

Table of Contents**AB ACQUISITION LLC AND SUBSIDIARIES**
Notes to Consolidated Financial Statements

Income taxes: The Company is organized as a limited liability company, taxed as a partnership which generally is not subject to entity-level tax. The income taxes in respect to these operations are payable by the equity members in accordance with their respective ownership percentages. The Company conducts the operations of its Safeway, NAI and United operations through Subchapter C Corporations. The Company provides for federal and state income taxes on its Subchapter C Corporations, which are subject to entity-level tax, and state income taxes on its limited liability companies where applicable.

Deferred taxes are provided for the net tax effects of temporary differences between the financial reporting and income tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. Deferred income taxes are reported as a current or noncurrent asset or liability based on the classification of the related asset or liability according to the expected date of reversal. Valuation allowances are established where management determines that it is more likely than not that some portion or all of a deferred tax asset will not be realized. The Company reviews tax positions taken or expected to be taken on tax returns to determine whether and to what extent a tax benefit can be recognized. The Company evaluates its positions taken and establishes liabilities in accordance with the applicable accounting guidance for uncertain tax positions. The Company reviews these liabilities as facts and circumstances change and adjusts accordingly. The Company recognizes any interest and penalties associated with uncertain tax positions as a component of Income tax expense.

The Company is contractually indemnified by SuperValu for any tax liability of NAI arising from tax years prior to the NAI acquisition. The Company is also contractually obligated to pay SuperValu any tax benefit it receives in a tax year after the NAI acquisition as a result of an indemnification payment made by SuperValu. An indemnification asset and liability, where necessary, has been recorded to reflect this arrangement.

Segments: The Company and its subsidiaries operate food and drug retail stores that offer grocery products, general merchandise, health and beauty care products, pharmacy, fuel and other items and services. The Company's retail operating divisions are geographically based, have similar economic characteristics and similar expected long-term financial performance and are reported in one reportable segment. The Company's operating segments and reporting units are its 14 divisions, which have been aggregated into one reportable segment. Each reporting unit constitutes a business for which discrete financial information is available and for which management regularly reviews the operating results. Across all operating segments, the Company operates primarily one store format. Each store offers the same general mix of products with similar pricing to similar categories of customers, have similar distribution methods, operate in similar regulatory environments and purchase merchandise from similar or the same vendors. Except for an equity method investment in Casa Ley, all of the Company's retail operations are domestic.