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**NEW ALBERTSON'S BUSINESS OF SUPERVALU INC.  
AND SUBSIDIARIES**

**Notes to Combined Financial Statements**

**February 21, 2013 and February 23, 2012**

**(Dollars in millions)**

estimations, and assumptions made based on the information considered. The allowance for losses on receivables was \$4 as of February 21, 2013 and February 23, 2012. Bad debt expense was \$10, \$12 and \$11 in fiscal 2012, 2011 and 2010, respectively.

***(h) Inventories, Net***

Inventories are valued at the lower of cost or net realizable value. Substantially all of NAI's inventory consists of finished goods.

NAI uses either replacement cost or weighted average cost to value discrete inventory items at lower of cost or market before application of any last-in, first-out (LIFO) reserve. As of February 21, 2013 and February 23, 2012, approximately \$1,215, or 93%, and \$1,289, or 94%, respectively, of NAI's inventories were valued under the LIFO method.

As of February 21, 2013 and February 23, 2012, approximately 74% and 75%, respectively, of NAI's inventories were valued under the replacement cost method, before application of any LIFO reserve. The weighted average cost valuation method was used to value approximately 19% of NAI's inventories as of February 21, 2013 and February 23, 2012, before application of any LIFO reserve.

Under the replacement cost method, the most recent purchase cost is used to calculate the current cost of inventory before application of any LIFO reserve. The replacement cost approach results in inventories being valued at the lower of cost or market because of the high inventory turnover and the resulting low inventory days' supply on hand combined with infrequent vendor price changes for these items of inventory.

NAI uses either replacement cost or weighted average cost to value certain discrete inventory items under the first-in, first-out method (FIFO). The replacement cost approach under the FIFO method is predominantly utilized in determining the value of high turnover perishable items, including Produce, Deli, Bakery, and Floral.

As of February 21, 2013 and February 23, 2012, approximately seven percent and six percent, respectively, of NAI's inventories were valued using the replacement cost and weighted average cost methods under the FIFO method of inventory accounting. The replacement cost approach applied under the FIFO method results in inventories being valued at the lower of cost or market because of the very high inventory turnover and the resulting low inventory days' supply for these items of inventory.

During fiscal 2012, 2011 and 2010, inventory quantities in certain LIFO layers were reduced. These reductions resulted in a liquidation of LIFO inventory quantities carried at lower costs prevailing in prior years as compared with the cost of fiscal 2012, 2011 and 2010 purchases. As a result, Cost of sales decreased by \$13, \$10 and \$6 in fiscal 2012, 2011 and 2010, respectively. If the FIFO method had been used to determine the cost of inventories for which the LIFO method is used, NAI's inventories would have been higher by approximately \$138 and \$121 as of February 21, 2013 and February 23, 2012, respectively.

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