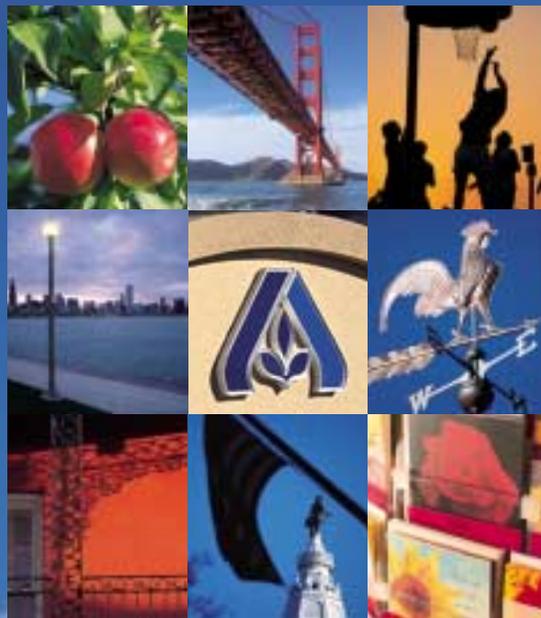


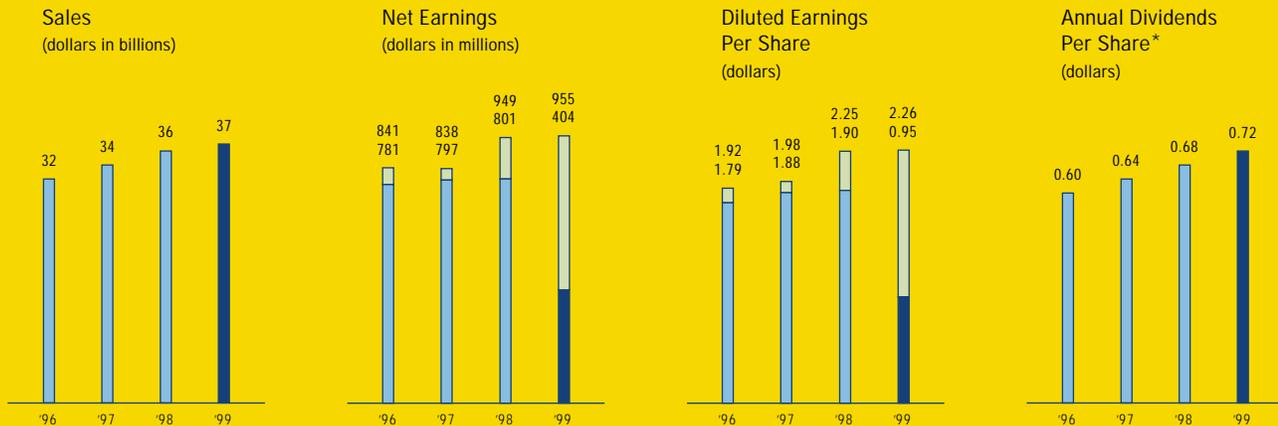


Across America



Financial Highlights

(Dollars in millions, except per share data)	53 Weeks Ended February 3, 2000	52 Weeks Ended January 28, 1999	Percentage Change
Sales	\$ 37,478	\$ 35,872	4.5
Net earnings	\$ 404	\$ 801	(49.5)
Net earnings as a percent to sales	1.1%	2.2%	
Earnings per share:			
Basic	\$ 0.96	\$ 1.91	(49.7)
Diluted	\$ 0.95	\$ 1.90	(50.0)
Dividends per share	\$ 0.72	\$ 0.68	5.9
Total assets	\$ 15,701	\$ 15,131	3.8
Stockholders' equity	\$ 5,702	\$ 5,522	3.3
Common shares outstanding (net of treasury shares)	423,715,000	420,003,000	0.9
Return on average assets	2.6%	5.5%	
Return on average stockholders' equity	7.2%	15.6%	
Number of stores	2,492	2,564	(2.8)
Number of associates	235,000	221,000	6.3
Average store size (square feet)			
Food and drug stores	48,000	46,400	3.4
Drugstores	18,300	18,400	(0.5)
Total	38,400	38,000	1.1



□ Excluding merger-related costs and one-time charges

* Albertson's only

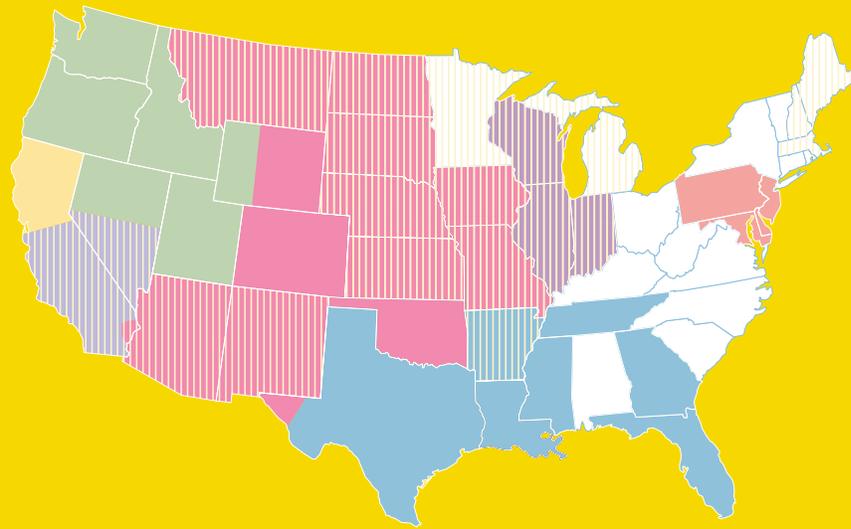
America is a blend of landscapes,
voices, cultures and stories. These
unique regions are the heart of
America. These are the voices of
our customers.

We're there.

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	Inside Back Cover:
	Tribute to John B. Carley



Eight Regions



Northwest, Northern California, Southern California, Intermountain, Southern, Midwest, Eastern, Drug,

We're excited about our formation of eight operating regions. This allows us to respond to the customer on a local level and to preserve the unique culture and identity of each region.

“Our operating important part new Albertson’s closer to our our associates,



regions are an of the dynamic They draw us customers and and allow our

associates to make decisions more quickly—which benefits our customers, our stockholders, our suppliers, our associates and our communities.”

—Gary G. Michael, Chairman of the Board and Chief Executive Officer

Even over a rough road, our associates produced some of the best results in the industry. Those results confirm that we are headed in the right direction, and we see tremendous potential for our new Company.

Message to Our Stockholders

During 1999, Albertson's, Inc., marked 60 successful years in the retail food and drug business and moved forward to embrace a promising future as a national retailer.

Halfway through the fiscal year, we completed the American Stores Company merger, making the new Albertson's the second-largest food and drug retailer in the country. The merger and our aggressive moves to integrate the two companies into a single, efficient food and drug store operation resulted in both accomplishments and challenges:

- At the start of fiscal year 1999, Albertson's operated 983 stores and 11 distribution centers in 25 states in the West, Midwest and South. By year's end, our Company had grown to 2,492 stores and 21 distribution operations in 37 states across America—from Maine to California and from Washington to Florida.



Northwest Region

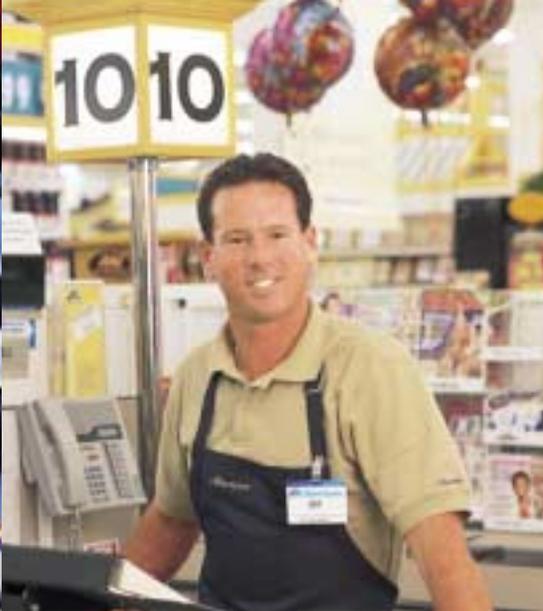
“We’re traditional and high-tech—home to the original Albertson’s food and drug store and the first Albertsons.com store. Our customers include ranchers, loggers and high-tech employees. They love Idaho potatoes and Washington apples. They want down-home service; we provide it.”

Bob Colgrove, Region President



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From top: Annie Granden, Butcher Block Supervisor, and Thelma Veldman, Head Bakery Sales Clerk; both at 36th & State in Boise, Idaho.



Northern California Region

“One of the most culturally diverse areas of the country, ours is a region of many contrasts. From exciting San Francisco to beautiful Napa/Sonoma wine country to tranquil agricultural areas, food and wine are the centerpiece of Northern California culture.”

Don Keprta, Region President

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From top: Bill Kelley, Front End Clerk; Barbara Horcasitas, Floral Clerk; and Julie Earl, General Merchandise Clerk; all at Crow Canyon Place in San Ramon, California.

- After a lengthy and complicated negotiation process, the Federal Trade Commission required Albertson's to divest 145 stores in California, Nevada and New Mexico. The divestitures took more time and resources than we anticipated, but they are behind us. We divested 144 stores by year's end, with the final divestiture occurring early in fiscal year 2000.
- We converted more than 400 stores in California, Nevada and New Mexico to common systems and one common name—Albertson's. The conversion was complicated and expensive, but it put us in a great competitive position in those states. We operate nearly 800 Albertson's and Sav-on stores in California alone—a state with an economy that, if considered separately, would be the seventh largest in the world.
- We converted all but four distribution centers to Albertson's systems, opened two new distribution centers and closed two distribution centers.
- Our aggressive integration began the day the merger closed, and the speed at which we moved in converting our stores temporarily disrupted our tracking systems. Although we have restored those systems, we did not have our normal accountability measures in place during the bulk of the conversion process.

We began to integrate the companies immediately because it meant we could begin realizing cost savings sooner. We concentrated our initial efforts on California, Nevada and New Mexico, where we were duplicating advertising and other costs to operate our stores under two names—Albertson's and Lucky. It made good business sense to eliminate those extra costs as quickly as possible.

It also made good business sense to respond immediately to the challenges that arose from the conversion—and we did. We identified major problems and created task forces to correct them. And although the learning curve for the conversions was steep, we are applying our new knowledge as we continue integrating our operations. We will begin converting Acme to common systems during the second quarter of fiscal year 2000. When the Acme conversion is complete, we will move to Jewel, followed by our Drug Region.

The toughest issues—the divestitures, name change and store conversions in areas where Albertson's and American Stores operations overlapped—are behind us. They were disruptive but necessary. And while the challenges were temporary, they did affect our 1999 results:

- Sales for the 53-week year ended February 3, 2000, reached \$37.5 billion, an increase of 4.5% over the 52 weeks last year. Total sales for the year increased 5.4% when compared on a 52-week basis to the prior year and excluding sales from divested stores from both years. Comparable store sales, which include replacement stores, rose 2.1%.
- Merger-related and one-time costs after tax were \$551 million. We expect to incur additional merger-related costs after tax of approximately \$157 million in future periods—in line with our original projection of \$700 million.
- Net earnings were \$404 million, or \$955 million before merger-related costs and a one-time, pre-tax charge of \$37 million for a proposed litigation settlement. (This charge is described in the Legal Proceedings Note to the Consolidated Financial Statements.)
- Diluted earnings per share were \$0.95, or \$2.26 before the merger-related costs and the one-time charge.

Even over a rough road, our associates produced some of the best results in the industry. Those results confirm that we are headed in the right direction, and we see tremendous potential for our new Company. We are pleased with our ability to maintain and increase our sales during 1999 and with our momentum as we enter fiscal year 2000. In addition, we have made significant progress toward integrating the two companies and establishing common systems. Our cost savings, or synergies, are proving to be even better than we expected, allowing us to invest more money into growing sales.

When we announced the American Stores merger in August 1998, we said it made good business sense in many ways. Today we are more convinced of that than ever. It has allowed Albertson's to:

- Serve customers in 37 states, including nine of the ten fastest-growing states in the United States.
- Move into new markets across America, including major urban markets such as Chicago and Philadelphia.
- Strengthen our presence in existing markets, such as California.
- Meet customers' needs through a variety of store formats, including a new one for us, the stand-alone drugstore.
- Implement the best practices from Albertson's and American Stores, giving us the best of both worlds.
- Start to realize cost savings that we expect to exceed \$300 million per year by the third full year.
- Begin to benefit from the efficiencies of our larger size, which helps us provide better value to our customers.
- Offer aggressive marketing and merchandising programs.
- Maintain a strong balance sheet.
- Plan solid growth through capital expenditures.

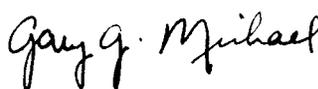
In light of Albertson's prospects, the Board of Directors, at its meeting in March 2000, increased the regular quarterly cash dividend to \$0.19 per share from \$0.18 per share, for an annual rate of \$0.76 per share. This is the 29th consecutive year we have increased our dividend to stockholders.

We are also pleased to announce the appointment of Peter L. Lynch, formerly Albertson's Executive Vice President, Operations, as President and Chief Operating Officer of the Company effective March 21, 2000. The new Albertson's will benefit greatly from Peter's dynamic leadership and his passionate commitment to our associates and our customers.

When a company takes on a project of the magnitude of our merger, it takes on many moving parts, uncertainties and unknowns. Combining all the moving parts into one smooth and efficient organization requires time. And it's the efficiency, not the magnitude, of the operation that is important. Our goal has never been to be the biggest, just the best—the best neighborhood store in every neighborhood we serve.

We made significant progress in 1999, and we know we are on the right track. We are moving forward across America—and into fiscal year 2000—with positive momentum. We look forward to updating you on our progress throughout the year.

March 24, 2000



Gary G. Michael

Chairman of the Board and Chief Executive Officer



Southern California Region

“Southern California is a melting pot, and Las Vegas is the fastest-growing city in America. We’ve attracted people—and their cuisines—from all over the world. Our customers get the best of both worlds: great service and low prices.”

David Simonson, Region President



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From top: Marcie Perez, Lobby Clerk; Cher Otteson, Store Director; and Josh Fisher, Meat Manager; all at Ontario & Rimpau in Corona, California.



Intermountain Region

"From the desert Southwest to the Rocky Mountains to the plains of Montana and the Midwest, we serve hundreds of neighborhoods in small towns and big cities. Despite their differences, each neighborhood depends on us for quality, value and service."

Shane Sampson, Region President



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From top: Gerard Gonzales, Produce Clerk, and Brenda Calabaza, Service Deli Clerk; both at Zia & St. Francis in Santa Fe, New Mexico.

As we integrate two companies into one,
we work with one goal in mind: providing
the best possible service to our customers.

Review of Operations

Albertson's, Inc., operates as a supermarket named Acme in Philadelphia, a drugstore named Osco in Chicago, and a combination food and drug store named Albertson's in Bend, Oregon. We operate in a variety of formats, under a variety of banners, in nearly 2,500 neighborhoods across America.

These diverse neighborhoods, formats and banners came together for the first time in 1999, with the merger of American Stores Company into a wholly owned subsidiary of Albertson's, Inc.—a merger that created the second-largest food and drug retailer in America. They came together in a company stretching from the Pacific Ocean to the Atlantic Ocean and from the Canadian border to the Mexican border. They came together and embraced Albertson's operating philosophy: to operate each store as if it were our only store.

Eight regions

When the merger was finalized, Albertson's immediately put into place an operating structure that recognizes and respects the diversity of each of the nearly 2,500 neighborhoods in which we operate. That structure, with eight operating regions, moves decision-making as close as possible to the customer rather than centralizing it in one office. It recognizes that what is best for our customers in Bend, Oregon, may not be best for our customers in Philadelphia, Pennsylvania. It allows each store—whether Albertson's, Acme, Jewel, Osco, Sav-on or Seessel's—to meet the needs of its neighbors and to be the best supermarket or drugstore—or both—in its neighborhood.

Our Northwest Region, based in Boise, Idaho, provides support for 229 Albertson's stores in Idaho, Oregon, Washington, Utah, western Wyoming and northern Nevada. Albertson's has been a part of life in this region since we opened our first store more than 60 years ago, and our stores rank near the top in nearly every major market in the region.

Our Northern California Region, based in San Leandro, includes 196 stores. For the first time, we are a force to be reckoned with in the San Francisco Bay area, where we are No. 2 in market share. We also hold the second spot in the Sacramento market.

Our Southern California Region, based in Buena Park, comprises 312 combination and conventional stores in southern California and southern Nevada. We are No. 2 in market share in San Diego and Orange County, and No. 3 in Los Angeles. We serve over 5 million customers in Southern California each week. We also have the No. 1 market share in Las Vegas—the fastest-growing city in America over the past decade.

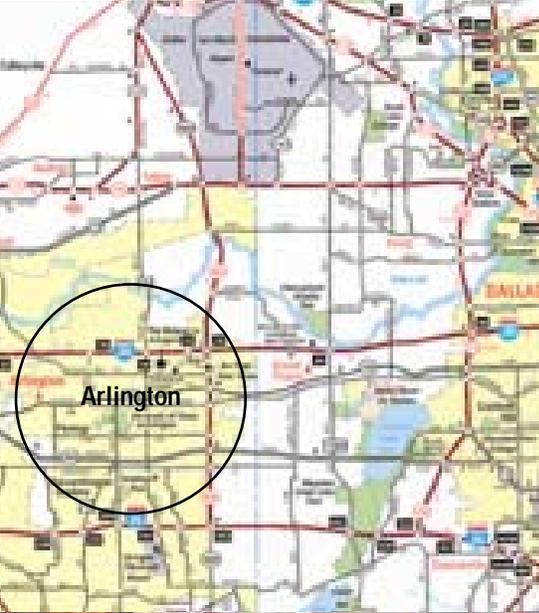
Our Intermountain Region, based in Denver, covers stores in 14 states and stretches from the Canadian border to the Mexican border. Our largest region geographically, it supports 227 combination and conventional stores. We rank near the top in many of the major markets in the region.

Our Southern Region, based in Arlington, Texas, provides support for 375 stores in seven states, including Texas and Florida, two of the fastest-growing states in the country. Albertson's is the market leader in Dallas and Fort Worth, and Memphis residents recently honored our Seessel's operation as their "Best Supermarket."

Our Midwest Region, based in Melrose Park, Illinois, encompasses 191 Jewel/Jewel-Osco stores and 83 Osco stand-alone drugstores in Illinois, Indiana and Wisconsin. In 1999, Jewel celebrated 100 years of service. In the Chicago market, third largest in the United States, Jewel is No. 1 in grocery store market share and Osco is No. 2 in drugstore market share.

Our Eastern Region is made up of 161 combination and conventional Acme stores in Pennsylvania, New Jersey, Maryland and Delaware. For 110 years, Acme has been an integral part of historic Philadelphia, where it is the market leader. This region features diverse store sizes, including some urban stores of less than 10,000 square feet. Albertson's has begun an aggressive neighborhood remodel program in its Acme stores.

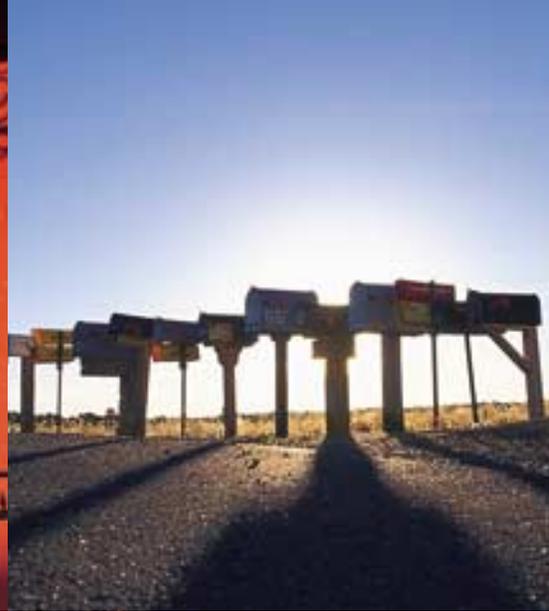
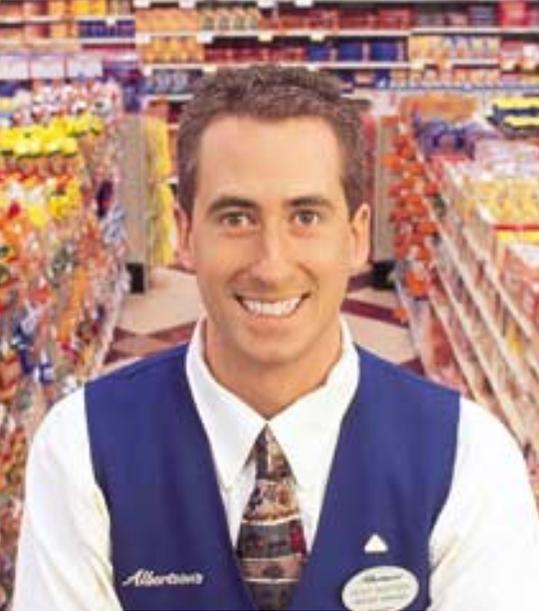
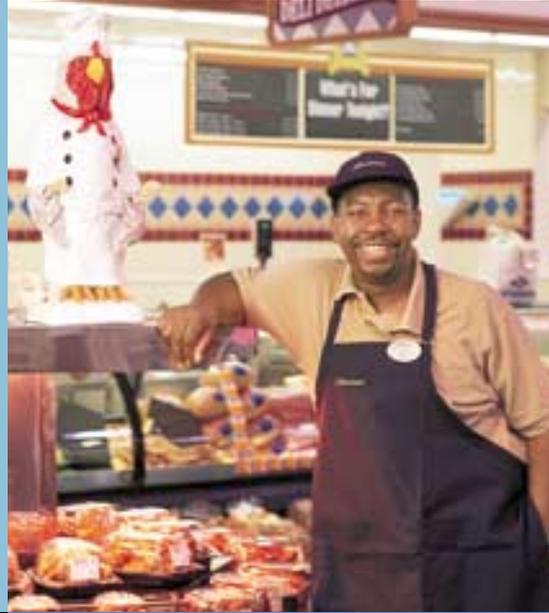
Our Drug Region stretches across the country, supporting more than 800 stand-alone drugstores in 20 states and our in-store pharmacies across the United States. We operate the stand-alone drugstores under the Sav-on or Osco name, depending upon the market area. Sav-on is the market share leader in Southern California, and we hold the No. 1 spot in Las Vegas and Kansas City as well.



Southern Region

“Our Southern combination stores offer a ‘one-stop’ shopping experience, with true caring and respect for our customers. We recognize their diverse needs—for Cajun cuisine, Tex-Mex food, Cuban specialties or Texas barbecue—and strive to meet them.”

William Emmons, Region President



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From top: Rodney Kitchell, Produce Clerk; Troy Smith, Produce Manager; Chuck Williams, Assistant Service Deli Manager; and Geoffrey Watters, Grocery Manager; all at Gulfport in Gulfport, Mississippi.



Midwest Region

“In 1999, Jewel-Osco celebrated a century of service to Chicago; 80% of our stores are within a 30-mile radius of the city. It’s a region of neighborhoods with diverse ethnic roots—and we serve them all.”

Pete Van Helden, Region President



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From top: left, Muyinat Bello, Deli Clerk; right, Toni Bombicino, Bakery Manager; and Jo Hollimon, 1-Hour Photo Specialist; all at Broadway & Foster in Chicago, Illinois.

Distribution Operations

Our 21 distribution operations support our stores across America. We operate 16 food and 5 non-food distribution operations—including new distribution centers in Tulsa, Oklahoma, and Lancaster, Pennsylvania.

It is only through unity of systems that we can provide the highest level of support for our stores—support that allows each store to match the character and culture of its neighborhood and to meet the needs of its customers efficiently. Toward that end, we are converting all distribution operations to Albertson's systems. By year's end, we had converted all but four distribution centers.

More than three-fourths of the products we sell flow through our distribution centers, and our combined buying power contributes significantly to merger-related procurement cost savings, or synergies. Procurement cost savings make up nearly one-third of the synergies expected from the merger. Our procurement teams are well ahead of schedule in accomplishing our goals.

Serving Our Customers

As we integrate two companies into one, we work with one goal in mind: providing the best possible service to our customers. We meet the various needs of our customers through a variety of store formats. We operate combination food and drug stores and stand-alone drugstores. We operate fuel centers, some of which include convenience stores. And we operate e-commerce shopping sites on the Internet. No matter how our customers want to shop, Albertson's is there.

Our 1,900 pharmacies, including more than 800 in stand-alone drugstores, rank us as the nation's sixth-largest drug retailer. The American Stores operating expertise helps us take advantage of the exploding pharmacy business in this country. We intend to build more drugstores in key markets and use in-store pharmacies to help us serve customers.

To enhance one-stop shopping convenience for our customers, we also operate fuel centers; at year's end, we operated 76 of them. At most of our fuel centers, a small convenience store provides quick-stop shopping. Our fuel centers also help generate customer traffic for our existing stores, in part because our fuel prices enhance our low-price image. With planned expansion, we expect our fuel centers to be a \$500 million annual business soon.

In the Internet area, we've expanded our Albertsons.com site from the Dallas/Fort Worth market to the entire state of Texas. In October, we launched Sav-ondrugs.com for customers in Kansas City and Las Vegas, with plans to go nationwide. Customers can select from more than 22,000 products and obtain health-related information through the Internet site. They also can submit questions to a pharmacist 24 hours a day.

In November, we opened our first Albertsons.com click-and-mortar store in Bellevue, Washington. This store is an Internet fulfillment site and a gourmet store all in one. Its customers can shop in a variety of ways. They can order groceries over the Internet and either pick them up at the store or have them delivered. They can drive to the store and order groceries at in-store terminals. Or, if they prefer to browse the store aisles the way they always have, they can do that as well.

Best Practices

No matter what the format, we have the trained, enthusiastic associates—more than 235,000 of them—to bring our customers the best of both worlds. We are taking the best practices from Albertson's and the best practices from American Stores and sharing them across our Company.

Of particular note was the “Wedding of the Century” between Lucky and Albertson's in California and Nevada. On November 3, 1999, we opened almost 400 stores as Albertson's stores after closing them the night before as Lucky stores. We invited our customers to celebrate the marriage of Albertson's great service and Lucky low prices—together like never before. We introduced the Albertson's front-end manager program, which emphasizes service, to the former Lucky stores.

Other best practices being adopted across the Company include the fried chicken program, Quick Fixin' Ideas®, Farmer's Market floral, and fine wine destination program.

The fried chicken program, which drives service deli traffic, has been a huge success for Albertson's. Since the merger, we have introduced it to our new California, Midwest and Eastern Region stores, generating healthy incremental sales.

Quick Fixin' Ideas is generating great results as we introduce it across the Company. This program helps our customers provide tasty and nutritious meals for their families quickly and easily. It allows customers to pick up meal ideas and recipes to make quickly at home or to select from a variety of meals already prepared—or both.

The Farmer's Market floral program, which worked well for Lucky, is being received well at the original Albertson's stores. Customers can select from a wide variety of high-quality flowers. They can also ask our floral clerks to put together their favorite arrangements.

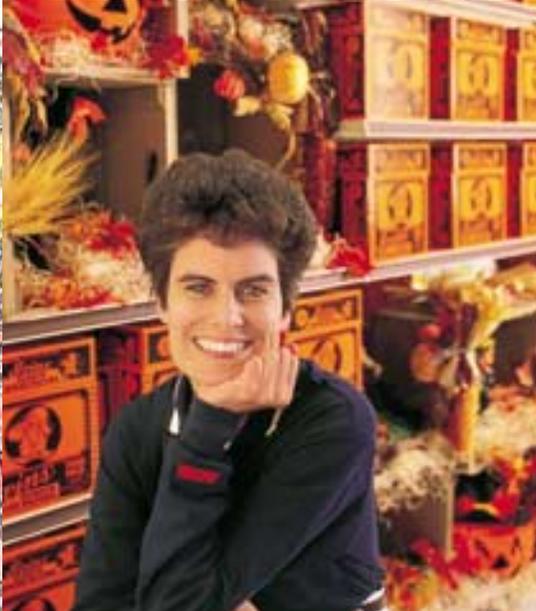
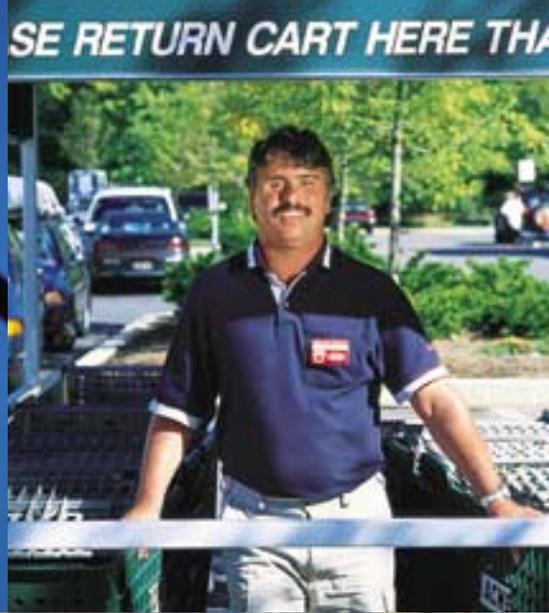
Lucky's successful wine destination program also is proving popular at the original Albertson's stores. It gives customers a wide selection of premium wines from which to choose. It also provides them with information, such as ratings by national wine magazines. When our customers want fine wine, we want them to think of Albertson's.

Corporate Brands

Our Corporate Brands provide our operating regions with exclusive brands of quality products that satisfy customer needs, generate repeat business and provide additional profits for our stores. They also provide Albertson's with opportunities for better production and purchasing efficiencies as we make the most of the product offerings of the two companies. Our customers benefit—with quality products at good value.

Strategic Direction

Following the best practices will also bring Albertson's emphasis on new and remodeled stores to the former American Stores properties. Our strategic direction for the next two years increases our focus on remodels, particularly in the Acme and former Lucky stores. We've created development teams to help us reach our goal



Eastern Region

"Our Acme stores have been an integral part of the Philadelphia market for 110 years, serving Pennsylvania, New Jersey, Delaware and Maryland. Our combination stores and small markets serve diverse neighborhoods, but they're all embracing our aggressive and revitalizing remodel program."

Carl Jablonski, Region President



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From top: Joe Lerario, Produce Manager; Raymond Harlan, Courtesy Clerk; and Polli Bitterman, Cashier: all at Paoli in Paoli, Pennsylvania.



Drug Region

"We serve the pharmacy and related needs of customers across America. Our customers depend on us. We provide quality, value and service—whether at Sav-on in Los Angeles, Osco in Maine or Sav-ondrugs.com that customers access by computer."

Kevin Tripp, Region President



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From top: Todd Montrose, Pharmacist, 36th & State in Boise, Idaho, and Susan Ham, Pharmacist, Plaza Boulevard in National City, California.

of remodeling 130 stores in 2000. These existing stores will benefit from our destination categories and neighborhood marketing, and the rejuvenated stores should see a healthy increase in comparable store sales.

After remodels, one of our first priorities is replacement stores. The merger provided us with many opportunities across the country—opportunities to build corner drugstores and to replace small supermarkets that we cannot expand. We plan to build new and replacement stores to fill in existing market areas in California, Texas, Florida, Tennessee, Chicago and Philadelphia. To keep development costs low, we'll use limited prototypes, while choosing departments, décor and fixtures to fit the neighborhoods.

Adapting our stores to their neighborhoods allows us to make the best use of all our Company resources, including real estate. In some cases, we will “recycle” the real estate to put it to its best use in meeting neighborhood needs. For instance, we might build a corner stand-alone drugstore on a site previously occupied by a small supermarket.

In all, we expect to spend \$1.9 billion, including leases, on capital expenditures in 2000. In addition to the 130 remodels, we plan to open 90 food and drug stores and 50 stand-alone drugstores. We also plan to open 120 new fuel centers. We expect to increase square footage by approximately 5%.

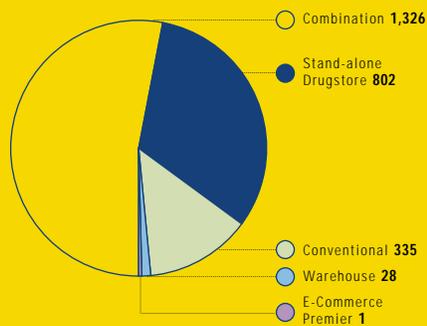
In 2001, we expect to spend \$2 billion, including leases, to build 100 new food and drug stores and 65 new stand-alone drugstores. We also plan to build 130 fuel centers and remodel 140 stores. We expect to increase square footage by about 6%.

We will build our future growth upon the strong foundation constructed by our associates in 1999. We have made significant progress in integrating our companies, establishing common systems and realizing significant cost savings.

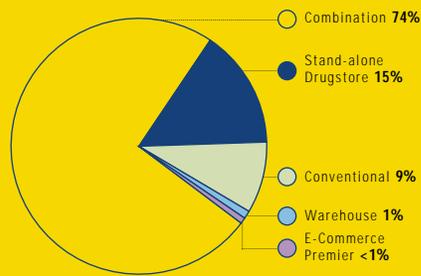
We are excited about our future as a national retailer. We see marvelous opportunities in the areas of comparable store sales, remodels, pharmacies, fuel centers and best practices. We see tremendous potential in our ability to use a variety of store formats to meet the needs of customers in a growing number of diverse neighborhoods. We see a bright future for Albertson's—all across America.

Financial Section

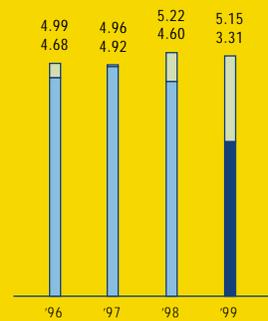
1999 Number of Stores by Store Format



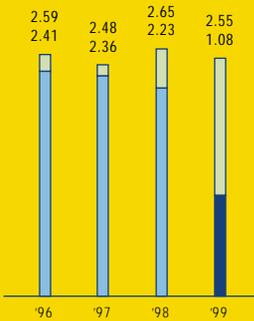
1999 Square Footage by Store Format



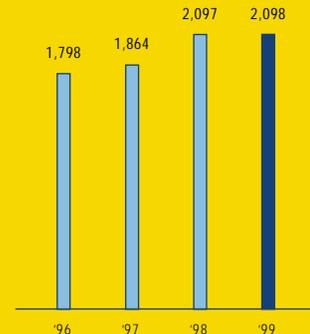
Operating Profit as a Percent to Sales



Net Earnings as a Percent to Sales



Capital Expenditures* (dollars in millions)



□ Excluding merger-related costs and one-time charges

* Includes business acquisitions and operating leases

Management's Discussion and Analysis of Financial Condition and Results of Operations

(Dollars in millions, except per share data)

Business Combinations

On August 2, 1998, Albertson's, Inc. ("Albertson's" or the "Company") and American Stores Company ("ASC") entered into a definitive merger agreement ("Merger Agreement") whereby Albertson's would acquire ASC by exchanging 0.63 share of Albertson's common stock for each outstanding share of ASC common stock, with cash being paid in lieu of fractional shares (the "Merger") and ASC would become a wholly owned subsidiary of Albertson's. In addition, outstanding rights to receive ASC common stock under ASC stock option plans would be converted into rights to receive equivalent Albertson's common stock.

The Merger was consummated on June 23, 1999, with the issuance of approximately 177 million shares of Albertson's common stock. The Merger constituted a tax-free reorganization and has been accounted for as a pooling of interests for accounting and financial reporting purposes. The pooling of interests method of accounting is intended to present as a single interest, two or more common stockholders' interests that were previously independent; accordingly, these consolidated financial statements restate the historical financial statements as though the companies had always been combined. The restated consolidated financial statements are adjusted to conform accounting policies and financial statement presentations.

The following table compares amounts previously reported by Albertson's and ASC prior to the Merger transaction and the combined amounts for fiscal 1998 and 1997:

	Albertson's	ASC	Combined
1998:			
Net revenues	\$ 16,005	\$ 19,867	\$ 35,872
Net earnings	567	234	801
1997:			
Net revenues	14,690	19,138	33,828
Net earnings	517	280	797

In connection with the Merger, the Company entered into agreements with the Attorneys General of California, Nevada and New Mexico and the Federal Trade Commission to enable the Merger to proceed under applicable antitrust, competition and trade regulation law. The agreements required the Company to divest a total of 117 stores in California, 19 stores in Nevada and 9 stores in New Mexico. Of the stores required to be divested, 40 were ASC locations operated primarily under the Lucky name, and 105 were Albertson's stores operated primarily under the Albertson's name. In addition, the Company divested four supermarket real estate sites as required by the agreements. The stores identified for disposition had sales of \$2,300 in fiscal 1998. The Company had divested 144 of the required 145 stores as of February 3, 2000. Future growth comparisons will be affected by these divestitures.

During 1998 the Company acquired the stock of three separate operating companies representing 64 retail food and drug stores in transactions accounted for using the purchase method of accounting. In accordance with an agreement with the Federal Trade Commission, nine acquired stores and six previously owned stores were divested. Reported results include these operations from the date of consummation of the acquisition.

Results of Operations

Sales for 1999 (a 53-week year) were \$37,478 compared to \$35,872 in 1998 and \$33,828 in 1997. During fiscal 1999, ASC's fiscal year was converted from a Saturday year end to a Thursday year end. The following table sets forth certain income statement components expressed as a percent to sales and the year-to-year percentage changes in the amounts of such components:

	Percent To Sales			Percentage Change	
	1999	1998	1997	1999 vs. 1998	1998 vs. 1997
Sales	100.00	100.00	100.00	4.5	6.0
Gross profit	27.52	27.08	26.63	6.2	7.9
Selling, general and administrative expenses	23.06	21.87	21.67	10.1	7.0
Merger-related and exit costs	1.06	0.54	0.04	n.m.	n.m.
Litigation settlement	0.10			n.m.	
Impairment – store closures		0.07		n.m.	n.m.
Operating profit	3.31	4.60	4.92	(24.9)	(0.8)
Interest expense, net	0.94	0.94	0.87	4.6	14.6
Earnings before income taxes and extraordinary item	2.40	3.73	3.99	(35.1)	(0.9)
Net earnings	1.08	2.23	2.36	(49.5)	0.4

n.m. – not meaningful

Sales for 1999 increased 5.4% when compared on a 52-week basis to the prior year and excluding sales from divested stores from both years. Increases in sales are primarily attributable to the continued development of new stores and identical and comparable store sales increases. During 1999 the Company opened or acquired 147 stores, remodeled 100 stores, and closed or sold 219 stores (144 of which were required divestitures). Net retail square footage decreased by 1.7%. This includes the effect of required divestitures, which reduced square footage by 6.1 million square feet or 6.2% from the prior year. Net retail square footage increased 7.8% in 1998. Identical store sales, stores that have been in operation for two full fiscal years, increased 1.7% in 1999 and 0.5% in 1998. Comparable store sales, which include replacement stores, increased 2.1% in 1999 and 1.2% in 1998. Identical and comparable store sales continued to increase through higher average ticket sales per customer. Management estimates that there was overall inflation in products the Company sells of approximately 0.2% in 1999 and overall deflation of 0.1% in 1998.

In addition to store development, the Company has increased sales through implementation of best practices across the Company and its investment in programs initiated in recent years which are designed to provide solutions to customer needs. In 1999 and 1998, these programs included the Front End Manager program; the home meal solutions process called "Quick Fixin' Ideas[®]"; special destination categories; and increased emphasis on training programs utilizing Computer Guided Training. To provide additional solutions to customer needs, in 1999 the Company added new gourmet-quality bakery products and organic grocery and produce items. Other solutions include neighborhood marketing, targeted advertising and exciting new and remodeled stores.

Gross profit, as a percent to sales, increased primarily as a result of continued improvements made in retail stores, including improvements in underperforming stores and improved sales mix of partially prepared, value-added products. Gross profit improvements were also realized through the continued utilization of Company distribution facilities and increased buying efficiencies. The merger has created buying synergies and margin improvements from the implementation of best practices across the Company. The pre-tax LIFO adjustment, as a percent to sales, reduced gross margin by \$30 (0.08%) in 1999, \$16 (0.04%) in 1998 and \$12 (0.03%) in 1997.

Selling, general and administrative expenses, as a percent to sales, increased in 1999 primarily due to integration costs associated with the Merger, including activities associated with the banner change in California, Nevada and New Mexico. The increase in 1998 over 1997 was primarily due to increased salary and related benefit costs resulting from the Company's initiatives to increase sales, increased depreciation expense associated with the Company's expansion program and integration costs associated with the various 1998 acquisitions.

Results of operations for year ended February 3, 2000, include \$683 of merger-related costs (\$529 after tax). The following table presents the pre-tax costs incurred by category of expenditure and merger-related accruals included in the Company's Consolidated Balance Sheet:

	Exit Costs	Merger Charge	Extraordinary Loss	Period Costs	Total
Severance costs	\$ 99	\$ 8		\$ 9	\$ 116
Write-down of assets to net realizable value	239			12	251
Transaction and financing costs			\$ 31	71	102
Integration costs		3		164	167
Stock option charge		47			47
Total costs	338	58	31	256	683
Cash expenditures	(75)	(8)	(31)	(252)	(366)
Write-down of assets to net realizable value	(237)				(237)
Stock option charge		(47)			(47)
Merger-related accruals at February 3, 2000	\$ 26	\$ 3		\$ 4	\$ 33

Severance costs consist of obligations to employees who were terminated or were notified of termination under a plan authorized by senior management. Approximately 625 employees will be severed as a result of the Merger, of which 499 were terminated as of February 3, 2000.

The write-down of assets to net realizable value includes the expected loss on disposal of stores required to be divested and duplicate and abandoned facilities, including administrative offices, intangibles and information technology equipment which were abandoned by the Company or are being held for sale. The estimated fair value of assets held for sale has been determined using negotiated sales prices or independent appraisals.

Transaction and financing costs consist primarily of professional fees paid for investment banking, legal, accounting, printing and regulatory filing fees. Financing costs also include the extraordinary loss on extinguishment of debt.

Integration costs consist primarily of incremental transition and integration costs associated with integrating the operations of Albertson's and ASC and are being expensed as incurred.

The Company's stock option award plans contain provisions for automatic vesting upon a change of control. Under ASC plans, option holders had the right (limited stock appreciation right or LSAR), during an exercise period of up to 60 days after the occurrence of a change of control (but prior to consummation of the Merger), to elect to surrender all or part of their options in exchange for shares of Albertson's common stock having a value equal to the excess of the change of control price over the exercise price. Certain stock option plans of ASC defined change of control as the date of stockholder approval of the Merger. Approval of the Merger Agreement on November 12, 1998, by ASC's stockholders accelerated the vesting of 6.4 million equivalent stock options granted under pre-1997 ASC plans and permitted the holders of these options to exercise LSARs. The exercisability of the 6.4 million LSARs resulted in the Company recognizing a pre-tax \$195 merger-related stock option charge during 1998.

In the first quarter of 1999, a market price adjustment of \$29 was recorded as a reduction of merger-related costs to reflect a decline in the relevant stock price at the end of the first fiscal quarter relative to LSARs. The actual change of control price used to measure the value of these exercised LSARs became determinable at the date the Merger was consummated and resulted in no further adjustments. Upon Merger consummation, the change of control price was \$53.77 per share, resulting in the issuance of approximately 1.7 million Albertson's shares.

LSARs relating to approximately 4.0 million equivalent stock options became exercisable upon regulatory approval of the Merger, which resulted in recognition of an additional charge of \$76 in the second quarter of fiscal 1999. This charge was based upon a change of control price of \$56.96 per share, which included an adjustment factor for the early termination of the LSAR feature. A total of 0.8 million Albertson's shares were issued in satisfaction of those options for which the LSAR feature was elected and the remaining options were converted into options to acquire approximately 1.2 million Albertson's shares.

The Company recorded a \$37 pre-tax one-time charge to earnings during the third quarter of 1999 resulting from an agreement in principle reached to settle eight purported multi-state cases combined in the United States District Court in Boise, Idaho, which raised various issues including "off-the-clock" work allegations. The proposed settlement is subject to court approval. Under the proposed settlement agreement, current and former employees who meet eligibility criteria may present their claims to a settlement administrator. While the Company cannot specify the exact number of individuals who are likely to submit claims and the exact amount of their claims, the one-time charge is the Company's current estimate of the total monetary liability, including attorney fees, for all eight cases.

The Company recorded an impairment charge to earnings during 1998 related to management's decision to close 16 underperforming stores in eight states. The \$24 pre-tax charge included impaired real estate and equipment, as well as the present value of remaining liabilities under leases, net of expected sublease recoveries.

Results of operations for 1997 included a pre-tax charge of \$34 related to the sale of stock by a major stockholder and pre-tax charges of \$13 related to the sale of a division of ASC's communication subsidiary.

The Company's effective income tax rate from continuing operations for 1999 was 52.5%, as compared to 40.2% for 1998 and 41.0% for 1997. The increase for 1999 is primarily due to the non-deductible portion of merger-related costs.

Due to the significance of the merger-related costs and other one-time expenses and their effect on operating results, the following table is presented to assist in the comparison of income statement components without these costs and expenses:

	53 Weeks Ended February 3, 2000				52 Weeks Ended January 28, 1999		52 Weeks Ended January 29, 1998	
	As Reported	One-Time	W/O One-Time		W/O One-Time		W/O One-Time	
Sales	\$ 37,478		\$ 37,478	100.00%	\$ 35,872	100.00%	\$ 33,828	100.00%
Cost of sales	27,164	\$ (42)	27,122	72.37	26,156	72.92	24,821	73.37
Gross profit	10,314	42	10,356	27.63	9,716	27.08	9,007	26.63
Selling, general and administrative expense	8,641	(214)	8,427	22.49	7,845	21.87	7,330	21.67
Merger-related and exit costs	396	(396)						
Litigation settlement	37	(37)						
Operating profit	1,240	689	1,929	5.15	1,871	5.22	1,677	4.96
Interest expense, net	(353)	1	(352)	(0.94)	(337)	(0.94)	(294)	(0.87)
Other income, net	12		12	0.03	24	0.07	14	0.04
Earnings before income taxes and extraordinary item	899	690	1,589	4.24	1,558	4.34	1,397	4.13
Income taxes	472	162	634	1.69	609	1.70	559	1.66
Earnings before extraordinary item	427	528	955	2.55	949	2.65	838	2.48
Extraordinary loss on extinguishment of debt, net of tax benefit of \$7	(23)	23						
Net earnings	\$ 404	\$ 551	\$ 955	2.55%	\$ 949	2.65%	\$ 838	2.48%

The costs of integrating the two companies have and will result in significant non-recurring charges and incremental expenses. These costs had a material effect on 1999 results of operations of the Company and may have a significant effect on results of operations for the year 2000. The actual timing of the costs is, in part, dependent upon the actual timing of certain integration actions. Non-recurring charges and expenses of implementing integration actions are estimated to total \$700 after income tax benefits. The cash portion of these charges is estimated at approximately \$367. When reduced by the cash received from the sale of the stores required to be divested and the net proceeds from the sale of assets that will not be used in the combined company, the net positive cash flow will be approximately \$276.

The Company expects to incur additional after-tax merger-related costs of approximately \$157 in future periods, which consist primarily of expected integration costs and costs associated with other consolidation activities for which plans have not yet been finalized.

Liquidity and Capital Resources

Cash provided by operating activities during 1999 was \$1,397, compared to \$1,447 in 1998 and \$1,815 in 1997. Cash provided by operating activities during 1999 was negatively impacted by \$230 for merger-related after-tax expenditures (the offsetting proceeds from divestitures is included with cash flow from investing activities). These expenditures include severance, transaction financing and integration costs. In addition, for fiscal 1999 a combination of increased inventories and the reduction of accounts payable leverage negatively impacted cash provided from operating activities. Fiscal 1998 cash provided from operating activities decreased from 1997 primarily due to higher inventories and the timing of cash payments related to insurance programs for workers' compensation and general liability. The Company has implemented several initiatives designed to enhance working capital which include reducing inventory levels and increasing accounts payable leverage. These improvements are expected to reduce the cash requirements of the business.

The Company's financing activities for 1999 included net new borrowings of \$441 and \$265 for the payment of dividends (which represents 27.7% of 1999 net earnings without merger-related costs and one-time expenses). The Board of Directors at its March 2000 meeting increased the regular quarterly cash dividend to \$0.19 per share, for an annual rate of \$0.76 per share.

The Company utilizes its commercial paper and bank line programs primarily to supplement cash requirements for seasonal fluctuations in working capital and to fund its capital expenditure program. Accordingly, commercial paper and bank line borrowings will fluctuate between reporting periods. The Company had \$1,628 of commercial paper borrowings outstanding at February 3, 2000.

Following the Merger, the Company consolidated several of the commercial paper, bank lines and other financing arrangements. The consolidation of debt included the repayment of ASC debt containing change of control provisions and the tender for, or open market purchases of, certain higher coupon debt. At the effective date of the Merger, approximately \$900 of ASC's debt became due or callable by the creditors due to change of control provisions, of which approximately \$700 was repaid, and a \$200 term loan was amended to waive the change of control provision.

In support of the Company's commercial paper program, the Company had two credit facilities totaling \$2,100 during fiscal 1999. Effective March 2000, the Company entered into two new revolving credit agreements for \$1,900. One agreement expires in 364 days for \$950 and the second agreement expires in 5 years for the remaining \$950. At the expiration of the 364-day credit agreement and upon due notice, the Company may extend the term for an additional 364-day period if the lenders holding at least 75% of the commitments agree. The 364-day agreement also contains an option which would allow the Company, upon due notice, to convert any outstanding amounts at the expiration date to term loans. The agreements contain certain covenants, the most restrictive of which requires the Company to maintain consolidated tangible net worth, as defined, of at least \$2,100. In addition, the Company has uncommitted bank lines of credit totaling \$345 million. As of February 3, 2000, no amounts were outstanding under the credit facilities or bank lines.

Albertson's filed a shelf registration statement with the Securities and Exchange Commission (SEC), which became effective in February 1999 (the "1999 Registration Statement") to authorize the issuance of up to \$2,500 in debt securities. The Company intends to use the net proceeds of any securities sold pursuant to the 1999 Registration Statement for retirement of debt and general corporate purposes.

In July 1999, the Company issued \$1,300 of term notes under the 1999 Registration Statement. The notes are composed of \$300 of principal bearing interest at 6.55% due August 1, 2004; \$350 of principal bearing interest at 6.95% due August 1, 2009; and \$650 of principal bearing interest at 7.45% due August 1, 2029. Proceeds were used primarily to repay borrowings under the Company's commercial paper program. Additional securities up to \$1,200 remain available for issuance under the Company's 1999 Registration Statement.

During 1998 Albertson's issued a total of \$317 in medium-term notes under a shelf registration statement filed with the SEC in December 1997. Under a shelf registration statement filed with the SEC in May 1996, Albertson's issued \$200 of medium-term notes in 1997. Proceeds from these issuances were used to reduce borrowings under Albertson's commercial paper program.

On March 19, 1998, ASC issued \$45 of 6.5% notes due March 20, 2008, under an outstanding Series B Medium-Term Note Program. On March 30, 1998, ASC issued an additional \$100 of 7.1% notes due March 20, 2028, under the same program. Proceeds were used to refinance short-term debt and for general corporate purposes.

The Company's operating results continue to enhance its financial position and ability to continue its planned expansion program. Cash flows from operations and available borrowings are sufficient for the future operating and capital needs of the Company.

The following leverage ratios demonstrate the Company's levels of long-term financing as of the indicated year end:

	February 3, 2000	January 28, 1999
Long-term debt and capitalized lease obligations to capital ¹	46.7%	48.1%
Long-term debt and capitalized lease obligations to total assets	31.8	33.8

¹Capital includes long-term debt, capitalized lease obligations and stockholders' equity

The Company continues to retain ownership of real estate when possible. As of February 3, 2000, the Company held title to the land and buildings of 39% of the Company's stores and held title to the buildings on leased land of an additional 7% of the Company's stores. The Company also holds title to the land and buildings of most of its administrative offices and distribution facilities.

The Company is committed to keeping its stores up to date. In the last three years, the Company has opened or remodeled 796 stores representing 35% of the Company's retail square footage as of February 3, 2000. The following summary of historical capital expenditures includes capital leases, stores acquired in business and asset acquisitions, assets acquired with related debt and the estimated fair value of property financed by operating leases:

	1999	1998	1997
New and acquired stores	\$ 1,126	\$ 1,146	\$ 948
Remodels	296	299	216
Retail replacement equipment and technological upgrades	151	239	280
Distribution facilities and equipment	198	139	110
Other	97	50	105
Total capital expenditures	1,868	1,873	1,659
Estimated fair value of property financed by operating leases	230	224	205
	\$ 2,098	\$ 2,097	\$ 1,864

The Company's strong financial position provides the flexibility for the Company to grow through its store development program and future acquisitions.

Recent Accounting Standards

In June 1998 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." This new standard establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. This standard, as amended by SFAS No. 137, is effective for the Company's 2001 fiscal year. The Company has not yet completed its evaluation of this standard or its impact on the Company's accounting and reporting requirements.

Quantitative and Qualitative Disclosures about Market Risk

The Company is exposed to certain market risks that are inherent in the Company's financial instruments which arise from transactions entered into in the normal course of business. From time to time, the Company enters into derivative transactions. The objective of these derivative transactions is to reduce the Company's exposure to changes in interest rates, and each transaction is evaluated periodically by the Company for changes in market value and counterparty credit exposure.

The Company is subject to interest rate risk on its fixed interest rate debt obligations. Commercial paper borrowings do not give rise to significant interest rate risk because these borrowings have maturities of less than three months. Generally, the fair value of debt with a fixed interest rate will increase as interest rates fall, and the fair value will decrease as interest rates rise. The Company manages its exposure to interest rate risk by utilizing a combination of fixed rate borrowings and commercial paper borrowings.

During 1997 ASC entered into a \$300 five-year LIBOR basket swap. The LIBOR basket swap agreement diversified the indices used to determine the interest rate on a portion of ASC's variable rate debt by providing for payments based on an average of foreign LIBOR indices which are reset every three months and also provided for a maximum interest rate of 8.0%. The Company recognized no income or expense in 1998 or 1997 related to this swap. During 1999 ASC terminated the LIBOR basket swap and recognized a loss of \$1.

There have been no material changes in the primary risk exposures or management of the risks since the prior year. The Company expects to continue to manage risks in accordance with the current policy.

The table below provides information about the Company's debt obligations that are sensitive to changes in interest rates. For debt obligations, the table presents principal cash flows and related weighted average interest rates by expected maturity dates:

	2000	2001	2002	2003	2004	There- after	Total	Fair Value
Debt obligations (excluding commercial paper):								
Fixed rate	\$ 395	\$ 43	\$ 105	\$ 104	\$ 504	\$ 2,649	\$ 3,800	\$ 3,718
Weighted average interest rate	6.7%	5.3%	10.4%	7.3%	6.6%	7.3%	7.2%	

Environmental

The Company has identified environmental contamination sites related primarily to underground petroleum storage tanks and ground water contamination at various store, warehouse, office and manufacturing facilities (related to current operations as well as previously disposed of businesses). The Company conducts an ongoing program for the inspection and evaluation of new sites proposed to be acquired by the Company and the remediation/monitoring of contamination at existing and previously owned sites. Undiscounted reserves have been established for each environmental contamination site unless an unfavorable outcome is remote. Although the ultimate outcome and expense of environmental remediation is uncertain, the Company believes that required remediation and continuing compliance with environmental laws, in excess of current reserves, will not have a material adverse effect on the financial condition of the Company. Charges against earnings for environmental remediation were not material in 1999, 1998 or 1997.

Cautionary Statement for Purposes of “Safe Harbor Provisions” of the Private Securities Litigation Reform Act of 1995

From time to time, information provided by the Company, including written or oral statements made by its representatives, may contain forward-looking information as defined in the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, which address activities, events or developments that the Company expects or anticipates will or may occur in the future, including such things as integration of the ASC operations, expansion and growth of the Company's business, future capital expenditures and the Company's business strategy, contain forward-looking information. In reviewing such information it should be kept in mind that actual results may differ materially from those projected or suggested in such forward-looking information. This forward-looking information is based on various factors and was derived utilizing numerous assumptions. Many of these factors have previously been identified in filings or statements made by or on behalf of the Company.

Important assumptions and other important factors that could cause actual results to differ materially from those set forth in the forward-looking information include changes in the general economy, changes in consumer spending, competitive factors and other factors affecting the Company's business in or beyond the Company's control. These factors include changes in the rate of inflation, changes in state or federal legislation or regulation, adverse determinations with respect to litigation or other claims (including environmental matters), labor negotiations, the Company's ability to recruit and develop associates, its ability to develop new stores or complete remodels as rapidly as planned, its ability to implement new technology successfully, stability of product costs and the Company's ability to integrate the operations of ASC.

Other factors and assumptions not identified above could also cause the actual results to differ materially from those set forth in the forward-looking information. The Company does not undertake to update forward-looking information contained herein or elsewhere to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking information.

Consolidated Earnings

(In millions, except per share data)	53 Weeks February 3, 2000	52 Weeks January 28, 1999	52 Weeks January 29, 1998
Sales	\$ 37,478	\$ 35,872	\$ 33,828
Cost of sales	27,164	26,156	24,821
Gross profit	10,314	9,716	9,007
Selling, general and administrative expenses	8,641	7,846	7,330
Merger-related and exit costs	396	195	13
Litigation settlement	37		
Impairment – store closures		24	
Operating profit	1,240	1,651	1,664
Other (expenses) income:			
Interest, net	(353)	(337)	(294)
Shareholder related expense			(34)
Other, net	12	24	14
Earnings before income taxes and extraordinary item	899	1,338	1,350
Income taxes	472	537	553
Earnings before extraordinary item	427	801	797
Extraordinary loss on extinguishment of debt, net of tax benefit of \$7	(23)		
Net Earnings	\$ 404	\$ 801	\$ 797
Basic Earnings Per Share:			
Earnings before extraordinary item	\$ 1.01	\$ 1.91	\$ 1.89
Extraordinary item	(.05)		
Net Earnings	\$ 0.96	\$ 1.91	\$ 1.89
Diluted Earnings Per Share:			
Earnings before extraordinary item	\$ 1.00	\$ 1.90	\$ 1.88
Extraordinary item	(.05)		
Net Earnings	\$ 0.95	\$ 1.90	\$ 1.88
Weighted Average Common Shares Outstanding:			
Basic	422	419	422
Diluted	423	422	423

See Notes to Consolidated Financial Statements

Consolidated Balance Sheets

(In millions, except per share data)	February 3, 2000	January 28, 1999
Assets		
Current Assets:		
Cash and cash equivalents	\$ 231	\$ 116
Accounts and notes receivable, net	587	612
Inventories	3,481	3,249
Prepaid expenses	154	98
Property held for resale	100	
Deferred income taxes	29	133
Total Current Assets	4,582	4,208
Land, Buildings and Equipment, net	8,913	8,545
Goodwill, net	1,582	1,738
Other Assets	624	640
Total Assets	\$ 15,701	\$ 15,131
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	\$ 2,132	\$ 2,185
Salaries and related liabilities	555	512
Taxes other than income taxes	172	169
Income taxes	82	50
Self-insurance	184	173
Unearned income	110	101
Merger-related reserves	33	
Current portion of capitalized lease obligations	19	18
Current maturities of long-term debt	623	50
Other	145	93
Total Current Liabilities	4,055	3,351
Long-Term Debt	4,805	4,905
Capitalized Lease Obligations	187	202
Self-Insurance	219	315
Deferred Income Taxes	52	208
Other Long-Term Liabilities and Deferred Credits	681	628
Commitments and Contingencies		
Stockholders' Equity:		
Preferred stock – \$1.00 par value; authorized – 10 shares; designated – 3 shares of Series A Junior Participating; issued – none		
Common stock – \$1.00 par value; authorized – 1,200 shares; issued – 424 shares and 435 shares, respectively	424	435
Capital in excess of par	145	579
Retained earnings	5,133	5,027
Treasury stock – 15 shares as of January 28, 1999		(519)
Total Stockholders' Equity	5,702	5,522
Total Liabilities and Stockholders' Equity	\$ 15,701	\$ 15,131

See Notes to Consolidated Financial Statements

Consolidated Cash Flows

(In millions)	53 Weeks February 3, 2000	52 Weeks January 28, 1999	52 Weeks January 29, 1998
Cash Flows From Operating Activities:			
Net earnings	\$ 404	\$ 801	\$ 797
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	854	806	745
Goodwill amortization	58	57	53
Noncash merger-related charges	271	195	
Impairment – store closures		24	
Net (gain) loss on asset sales	(2)	(14)	6
Net deferred income taxes	(52)	(72)	4
Increase in cash surrender value of Company-owned life insurance	(12)	(23)	(14)
Changes in operating assets and liabilities, net of business acquisitions:			
Receivables and prepaid expenses	45	(56)	(105)
Inventories	(233)	(157)	(96)
Accounts payable	(53)	7	377
Other current liabilities	138	54	37
Self-insurance	(85)	(134)	(14)
Unearned income	76	(12)	42
Other long-term liabilities	(12)	(29)	(17)
Net cash provided by operating activities	<u>1,397</u>	<u>1,447</u>	<u>1,815</u>
Cash Flows From Investing Activities:			
Capital expenditures	(1,837)	(1,626)	(1,632)
Proceeds from divestitures and duplicate assets	393		
Proceeds from disposals of land, buildings and equipment	83	162	70
Business acquisitions, net of cash acquired		(260)	
Increase in other assets	(115)	(97)	(138)
Net cash used in investing activities	<u>(1,476)</u>	<u>(1,821)</u>	<u>(1,700)</u>
Cash Flows From Financing Activities:			
Proceeds from long-term borrowings	1,841	462	734
Payments on long-term borrowings	(970)	(213)	(179)
Net commercial paper activity and bank borrowings	(430)	300	210
Proceeds from stock options exercised	32	66	50
Cash dividends paid	(265)	(263)	(253)
Tax payments for options exercised	(14)		
Treasury stock purchases and retirements		(18)	(745)
Issuance of common stock			96
Net cash provided by (used in) financing activities	<u>194</u>	<u>334</u>	<u>(87)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	115	(40)	28
Cash and Cash Equivalents at Beginning of Year	116	156	128
Cash and Cash Equivalents at End of Year	\$ 231	\$ 116	\$ 156

See Notes to Consolidated Financial Statements

Consolidated Stockholders' Equity

(Dollars in millions)	Common Stock \$1.00 Par Value	Capital In Excess of Par Value	Retained Earnings	Treasury Stock	Total
Balance at January 30, 1997	\$ 439	\$ 324	\$ 4,145	\$ (114)	\$ 4,794
Net earnings			797		797
Issuance of 1,041,010 shares of stock for stock options, awards and Employee Stock Purchase Plan (ESPP)		6		25	31
Exercise of stock options		3			3
Tax benefits related to stock options		4			4
Stock purchase incentive plan		10			10
Treasury stock purchases and retirements	(4)	(3)	(185)	(551)	(743)
Shares related to directors' stock compensation plan – 121,590 shares		4			4
Stock issuance – 2,912,094 shares		36		60	96
Dividends			(255)		(255)
Balance at January 29, 1998	435	384	4,502	(580)	4,741
Net earnings			801		801
Issuance of 1,989,505 shares of stock for stock options, awards and ESPP		(11)		63	52
Merger-related stock option charge		195			195
Exercise of stock options		3			3
Tax benefits related to stock options		10			10
Treasury stock purchases and retirements		(6)	(10)	(2)	(18)
Stock purchase incentive plan		1			1
Shares related to directors' stock compensation plan – 12,633 shares		3			3
Dividends			(266)		(266)
Balance at January 28, 1999	435	579	5,027	(519)	5,522
Net earnings			404		404
Issuance of 131,099 shares of stock for stock options and awards		(1)		4	3
Merger-related stock option charge		47			47
Exercise of stock options	1	19			20
Tax benefits related to stock options		11			11
Treasury and fractional share retirements	(14)	(496)		510	
Shares issued for limited stock appreciation rights	2	(16)			(14)
Stock purchase incentive plan		2		5	7
Dividends			(298)		(298)
Balance at February 3, 2000	\$ 424	\$ 145	\$ 5,133		\$ 5,702

See Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

(Dollars in millions, except per share data)

Basis of Presentation

On August 2, 1998, Albertson's, Inc. ("Albertson's" or the "Company") and American Stores Company ("ASC") entered into a definitive merger agreement ("Merger Agreement") whereby Albertson's would acquire ASC by exchanging 0.63 share of Albertson's common stock for each outstanding share of ASC common stock, with cash being paid in lieu of fractional shares (the "Merger") and ASC would become a wholly owned subsidiary of Albertson's. In addition, outstanding rights to receive ASC common stock under ASC stock option plans would be converted into rights to receive equivalent Albertson's common stock.

The Merger was consummated on June 23, 1999, with the issuance of approximately 177 million shares of Albertson's common stock. The Merger constituted a tax-free reorganization and has been accounted for as a pooling of interests for accounting and financial reporting purposes. The pooling of interests method of accounting is intended to present as a single interest, two or more common stockholders' interests that were previously independent; accordingly, these consolidated financial statements restate the historical financial statements as though the companies had always been combined. The restated consolidated financial statements are adjusted to conform accounting policies and financial statement presentations. There were no material conforming adjustments.

The Company

The Company is incorporated under the laws of the State of Delaware and is the successor to a business founded by J. A. Albertson in 1939. Based on sales, the Company is the second largest retail food and drug chain in the United States.

As of February 3, 2000, the Company operated 2,492 stores in 37 Western, Midwestern, Eastern and Southern states. Retail operations are supported by 21 major Company distribution operations, strategically located in the Company's operating markets.

Summary of Significant Accounting Policies

Fiscal Year End The Company's fiscal year is generally 52 weeks and periodically consists of 53 weeks because the fiscal year ends on the Thursday nearest to January 31 (the Saturday nearest to January 31 for ASC during fiscal years 1998 and 1997). During fiscal 1999, ASC's fiscal year was converted from a Saturday year end to a Thursday year end. Unless the context otherwise indicates, reference to a fiscal year of the Company refers to the calendar year in which such fiscal year commences.

Consolidation The consolidated financial statements include the results of operations, account balances and cash flows of the Company and its subsidiaries. All material intercompany balances have been eliminated.

Cash and Cash Equivalents The Company considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents. Investments, which consist of government-backed money market funds and repurchase agreements backed by government securities, are recorded at cost which approximates market value.

Inventories The Company values inventories at the lower of cost or market. Cost of substantially all inventories is determined on a last-in, first-out (LIFO) basis.

Capitalization, Depreciation and Amortization Land, buildings and equipment are recorded at cost. Depreciation is provided on the straight-line method over the estimated useful life of the asset. Estimated useful lives are generally as follows: buildings and improvements—10 to 35 years; fixtures and equipment—3 to 10 years; leasehold improvements—10 to 25 years; and capitalized leases—20 to 30 years. Long-lived assets are reviewed for impairment whenever events or changes in business circumstances indicate the carrying value of the assets may not be recoverable.

The costs of major remodeling and improvements on leased stores are capitalized as leasehold improvements. Leasehold improvements are amortized on the straight-line method over the shorter of the life of the applicable lease or the useful life of the asset. Capital leases are recorded at the lower of the fair market value of the asset or the present value of future minimum lease payments. These leases are amortized on the straight-line method over their primary term.

Beneficial lease rights and lease liabilities are recorded on purchased leases based on differences between contractual rents under the respective lease agreements and prevailing market rents at the date of the acquisition of the lease. Beneficial lease rights are amortized over the lease term using the straight-line method. Lease liabilities are amortized over the lease term using the interest method.

Goodwill Goodwill resulting from business acquisitions represents the excess of cost over fair value of net assets acquired and is being amortized over 40 years using the straight-line method. Goodwill is principally from the acquisition of Lucky Stores, Inc. in 1988. Accumulated amortization amounted to \$602 and \$581 in 1999 and 1998, respectively. Periodically, the Company re-evaluates goodwill and other intangibles based on undiscounted operating cash flows whenever significant events or changes occur which might impair recovery of recorded asset costs.

Self-Insurance The Company is partially self-insured for property loss, workers' compensation and general liability costs. For ASC, beginning in fiscal 1998, insurance was purchased for workers' compensation, general liability and automotive liability coverage. Self-insurance liabilities are based on claims filed and estimates for claims incurred but not reported. These liabilities are not discounted.

Unearned Income Unearned income consists primarily of buying and promotional allowances received from vendors in connection with the Company's buying and merchandising activities. These funds are recognized as revenue when earned by purchasing amounts of product, promoting certain products or passage of time, as specified in the related agreements.

Store Opening and Closing Costs Noncapital expenditures incurred in opening new stores or remodeling existing stores are expensed in the year in which they are incurred. When a store is closed, the remaining investment in land, buildings and equipment, net of expected recovery value, is expensed. For properties under operating lease agreements, the present value cost of any remaining liability under the lease, net of expected sublease recovery, is also expensed.

Advertising Advertising costs incurred to produce media advertising for major new campaigns are expensed in the year in which the advertising first takes place. Other advertising costs are expensed when incurred. Cooperative advertising income from vendors is recorded in the period in which the related expense is incurred. Gross advertising expenses of \$583, \$518 and \$497 excluding cooperative advertising income from vendors, were included with cost of sales in the Company's Consolidated Earnings for 1999, 1998 and 1997, respectively.

Stock Options Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," encourages, but does not require, companies to record compensation cost for stock-based employee compensation plans at fair value. The Company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. Accordingly, compensation cost of stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of the grant over the option exercise price and is charged to operations over the vesting period. Income tax benefits attributable to stock options exercised are credited to capital in excess of par value.

Company-owned Life Insurance The Company has purchased life insurance policies to cover its obligations under certain deferred compensation plans for officers and directors. Cash surrender values of these policies are adjusted for fluctuations in the market value of underlying investments. The cash surrender value is adjusted each reporting period and any gain or loss is included with other income (expense) in the Company's Consolidated Earnings Statement.

Income Taxes The Company provides for deferred income taxes resulting from temporary differences in reporting certain income and expense items for income tax and financial accounting purposes. The major temporary differences and their net effect are shown in the "Income Taxes" note. Amortization of goodwill is generally not deductible for purposes of calculating income tax provisions.

Earnings Per Share (EPS) Basic EPS is computed by dividing consolidated net earnings by the weighted average number of common shares outstanding. Diluted EPS is computed by dividing consolidated net earnings by the sum of the weighted average number of common shares outstanding and the weighted average number of potential common shares outstanding. Potential common shares consist solely of outstanding options under the Company's stock option plans. Outstanding options excluded in 1999 and 1997 (option price exceeded the average market price during the period) amounted to 3.5 million shares and 4.3 million shares, respectively. There were no outstanding options excluded from the computation of potential common shares in 1998. For purposes of the EPS calculation, all shares and potential

common shares of ASC were converted at the 0.63 to 1 exchange ratio. In connection with the Merger, certain options of ASC were exchanged for shares of Albertson's based on the fair value of the options, including contractual rights.

Reclassifications Certain reclassifications have been made in prior years' financial statements to conform to classifications used in the current year.

Use of Estimates The preparation of the Company's consolidated financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Merger, Divestitures and Related Costs

The following table compares amounts previously reported by Albertson's and ASC prior to the Merger transaction and the combined amounts for fiscal 1998 and 1997:

	Albertson's	ASC	Combined
1998:			
Net revenues	\$ 16,005	\$ 19,867	\$ 35,872
Net earnings	567	234	801
1997:			
Net revenues	14,690	19,138	33,828
Net earnings	517	280	797

In connection with the Merger, the Company entered into agreements with the Attorneys General of California, Nevada and New Mexico and the Federal Trade Commission to enable the Merger to proceed under applicable antitrust, competition and trade regulation law. The agreements required the Company to divest a total of 117 stores in California, 19 stores in Nevada and 9 stores in New Mexico. Of the stores required to be divested, 40 were ASC locations operated primarily under the Lucky name, and 105 were Albertson's stores operated primarily under the Albertson's name. In addition, the Company divested four supermarket real estate sites as required by the agreements. The stores identified for disposition had sales of \$2,300 in fiscal 1998. The Company had divested 144 of the required 145 stores as of February 3, 2000.

Results of operations for year ended February 3, 2000, include \$683 of merger-related costs (\$529 after tax). The following table presents the pre-tax costs incurred by category of expenditure and merger-related accruals included in the Company's Consolidated Balance Sheet:

	Exit Costs	Merger Charge	Extraordinary Loss	Period Costs	Total
Severance costs	\$ 99	\$ 8		\$ 9	\$ 116
Write-down of assets to net realizable value	239			12	251
Transaction and financing costs			\$ 31	71	102
Integration costs		3		164	167
Stock option charge		47			47
Total costs	338	58	31	256	683
Cash expenditures	(75)	(8)	(31)	(252)	(366)
Write-down of assets to net realizable value	(237)				(237)
Stock option charge		(47)			(47)
Merger-related accruals at February 3, 2000	\$ 26	\$ 3		\$ 4	\$ 33

Severance costs consist of obligations to employees who were terminated or were notified of termination under a plan authorized by senior management. Approximately 625 employees will be severed as a result of the Merger, of which 499 were terminated as of February 3, 2000.

The write-down of assets to net realizable value includes the expected loss on disposal of stores required to be divested and duplicate and abandoned facilities, including administrative offices, intangibles and information technology equipment which were abandoned by the Company or are being held for sale. The estimated fair value of assets held for sale has been determined using negotiated sales prices or independent appraisals.

Transaction and financing costs consist primarily of professional fees paid for investment banking, legal, accounting, printing and regulatory filing fees. Financing costs also include the extraordinary loss on extinguishment of debt.

Integration costs consist primarily of incremental transition and integration costs associated with integrating the operations of Albertson's and ASC and are being expensed as incurred.

As discussed in the Stock Options and Stock Awards Note, the Company recorded net pre-tax charges through the first two quarters of 1999 of \$47 related to limited stock appreciation rights (LSARs). The actual change of control price used to measure the value of these exercised LSARs became determinable at the date the Merger was consummated.

The costs of integrating the two companies have and will result in significant non-recurring charges and incremental expenses. These costs have had a material effect on 1999 results of operations of the Company and may have a significant effect on results of operations for the year 2000. The actual timing of the costs is, in part, dependent upon the actual timing of certain integration actions. Non-recurring charges and expenses of implementing integration actions are estimated to total \$700 after income tax benefits. The cash portion of these charges is estimated at approximately \$367. When reduced by the cash received from the sale of the stores required to be divested and the net proceeds from the sale of assets that will not be used in the combined company, the net positive cash flow will be approximately \$276. The Company expects to incur additional after-tax merger-related costs of approximately \$157 in future periods, which consist primarily of expected integration costs and costs associated with other consolidation activities for which plans have not yet been finalized.

Supplemental Cash Flow Information

Selected cash payments and noncash activities were as follows:

	1999	1998	1997
Cash payments for income taxes	\$ 520	\$ 589	\$ 547
Cash payments for interest, net of amounts capitalized	413	331	270
Noncash investing and financing activities:			
Tax benefits related to stock options	11	10	4
Capitalized lease obligations incurred	24	25	27
Capitalized lease obligations terminated	14	6	2
Liabilities assumed in connection with asset acquisitions	7	2	

Business Acquisitions

During 1998, the Company acquired 64 stores in three separate stock purchase acquisitions and 15 stores in an asset acquisition transaction. In connection with one of the stock purchase acquisitions, the Company agreed with the Federal Trade Commission to divest nine of the acquired stores and six previously owned stores. These four acquisition transactions had a combined purchase price of \$302.

The above acquisitions were accounted for using the purchase method of accounting. The results of operations of the acquired businesses have been included in the consolidated financial statements from their date of acquisition. Pro forma results of operations have not been presented due to the immaterial effects of these acquisitions on the Company's consolidated operations. For these acquisitions, the excess of the purchase price over the fair market value of net assets acquired, of \$151, was allocated to goodwill which is being amortized over 40 years.

Accounts and Notes Receivable

Accounts and notes receivable consist of the following:

	February 3, 2000	January 28, 1999
Trade and other accounts receivable	\$ 603	\$ 620
Current portion of notes receivable	15	11
Allowance for doubtful accounts	(31)	(19)
	\$ 587	\$ 612

Inventories

Approximately 96% of the Company's inventories are valued using the last-in, first-out (LIFO) method. If the first-in, first-out (FIFO) method had been used, inventories would have been \$615 and \$585 higher at the end of 1999 and 1998, respectively. Net earnings (basic and diluted earnings per share) would have been higher by \$18 (\$0.04) in 1999, \$10 (\$0.02) in 1998 and \$7 (\$0.02) in 1997. The replacement cost of inventories valued at LIFO approximates FIFO cost.

Land, Buildings and Equipment, net

Land, buildings and equipment, net, consist of the following:

	February 3, 2000	January 28, 1999
Land	\$ 1,999	\$ 1,878
Buildings	4,908	4,748
Fixtures and equipment	5,309	5,044
Leasehold improvements	1,456	1,301
Capitalized leases	328	350
	14,000	13,321
Accumulated depreciation and amortization	(5,087)	(4,776)
	\$ 8,913	\$ 8,545

Indebtedness

Long-term debt consists of the following (borrowings are unsecured unless indicated):

	February 3, 2000	January 28, 1999
Commercial paper and bank lines of credit	\$ 1,628	\$ 1,719
7.45% Debentures due August 1, 2029	650	
6.95% Notes due August 1, 2009	350	
6.55% Notes due August 1, 2004	300	
Medium-term notes, due 2013 through 2028, average interest rate of 6.5%	317	317
Medium-term notes, due 2007 through 2027, average interest rate of 6.8%	200	200
7.75% Debentures due June 2026	200	200
6.375% Notes due June 2000	200	200
Medium-term notes due 2000, average interest rate of 6.1%	90	90
7.5% Debentures due 2037	200	200
8.0% Debentures due 2026	272	350
7.9% Debentures due 2017	95	100
7.4% Notes due 2005	200	200
Medium-term notes, due 2000 through 2028, average interest rate of 7.3%	295	295
9.125% Notes due 2002	80	249
Notes due 2004, average interest rates of 6.5% and 6.3%, respectively	200	200
Revolving credit facilities, effectively due 2002, average interest rate of 5.8%		325
Other bank borrowings due 2000, average interest rate of 6.6%		75
10.63% Notes, due 2004		93
Industrial revenue bonds, average interest rate of 6.1%	14	15
Secured mortgage notes and other notes payable, average interest rates of 8.2% and 11.0%, respectively	137	127
	5,428	4,955
Current maturities	(623)	(50)
	\$ 4,805	\$ 4,905

Interest rates on the outstanding commercial paper borrowings as of February 3, 2000, ranged from 4.6% to 6.0% with an effective weighted average rate of 5.2%. The Company has established the necessary credit facilities, through its revolving credit agreements, to refinance the commercial paper and bank line borrowings on a long-term basis. The majority of these borrowings have been classified as noncurrent because it is the Company's intent to refinance these obligations on a long-term basis.

Following the Merger the Company consolidated several of the commercial paper, bank lines and other financing arrangements. The consolidation of debt included the repayment of outstanding amounts under ASC's revolving credit facilities and other debt containing change of control provisions and the tender for, or open market purchases of, certain higher coupon debt. As a result, the following debt was extinguished:

	Triggering Factor	Amount Extinguished
Revolving Credit Facility	Change of control	\$ 500
Bank borrowing due 2000	Change of control	75
10.63% Note due in 2004	Change of control	93
9.125% Notes due 2002	Tender offer	169
8.0% Debentures due 2026	Open market purchases	78
7.9% Debentures due 2017	Open market purchases	5

In July 1999 the Company issued \$500 million of floating rate notes. The notes are due July 2000 and bear interest based on LIBOR commercial paper rates that reset monthly. As of February 3, 2000, the interest rate was 5.8% on the outstanding notes. These notes were issued under the Company's commercial paper program.

The Company had two credit facilities totaling \$2,100 during fiscal 1999. In addition, the Company had uncommitted bank lines of credit totaling \$345. No borrowings were outstanding under either credit facility or bank lines as of February 3, 2000.

Effective March 2000, the Company entered into two new revolving credit agreements for \$1,900. One agreement expires in 364 days for \$950 and the second agreement expires in 5 years for the remaining \$950. At the expiration of the 364-day credit agreement and upon due notice, the Company may extend the term for an additional 364-day period if lenders holding at least 75% of commitments agree. The 364-day agreement also contains an option which would allow the Company, upon due notice, to convert any outstanding amounts at the expiration date to term loans. The agreements contain certain covenants, the most restrictive of which requires the Company to maintain consolidated tangible net worth, as defined, of at least \$2,100.

Albertson's filed a shelf registration statement with the Securities and Exchange Commission (SEC), which became effective in February 1999 (the "1999 Registration Statement") to authorize the issuance of up to \$2,500 in debt securities. The Company intends to use the net proceeds of any securities sold pursuant to the 1999 Registration Statement for retirement of debt and general corporate purposes.

In July 1999 the Company issued \$1,300 of term notes under the 1999 Registration Statement. The notes are comprised of: \$300 of principal bearing interest at 6.55% due August 1, 2004; \$350 of principal bearing interest at 6.95% due August 1, 2009; and \$650 of principal bearing interest at 7.45% due August 1, 2029. Proceeds were used primarily to repay borrowings under the Company's commercial paper program. Additional securities up to \$1,200 remain available for issuance under the Company's 1999 Registration Statement.

In July 1999 the Company negotiated an amendment to a \$200 term loan agreement between ASC and a group of commercial banks. The amended fixed rate loans carry interest based upon a pricing schedule (which averages 6.45%) dependent upon the Company's long-term debt rating, and mature July 3, 2004.

During 1998 Albertson's issued a total of \$317 in medium-term notes under a \$500 shelf registration statement filed with the SEC in December 1997. The remaining authorization of \$183 under the 1997 shelf registration statement was rolled into the 1999 Registration Statement. Under a shelf registration statement filed with the SEC in May 1996, Albertson's issued \$200 of medium-term notes in 1997. Proceeds from these issuances were used to reduce borrowings under Albertson's commercial paper program.

On March 19, 1998, ASC issued \$45 of 6.5% notes due March 20, 2008, under an outstanding Series B Medium-term Note Program. On March 30, 1998, ASC issued an additional \$100 of 7.1% notes due March 20, 2028, under the same program. Proceeds were used to refinance short-term debt and for general corporate purposes.

The Company has pledged real estate with a cost of \$11 as collateral for a mortgage note which is payable semiannually, including interest at a rate of 16.5%. The note matures from 2000 to 2013.

Medium-term notes of \$30 due July 2027 contain a put option which would require the Company to repay the notes in July 2007 if the holder of the note so elects by giving the Company a 60-day notice. Medium-term notes of \$50 due April 2028 contain a put option which would require the Company to repay the notes in April 2008 if the holder of the note so elects by giving the Company a 60-day notice.

The \$200 of 7.5% debentures due 2037 contain a put option which will require the Company to repay the note in 2009 if the holder of the notes so elects by giving the Company a 60-day notice.

Net interest expense was as follows:

	1999	1998	1997
Debt	\$ 350	\$ 322	\$ 288
Capitalized leases	27	25	22
Capitalized interest	(26)	(17)	(25)
Interest expense	351	330	285
Net bank service charges	2	7	9
	\$ 353	\$ 337	\$ 294

The scheduled aggregate maturities of long-term debt outstanding at February 3, 2000, are summarized as follows: \$623 in 2000, \$1,443 in 2001, \$105 in 2002, \$104 in 2003, \$504 in 2004 and \$2,649 thereafter.

Capital Stock

On December 2, 1996, the Board of Directors adopted a stockholder rights plan, which was amended on August 2, 1998, and March 16, 1999, under which all stockholders receive one right for each share of common stock held. Each right will entitle the holder to purchase, under certain circumstances, one one-thousandth of a share of Series A Junior Participating Preferred Stock, par value \$1.00 per share, of the Company (the "preferred stock") at a price of 160 dollars. Subject to certain exceptions, the rights will become exercisable for shares of preferred stock 10 business days (or such later date as may be determined by the Board of Directors) following the commencement of a tender offer or exchange offer that would result in a person or group beneficially owning 15% or more of the outstanding shares of common stock.

Under the plan, subject to certain exceptions, if any person or group as defined by the plan, becomes the beneficial owner of 15% or more of the outstanding common stock or takes certain other actions, each right will then entitle its holder as defined by the plan, other than such person or group, upon payment of the 160 dollars exercise price, to purchase common stock (or, in certain circumstances, cash, property or other securities of the Company) with a value equal to twice the exercise price. The rights may be redeemed by the Board of Directors at a price of \$0.001 per right under certain circumstances. The rights, which do not vote and are not entitled to dividends, will expire at the close of business on March 21, 2007, unless earlier redeemed or extended by the Board of Directors of the Company. In connection with the Merger, no person or group became the beneficial owner of 15% or more of the common stock.

The Board of Directors adopted a program on March 2, 1998 which authorized the Company to purchase and retire up to 5 million shares of its common stock. On August 2, 1998, the Board of Directors rescinded the remaining authorization in connection with the Merger.

On April 8, 1997, ASC (i) repurchased 15 million equivalent common shares from its former chairman, certain of his family members and charitable trusts (the "Selling Stockholders") for an aggregate price of \$550 and (ii) sold 3 million equivalent common shares for net proceeds of \$96 pursuant to the exercise of an over-allotment option by the underwriters in connection with a public offering of shares by the Selling Stockholders.

Income Taxes

Deferred tax assets and liabilities consist of the following:

	February 3, 2000	January 28, 1999
Deferred tax assets: (no valuation allowance considered necessary)		
Basis in fixed assets	\$ 123	\$ 76
Self-insurance	174	199
Compensation and benefits	181	204
Unearned income	36	31
Other, net	140	127
Total deferred tax assets	<u>654</u>	<u>637</u>
Deferred tax liabilities:		
Basis in fixed assets and capitalized leases	(515)	(564)
Inventories	(105)	(94)
Compensation and benefits	(33)	(30)
Other, net	(24)	(24)
Total deferred tax liabilities	<u>(677)</u>	<u>(712)</u>
Net deferred tax liability	<u>\$ (23)</u>	<u>\$ (75)</u>

As a result of an acquisition that occurred during 1998, the Company acquired federal and state net operating loss carryforwards with a remaining balance of \$13 and \$14, respectively, that will expire in various years through 2010. Based on management's assessment, it is more likely than not that all of the deferred tax assets associated with the net operating loss carryforwards will be realized; therefore, no valuation allowance is considered necessary.

Income tax expense on continuing operations consists of the following:

	1999	1998	1997
Current:			
Federal	\$ 476	\$ 537	\$ 488
State	48	72	61
	<u>524</u>	<u>609</u>	<u>549</u>
Deferred:			
Federal	(47)	(63)	4
State	(5)	(9)	
	<u>(52)</u>	<u>(72)</u>	<u>4</u>
	<u>\$ 472</u>	<u>\$ 537</u>	<u>\$ 553</u>

The reconciliations between the federal statutory tax rate and the Company's effective tax rates are as follows:

	1999	Percent	1998	Percent	1997	Percent
Taxes computed at statutory rate	\$ 315	35.0	\$ 468	35.0	\$ 473	35.0
State income taxes net of federal income tax benefit	28	3.2	51	3.8	53	3.9
Expenses for repurchase of major stockholder's common stock					12	0.9
Goodwill amortization	22	2.4	22	1.6	21	1.6
Merger-related charges	115	12.8	15	1.1		
Other	(8)	(0.9)	(19)	(1.3)	(6)	(0.4)
	<u>\$ 472</u>	<u>52.5</u>	<u>\$ 537</u>	<u>40.2</u>	<u>\$ 553</u>	<u>41.0</u>

Stock Options and Stock Awards

The Company's stock option plans provide for the grant of options to purchase shares of common stock and stock awards. At February 3, 2000, Albertson's had one stock option plan in effect under which grants could be made with respect to 30 million shares of the Company's common stock. Under this plan, approved by the stockholders in 1998, options may be granted to officers and key employees to purchase the Company's common stock. During 1999, the Company's stock option plan was amended to, among other things, include the grant of options and other awards to non-employee members of the Board of Directors. Generally, options are granted with an exercise price at not less than 100% of the closing market price on the date of the grant. The Company's options generally become exercisable in installments of 20% per year on each of the first through fifth anniversaries of the grant date and have a maximum term of 10 years. In connection with the Merger, all outstanding options under prior Albertson's and ASC plans became exercisable in accordance with the change of control provisions included in the stock option plans and all outstanding ASC options were converted into a right to acquire an equivalent number of Albertson's shares. No further options will be granted under ASC plans. Additionally, all restrictions lapsed with respect to all outstanding stock awards under the ASC stock award plans.

Variable Accounting Treatment for Option Plans

The Company's stock option award plans contain provisions for automatic vesting upon a change of control. Under ASC plans, option holders had the right (limited stock appreciation right or LSAR), during an exercise period of up to 60 days after the occurrence of a change of control (but prior to consummation of the Merger), to elect to surrender all or part of their options in exchange for shares of Albertson's common stock having a value equal to the excess of the change of control price over the exercise price. Certain stock option plans of ASC defined change of control as the date of stockholder approval of the Merger. Approval of the Merger Agreement on November 12, 1998, by ASC's stockholders accelerated the vesting of 6.4 million equivalent stock options granted under pre-1997 ASC plans and permitted the holders of these options to exercise LSARs. The exercisability of the 6.4 million LSARs resulted in the Company recognizing a pre-tax \$195 merger-related stock option charge during 1998.

In the first quarter of 1999, a market price adjustment of \$29 was recorded as a reduction of merger-related costs to reflect a decline in the relevant stock price at the end of the first fiscal quarter relative to LSARs. The actual change of control price used to measure the value of these exercised LSARs became determinable at the date the Merger was consummated and resulted in no further adjustments. Upon Merger consummation, the change of control price was \$53.77 per share, resulting in the issuance of approximately 1.7 million Albertson's shares.

LSARs relating to approximately 4.0 million equivalent stock options became exercisable upon regulatory approval of the Merger, which resulted in recognition of an additional charge of \$76 in the second quarter of fiscal 1999. This charge was based upon a change of control price of \$56.96 per share, which included an adjustment factor for the early termination of the LSAR feature. A total of 0.8 million Albertson's shares were issued in satisfaction of those options for which the LSAR feature was elected and the remaining options were converted into options to acquire approximately 1.2 million Albertson's shares.

Stock Options

A summary of shares reserved for outstanding options as of the fiscal year end, changes during the year and related weighted average exercise price is presented below (shares in thousands, all ASC amounts included based upon the conversion ratio of 0.63 to 1):

	February 3, 2000		January 28, 1999		January 29, 1998	
	Shares	Price	Shares	Price	Shares	Price
Outstanding at beginning of year	9,989	\$ 35.01	16,527	\$ 32.74	7,856	\$ 24.08
Granted	12,536	39.76	159	40.39	9,846	38.08
Exercised	(3,907)	33.00	(5,858)	29.16	(782)	15.46
Forfeited	(603)	39.43	(839)	32.11	(393)	28.09
Outstanding at end of year	18,015	\$ 38.34	9,989	\$ 35.01	16,527	\$ 32.74

As of February 3, 2000, there were 14.5 million shares of Company common stock reserved for the granting of additional options.

The following table summarizes options outstanding and options exercisable as of February 3, 2000, and the related weighted average remaining contractual life (years) and weighted average exercise price (shares in thousands):

Option Price per Share	Options Outstanding			Options Exercisable	
	Shares Outstanding	Remaining Life	Price	Shares Exercisable	Price
\$13.44 to \$22.63	421	1.8	\$ 18.03	421	\$ 18.03
24.32 to 33.25	8,493	8.9	30.28	1,596	29.31
35.00 to 45.94	3,576	6.7	40.08	3,576	40.08
47.00 to 51.19	5,525	9.4	51.15	47	47.00
\$13.44 to \$51.19	18,015	8.4	\$ 38.34	5,640	\$ 35.44

The weighted average fair value at date of grant for Albertson's options granted during 1999 was \$10.42 per option. Pre-merger Albertson's grants per option were \$17.14 and \$15.26 for 1998 and 1997, respectively. Pre-merger ASC grants per option were \$11.86 and \$11.58 for 1998 and 1997, respectively. The fair value of options at date of grant was estimated using the Black-Scholes model with the following weighted average assumptions:

	1999	1998		1997	
		ABS	ASC	ABS	ASC
Expected life (years)	3.0	8.0	6.5	6.5	7.0
Risk-free interest rate	5.96%	5.74%	4.70%	5.92%	6.60%
Volatility	37.03	26.70	21.20	26.53	21.20
Dividend yield	1.81	1.48	1.80	1.41	1.80

The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation." Had compensation cost been determined based on the fair value at the grant date consistent with the provisions of this statement, the Company's pro forma net earnings and earnings per share would have been as follows:

	1999	1998	1997
Net earnings:			
As reported	\$ 404	\$ 801	\$ 797
Pro forma	375	914	782
Basic earnings per share:			
As reported	0.96	1.91	1.89
Pro forma	0.89	2.16	1.85
Diluted earnings per share:			
As reported	0.95	1.90	1.88
Pro forma	0.89	2.14	1.85

The 1999 pro forma income of \$375 resulted from net income of \$404, less the 1999 pro forma after-tax compensation expense of \$67 (\$49 of which related to an adjustment for the acceleration of unamortized compensation expense for the stock options granted prior to 1999 which vested in connection with the Merger) and the elimination of net merger-related after-tax stock option charges of \$38 included with as reported net earnings. The 1998 pro forma net income of \$914 resulted from reported net income of \$801, less the 1998 pro forma after-tax compensation expense of \$19 and the elimination of the merger-related after-tax stock option charge of \$132 included with as reported net earnings. The pro forma effect on net earnings is not representative of the pro forma effect on net earnings in future years.

Former ASC Plans

The following ASC Plans were terminated in connection with the Merger on June 23, 1999.

Performance Incentive Program The 1998 Performance Incentive Program provided certain of the ASC key executives an incentive award of shares of two-year restricted stock if certain ASC performance objectives were attained for the 1998 fiscal year.

Employee Stock Purchase Plan The ASC Employee Stock Purchase Plan, which began January 1, 1996, enabled eligible employees of the Company to subscribe for shares of common stock on quarterly offering dates at a purchase price which was the lesser of 85% of the fair market value of the shares on the first day or the last day of the quarterly offering period.

Employee Benefit Plans

Substantially all employees working over 20 hours per week are covered by retirement plans. Union employees participate in multi-employer retirement plans under collective bargaining agreements. The Company sponsors both defined benefit and defined contribution plans.

The Albertson's Salaried Employees Pension Plan and Albertson's Employees Corporate Pension Plan are funded, qualified, defined benefit, noncontributory plans for eligible Albertson's employees who are 21 years of age with one or more years of service and (with certain exceptions) are not covered by collective bargaining agreements. Benefits paid to retirees are based upon age at retirement, years of credited service and average compensation. The Company's funding policy for these plans is to contribute the larger of the amount required to fully fund the Plan's current liability or the amount necessary to meet the funding requirements as defined by the Internal Revenue Code.

The Company also sponsors the Albertson's Savings and Retirement Estates (ASRE) Plan (formerly the American Stores Retirement Estates Plan) which is a defined contribution retirement plan. ASRE was originally authorized by the ASC Board of Directors for the purpose of providing retirement benefits for employees of ASC and its subsidiaries. During 1999, ASRE was authorized by Albertson's Board of Directors to provide retirement benefits for all qualified employees of the Company and its subsidiaries. In conjunction with the authorization of ASRE, the Company-sponsored defined benefit plans were amended to close the plans to future new entrants. Future accruals for participants in the defined benefit plans are offset by the value of Company profit sharing contributions to the new defined contribution plan.

The Company sponsors a tax-deferred savings plan which is a salary deferral plan pursuant to Section 401(k) of the Internal Revenue Code. The plan covers employees meeting age and service eligibility requirements, except those represented by a labor union, unless the collective bargaining agreement provides for participation. In addition, the Company provides a matching contribution based on the amount of eligible compensation contributed by the employee.

All Company contributions to ASRE and the Company sponsored 401(k) plan are made at the discretion of the Board of Directors. The total amount contributed by the Company is included with the ASRE defined contribution plan expense.

The Company also sponsors an unfunded Executive Pension Makeup Plan and an Executive ASRE Makeup Plan. These plans are nonqualified and provide certain key employees retirement benefits which supplement those provided by the Company's other retirement plans.

Net periodic benefit cost for defined benefit plans is determined using assumptions as of the beginning of each year. The projected benefit obligation and related funded status is determined using assumptions as of the end of each year. Assumptions used at the end of each year for the Company-sponsored defined benefit pension plans were as follows:

	1999	1998	1997
Weighted-average discount rate	7.50%	6.25%	6.60%
Annual salary increases	4.35-4.50	4.50-4.95	4.50-5.00
Expected long-term rate of return on assets	9.50	9.50	9.50

Net periodic benefit cost for Company-sponsored defined benefit pension plans was as follows:

	1999	1998	1997
Service cost – benefits earned during the period	\$ 45	\$ 42	\$ 27
Interest cost on projected benefit obligations	34	30	23
Expected return on assets	(49)	(42)	(34)
Amortization of prior service cost		1	1
Recognized net actuarial loss	1	2	
	\$ 31	\$ 33	\$ 17

The following table sets forth the funded status of the Company-sponsored defined benefit pension plans:

	February 3, 2000	January 28, 1999
Change in projected benefit obligation:		
Beginning of year benefit obligation	\$ 547	\$ 412
Service cost	45	42
Interest cost	34	30
Actuarial (gain) loss	(105)	72
Amendments	(88)	
Benefits paid	(10)	(9)
End of year benefit obligation	423	547
Change in plan assets:		
Plan assets at fair value at beginning of year	549	414
Actual return on plan assets	89	96
Employer contributions (return)	(46)	48
Benefit payments	(10)	(9)
Plan assets at fair value at end of year	582	549
Funded status	159	2
Unrecognized net (gain) loss	(100)	46
Unrecognized prior service cost	(85)	4
Additional minimum liability		(4)
Net (accrued) prepaid pension cost	\$ (26)	\$ 48
Prepaid pension cost included with other assets	\$ 8	\$ 64
Accrued pension cost included with other long-term liabilities	(34)	(16)
Net (accrued) prepaid pension cost	\$ (26)	\$ 48

The following table summarizes the projected benefit obligation and the accumulated benefit obligation of the unfunded Executive Pension Makeup Plan:

	February 3, 2000	January 28, 1999
Projected benefit obligation	\$ 15	\$ 19
Accumulated benefit obligation	13	16

Assets of the two funded Company defined benefit pension plans are invested in directed trusts. Assets in the directed trusts are invested in common stocks (including \$33 and \$68 of the Company's common stock at February 3, 2000 and January 28, 1999, respectively), U.S. government obligations, corporate bonds, international equity funds, real estate and money market funds.

The Company also contributes to various plans under industrywide collective bargaining agreements, primarily for defined benefit pension plans. Total contributions to these plans were \$98 for 1999, \$100 for 1998, and \$94 for 1997.

Retirement plans expense was as follows:

	1999	1998	1997
Defined benefit pension plans	\$ 31	\$ 33	\$ 17
ASRE defined contribution plan	110	93	93
Multi-employer plans	98	100	94
	\$ 239	\$ 226	\$ 204

Most retired employees of the Company are eligible to remain in its health and life insurance plans. Retirees who elect to remain in the Albertson's-sponsored plans are charged a premium which is equal to the difference between the estimated costs of the benefits for the retiree group and a fixed contribution amount made by the Company. The Company also provides certain health care benefits to eligible ASC retirees of certain defined employee groups under two unfunded plans, a defined dollar and a full coverage plan. The net periodic postretirement benefit cost was as follows:

	1999	1998	1997
Service cost	\$ 3	\$ 3	\$ 2
Interest cost	4	5	5
Amortization of unrecognized gain	(1)	(1)	
	\$ 6	\$ 7	\$ 7

The following table sets forth the funded status of the Company-sponsored postretirement health and life insurance benefit plans:

	February 3, 2000	January 28, 1999
Change in accumulated benefit obligation:		
Beginning of year benefit obligation	\$ 69	\$ 71
Service cost	3	3
Interest cost	4	5
Plan participants' contributions	2	2
Actuarial gain	(12)	(6)
Benefits paid	(4)	(6)
End of year benefit obligation	62	69
Plan assets activity:		
Employer contributions	2	4
Plan participants' contributions	2	2
Benefit payments	(4)	(6)
Funded status	(62)	(69)
Unrecognized net gain	(21)	(15)
Accrued postretirement benefit obligations included with other long-term liabilities	\$ (83)	\$ (84)
Discount rates as of end of year	7.5%	6.25-7.0%

For measurement purposes, a 7% annual rate of increase in the per capita cost of covered health care benefits was assumed for plans covering ASC retirees for 1999. For the full coverage plan, the rate was assumed to decrease to 6% for 2000 and remain at that level thereafter. For the ASC defined dollar plan, no future increases in the subsidy level were assumed. Annual rates of increases in health care costs are not applicable in the calculation of the Albertson's benefit obligation because Albertson's contribution is a fixed amount per participant.

With the exception of the plans covering ASC grandfathered retirees, all postretirement plans are contributory, with participants' contributions adjusted annually. The accounting for the health care plans anticipates that the Company will not increase its contribution for health care benefits for non-grandfathered retirees in future years.

Since the subsidy levels for the Albertson's and the ASC defined dollar plans are fixed and the proportion of grandfathered ASC retirees is small, a health care cost trend increase or decrease has no material impact on the accumulated postretirement benefit obligation or the postretirement benefit expense.

Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits" requires employers to recognize an obligation for benefits provided to former or inactive employees after employment but before retirement. The Company is self-insured for certain of its employees' short-term and long-term disability plans which are the primary benefits paid to inactive employees prior to retirement. Following is a summary of the obligation for postemployment benefits included in the Company's Consolidated Balance Sheets:

	February 3, 2000	January 28, 1999
Included with salaries and related liabilities	\$ 11	\$ 7
Included with other long-term liabilities	53	64
	\$ 64	\$ 71

The Company also contributes to various plans under industrywide collective bargaining agreements which provide for health care benefits to both active employees and retirees. Total contributions to these plans were \$316 for 1999, \$270 for 1998, and \$288 for 1997.

Employment Contracts

During 1994 and 1995 ASC entered into Key Executive Agreements with 17 of ASC's key executive officers. Each agreement contained certain terms of employment and provided the officers with a special long-range payout. Under change of control provisions activated by the Merger, the executives became fully vested in the benefits which have been fully accrued for as part of the severance costs as discussed in the Merger, Divestitures and Related Costs Note.

Leases

The Company leases a portion of its real estate. The typical lease period is 20 to 30 years and most leases contain renewal options. Exercise of such options is dependent on the level of business conducted at the location. In addition, the Company leases certain equipment. Some leases contain contingent rental provisions based on sales volume at retail stores or miles traveled for trucks. Capitalized leases are calculated using interest rates appropriate at the inception of each lease. Following is an analysis of the Company's assets under capitalized leases:

	February 3, 2000	January 28, 1999
Real estate and equipment	\$ 328	\$ 350
Accumulated amortization	(160)	(170)
	\$ 168	\$ 180

Future minimum lease payments for noncancelable operating leases which exclude the amortization of acquisition-related fair value adjustments, related subleases and capital leases at February 3, 2000, were as follows:

	Operating Leases	Subleases	Capital Leases
2000	\$ 307	\$ (60)	\$ 42
2001	292	(66)	39
2002	272	(61)	30
2003	254	(36)	28
2004	243	(17)	27
Remainder	2,059	(122)	295
Total minimum obligations (receivables)	<u>\$ 3,427</u>	<u>\$ (362)</u>	461
Interest			(255)
Present value of net minimum obligations			206
Current portion			(19)
Long-term obligations at February 3, 2000			<u>\$ 187</u>

The Company is contingently liable as a guarantor of certain leases that were assigned to third parties in connection with various store closures and dispositions. The Company believes the likelihood of a significant loss from these agreements is remote because of the wide dispersion among third parties and remedies available to the Company should the primary party fail to perform under the agreements.

Rent expense under operating leases, excluding the amortization of acquisition-related fair value adjustments of \$14 in 1999, 1998 and 1997, was as follows:

	1999	1998	1997
Minimum rent	\$ 330	\$ 309	\$ 288
Contingent rent	29	25	26
	<u>359</u>	<u>334</u>	<u>314</u>
Sublease rent	(58)	(60)	(48)
	<u>\$ 301</u>	<u>\$ 274</u>	<u>\$ 266</u>

Financial Instruments

Financial instruments which potentially subject the Company to concentration of credit risk consist principally of cash equivalents and receivables. The Company limits the amount of credit exposure to each individual financial institution and places its temporary cash into investments of high credit quality. Concentrations of credit risk with respect to receivables are limited due to their dispersion across various companies and geographies.

The estimated fair values of cash and cash equivalents, accounts receivable, accounts payable, short-term debt and commercial paper borrowings approximate their carrying amounts. Substantially all of the fair values were estimated using quoted market prices. The estimated fair values and carrying amounts of outstanding debt (excluding commercial paper) were as follows:

	February 3, 2000	January 28, 1999
Fair value	\$ 3,718	\$ 3,956
Carrying amount	3,800	3,628

Environmental

The Company has identified environmental contamination sites related primarily to underground petroleum storage tanks and ground water contamination at various store, warehouse, office and manufacturing facilities (related to current operations as well as previously disposed of businesses). The Company conducts an ongoing program for the inspection and evaluation of new sites proposed to be acquired by the Company and the remediation/monitoring of contamination at existing and previously owned sites. Undiscounted reserves have been established for each environmental contamination site unless an unfavorable outcome is remote. Although the ultimate outcome and expense of environmental remediation is uncertain, the Company believes that required remediation and continuing compliance with environmental laws, in excess of current reserves, will not have a material adverse effect on the financial condition of the Company. Charges against earnings for environmental remediation were not material in 1999, 1998 or 1997.

Legal Proceedings

An agreement in principle has been reached to settle eight purported multi-state cases combined in the United States District Court in Boise, Idaho, which raise various issues including "off the clock" work allegations. The proposed settlement is subject to court approval. Under the proposed settlement agreement, current and former employees who met eligibility criteria may present their claims to a settlement administrator. While the Company cannot specify the exact number of individuals who are likely to submit claims and the exact amount of their claims, the \$37 pre-tax (\$22 after tax) one-time charge recorded by the Company in 1999 is the Company's current estimate of the total monetary liability, including attorney fees, for all eight cases.

The Company is also involved in routine litigation incidental to operations. The Company utilizes various methods of alternative dispute resolution, including settlement discussions, to manage the costs and uncertainties inherent in the litigation process. In the opinion of management, the ultimate resolution of these legal proceedings will not have a material adverse effect on the Company's financial condition.

Segment Information

In June 1997, the Financial Accounting Standards Board issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," which establishes annual and interim reporting standards for an enterprise's operating segments and related disclosures about its products, services, geographic areas and major customers. The Company has analyzed the reporting requirements of the new standard and has determined that its operations are within a single operating segment.

Recent Accounting Standard

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." This new standard establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. This standard, as amended by SFAS No. 137, is effective for the Company's 2001 fiscal year. The Company has not yet completed its evaluation of this standard or its impact on the Company's accounting and reporting requirements.

Responsibility for Financial Reporting

The management of Albertson's, Inc., is responsible for the preparation and integrity of the consolidated financial statements of the Company. The accompanying consolidated financial statements have been prepared by the management of the Company, in accordance with accounting principles generally accepted in the United States of America, using management's best estimates and judgment where necessary. Financial information appearing throughout this Annual Report is consistent with that in the consolidated financial statements.

To help fulfill its responsibility, management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded against loss or unauthorized use and that transactions are executed in accordance with management's authorizations and are reflected accurately in the Company's records. The concept of reasonable assurance is based on the recognition that the cost of maintaining a system of internal accounting controls should not exceed benefits expected to be derived from the system. The Company believes that its long-standing emphasis on the highest standards of conduct and ethics, set forth in comprehensive written policies, serves to reinforce its system of internal controls.

Deloitte & Touche LLP, independent auditors, audited the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America to independently assess the fair presentation of the Company's financial position, results of operations and cash flows.

The Audit Committee of the Board of Directors, composed entirely of outside directors, oversees the fulfillment by management of its responsibilities over financial controls and the preparation of financial statements. The Audit Committee meets with internal and external auditors four times per year to review audit plans and audit results. This provides internal and external auditors direct access to the Board of Directors.

Management recognizes its responsibility to conduct the business of Albertson's, Inc., in accordance with high ethical standards. This responsibility is reflected in key policy statements that, among other things, address potentially conflicting outside business interests of Company employees and specify proper conduct of business activities. Ongoing communications and review programs are designed to help ensure compliance with these policies.



Gary G. Michael
Chairman of the Board and
Chief Executive Officer



A. Craig Olson
Executive Vice President and
Chief Financial Officer

Independent Auditors' Report



The Board of Directors and Stockholders of Albertson's, Inc.:

We have audited the accompanying consolidated balance sheets of Albertson's, Inc., and subsidiaries as of February 3, 2000 and January 28, 1999, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the three years in the period ended February 3, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits. The consolidated financial statements give retroactive effect to the merger of Albertson's, Inc. and American Stores Company, which has been accounted for as a pooling of interests as described in the Basis of Presentation Note to the consolidated financial statements. We did not audit the balance sheet of American Stores Company as of January 28, 1999, or the related statements of earnings, stockholders' equity, and cash flows for each of the two years in the period ended January 28, 1999, which statements reflect total assets of approximately \$8.9 billion as of January 28, 1999, and net earnings of approximately \$234 million and \$280 million for the years ended January 28, 1999 and January 29, 1998, respectively. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for American Stores Company for 1998 and 1997, is based solely on the report of such other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Albertson's, Inc., and subsidiaries at February 3, 2000 and January 28, 1999, and the results of their operations and their cash flows for each of the three years in the period ended February 3, 2000, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Deloitte & Touche LLP
Boise, Idaho
March 24, 2000

Independent Auditors' Report



Shareholders and Board of Directors of American Stores Company

We have audited the accompanying consolidated balance sheet of American Stores Company and subsidiaries as of January 30, 1999 and the related consolidated statements of earnings, shareholders' equity and cash flows for the years ended January 30, 1999 and January 31, 1998 (not presented herein). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of American Stores Company and subsidiaries at January 30, 1999 and the consolidated results of their operations and their cash flows for the years ended January 30, 1999 and January 31, 1998 in conformity with accounting principles generally accepted in the United States.

A handwritten signature in black ink that reads 'Ernst & Young LLP'.

Ernst & Young LLP
Salt Lake City, Utah
March 17, 1999

Five-Year Summary of Selected Financial Data

(Dollars in millions, except per share data)	53 weeks February 3, 2000	52 weeks January 28, 1999	52 weeks January 29, 1998	52 weeks January 30, 1997	52 weeks February 1, 1996
Operating Results:					
Sales	\$ 37,478	\$ 35,872	\$ 33,828	\$ 32,455	\$ 30,894
Earnings before extraordinary item	427	801	797	781	782
Extraordinary item	(23)				
Net earnings	404	801	797	781	782
Net earnings as a percent to sales	1.08%	2.23%	2.36%	2.41%	2.53%
Common Stock Data:					
Earnings per share before extraordinary item:					
Basic	\$ 1.01	\$ 1.91	\$ 1.89	\$ 1.79	\$ 1.78
Diluted	1.00	1.90	1.88	1.79	1.78
Extraordinary item:					
Basic	(0.05)				
Diluted	(0.05)				
Earnings per share:					
Basic	0.96	1.91	1.89	1.79	1.78
Diluted	0.95	1.90	1.88	1.79	1.78
Cash dividends per share:					
Albertson's, Inc.	0.72	0.68	0.64	0.60	0.52
American Stores Company Equivalent	0.14	0.57	0.56	0.51	0.44
Financial Position:					
Total assets	\$ 15,701	\$ 15,131	\$ 13,767	\$ 12,608	\$ 11,511
Long-term debt and capitalized lease obligations	4,992	5,108	4,333	3,665	2,837
Other Year End Statistics:					
Number of stores	2,492	2,564	2,435	2,355	2,261

All fiscal years consist of 52 weeks, except for 1999 which is a 53-week year, and fiscal 1995 which included 52 weeks of operations for Albertson's and 53 weeks of operations for ASC.

1999 operating results included pre-tax merger-related costs of \$683 (\$529 after tax or \$1.25 per share), and a pre-tax charge of \$37 (\$22 after tax or \$0.05 per share) for a litigation settlement. Merger-related costs included severance, the write-down of assets to net realizable value, transaction and financing costs, integration costs and stock option charges.

During 1999 American Stores Company paid only one quarterly dividend due to the consummation of the Merger.

1998 operating results included a pre-tax merger-related stock option charge of \$195 (\$132 after tax or \$0.31 per share) related to the exercisability of 6 million equivalent limited stock appreciation rights due to the approval by ASC's stockholders of the Merger Agreement and a \$24 pre-tax charge (\$16 after tax or \$0.04 per share) related to management's decision to close 16 underperforming stores.

1997 operating results included pre-tax charges of \$34 related to the sale of stock by a major stockholder and pre-tax charges of \$13 related to the sale of a division of ASC's communications subsidiary (total of \$41 after tax or \$0.10 per share).

1996 operating results included pre-tax charges of \$100 (\$60 after tax or \$0.14 per share) primarily related to ASC's re-engineering activities.

Quarterly Financial Data

(Dollars in millions,
except per share data – unaudited)

	First	Second	Third	Fourth	Year
1999					
Sales	\$ 9,215	\$ 9,381	\$ 8,983	\$ 9,899	\$ 37,478
Gross profit	2,503	2,555	2,465	2,791	10,314
Operating profit (loss)	473	(75)	301	541	1,240
Net earnings (loss)	238	(228)	130	264	404
Earnings (loss) per share:					
Basic	0.57	(0.54)	0.31	0.62	0.96
Diluted	0.56	(0.54)	0.31	0.62	0.95
1998					
Sales	\$ 8,721	\$ 8,945	\$ 8,838	\$ 9,368	\$ 35,872
Gross profit	2,298	2,395	2,412	2,611	9,716
Operating profit	365	443	448	395	1,651
Net earnings	176	217	219	189	801
Earnings per share:					
Basic	0.42	0.52	0.52	0.45	1.91
Diluted	0.42	0.52	0.52	0.45	1.90

During 1999 all four quarters' operating results were affected by pre-tax merger-related costs totaling \$683 (\$529 after tax). Merger-related costs included severance, the write-down of assets to net realizable value, transaction and financing costs, integration costs and stock option charges. The third quarter included a pre-tax one-time charge of \$37 (\$22 after tax) for a litigation settlement. The following table reflects the net earnings (loss) and earnings per share (EPS) effect of these items.

	First		Second		Third		Fourth		Annual	
	Net Earnings	EPS Effect	Net Loss	EPS Effect						
Merger-related costs	\$ 15	\$ 0.03	\$ (464)	\$ (1.10)	\$ (34)	\$ (0.08)	\$ (46)	\$ (0.11)	\$ (529)	\$ (1.25)
Litigation settlement					(22)	(0.05)			(22)	(0.05)

Fourth quarter 1998 operating results included a pre-tax merger-related stock option charge of \$195 (\$132 after tax or \$0.31 per share) related to the exercisability of 6 million equivalent limited stock appreciation rights due to the approval by ASC's stockholders of the Merger Agreement. A \$24 pre-tax charge (\$16 after tax or \$0.04 per share) was recorded in fiscal 1998 related to management's decision to close 16 underperforming stores. An initial pre-tax charge of \$29 (\$18 after tax or \$0.04 per share) was recorded in the first quarter and a pre-tax adjustment of \$5 (\$3 after tax or \$0.01 per share) of income was recorded in the fourth quarter.

The Company estimates the quarterly LIFO reserves, which cannot be accurately determined until year end. The LIFO method of valuing inventories (decreased) increased net earnings and EPS as follows:

(Dollars in thousands
except per share data – Unaudited)

	First	Second	Third	Fourth	Year
1999					
Net earnings	\$ (5,400)	\$ (5,400)	\$ (5,400)	\$ (1,772)	\$ (17,972)
Basic and diluted EPS	(0.01)	(0.01)	(0.01)	(0.01)	(0.04)
1998					
Net earnings	\$ (7,846)	\$ (4,935)	\$ (6,159)	\$ 9,185	\$ (9,755)
Basic and diluted EPS	(0.02)	(0.01)	(0.01)	0.02	(0.02)

□ Due to rounding and different periods used to compute weighted average outstanding shares, the sum of the quarterly EPS does not equal the annual EPS.

Board of Directors



A. Gary Ames
President and Chief Executive Officer of MediaOne International, a telecommunications company



Cecil D. Andrus
Chairman of the Andrus Center for Public Policy, a public policy forum dealing in natural resource issues



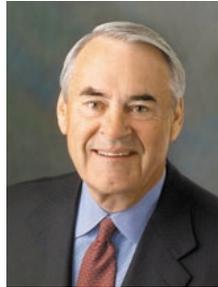
Pamela G. Bailey
Chief Executive Officer and President of the Health Industry Manufacturers Association, a worldwide medical technology trade association



Teresa Beck
Retired President of American Stores Company



Henry I. Bryant
Retired Managing Director in the Corporate Finance Unit of J.P. Morgan & Co. Incorporated, an investment banking firm



John B. Carley
Retired Chairman of the Executive Committee of the Board, an officer position



Paul I. Corddry
Retired Senior Vice President, Europe, of H.J. Heinz Company, a worldwide provider of processed food products and services



John B. Fery
Retired Chairman of the Board and Chief Executive Officer of Boise Cascade Corporation, a timber and paper products company



Fernando R. Gumucio
Owner and President of The Lafayette Group, a management consulting company



Clark A. Johnson
Retired Chairman of the Board and former Chief Executive Officer of Pier 1 Imports, Inc., a retailer of imported goods



Charles D. Lein
President and Chief Operating Officer of Stuller Settings, Inc., a jewelry manufacturing and wholesaling company



Victor L. Lund
Vice Chairman of the Board and retired Chairman of the Board and Chief Executive Officer of American Stores Company



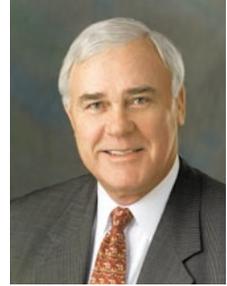
Gary G. Michael
Chairman of the Board and
Chief Executive Officer



Beatriz Rivera
Member of Energy Resource
Associates, LLC, a consulting
firm



J.B. Scott
Chairman of the Board of
Alscott, Inc., real estate and
other investments, and
Chairman of the Board of the
J.A. and Kathryn Albertson
Foundation, Inc., focusing on
education within Idaho



Arthur K. Smith
Chancellor of the University of
Houston System and President
of the University of Houston
main campus



Thomas L. Stevens, Jr.
Retired President of Los Angeles
Trade-Technical College



Will M. Storey
Retired Executive Vice
President and Chief Financial
Officer of American President
Companies, Inc., a provider of
container transportation
services



Steven D. Symms
Partner in Symms and Haddow,
a consulting firm, and President
of Symms, Lehn & Associates,
Inc., a consulting firm



Thomas J. Wilford
President of Alscott, Inc., real
estate and other investments,
and President of the J.A. and
Kathryn Albertson Foundation,
Inc., focusing on education
within Idaho

Director Emeritus

Kathryn Albertson

Director Emeritus of
the J.A. and Kathryn
Albertson Foundation, Inc.,
focusing on education within
Idaho

Executive Committee

John B. Carley, Chairman
Paul I. Corddry
John B. Fery
Gary G. Michael
Arthur K. Smith
Thomas L. Stevens, Jr.

Audit Committee

Will M. Storey, Chairman
Pamela G. Bailey
Henry I. Bryant
J.B. Scott
Steven D. Symms
Thomas J. Wilford

Compensation Committee

Clark A. Johnson, Chairman
A. Gary Ames
Fernando R. Gumucio
Charles D. Lein
Thomas L. Stevens, Jr.
Will M. Storey

Nominating Committee

Beatriz Rivera, Chairman
A. Gary Ames
Paul I. Corddry
Victor L. Lund
Thomas J. Wilford

Executive and Senior Officers

Includes age and years of Albertson's experience

Gary G. Michael*

Chairman of the Board and Chief Executive Officer
59, 33 years

Michael F. Reuling*

Vice Chairman of the Company
53, 26 years

Peter L. Lynch*

President and Chief Operating Officer
48, 32 years

Thomas E. Brother

Executive Vice President, Distribution
58, 26 years

Robert C. Butler

Executive Vice President, Operations
51, 27 years

Romeo R. Cefalo

Executive Vice President, Operations
50, 28 years

Wayne A. Denningham

Executive Vice President, Merchandising
38, 22 years

Craig R. Herkert

Executive Vice President, Marketing
40, 23 years

A. Craig Olson

Executive Vice President and Chief Financial Officer
48, 28 years

Carl W. Pennington*

Executive Vice President, Marketing
61, 36 years

Thomas R. Saldin*

Executive Vice President and General Counsel
53, 21 years

Patrick S. Steele

Executive Vice President, Information Systems and Technology
50, 33 years

Steven D. Young

Executive Vice President, Human Resources
51, 24 years

Robert K. Banks

Senior Vice President, Real Estate
50, 18 years

Robert J. Colgrove

President, Northwest Region
41, 24 years

David G. Dean

Senior Vice President, Procurement
49, 33 years

William H. Emmons

President, Southern Region
50, 28 years

Carl L. Jablonski

President, Eastern Region
49, 30 years

Peggy Jo Jones

Senior Vice President, Employee Development and Communications
47, 24 years

Donald C. Keppta

President, Northern California Region
49, 31 years

Richard J. Navarro

Senior Vice President and Controller
47, 24 years

Bruce P. Paolini

Senior Vice President, Labor Relations and Employment Law
42, 15 years

P. Shane Sampson

President, Intermountain Region
35, 16 years

David G. Simonson

President, Southern California Region
53, 27 years

Kevin H. Tripp

President, Drug Region
45, 21 years

Pete J. Van Helden

President, Midwest Region
39, 21 years

* Office of the Chairman

Stockholders' Information

Address

Albertson's, Inc.
General Offices
250 Parkcenter Boulevard
P.O. Box 20
Boise, Idaho 83726
Telephone: (208) 395-6200

Internet Address

Major press releases and other corporate data are available on Albertson's Web site: www.albertsons.com

Auditors

Deloitte & Touche LLP
Boise, Idaho

Stock Transfer Agent and Registrar

ChaseMellon Shareholder Services, L.L.C.
Shareholder Relations Department
P.O. Box 3315
South Hackensack, New Jersey 07606
or
ChaseMellon Shareholder Services, L.L.C.
Shareholder Relations Department
Overpeck Centre, 85 Challenger Road
Ridgefield Park, New Jersey 07660
Telephone: (888) 788-5081
Internet address: www.chasemellon.com

Stockholders of Record

There were 32,000 stockholders of record at March 24, 2000.

Annual Meeting

The 2000 Annual Meeting of Stockholders will be held at 10:00 a.m. Mountain Daylight Time on Thursday, June 15, 2000, at the Idaho Center at 16200 Can-Ada Road, Nampa, Idaho.

Dividend Investment Plan

The Company's Dividend Investment Plan allows stockholders owning at least 15 shares of record to invest the quarterly dividends automatically and to purchase additional shares under the Plan with voluntary cash payments. More information may be obtained from ChaseMellon at (888) 788-5081 or from the Corporate Secretary of Albertson's, Inc.

Information Contact

Information on individual accounts or on procedures necessary to make changes in an account is provided by ChaseMellon at (888) 788-5081 between the hours of 9:00 a.m. and 7:00 p.m., Eastern Time, after a stockholder identifies his or her account by providing a taxpayer identification number, the registration name on the securities and the address of record. When directing correspondence to ChaseMellon at the addresses shown, stockholders are reminded to include a reference to Albertson's, Inc.

Company Profile Available

A copy of the Company Profile, which contains a discussion of our core values, including equal opportunity, environmental quality and community support, as well as statistical information about the Company, is available to stockholders, without charge, upon request to the Corporate Secretary of Albertson's, Inc.

Form 10-K Available

A copy of Form 10-K Annual Report filed with the Securities and Exchange Commission for Albertson's, Inc., fiscal year ended February 3, 2000, is available to stockholders, without charge, upon request to the Corporate Secretary of Albertson's, Inc.

Company Stock Information

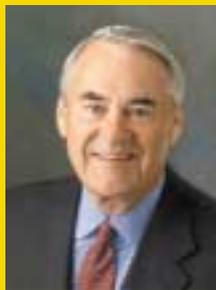
The Company's stock is traded on the New York and Pacific stock exchanges under the symbol ABS. The high and low stock prices by quarter were as follows:

	First		Second		Third		Fourth		Year	
	High	Low	High	Low	High	Low	High	Low	High	Low
1999	61 ¹⁵ / ₁₆	49 ¹ / ₁₆	56 ¹⁵ / ₁₆	48 ⁹ / ₁₆	52 ¹ / ₄	37	38 ⁵ / ₁₆	29	61 ¹⁵ / ₁₆	29
1998	54 ¹⁵ / ₁₆	46 ⁵ / ₁₆	53 ¹¹ / ₁₆	44	58 ¹ / ₈	44 ¹ / ₂	67 ¹ / ₈	53 ³ / ₈	67 ¹ / ₈	44
1997	37	30 ¹ / ₂	38 ¹¹ / ₁₆	31 ⁷ / ₈	37 ³ / ₄	32 ³ / ₄	48 ⁵ / ₈	36 ⁵ / ₁₆	48 ⁵ / ₈	30 ¹ / ₂

Cash dividends declared per share were:

	First	Second	Third	Fourth	Year
1999	\$ 0.18	\$ 0.18	\$ 0.18	\$ 0.18	\$ 0.72
1998	0.17	0.17	0.17	0.17	0.68
1997	0.16	0.16	0.16	0.16	0.64

In March 2000 the Board of Directors increased the regular quarterly cash dividend 5.6% to \$0.19 per share from \$0.18 per share, for an annual rate of \$0.76 per share. The new quarterly rate will be paid on May 10, 2000, to stockholders of record on April 14, 2000.



A Tribute to John B. Carley

On behalf of the Albertson's team, it is with much pride and gratitude that we honor the lifelong and lasting contributions of John B. Carley. John's retirement from the Albertson's Board of Directors in June of 2000 culminates a dynamic career that spans five decades.

After joining Albertson's in 1950, John held positions of increasing responsibility in many parts of the Company throughout the country. He was named Executive Vice President in 1977, was elected to the Board of Directors in 1979 and became President in 1984. In 1996, John retired as President and Chief Operating Officer.

John's dedication to Albertson's over the past 50 years is legendary. His important leadership and commitment to excellence are truly hallmarks of inspiration in our Company's history. He contributed enormously to the success and growth of Albertson's and always demonstrated great skill in leading our associates, our business and our industry.

We thank John for his leadership and friendship . . . and for the impact he has had on each one of us. We extend our heartfelt wishes for his continued success and happiness in the years ahead.



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