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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)

(r) Income Taxes

NAI's operations are subject to United States federal, state and local income taxes. NAI's operations have historically been included in the Parent's income tax returns. In preparing its combined financial statements, NAI has determined its tax provision on a separate return, stand-alone basis.

Because portions of NAI's operations are included in the Parent's tax returns, payments to certain tax authorities are made by Parent, and not by NAI. The resulting settlements are reflected as changes in Parent company net investment within the Combined Balance Sheets.

NAI accounts for income taxes in accordance with Accounting Standards Codification (ASC) 740, *Income Taxes* (ASC 740). ASC 740 requires an asset and liability approach for financial accounting and reporting for income taxes. Under the asset and liability approach, deferred taxes are provided for the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting and income tax purposes.

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. Forecasted earnings, future taxable income and future prudent and feasible tax planning strategies are considered in determining the need for a valuation allowance. In the event NAI was not able to realize all or part of its net deferred tax assets in the future, the valuation allowance would be increased. Likewise, if it was determined that NAI was more-likely than-not to realize the net deferred tax assets, the applicable portion of the valuation allowance would reverse.

Deferred income taxes represent future net tax effects of temporary differences between the financial statement and tax basis of assets and liabilities and are measured using enacted tax rates in effect for the year in which the differences are expected to be settled or realized. In addition to differences between the financial statement and tax basis of recorded assets or liabilities, NAI has also recorded certain deferred tax assets not associated with recorded financial statement assets or liabilities, such as tax credit or tax loss carry-forwards. Refer to note 9—Income Taxes for the types of differences that give rise to significant portions of deferred income tax assets and liabilities. Deferred income tax assets are reported as a current or noncurrent asset or liability based on the classification of the related asset or liability or the expected date of reversal.

NAI, through its Parent, is currently in various stages of audits, appeals or other methods of review with authorities from various taxing jurisdictions. NAI establishes liabilities for unrecognized tax benefits in a variety of taxing jurisdictions when, despite management's belief that NAI's tax return positions are supportable, certain positions may be challenged and may need to be revised. NAI adjusts these liabilities in light of changing facts and circumstances, such as the progress of a tax audit. NAI also provides interest on these liabilities at the appropriate statutory interest rate. NAI recognizes interest related to unrecognized tax benefits in interest expense and penalties in Selling and administrative expenses in the Combined Statements of Operations and Comprehensive Income (Loss).