59 of the Proxy:

**"During December and January, Mr. Edwards met with certain of the other owners of Casa Ley, during which Mr. Edwards raised the possibility that the some or all of the other owners might buy Safeway's 49% interest in Casa Ley. The other owners did not agree to pursue a potential acquisition of Safeway's interest in Casa Ley at that time."**

3. Revise the disclosure on page 64 of the Proxy to add the following new paragraph:

**"Mr. Rogers reminded the Board during the February 25, 2014 meeting that Albertson's LLC and Cerberus continued to express their intention that Mr. Edwards would be the CEO of the combined company. As a result, the Board considered whether to create a special committee to evaluate the proposed transaction with Albertson's LLC and Cerberus. The Board determined that a special committee was not necessary because (i) of the nine directors, Mr. Edwards was the only director who was an employee of Safeway and Mr. Edwards was the only director who might have a position with Albertson's LLC following the closing, (ii) none of the other directors had any conflict with respect to Cerberus, Albertson's LLC, or the transaction, (iii) the interests of all of the other directors**

**were aligned with those of the stockholders, and (iv) the oversight of the process by the other directors would prevent any adverse effect on the process."**

4. Revise the disclosure on page 53 of the Proxy to add the bolded language:

"After obtaining authorization of Safeway's Non-Executive Chairman, T. Gary Rogers (the "Board Chairman"), Mr. Edwards asked Goldman Sachs to respond to Cerberus on behalf of Safeway to request high level financial information about Albertson's LLC for purposes of evaluating the possibility of a business combination. Goldman Sachs was asked to make this request given Goldman Sachs' mergers and acquisitions and financial expertise. **The Board did not discuss or consider retaining any financial advisor other than Goldman Sachs given Goldman Sachs' longstanding role as Safeway's financial advisor, including with respect to other strategic initiatives, and their familiarity with Safeway's business and the ongoing strategic initiatives. Also, talks regarding whether any transaction may occur or the form of any such transaction were premature.**"

5. Safeway's January Projections will be revised as set forth in Exhibit A.
6. Safeway's February Projections will be revised as set forth in Exhibit A.
7. Revise the disclosure on page 53 of the Proxy to add the bolded language:

"In late August 2013, Robert Miller, the Chief Executive Officer of Albertson's LLC, contacted Robert Edwards, Safeway's Chief Executive Officer, to make an informal inquiry as to whether Safeway might want to discuss possible strategic transactions, including potentially a purchase or sale of certain assets, or a merger of Safeway and Albertson's LLC. In early September, advisors for Cerberus and Albertson's LLC began a preliminary antitrust analysis concerning a potential merger of Safeway and Albertson's LLC, and representatives of Cerberus, which is the largest equityholder of Ultimate Parent, contacted Goldman Sachs to inquire whether Safeway would be interested in discussing a potential transaction involving Albertson's LLC. **In early September 2013, Cerberus requested that Goldman Sachs act as its financial advisor in connection with a potential transaction with Safeway. Goldman Sachs declined the request and described its longstanding relationship with Safeway and the expectation that if Safeway determined it would be interested in a dialogue, Goldman Sachs would anticipate being asked to represent Safeway.** After obtaining authorization of Safeway's Non-Executive Chairman, T. Gary Rogers (the "Board Chairman"), Mr. Edwards asked Goldman Sachs to respond to Cerberus on behalf of Safeway to request high level financial information about Albertson's LLC for purposes of evaluating the possibility of a business combination. Goldman Sachs was asked to make this request given Goldman Sachs' mergers and acquisitions and financial expertise."

8. Revise the disclosure on page 53 of the Proxy to add the bolded language:

“On September 16, 2013, the Executive Committee of the Board (the “Executive Committee”) met and discussed strategic initiatives related to Safeway’s different geographic regions. The Executive Committee discussed the possibility of a strategic transaction with Albertson’s LLC or other grocery chains. The Executive Committee concluded that it was not the right time to pursue a transaction involving the sale of the entire company because Safeway was in the process of implementing a variety of strategic initiatives, the results of which were not yet reflected in the value of the Company’s common stock, which closed at \$28.24 on September 16, 2013. The Executive Committee and management were focused on selling stores or other assets in the Chicago region in order to eliminate recurring losses. **Goldman Sachs orally informed the Executive Committee with respect to certain prior investment banking engagements and relationships that Goldman Sachs had with Ultimate Parent and its affiliates and Cerberus and its affiliates and portfolio companies.**”

9. Add the following new paragraph on page 54 of the Proxy:

**“In October 2013, Greenhill approached Safeway to express interest in acting as a second financial advisor to Goldman Sachs in connection with a potential transaction, noting its experience in acting as a secondary advisor on the Supervalu transaction earlier that year.**

10. Revise the disclosure on page 57 of the Proxy to add the bolded language:

“On December 5, 2013, at a regularly scheduled Board meeting, the full Board reviewed the November Proposal with Goldman Sachs and Latham. Latham advised the directors on their fiduciary duties in connection with their consideration of the November Proposal. The Board, like its Executive Committee, also concluded that the proposed price was insufficient to proceed with a sale transaction and did not change the Board’s view that Safeway was not for sale and could provide greater potential value to its stockholders as an independent company. The Board strategized about how to respond to Cerberus and Albertson’s LLC to determine if they would be willing to propose a higher price. At the meeting, Goldman Sachs reported on the contacts that they had with the private equity firms and the real estate firm. The Board also reviewed a list of strategic companies that could be acquirors of the Company, all of which were quite familiar to the Board. The Board did not believe it was likely that any of these strategic companies were likely to pursue an acquisition of Safeway. The Board based its conclusion on a variety of factors, including that the store formats of some of the companies were significantly different than those of the Company, an acquisition of Safeway by some of the companies would raise significant regulatory concerns and some of the companies were facing their own operational and financial challenges which made it highly unlikely that they would pursue an acquisition of this size. Nevertheless, all of these strategic companies were contacted during, and in some cases prior to, the “go shop” period described below in order to make sure there was a thorough exploration of potential acquirers. **At such meeting, and consistent with Goldman Sachs’ prior disclosure in September 2013 to Safeway’s management and the Executive Committee, Goldman Sachs orally informed the Board with respect to certain prior investment banking**

**engagements and relationships that Goldman Sachs had with Ultimate Parent and its affiliates and Cerberus and its affiliates and portfolio companies.** The Board also met with the consulting firm which had been retained earlier to analyze Safeway's ongoing business and discussed the ongoing strategy to increase stockholder value through optimizing its geographic portfolio through possible acquisitions or sales and through strategic initiatives designed to improve sales, such as new store concepts and marketing initiatives."

11. Add the following new paragraph on page 58 of the Proxy:

**"In early December 2013, Mr. Edwards and Goldman Sachs met with a real estate investment firm which had expressed an interest in engaging in a transaction involving Safeway's real estate assets. In late December, the real estate firm provided a presentation outlining a potential transaction whereby the real estate firm and Safeway would form a joint venture to hold Safeway's real estate assets, which would be managed and owned principally by the real estate firm. Safeway determined to continue to pursue a possible sale of the entire company with Albertson's LLC rather than pursue this potential real estate transaction."**

12. Add the following footnote to each "Value of Casa Ley and PDC" column in the charts on pages 62 and 64 of the Proxy:

**"Safeway's view of the value of Casa Ley assumes the sale of the entirety of Casa Ley and that Safeway would receive its pro rata share relative to its 49% interest."**

13. Add the following new paragraph on page 66 of the Proxy:

**"On March 2, 2014, consistent with Goldman Sachs' previous oral disclosure to the Board, the Executive Committee and Safeway's management, Goldman Sachs provided a written list of certain prior investment banking engagements and relationships that Goldman Sachs had with Ultimate Parent and its affiliates and Cerberus and its affiliates and portfolio companies."**

14. Add the following new paragraph on Page 68 of the Proxy:

**"On March 21, 2014, a senior executive at Company A informed Goldman Sachs that Company A would not be submitting a bid. The senior executive stated that given the costs associated with making the anticipated divestitures to obtain antitrust clearance, Company A's board of directors had concluded that it was not prepared to offer a price that would constitute a superior proposal to the Albertson's LLC transaction because it would not realize a sufficient return on its investment. Company A's senior executive also informed Goldman Sachs that at the right time Company A would like to talk to Albertson's LLC about the possibility of Company A acquiring stores divested in connection with the antitrust regulatory review."**

15. Revise the disclosure on page 74 of the Proxy to add the bolded language:

“For purposes of rendering this opinion, Goldman Sachs, with Safeway’s consent, relied upon and assumed the accuracy and completeness of all of the financial, legal, regulatory, tax, accounting and other information provided to, discussed with or reviewed by, it, without assuming any responsibility for independent verification thereof. In that regard, Goldman Sachs assumed with Safeway’s consent that the Projections were reasonably prepared on a basis reflecting the best currently available estimates and judgments of the management of Safeway. Goldman Sachs did not make an independent evaluation or appraisal of the assets and liabilities (including any contingent, derivative or other off-balance-sheet assets and liabilities) of Safeway or any of its subsidiaries, **including without limitation, the Casa Ley Interest and PDC**, and it was not furnished with any such evaluation or appraisal. Goldman Sachs assumed that (i) all governmental, regulatory or other consents and approvals necessary for the closing of the Merger Agreement will be obtained without any adverse effect on Safeway or on the expected benefits of the transactions contemplated by the Merger Agreement in any way meaningful to its analysis and (ii) that the Blackhawk Distribution is effected prior to the closing of the Merger. Goldman Sachs has also assumed that the transactions contemplated by the Merger Agreement will be consummated on the terms set forth in the Merger Agreement, the Casa Ley CVR Agreement, and the PDC CVR Agreement without the waiver or modification of any term or condition the effect of which would be in any way meaningful to its analysis. Goldman Sachs assumed, at Safeway’s instruction, that the aggregate amount of the Casa Ley Cash Consideration, the PDC Cash Consideration, the Casa Ley CVR Payment Amount and the PDC CVR Payment Amount (in each case, if applicable) was not less than \$3.44 per Share (collectively, the “Assumed CVR Cash Proceeds”). There can be no assurance that there will be any sale of the Casa Ley Interest and/or the PDC assets or that the Assumed CVR Cash Proceeds is indicative of what the actual aggregate proceeds of one or more sales of the Casa Ley Interest and/or the PDC assets will be. Although Goldman Sachs included the Assumed CVR Cash Proceeds in its analyses, Goldman Sachs **did not make an independent evaluation or appraisal of the Casa Ley Interest or PDC and** expressed no opinion as to the likelihood that a sale of the Casa Ley Interest and/or the PDC assets will be achieved, or as to the actual amount of the net proceeds thereof, if any, that may be received with any such sale.

16. Revise the disclosure on page 79 of the Proxy by replacing the table therein with the following table:

	<b>Enterprise Value as a Multiple of:</b>		
	<b><u>2013</u></b>	<b><u>2014 Est.</u></b>	<b><u>2015 Est.</u></b>
	<b><u>EBITDA</u></b>	<b><u>EBITDA</u></b>	<b><u>EBITDA</u></b>
Selected Companies:			
The Kroger Co	6.8x	6.6x	6.4x
SUPERVALU	5.9x	5.9x	5.7x
Roundy’s Inc.	5.5x	5.7x	5.2x
Ingles Markets Inc.	6.5x	6.9x	6.6x
Delhaize Group	5.2x	5.1x	5.0x
Ahold	5.5x	5.5x	5.3x

Range	5.2x-6.8x	5.1x-6.9x	5.0x-6.6x
Median	5.7x	5.8x	5.5x
Safeway WholeCo (Disturbed)(1)	6.2x	6.3x	6.1x
Safeway WholeCo (Undisturbed)(2)	4.9x	4.9x	4.8x
Safeway (Ex-Blackhawk)(Disturbed)(1)	6.0x	6.2x	6.1x
Safeway (Ex-Blackhawk)(Undisturbed)(1)	4.6x	4.7x	4.7x

17. Revise the disclosure on page 80 of the Proxy by including the following additional information in the first table therein:

Selected Companies:

The Kroger Co	5.6x	5.5x	6.1x
SUPERVALU	5.1x	5.8x	7.8x
Harris Teeter Supermarkets	6.1x	6.2x	6.8x
Roundy's Inc.	5.2x	4.6x	5.6x
Ingles Markets Inc.	6.2x	6.2x	6.8x
Delhaize Group	4.8x	4.2x	4.7x
Ahold	5.5x	5.6x	5.4x

18. Revise the disclosure on page 80 of the Proxy by including the following additional information in the second table therein:

Selected Companies:

The Kroger Co	5.5x	5.7x	6.3x
SUPERVALU	4.9x	5.0x	6.2x
Harris Teeter Supermarkets	5.9x	5.9x	6.7x
Roundy's Inc.	5.1x	4.7x	5.6x
Ingles Markets Inc.	6.5x	6.0x	6.7x
Delhaize Group	4.7x	4.2x	4.8x
Ahold	5.5x	5.8x	5.4x

19. Revise the disclosure on page 80 of the Proxy to modify the following bolded language:

**“Selected Transactions Analysis.** Goldman Sachs analyzed certain publicly available information relating to the ~~following selected~~ transactions **discussed below** in the retail grocery industry since April 2002.”

20. Revise the disclosure on page 80 of the Proxy to delete the following list:

- TPG Capital, L.P.’s acquisition of Gelson’s Markets (Arden Group, Inc.) announced in December 2013;
- Albertson’s LLC’s acquisition of United Supermarkets, LLC announced in September 2013;
- The Kroger Co.’s acquisition of Harris Teeter Supermarkets, Inc. announced in July 2013;
- a Cerberus led consortium’s acquisition of SUPERVALU Inc. (21.2% stake) announced in January 2013;
- Ultimate Parent’s acquisition of SUPERVALU retail (New Albertson’s, Inc.) announced in January 2013;
- BI-LO, LLC’s acquisition of Winn-Dixie Stores, Inc. announced in December 2011;
- CVC Capital Partners Limited and Leonard Green & Partners, L.P.’s acquisition of BJ’s Wholesale Club,

- Inc. announced in June 2011;
- The Great Atlantic & Pacific Tea Company's acquisition of Pathmark Stores, Inc. announced in March 2007;
  - Whole Foods Market, Inc.'s acquisition of Wild Oats Market, Inc. announced in February 2007;
  - Apollo Global Management, LLC's acquisition of Smart & Final Inc. announced in February 2007;
  - Sun Capital Partners, Inc.'s acquisition of Marsh Supermarkets, Inc. announced in April 2006;
  - SUPERVALU Inc.'s acquisition of Albertsons, Inc. (core food retailing) announced in January 2006;
  - a Cerberus led consortium's acquisition of Albertsons, Inc. (non-core food retailing) announced in January 2006;
  - Lone Star Fund V (U.S.), L.P.'s acquisition of BI-LO, LLC/Bruno's announced in December 2004;
  - Albertson's, Inc.'s acquisition of Shaw's Supermarkets, Inc. announced in March 2004; and
  - Willis Stein & Partners L.P.'s acquisition of Roundy's Supermarkets, Inc. announced in April 2002.

21. Revise the disclosure on page 81 of the Proxy to add the following table:

<b>Announced</b>	<b>Target</b>	<b>Acquiror</b>	<b>LTM EBITDA Multiple</b>
Dec. 2013	Gelson's Markets (Arden Group, Inc.)	TPG Capital, L.P.	10.8x
Sept. 2013	United Supermarkets, LLC	Albertson's LLC	N/A
July 2013	Harris Teeter Supermarkets, Inc.	The Kroger Co.	6.7x
Jan. 2013	SUPERVALU Inc. (21.2% stake)	Cerberus led consortium	5.2x
Jan. 2013	SUPERVALU retail (New Albertson's, Inc.)	Ultimate Parent	3.9x
Dec. 2011	Winn-Dixie Stores, Inc.	BI-LO, LLC	5.1x
June 2011	BJ's Wholesale Club, Inc.	CVC Capital Partners Limited and Leonard Green & Partners, L.P.	6.4x
Mar. 2007	Pathmark Stores, Inc.	The Great Atlantic & Pacific Tea Company	9.9x
Feb. 2007	Wild Oats Market, Inc.	Whole Foods Market, Inc.	14.0x
Feb. 2007	Smart & Final Inc.	Apollo Global Management, LLC	10.3x
Apr. 2006	Marsh Supermarkets, Inc.	Sun Capital Partners, Inc.	8.7x
Jan. 2006	Albertsons, Inc. (core food retailing)	SUPERVALU Inc.	7.0x
Jan. 2006	Albertsons, Inc. (non-core food retailing)	Cerberus led consortium	4.0x
Dec. 2004	BI-LO, LLC/Bruno's	Lone Star Fund V (U.S.), L.P.	N/A
Mar. 2004	Shaw's Supermarkets, Inc.	Albertson's, Inc.	N/A
Apr. 2002	Roundy's Supermarkets, Inc.	Willis Stein & Partners L.P.	4.6x

22. Revise the disclosure on pages 81 and 82 of the Proxy to add the following bolded language:

“In calculating the implied present value of future share price per share of Company common stock for Safeway Ex-Blackhawk, Goldman Sachs first calculated the implied enterprise value of Safeway Ex-Blackhawk for each of the calendar years ending 2013 to 2015 by multiplying the estimated one-year forward EBITDA of Safeway Ex-Blackhawk by enterprise value to EBITDA multiples ranging from 4.7x to 5.8x. Goldman Sachs then subtracted the amount of total adjusted net debt for Safeway Ex-Blackhawk per the Projections for each of the respective calendar years ending 2013 to 2015 in order to calculate the implied equity values for calendar years ending 2013 to 2015, respectively.

Goldman Sachs then divided these implied equity values by the respective calendar year end diluted outstanding shares of Company common stock, per the Projections, to calculate implied equity values per share of Company common stock for calendar years 2013 to 2015, respectively. Goldman Sachs then added the cumulative dividends per share of Company common stock payable to Safeway stockholders through the end of the respective projected calendar year. Goldman Sachs then discounted these implied total values per share of Company common stock back to December 31, 2013 using a discount rate of 9.1%, reflecting an estimate of the Safeway Ex-Blackhawk cost of equity. **The range of discount rates was derived by application of the Capital Asset Pricing Model, which takes into account certain Safeway-specific metrics, including Safeway’s target capital structure and historical beta, as well as certain financial metrics for the United States financial markets generally.** This analysis resulted in a range of implied present values, rounded to the nearest five cents, of \$24.10 to \$36.65 per share of Company common stock.”

23. Revise the disclosure on page 82 of the Proxy to add the following bolded language:

“In calculating the implied present value of future share price per share of Company common stock for U.S. Grocery, Goldman Sachs first calculated the implied enterprise value of U.S. Grocery for each of the calendar years ending 2013 to 2015 by multiplying the estimated future EBITDA of U.S. Grocery by enterprise value to EBITDA multiples ranging from 4.7x to 5.8x. Goldman Sachs then subtracted the amount of total adjusted net debt for U.S. Grocery per the Projections for each of the respective calendar years ending 2013 to 2015 in order to calculate the implied equity values for calendar years ending 2013 to 2015, respectively. Goldman Sachs then divided these implied equity values by the respective calendar year end diluted outstanding shares of Company common stock, per the Projections, to calculate implied future equity values per share of Company common stock for calendar years 2013 to 2015, respectively. Goldman Sachs then added the cumulative dividends per share of Company common stock payable to Safeway stockholders through the end of the respective projected calendar year. Goldman Sachs then discounted these implied total values per share of Company common stock back to December 31, 2013 using a discount rate of 9.1%, reflecting an estimate of U.S. Grocery’s cost of equity. **The range of discount rates was derived by application of the Capital Asset Pricing Model, which takes into account certain Safeway-specific metrics, including Safeway’s target capital structure and historical beta, as well as certain financial metrics for the United States financial markets generally.** This analysis resulted in a range of implied present values, rounded to the nearest five cents, of \$21.85 to \$33.40 per share of Company common stock.”

24. Revise the disclosure on page 82 of the Proxy to add the following bolded language:

***Illustrative Discounted Cash Flow Analysis.*** Goldman Sachs performed an illustrative discounted cash flow analysis to determine the present value per share of Company common stock of U.S. Grocery as of December 31, 2013. For purpose of this analysis, Goldman Sachs applied discount rates ranging from 7.5% to 8.5%, reflecting estimates of U.S. Grocery’s weighted average cost of capital, to (a) U.S. Grocery’s estimated

unlevered free cash flow for the years 2014 through 2018, and (b) illustrative terminal values for U.S. Grocery in 2018. **The range of discount rates was derived by application of the Capital Asset Pricing Model, which takes into account certain Safeway-specific metrics, including Safeway’s target capital structure, the cost of long-term debt, forecast tax rate and historical beta, as well as certain financial metrics for the United States financial markets generally.** Goldman Sachs calculated U.S. Grocery’s estimated unlevered free cash flow as operating income, less income taxes, less capital expenditures, plus or minus changes in net working capital and plus or minus any non-cash adjustments as taken from the statement of cash flows included in the Projections. **In addition, stock based compensation expense was treated as a cash expense for purposes of determining unlevered free cash flow.** U.S. Grocery’s estimated unlevered free cash flow for the year 2014 also included an adjustment of \$335 million for the expected amount of cash taxes resulting from the Blackhawk Distribution. This analysis resulted in U.S. Grocery’s estimated unlevered free cash flow for the years ending 2014E through 2018E of \$463 million, \$770 million, \$718 million, \$759 million and \$809 million, respectively. The illustrative terminal values were derived by applying perpetuity growth rates ranging from (1.0%) to 1.0% (which implied exit LTM EBITDA multiples ranging from 3.9x to 5.9x) to U.S. Grocery’s estimated unlevered free cash flow for 2018. **The range of perpetuity growth rates was estimated by Goldman Sachs utilizing its professional judgment and experience. Goldman Sachs has also cross-checked such estimates of perpetuity growth rates by reviewing the EBITDA multiples that were implied by such growth rates and a range of discount rates to be applied to U.S. Grocery’s future unlevered cash flow forecast.** Goldman Sachs then added the net present values of the estimated unlevered free cash flow for the years 2014 through 2018 to the present value of the illustrative terminal value and subtracted total adjusted net debt for Safeway to derive a range of present values of U.S. Grocery equity value. By dividing this range of equity values by the total number of fully diluted outstanding shares of Company common stock, Goldman Sachs derived illustrative present values per share of Company common stock of U.S. Grocery as of December 31, 2013, rounded to the nearest five cents, ranging from \$26.90 to \$38.40.

25. Revise the disclosure on pages 88 and 89 of the Proxy to add the following bolded language:

“Greenhill performed an illustrative discounted cash flow analysis of the Company’s U.S. Grocery operations on a standalone basis to determine indications of implied equity values per share of Company common stock for the Company’s U.S. Grocery operations using financial forecasts and projections prepared by the Company’s management and provided to Greenhill, for 2014 to 2018. Greenhill calculated an implied present value per share of Company common stock for the Company’s U.S. Grocery operations by discounting to present value as of March 5, 2014 (a) estimates of the standalone, after-tax unlevered free cash flow for the period following March 5, 2014 through the remainder of 2014 and for each of the years 2015 to 2018 calculated by Greenhill from the February Projections and (b) ranges of terminal values for the Company as of December 31, 2018 derived by applying **a range of terminal EBITDA multiples between 5.0x-6.0x** to the estimate of 2018 EBITDA. Greenhill calculated standalone, after-tax unlevered free cash

flow for such 2014 period and for each of the years 2015 to 2018 starting with cash flow from U.S. Grocery operations, adjusted for stock based compensation, interest expense, incremental rent expense and other non-cash adjustments, in each case adjusted for the effects of income taxes, less capital expenditures and other net cash flows from investing. This analysis resulted in U.S. Grocery's estimated unlevered free cash flow for such 2014 period of \$675 million and for the years ending 2015 through 2018 of \$759 million, \$707 million, \$757 million and \$811 million, respectively. Greenhill's analysis also assumed the Company's net debt balance of \$1,337 million. In addition, Greenhill's analysis assumed a fully diluted share count of 236 million shares, based on common shares outstanding of 232 million, plus the dilutive effects of restricted stock awards and stock options using the treasury stock method. The standalone, after-tax unlevered free cash flow for each of these periods and terminal values were then discounted to calculate an indication of present values using discount rates ranging from 7% to 9% based on an analysis of the Greenhill peer group's weighted average cost of capital. **In order to derive the discount rates ranging from 7% to 9%, Greenhill used levered betas provided by Bloomberg for comparable companies to the Company's U.S. Grocery operations, as well as capital structure information about each company, to calculate an appropriate range for the unlevered betas for the Company's U.S. Grocery operations. Greenhill then used this range of unlevered betas and several other inputs, including (i) a target debt-to-equity ratio consistent with the comparable companies, (ii) a risk free rate equal to the yield-to-maturity of a long-dated U.S. Treasury Bond, (iii) an expected market return for U.S. markets provided by Ibbotson Associates, a standard industry provider of this information, (iv) a cost of debt consistent with public yields of comparable companies with capital structures in line with the selected target debt-to-equity ratio for the Company's U.S. Grocery operations and (v) the U.S. Grocery tax rate from the prospective financial information provided by the Company's management, to (A) calculate a range of levered betas for the Company's U.S. Grocery operations and then (B) use the capital asset pricing model to calculate a range of weighted average cost of capital discount rates for the Company's U.S. Grocery operations.** This analysis resulted in an implied per share equity value range for the Company's U.S. Grocery operations of \$31.97 to \$40.14 per share of Company common stock. Adding in the Blackhawk valuation and the Casa Ley CVR and PDC CVR valuations described below, the range was \$38.46 to \$48.48 per share of Company common stock. **Greenhill's analysis used tax rates and assumptions in each forecast year as provided by the Company.**

26. Revise the disclosure on page 90 of the Proxy to add the following bolded language:

“Greenhill performed an analysis to estimate the value to the Company's stockholders of the Company's 72% ownership in Blackhawk. Greenhill reviewed the publicly available share price of Blackhawk Class A common stock as of March 4, 2014 and the number of shares outstanding to calculate the equity value of Blackhawk. Greenhill then used the percentage stake of Blackhawk owned by the Company to calculate the value of the stake on a per share basis of Company common stock. Greenhill also considered a potential increase in value to the holders of shares of Company common stock of the value of a

step-up in tax basis resulting from the Blackhawk Distribution to the holders of shares of Company common stock. The tax benefit was calculated using the then current Company tax basis in the assets of Blackhawk of \$95 million, as provided by the management of the Company, an assumed amortization period of fifteen years, an estimated weighted average cost of capital of 10.1% for Blackhawk and a tax rate of 39%. In order to derive the 10.1% discount rate, **Greenhill used the levered equity beta for Blackhawk provided by Bloomberg, as well as the most recent capital structure information for Blackhawk from Blackhawk's public filings. Greenhill then used this information, along with a risk free rate equal to the yield-to-maturity of a long-dated U.S. Treasury Bond, an expected equity return for U.S. markets provided by Ibbotson Associates and a cost of debt and tax rate for Blackhawk as provided by Bloomberg, to derive a weighted average cost of capital for Blackhawk using the capital asset pricing model.** As a result of this analysis, Greenhill calculated the estimated value of the Company's ownership of Blackhawk to be \$3.94 per share of Company common stock and the value of the potential step up in basis to potentially result in up to \$0.76 in additional value per share of Company common stock for a potential total of \$4.70 per share of Company common stock."

27. Add the following new paragraph on Page 91 of the Proxy:

**"Greenhill calculated the value of the step-up in tax basis of Blackhawk shares as follows: Greenhill's analysis assumed a current tax basis in Blackhawk's shares, as estimated by the Company's management. Greenhill then calculated the current market value of Blackhawk's equity, based on the publicly disclosed shares outstanding and the share price on the valuation date. The step-up in basis was calculated as the difference between this market value and the basis. The step-up was assumed to be amortized over 15 years. Greenhill calculated the present value of the tax benefit created by this 15-year amortization, assuming the Blackhawk tax rate estimated by the Company's management and using the weighted-average cost of capital calculated by Greenhill and Bloomberg as described above. Greenhill then calculated the Company's interest in the present value of the step-up, by multiplying the step-up by the Company's 72% ownership of Blackhawk's equity, and divided this number by the 235 million diluted shares of Company common stock outstanding to arrive at a benefit of \$0.76 per share of Company common stock."**

28. Revise the disclosure on page 91 of the Proxy to add the following bolded language:

**"Greenhill performed an analysis to calculate the value of the Casa Ley CVR. The valuation was calculated based on the estimated present value of the Company's ownership stake in Casa Ley based on the possibilities of an immediate sale or a sale of the ownership stake in four years, pursuant to the Casa Ley CVR Agreement. Greenhill calculated a range of implied present values of the Casa Ley Interest by discounting to the present as of March 5, 2014 (a) the EBITDA from the Casa Ley Interest for each of the years from 2014 through 2018, calculated by Greenhill from the February Projections and (b) terminal values for the Casa Ley Interest as of March 5, 2018, derived by**

applying a perpetuity growth rate of 2.0%, which represents an assumed rate of growth for the steady-state operations of the business into perpetuity, to the estimates of the EBITDA of the Casa Ley Interest. Greenhill's analysis used the net present value of the EBITDA of Casa Ley, net of taxes at 39.25%, discounted at a discount rate of 9.6%, to determine the value attributable to the Casa Ley Interest in the event of an immediate sale. **Greenhill used levered betas provided by Bloomberg for comparable companies to Casa Ley, as well as capital structure information about each company to calculate an unlevered beta for Casa Ley. Greenhill then used this unlevered beta and several other inputs, including (i) a risk free rate equal to the yield-to-maturity of a long-dated Mexican government bond and an expected market return for Mexican markets provided by Bloomberg and (ii) Casa Ley's statutory tax rate as provided by Bloomberg to (A) calculate a range of levered betas for Casa Ley and then (B) use the capital asset pricing model to calculate a range of costs of equity for Casa Ley.** In order to determine the present value of the Casa Ley CVR in the event of a sale in four years of the Casa Ley Interest, Greenhill applied the same present value analysis, excluding the EBITDA of Casa Ley from March 4, 2014 to March 4, 2018, to arrive at the present value on March 4, 2014 of the potential sale of Casa Ley on March 4, 2018."

**Revised Prospective Financial Information**

**[See Attached]**

## Summary of the Projections

### January Projections

(dollars in millions)

	Fiscal Year <sup>(1)</sup>					
	2013E	2014E	2015E	2016E	2017E	2018E
<b>Safeway WholeCo <sup>(2)</sup></b>						
Revenue	\$36,059 <sup>(7)</sup>	\$38,093	\$38,950	\$40,569	\$42,303	\$44,172
EBITDA <sup>(3)</sup>	\$1,695 <sup>(7)</sup>	\$1,710	\$1,797	\$1,904	\$2,010	\$2,119
Net Income	\$3,311 <sup>(8)</sup>	\$340	\$408	\$489	\$577	\$672
<u>Depreciation and Amortization Expense</u>	<u>\$964</u>	<u>\$935</u>	<u>\$923</u>	<u>\$912</u>	<u>\$902</u>	<u>\$891</u>
<u>Income Tax Expense</u>	<u>\$144</u>	<u>\$200</u>	<u>\$240</u>	<u>\$287</u>	<u>\$339</u>	<u>\$393</u>
<u>Stock-based Compensation and Other Non-Cash Expense</u>	<u>\$56</u>	<u>\$56</u>	<u>\$56</u>	<u>\$56</u>	<u>\$56</u>	<u>\$56</u>
Free Cash Flow <sup>(4)</sup>	\$4,821 <sup>(8)</sup>	\$672	\$693	\$842	\$865	\$951
<u>Capital Expenditures</u>	<u>\$850</u>	<u>\$850</u>	<u>\$850</u>	<u>\$900</u>	<u>\$900</u>	<u>\$900</u>
<u>Changes in Working Capital</u>	<u>\$147</u>	<u>\$33</u>	<u>(\$27)</u>	<u>\$45</u>	<u>\$47</u>	<u>\$51</u>
<b>Safeway Ex-Blackhawk <sup>(5)</sup></b>						
EBITDA <sup>(3)</sup>	\$1,596 <sup>(7)</sup>	\$1,593	\$1,662	\$1,752	\$1,843	\$1,940
<b>U.S. Grocery <sup>(6)</sup></b>						
EBITDA <sup>(3)</sup>	\$1,538 <sup>(7)</sup>	\$1,553	\$1,600	\$1,685	\$1,776	\$1,873

(1) FY 2014E based on a 53-week year. FY 2013 and FY 2015E to FY 2018E based on a 52-week year.

(2) Safeway WholeCo includes U.S. Grocery, Casa Ley, PDC and Blackhawk and excludes Dominick's Finer Foods and Safeway's Canadian business.

(3) EBITDA is generally calculated by adjusting net income to add back certain expenses and charges relating to interest, taxes, depreciation, equity incentive compensation and impairments for property and notes receivable, as well as to adjust the income/charge from "LIFO" accounting and non-controlling interests. EBITDA excludes earnings from Casa Ley **but** and for WholeCo and Safeway Ex-Blackhawk **includes** assumes Safeway would not receive any dividends in respect of the Casa Ley Interest.

(4) Free Cash Flow is calculated as cash flow from operations less cash flow from investing activities (excluding any acquisitions).

(5) Safeway Ex-Blackhawk includes U.S. Grocery, Casa Ley and PDC but excludes Blackhawk, Dominick's Finer Foods and Safeway's Canadian business.

(6) U.S. Grocery excludes Casa Ley, PDC, Blackhawk, Dominick's Finer Foods and Safeway's Canadian business.

(7) Amounts normalized to exclude immaterial one-time items.

(8) Includes \$3,047 in Net Income and \$4,171 in Free Cash Flow relating to the Company's disposition of its Canadian business.

### February Projections

(dollars in millions)

	Fiscal Year <sup>(1)</sup>					
	2013A	2014E	2015E	2016E	2017E	2018E
<b>Safeway WholeCo <sup>(2)</sup></b>						
Revenue	\$36,139 <sup>(7)</sup>	\$37,934	\$38,788	\$40,402	\$42,129	\$43,992
EBITDA <sup>(3)</sup>	\$1,597 <sup>(7)</sup>	\$1,653	\$1,767	\$1,881	\$1,990	\$2,100
Net Income	\$232 <sup>(7)</sup>	\$344	\$434	\$519	\$608	\$704
<b><u>Depreciation and Amortization Expense</u></b>						
	<b><u>\$943</u></b>	<b><u>\$921</u></b>	<b><u>\$904</u></b>	<b><u>\$889</u></b>	<b><u>\$874</u></b>	<b><u>\$861</u></b>
Free Cash Flow <sup>(4)</sup>	\$602 <sup>(7)</sup>	\$650	\$694	\$662	\$726	\$803
<b><u>Capital Expenditures</u></b>						
<b><u>Changes in Working Capital</u></b>	<b><u>\$101</u></b>	<b><u>\$50</u></b>	<b><u>\$74</u></b>	<b><u>\$12</u></b>	<b><u>\$12</u></b>	<b><u>\$12</u></b>
<b>Safeway Ex-Blackhawk <sup>(5)</sup></b>						
Revenue	\$35,007 <sup>(7)</sup>	\$36,534	\$37,108	\$38,386	\$39,710	\$41,089
EBITDA <sup>(3)</sup>	\$1,483 <sup>(7)</sup>	\$1,531	\$1,626	\$1,724	\$1,817	\$1,916
Net Income	\$180 <sup>(7)</sup>	\$304	\$385	\$463	\$546	\$636
<b><u>Depreciation and Amortization Expense</u></b>						
	<b><u>\$913</u></b>	<b><u>\$891</u></b>	<b><u>\$874</u></b>	<b><u>\$859</u></b>	<b><u>\$844</u></b>	<b><u>\$831</u></b>
<b><u>Capital Expenditures</u></b>						
<b><u>Changes in Working Capital</u></b>	<b><u>\$101</u></b>	<b><u>\$50</u></b>	<b><u>\$74</u></b>	<b><u>\$12</u></b>	<b><u>\$12</u></b>	<b><u>\$12</u></b>
<b>U.S. Grocery <sup>(6)</sup></b>						
Revenue	\$35,007 <sup>(7)</sup>	\$36,534	\$37,108	\$38,386	\$39,710	\$41,089
EBITDA <sup>(3)</sup>	\$1,394 <sup>(7)</sup>	\$1,443	\$1,509	\$1,595	\$1,682	\$1,774
Net Income <sup>(8)</sup>	\$129 <sup>(7)</sup>	\$ 252	\$316	\$388	\$469	\$556
<b><u>Depreciation and Amortization Expense</u></b>						
	<b><u>\$902</u></b>	<b><u>\$880</u></b>	<b><u>\$861</u></b>	<b><u>\$843</u></b>	<b><u>\$826</u></b>	<b><u>\$809</u></b>
<b><u>Income Tax Expense</u></b>						
	<b><u>\$90</u></b>	<b><u>\$141</u></b>	<b><u>\$175</u></b>	<b><u>\$214</u></b>	<b><u>\$258</u></b>	<b><u>\$305</u></b>
<b><u>Stock-based Compensation and Other Non-Cash Expense</u></b>						
	<b><u>\$59</u></b>	<b><u>\$48</u></b>	<b><u>\$48</u></b>	<b><u>\$48</u></b>	<b><u>\$48</u></b>	<b><u>\$48</u></b>
Free Cash Flow	– <sup>(9)</sup>	\$733	\$753	\$710	\$768	\$839
<b><u>Capital Expenditures</u></b>						
<b><u>Changes in Working Capital</u></b>	<b><u>\$101</u></b>	<b><u>\$50</u></b>	<b><u>\$74</u></b>	<b><u>\$12</u></b>	<b><u>\$12</u></b>	<b><u>\$12</u></b>

(1) FY 2014E based on a 53-week year. FY 2013A and FY 2015E to FY 2018E based on a 52-week year.

(2) Safeway WholeCo includes U.S. Grocery, Casa Ley, PDC and Blackhawk and excludes Dominick's Finer Foods and Safeway's Canadian business.

- (3) EBITDA is generally calculated consistent with the January Projections, but adjusted to exclude interest income and equity incentive compensation and to include for Safeway WholeCo and Safeway Ex-Blackhawk the equity method earnings of Casa Ley. Additionally, EBITDA for U.S. Grocery was adjusted for the value of the rent expense payable by the Company to PDC pursuant to the PDC Leases.
- (4) Free Cash Flow is calculated as cash flow from operations less cash flow from investing activities (excluding any acquisitions).
- (5) Safeway Ex-Blackhawk includes U.S. Grocery, Casa Ley and PDC but excludes Blackhawk, Dominick's Finer Foods and Safeway's Canadian business.
- (6) U.S. Grocery excludes Casa Ley, PDC, Blackhawk, Dominick's Finer Foods and Safeway's Canadian business.
- (7) Amounts normalized to exclude one-time items such as, for 2013A, \$3,047 in Net Income and \$4,171 in Free Cash Flow relating to the Company's disposition of its Canadian business and other immaterial one-time items.
- (8) Amounts adjusted for the after-tax value of the \$16.0 million in rent expense payable by the Company to PDC pursuant to the PDC Leases.
- (9) The Company did not calculate Free Cash Flow for U.S. Grocery for 2013A.