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

as defined in the Credit Agreement, to consolidated interest expense to be less than 2.0:1.0, and (ii) a leverage ratio that required Safeway not to permit the ratio of consolidated total debt, less unrestricted cash in excess of \$75.0 million, to consolidated Adjusted EBITDA, to exceed 3.5:1.0. As of January 3, 2015, the Company was in compliance with these covenant requirements. As of January 3, 2015, there were no borrowings, and letters of credit totaled \$27.2 million under the Credit Agreement. Total unused borrowing capacity under the credit agreement was \$1,472.8 million as of January 3, 2015.

U.S. borrowings under the credit agreement carried 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.

During 2014, the Company paid facility fees ranging from 0.15% to 0.225% on the total amount of the credit facility.

**Issuances of Senior Unsecured Indebtedness** The Company did not issue any senior unsecured debt in 2014 or 2013.

**Redemption of Notes**

*Fiscal 2014* In August 2014, Safeway paid \$802.7 million to redeem \$320.0 million of the 3.40% Senior Notes due 2016 and \$400.0 million of the 6.35% Senior Notes due 2017. The \$802.7 million included principal payments of \$720.0 million, make-whole premiums of \$80.2 million and accrued interest of \$2.5 million. Unamortized deferred finance fees of \$2.2 million were also expensed.

In accordance with the Merger Agreement, the Company contributed \$40.0 million in cash to PDC in the second quarter of 2014. This cash was to be held in a reserve account until the earlier to occur of (i) payment in full of the mortgage indebtedness encumbering a shopping center in Lahaina, Hawaii and (ii) the release of the Company from any guaranty obligations in connection with such indebtedness. During the third quarter of 2014, the Company deposited \$40.0 million with a trustee and achieved a full legal defeasance of the mortgage indebtedness and was released from the guaranty obligations associated with such indebtedness. Therefore, during the third quarter of 2014, the Company extinguished the \$40.8 million mortgage from the condensed consolidated balance sheet.

These transactions resulted in a loss on extinguishment of debt of \$84.4 million in 2014, which consisted of \$80.2 million in make-whole premiums on the Senior Notes, the write-off of \$2.4 million of unamortized deferred finance fees and \$1.8 million of third-party costs associated with the defeasance of the Lahaina mortgage.

*Fiscal 2013* 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.

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.