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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)**

NAI evaluates inventory shortages throughout each fiscal year based on actual physical counts in its facilities. Allowances for inventory shortages are recorded based on the results of these counts to provide for estimated shortages as of the end of each fiscal year.

***(i) Reserves for Closed Properties***

NAI maintains reserves for costs associated with closures of retail stores, distribution centers and other properties that are no longer being utilized in current operations. NAI provides for closed property lease liabilities based on the present value of the remaining noncancelable lease payments after the closing date, reduced by estimated subtenant rentals that could be reasonably obtained for the property. The closed property lease liabilities usually are paid over the remaining lease terms, which generally range from one to 20 years. Adjustments to closed property reserves primarily relate to changes in expected subtenant income or actual exit costs differing from original estimates. Adjustments are made for changes in estimates in the period in which the changes become known.

***(j) Property, Plant and Equipment, Net***

Property, plant and equipment are carried at cost. Depreciation or amortization is calculated based on the estimated useful lives of the assets using the straight-line method. Estimated useful lives generally are 10 to 40 years for buildings and major improvements, three to ten years for equipment, and the shorter of the term of the lease or expected life for leasehold improvements and capitalized lease assets. Interest capitalized on property under construction was \$1 annually during fiscal 2012, 2011, and 2010.

***(k) Goodwill***

Parent acquired NAI on June 2, 2006 (the Acquisition). Goodwill represents the excess of the cost of the acquisition over the fair value of the net identifiable assets of the acquired business at the date of the Acquisition. Goodwill was allocated in purchase accounting to NAI's banner operations based upon the relative fair values as of the date of the Acquisition. NAI reviews goodwill for impairment during the fourth quarter of each year and also if events occur or circumstances change that would more-likely than-not reduce the fair value of the reporting unit below its carrying amount. The reviews consist of comparing estimated fair value to the carrying value at the reporting unit level. NAI's reporting unit consists of all the banners of NAI and their dedicated distribution centers. During fiscal 2011 and 2010, NAI recorded noncash impairment charges of \$697 and \$1,411, respectively as a result of the annual goodwill impairment test. The impairment charges were due to the significant and sustained decline in Parent's market capitalization and estimated discounted future cash flows. As of the end of fiscal 2011 there was no remaining goodwill.

Fair values are determined by using both the market approach, applying a multiple of earnings based on the guideline publicly traded business method, and the income approach, discounting projected future cash flows based on management's expectations of the current and future operating environment. The rates used to discount projected future cash flows reflect a weighted average cost of capital based on NAI's industry, capital structure and risk premiums including those reflected in the