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Safeway's vendor allowances totaled \$2.5 billion in fiscal 2014, \$2.4 billion in fiscal 2013 and \$2.3 billion in fiscal 2012 and can be grouped into the following broad categories: promotional allowances, slotting allowances and contract allowances.

Promotional allowances make up the vast majority of all of Safeway's 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. Safeway's promotions are typically one to two weeks long.

Slotting allowances are a very small portion of Safeway's 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 of Safeway's 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**

Safeway's 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.

Safeway's operating and administrative expense was 25.18% of sales in fiscal 2014 compared to 24.75% of sales in fiscal 2013 and 24.44% in fiscal 2012.

Safeway's operating and administrative expense margin increased 43 basis points to 25.18% of sales in fiscal 2014 from 24.75% of sales in fiscal 2013 primarily for the following reasons:

	<b>Basis point increase (decrease)</b>
Impact of fuel sales	22
Store occupancy costs	(20)
Write-off of \$30 million of notes receivable in fiscal 2013	(10)
Lower pension expense	(14)
Store labor	(12)
Higher bonus expense	18
Safeway acquisition- and integration-related expenses	16
Higher self-insurance expense	15
Lower property gains	8
Higher legal expenses	8
Other	12
<b>Total</b>	<b>43</b>