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AB ACQUISITION LLC AND SUBSIDIARIES
Notes to Consolidated Financial Statements

The Company records its CVR obligations at fair value using a combined income and market approach. The CVR obligation is estimated using the income approach of a discounted cash flow model with a weighted average cost of capital of 10.0%, and a guideline company method resulting in adjusted total invested capital. As of February 28, 2015, the estimated fair value of the CVR obligations were \$270.9 million. The above inputs used for determining the fair value of the CVR obligations are Level 3 fair value measurements. Changes in the fair value of the CVR obligations can result from changes to the discount rates, as well as the Mexican currency value relative to the US Dollar.

A reconciliation of the beginning and ending balances for Level 3 liabilities for the fiscal year ended February 28, 2015 follows (in millions):

	<u>Contingent consideration</u>
Balance, beginning of year	\$ —
Additions	270.9
Balance, end of year	<u>\$ 270.9</u>

For fiscal 2013, for certain of the Company's financial instruments, including cash and cash equivalents, receivables, accounts payable, accrued salaries and wages and other current assets and liabilities, the fair values approximate carrying values due to their short-term maturities.

The estimated fair value of the Company's debt, including current maturities, was based on Level 2 inputs, being market quotes or values for similar instruments, and interest rates currently available to the Company for the issuance of debt with similar terms and remaining maturities as a discount rate for the remaining principal payments. At February 28, 2015, the fair value of total debt was \$12,095.2 million compared to a carrying value of \$11,782.1 million. At February 20, 2014, the fair value of total debt was \$3,267.4 million compared to the carrying value of \$3,279.8 million.

Assets Measured at Fair Value on a Nonrecurring Basis

Except in relation to assets classified as held-for-sale and held-and-used, no assets have been adjusted to fair value on a nonrecurring basis. The Company's held-for-sale assets are classified as Level 3 of the fair value hierarchy and are valued primarily based on estimated selling prices less costs of disposal.

Note 7—Derivative Financial Instruments

Interest Rate Risk Management

The Company is exposed to market risk from fluctuations in interest rates. The Company manages its exposure to interest rate fluctuations through the use of interest rate swaps ("Cash Flow Hedges"). The Company's risk management objective and strategy with respect to interest rate swaps is to protect the Company against adverse fluctuations in interest rates by reducing its exposure to variability in cash flows relating to interest payments on a portion of its outstanding debt. The Company is meeting its objective by hedging the risk of changes in its cash flows (interest payments) attributable to changes in the LIBOR rate, the designated benchmark interest rate being hedged (the "hedged risk"), on an amount of the Company's debt principal equal to the then-outstanding swap notional.