



Albertson's, Inc., 2000 Annual Report



> FOCUSED

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*We are focused on increasing shareholder value by executing our strategic, long-term plans. These plans set the course for our associates—the best in our industry—to provide great service and value to our customers, to reduce costs and to build sales in every market.*

While we achieved many improvements in the operations of Albertson's, Inc., during fiscal year 2000, we did not deliver all of the results planned when we merged with American Stores Company in June 1999.

- Sales for the 52-week year totaled \$36.8 billion, compared with \$37.5 billion in the 53 weeks of 1999—a decrease of 1.9%. When compared on a 52-week basis with the prior year and excluding sales from divested stores in 1999, sales for the year increased 3.8%.
- Identical store sales rose 0.3%, and comparable store sales, which include replacement stores, rose 0.6%.
- Net earnings were \$765 million, an increase from \$404 million in 1999.
- Diluted earnings per share were \$1.83, compared with \$0.95 in 1999.
- Merger-related and one-time costs after tax were \$105 million.
- Net earnings before merger-related and one-time costs were \$870 million, compared to \$955 million in 1999.
- Diluted earnings per share before merger-related and one-time costs were \$2.08 compared with \$2.26 in 1999.



Despite the many challenges in the food and drug retail business, our opportunities to improve and succeed have never been better. We have many strengths—trained, talented associates; modern, well-located stores; broad geographic coverage; major market share in a number of large markets; strategically located distribution centers and a strong balance sheet—to drive our future success.

We begin fiscal year 2001 with a focused, solid strategy that builds upon our strengths and acknowledges our challenges. This strategy is designed to return our financial results to the levels everyone has come to expect from Albertson's, through a sharper focus on:

- Increasing sales
- Reducing costs
- Increasing return on capital

The Albertson's Strategic Focus section (beginning on page 8) contains details of our plans for achieving each of these objectives.

We have streamlined our operational structure to give us more flexibility and speed in responding to customer needs. Albertson's operates in many diverse markets, and a single marketing plan cannot meet the needs of customers in all markets. To allow our associates to execute customer-focused strategies neighborhood by neighborhood, we have given more authority and autonomy to our 19 divisions, eliminating our regional structure. Our division-level associates—who are closer to our customers—are responsible for day-to-day operations and for executing marketing and merchandising programs.



We have also centralized our operations in two key areas: general merchandise and pharmacy. In each area, our corporate-level associates are providing expertise and support for all our stores, whether drugstores, conventional supermarkets or food and drug combination stores. This improves efficiency and helps us to provide better customer service.

Our corporate marketers and merchandisers in all areas are focusing their efforts on long-term strategic planning and national programs. Each of them is focused on building our business for the future in his or her area of expertise—from fresh foods to grocery to general merchandise—for all our stores, across all our formats. We see this approach as key to increasing sales.

Our solid strategy focuses on maximizing the potential provided by our strengths, which are many. Albertson's is one of the largest retailers in the country in both the grocery business and the fast-growing pharmacy business. We operate in a broad geographic area and in diverse demographic areas, helping us to weather competitive storms. We also operate a variety of formats, giving us flexibility in responding to varying customer needs.

The integration of American Stores Company is mostly complete, and we remain committed to the powerful potential of our post-merger Company. Our great team of associates used the lessons learned in 1999 to ensure that integration ran smoothly during 2000. Without disruption to our customers, we converted our Acme stores to Albertson's systems and integrated our pharmacy systems, companywide, ahead of schedule. We consolidated three distribution centers into one new operation in Lancaster, Pennsylvania. We blended a third-party warehouse into our distribution center in Arizona. We consolidated three distribution operations into two in Southern California, with the closure of our Buena Park center. In Chicago, we began expanding and remodeling a distribution center to eliminate outside storage, improve store service and reduce costs.

Going into 2001, we are taking a new approach to integrating our Midwest and Drugstore Division operations; we will change systems one at a time. Marketing plans vary from operating area to operating area, so systems may vary too.

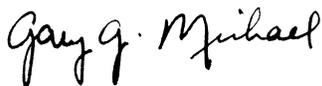
We use a common profit and loss statement for every store in our Company and have the integrated systems in place to provide the information we need to operate our business. Most important of all, we are focused entirely on the activities that help us—directly and indirectly—to provide the best possible service to each and every customer in each and every store.

During 2000, we also made significant purchases of our Company stock. We spent \$451 million to purchase 18.7 million shares of stock. At a time when we believe current values do not reflect the great potential of Albertson's, our stock is one of the best investments we can make. In December 2000, the Board of Directors expanded our stock purchase program and authorized us to purchase and retire up to \$1.5 billion of Albertson's stock, at management's discretion, between April 25, 2000, and December 6, 2001.

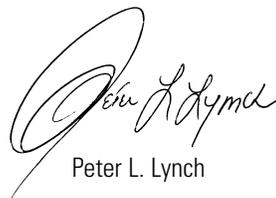
Albertson's has paid dividends every year since we went public in 1959. At its meeting in March 2001, the Board continued the regular quarterly cash dividend of \$0.19 per share, which is an annual rate of \$0.76 per share.

Our strategy focuses the considerable abilities of our 235,000 associates on being the best in the business. We are thinking about our Company in new ways and taking significant steps to improve it. We are committed to increasing our sales, earnings and return on capital for the benefit of our stockholders, associates, customers and suppliers. With new ideas, new methods, and new solutions, Albertson's is focused for the future.

March 19, 2001



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



Peter L. Lynch  
President and  
Chief Operating Officer

WE ASKED OUR CUSTOMERS

> *What makes it*  
*your store?*

*I want to find everything I need in  
> one store.*

We serve customers in more than 2,500 diverse neighborhoods—rural, urban and suburban—across the country. We serve customers through a variety of formats: combination food and drug stores, conventional supermarkets, stand-alone drugstores and fuel centers. We also serve customers through our convenient and easy-to-use online shopping sites—Albertsons.com and Savon.com. In each neighborhood, through every format, we tailor our products and services to meet the diverse needs of our busy customers. From neighborhood to neighborhood, our customers want different products and services. We work hard to make sure we provide them. Our customers everywhere want a wide selection, quality products, special promotions, great value and excellent customer service at convenient stores. *We're happy to oblige.*



FUEL  
CENTER

DRUGSTORE

CONVENTIONAL  
SUPERMARKET

> COMBINATION  
STORE

FOR CONVENIENCE, QUALITY AND VARIETY UNDER ONE ROOF, VISIT OUR COMBINATION FOOD AND DRUG STORES. THEY COMBINE DRUGSTORES AND SUPERMARKETS AND OFTEN INCLUDE ONE-HOUR PHOTO DEVELOPING SERVICES, COFFEE KIOSKS AND BANKS. YOU SAY YOUR LIFE IS BUSY? IT'S YOUR STORE.

*I want to shop at a store that reflects*

*> my neighborhood.*

> ALBERTSON'S STRATEGIC FOCUS

**Albertson's is focused on customers.**

Our customers tell us they need all the help they can get to keep up with their busy lifestyles. The commodity they find in shortest supply is time. We cannot stock it on our shelves, but we can help buy time for our customers. Our combination food and drug stores offer a variety of services. Our conventional supermarkets feature modern convenience in traditional settings. Our corner drugstores allow customers to pick up prescriptions at convenient drive-thru windows. Our fuel centers allow our customers to fill their grocery carts and their fuel tanks in one trip. Our formats and services help customers gain precious time.

We offer the convenience of one-stop shopping. At the end of fiscal year 2000, our customers at 1,592 stores enjoyed our service fish and meat counters. At 1,206 stores, our customers saved time with our one-hour photo developing service. At 276 stores, they appreciated our coffee bars. At 1,977 stores, they patronized our in-store pharmacies. At 150 stores, they filled up at our fuel centers. At 1,280 stores, they visited our floral departments.

No matter what the format, we tailor each of our stores to its neighborhood. We offer products and services that match the needs of our customers in each of the neighborhoods in which we operate. Our neighborhood marketing gives us an edge in customer convenience. It also gives us an edge in the competitive retail environment.

Our customers can depend on us for service. Our Service First program sharpens our focus on great customer service. This comprehensive, companywide program emphasizes that superior service is our top priority. Promotions and convenience draw customers into our stores. Great customer service keeps them coming back.

> FOCUS: *solutions to customer needs* Our customers want high-quality food and drug products at value prices. Our Corporate Brand products fit the bill. We took the best Albertson's products and the best American Stores' products and put them under a single label design. We kept the names our customers have come to know and love—Albertson's, Sav-on, Osco, Jewel and Acme. We introduced new specialty labels—Village Market meats, Timberwood wines, and Identity bath and beauty products. We added Albertson's guarantee of quality to each label. When our customers see our labels, they know they are getting quality and value.

Our customers can depend on us for quality fresh foods. They love the color, variety, and freshness of our produce. They count on the meats, cheeses and other nutritious products from our service delis. They find everything from wholesome baked goods to tasty desserts in our bakeries. They know that we offer quality meat and seafood. That will not change.



FUEL  
CENTER

DRUGSTORE

> CONVENTIONAL  
SUPERMARKET

COMBINATION  
STORE

FOR A QUICK AND EASY SHOPPING EXPERIENCE, VISIT OUR CONVENTIONAL SUPERMARKETS. THESE SMALLER MARKETS REFLECT THE NEIGHBORHOODS IN WHICH THEY OPERATE. STREAMLINED AND CONVENIENT, THEY ARE PACKED WITH QUALITY PRODUCTS. WHAT TOPS THEM OFF? GREAT CUSTOMER SERVICE, THE TRADITIONAL WAY.



*I want*

*> quality products*

*of all kinds.*



> FUEL  
CENTER

> DRUGSTORE

> CONVENTIONAL  
SUPERMARKET

> COMBINATION  
STORE

FOR A VARIETY OF HIGH-QUALITY PRODUCTS, VISIT ANY OF OUR STORES. OUR CUSTOMERS RELY ON US TO PROVIDE PRODUCTS THEY CAN TRUST—FROM COLORFUL AZALEAS TO HIGH-GRADE FUEL TO FRESH ZUCCHINI. FOR PERISHABLE OR NON-PERISHABLE PRODUCTS, ALBERTSON'S MEANS QUALITY.

*I want a*

> *selection of products and a pharmacist*

*I can trust.*

Our stores across the nation feature best-selling programs. The aroma of hot French bread drifts through our stores from 4 p.m. to 7 p.m. each day. We are building service fish and meat counters in stores across the country. Our customers love our fried and roasted chicken. Busy customers from coast to coast are snapping up our Quick Fixin' Ideas® entrees to take or to make. Our sales indicate they appreciate the quality and convenience of these tasty and nutritious meals.

Our promotion of such programs in our meat, bakery, and service deli departments is incredibly successful. We intend to match that success with new programs in the centers of our stores—our grocery and general merchandise areas. Our customers will benefit through these great programs and added convenience.

We are putting our general merchandise expertise to good use in all our stores. Our drugstore experts are helping us to meet the general merchandise needs of our combination and conventional store customers. Our food store experts are also helping us to meet the food needs of our drugstore customers. In both cases, our customers win.

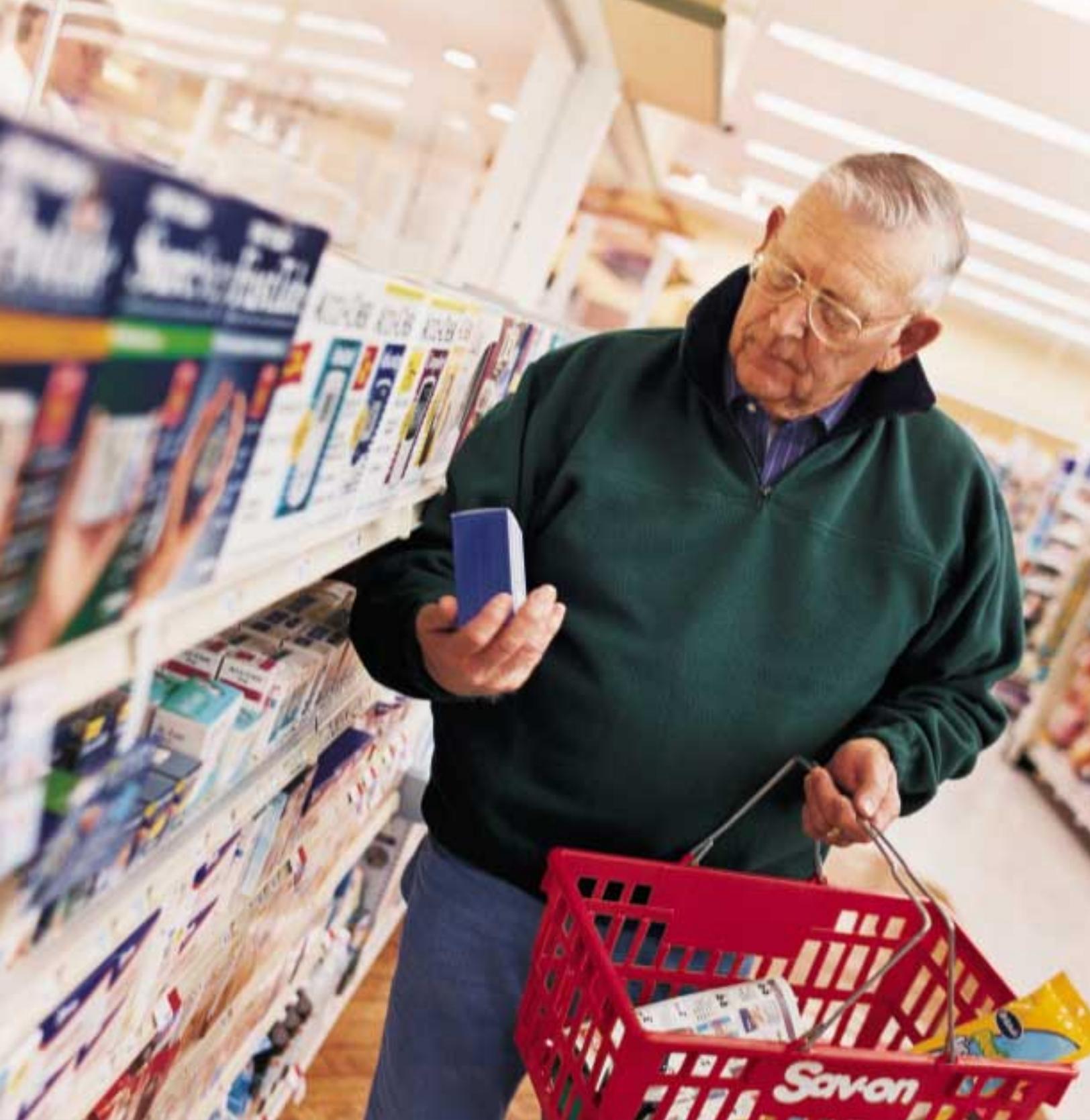
Providing solutions for our customers reaches beyond our stores. Albertson's believes in being a good neighbor by contributing to the quality of life in the communities we serve. As a Company, we target charitable contributions to three areas: hunger relief, education and development of our youth, and health and nutrition. In addition, individual associates choose to donate money, time and talent to a great number of worthy causes.

> FOCUS: *pharmacy service* As America's population ages and medical advancements continue, more people need more pharmacy services and prescriptions. Albertson's stands ready to meet those needs. We fill more than 130 million prescriptions a year. We are the sixth-largest drug retailer in the country based on number of pharmacies. We serve pharmacy patients from major metropolitan areas to rural settings throughout 36 states and, in some locations, around the clock.

More than 800 of our pharmacies are located in stand-alone Sav-on or Osco drugstores. We continue to move our drugstores from shopping centers to more accessible corner locations. This allows us to provide drive-thru windows for our pharmacy patients, eliminating the need to park or to disturb a sleeping or ill child. We moved 15 drugstores to corner locations in 2000. We plan to relocate 28 more in 2001.

Our combination food and drug stores and select conventional supermarkets offer double convenience. Our pharmacy patients can have their prescriptions filled, find a wide selection of health and beauty products, and complete their grocery shopping—all in the same store.

Our health care team of professional pharmacists and support personnel provides more than a product for our pharmacy patients. Our well-designed pharmacies provide comfortable areas for professional consultation on prescriptions and medical conditions. We encourage and support the professional and personal development of the members of our health care team to help them to provide the best in patient care.



FUEL  
CENTER

> DRUGSTORE

CONVENTIONAL  
SUPERMARKET

COMBINATION  
STORE

FOR QUICK, RELIABLE SERVICE, VISIT OUR CONVENIENT STAND-ALONE DRUGSTORES. OUR PHARMACISTS ARE TOP-NOTCH PROFESSIONALS WHO CARE ABOUT OUR CUSTOMERS. OUR SHELVES CARRY A WIDE SELECTION OF HIGH-QUALITY PRODUCTS, INCLUDING OUR CORPORATE BRAND PRODUCTS. IN A RUSH? USE OUR DRIVE-THRU FOR CONVENIENCE.



> FUEL  
CENTER

DRUGSTORE

CONVENTIONAL  
SUPERMARKET

COMBINATION  
STORE

FOR REFILLS ON THE GO, VISIT OUR FUEL CENTERS AND CONVENIENCE STORES. THEY OFFER QUALITY FUEL AT LOW PRICES. THEY PROVIDE A VARIETY OF CONVENIENCE PRODUCTS, SUCH AS MILK OR BREAD FOR HOME OR SNACKS FOR THE ROAD. READY? SET? GO!

*I want a cup of coffee, a fresh donut and a tank full of gas  
> in one quick stop.*

Centralized pharmacy operations provide important information to all our stores, helping our associates to respond quickly to the ever-changing needs of our pharmacy customers. This new structure allows us to collect and share expertise with our pharmacies in food stores and drugstores across the Company.

Customers expect knowledgeable and trustworthy pharmacists. They want convenient pharmacies in convenient locations. From coast to coast, we fill the prescription.

> FOCUS: *online shopping* More customers than ever are clicking their way to convenience through our Internet shopping sites. Albertsons.com serves customers in the Seattle metropolitan area and all across Texas. Our Savon.com Web site allows customers nationwide to order new prescriptions or refills. They can also use the site to select from more than 18,000 general merchandise products and access health-related information.

All our programs—from solutions to service—are designed with our customers in mind. If we provide the best possible service to every customer every day in every store, our sales will increase. As we do what is right for our customers, we are also doing what is right for our stockholders.

**Albertson's is focused on reducing costs.**

> FOCUS: *streamlined operating structure* At year's end, we gave decision-making authority to our capable associates in our 19 divisions and eliminated our regional level. We designed this new operating structure to sharpen our focus on our customers. Down the road, it should deliver an added benefit: improved efficiency and effectiveness throughout our Company.

> FOCUS: *creating efficiencies* We are putting all store processes—from the purchase of real estate to inventory and operations—under the microscope. Teams of associates from around the Company are analyzing our processes. We expect to implement changes that will result in real, significant and lasting cost savings.

We offer comprehensive training and leadership development programs. These programs prepare our associates to provide the best possible service for our customers. They also help our team members feel more comfortable in their jobs and satisfied with their careers. That, in turn, reduces turnover and costs. Proper training is a win-win proposition.

> FOCUS: *WorldWide Retail Exchange/strategic sourcing* We are founding members of the WorldWide Retail Exchange, an integrated cyber-alliance of retailers and their suppliers. This exchange community works to cut costs for its retail members, including many of the world's largest retailers. It helps us to save money as we buy products at better prices. We also expect to improve communication with our suppliers and to eliminate paperwork.

A woman in a dark jacket and jeans is walking through a well-lit grocery store aisle. The aisle is filled with shelves of various snack products, including bags of chips and boxes of cereal. A sign above the shelves reads "SNACKS". The woman is smiling and looking towards the camera. The floor has a striped pattern.

SNACKS

*I want*

*> special promotions and great value.*



> FUEL  
CENTER

> DRUGSTORE

> CONVENTIONAL  
SUPERMARKET

> COMBINATION  
STORE

FOR GREAT VALUE AND GREAT PROMOTIONS, VISIT ANY OF OUR STORES. HOLIDAY OR HOLLANDAISE, WE HELP OUR CUSTOMERS MAKE THE MOST OF THEIR SPECIAL OCCASIONS. WE PASS ALONG SAVINGS TO OUR CUSTOMERS EVERY DAY. WHO KNEW SHOPPING COULD BE THIS FUN?

> FOCUS: *distribution centers/procurement*    Albertson's distribution system continues to be one of our Company's strengths. Since the merger, we have consolidated distribution centers, improved store service and increased efficiencies. During 2001, we will continue to study our distribution center and procurement processes. We want to ensure that we are using the best methods to provide efficient and effective support to our stores.

**Albertson's is focused on increasing our return on capital.**

> FOCUS: *working capital management*    During 2000, we had success in reducing inventory at the distribution level through consolidation of our distribution centers. During 2001 we will use education, information and technology to manage inventory throughout the Company to improve our utilization of capital.

> FOCUS: *strategic allocation of capital*    We are working to more efficiently allocate our capital and to prioritize our capital expenditures to grow market share in key markets.

Improving our existing store base is a bigger piece of the pie today than in the past. During 2001, half of our retail investment will be spent to replace or remodel stores in existing markets. Our customers like these updated stores. In addition, we usually get a quicker return on our capital from remodels and replacements than from new stores.

We are also introducing new designs for our new stores and remodels and cutting our building and equipment costs. With the new designs, our customers find our stores to be just as friendly, and our associates find them to be more efficient.

During 2001, we expect to spend \$1.9 billion, including leases, focusing on remodels and replacement stores. We plan to complete 115 major remodels, which update an entire store, and 75 minor remodels, which update particular departments within a store. We also plan to open approximately 80 combination stores and 75 drugstores, approximately 60 of which will be replacement stores, and 105 fuel centers. Net square footage is expected to increase 4% in 2001.

**Albertson's is focused for the future.**

We made significant improvements to our Company during 2000. We took steps to implement a solid strategy to make our Company the best in the business. We looked at our Company and our business in new ways. As a result, we are focusing on allocating our capital more strategically and efficiently. We are focusing on reducing costs. We are focusing on programs, promotions and formats to help our customers with their busy lives, which will ultimately increase our sales.

Each of these improvements helps us to focus on meeting the needs of our customers. Step by step, program by program, market by market, and associate by associate, Albertson's is sharpening that focus. No matter what the location, no matter what the format, our focus is on our customers.



### Tribute to Gary G. Michael

With much gratitude and pride, Albertson's team of associates acknowledges the retirement of Gary G. Michael and honors his contributions to our Company.

Gary, 60, is stepping down as chairman of the board and chief executive officer in June 2001 after a long and distinguished career with Albertson's. He joined the Company's accounting department in 1966 and quickly moved through positions of increasing responsibility. He was named vice president, controller in 1972, senior vice president of finance in 1974 and executive vice president in 1976. In order to gain operating experience, he was responsible for the Company's Southern Region combination food and drug stores from 1977 to 1982. He was elected to the Board of Directors in 1979, at age 38. He became chief financial officer in 1983 and vice chairman of the board in 1984. Gary was named chairman of the board and chief executive officer in 1991.

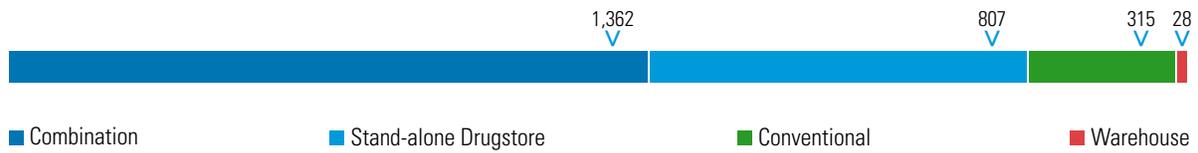
Gary leaves a rich and lasting legacy at Albertson's. He exhibited extraordinary vision and management skill as he led our Company through a period of tremendous growth that made it one of the largest food and drug retailers in the country. When Gary became chairman and CEO, Albertson's operated a few hundred stores in the South, Midwest and West. At the end of fiscal year 2000, Albertson's operated more than 2,500 stores in 36 states.

While our status as a national retailer is the most obvious legacy of Gary's leadership, he has had an equally significant impact on the internal workings of Albertson's. Gary emphasizes—by example as well as word—that each and every person should be treated with respect. One of his first acts as CEO was to institute a program called Service First that recognizes the contributions of associates at all levels. That program remains the cornerstone of our associate recognition program. In addition, Gary's understanding of the value of the contributions of each associate to the success of our Company led him to formalize the concept of Team Albertson's in 1993. His fair-minded beliefs and actions resulted in unprecedented career opportunities for many Albertson's associates—including many female and minority associates who moved into leadership positions within our Company.

Gary's legacy extends beyond our Company. He is a respected leader in the supermarket industry. He also is a respected leader in his community. He has given time, talent and money to many industry and community causes, often working quietly behind the scenes to make things happen. We are exceptionally proud of his personal commitment to making our world a better place to live.

On behalf of every member of the Albertson's team, we express our deep gratitude to Gary for his inspiring and progressive leadership and for his devoted friendship. We wish him much success and happiness in the years ahead.

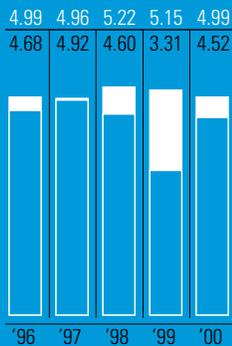
2000 Number of Stores by Store Format



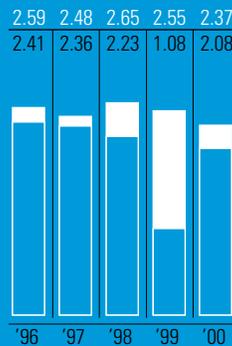
2000 Square Footage by Store Format



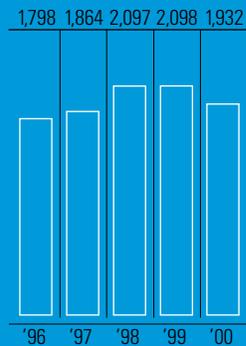
Operating Profit  
as a Percent to Sales



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

(dollars in millions, except per share data)

### Business Combinations

On June 23, 1999, Albertson's, Inc. ("Albertson's" or the "Company") and American Stores Company ("ASC") consummated a merger with the issuance of 177 million shares of Albertson's common stock (the "Merger"). 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:

	Albertson's	ASC	Combined
Net revenues	\$ 16,005	\$ 19,867	\$ 35,872
Net earnings	567	234	801

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, under which the Company was required to divest 145 stores to enable the Merger to proceed under applicable antitrust, competition and trade regulation law. The divested stores had sales of \$2,300 in fiscal 1998. Subsequent growth comparisons were 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 2000 were \$36,762 compared to \$37,478 in 1999 (a 53-week year) and \$35,872 in 1998. 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	
	2000	1999	1998	2000 vs. 1999	1999 vs. 1998
Sales	100.00	100.00	100.00	(1.9)	4.5
Gross profit	28.36	27.52	27.08	1.1	6.2
Selling, general and administrative expenses	23.77	23.06	21.87	1.1	10.1
Merger-related and exit costs	0.07	1.06	0.54	n.m.	n.m.
Litigation settlement		0.10		n.m.	n.m.
Impairment – store closures			0.07		n.m.
Operating profit	4.52	3.31	4.60	34.0	(24.9)
Interest expense, net	1.05	0.94	0.94	9.2	4.6
Earnings before income taxes and extraordinary item	3.46	2.40	3.73	41.6	(32.8)
Net earnings	2.08	1.08	2.23	89.2	(49.5)

n.m. – not meaningful

Sales for 2000 increased 3.8% 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 2000 the Company opened or acquired 91 stores, remodeled 114 stores and closed or sold 71 stores. Net retail square footage increased by 2.5% during 2000. During 1999, net retail square footage decreased by 1.7%. The 1999 decrease includes the effect of required divestitures, which reduced square footage by 6.1 million square feet or 6.2% from 1998. Identical store sales, stores that have been in operation for two full fiscal years, increased 0.3% in 2000 and 1.7% in 1999. Comparable store sales, which include replacement stores, increased 0.6% in 2000 and 2.1% in 1999. Identical and comparable store sales continued to increase through higher average ticket sales per customer. Management estimates that there was overall deflation in products the Company sells of approximately 0.4% in 2000, overall inflation of 0.2% in 1999 and overall deflation of 0.1% in 1998.

In addition to store development, the Company has increased sales through its continued implementation of best practices across the Company and its investment in programs designed to provide solutions to customer needs. These programs include the Front End Manager program; the “Quick Fixin’ Ideas®” home meal solutions process; 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 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, increased gross margin by \$23 (0.06%) in 2000 and reduced gross margin by \$30 (0.08%) in 1999 and \$16 (0.04%) in 1998. The increase in 2000 is due to deflation and lower inventory levels.

Selling, general and administrative expenses as a percent to sales increased in 2000, 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 larger losses from asset impairment and disposition. The increase in 1999 over 1998 was primarily due to integration costs associated with the Merger, including activities associated with the banner change in California, Nevada and New Mexico.

Results of operations for year ended February 1, 2001, include \$151 of merger-related costs (\$93 after tax) and the results of operations for year ended February 3, 2000, included \$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 Sheets:

	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	11			7	18
Write-down of assets to net realizable value	13			23	36
Integration costs				97	97
Total costs	24			127	151
Cash expenditures	(30)	(2)		(107)	(139)
Write-down of assets to net realizable value	(13)			(19)	(32)
Merger-related accruals at February 1, 2001	\$ 7	\$ 1		\$ 5	\$ 13

Severance costs consist of obligations to employees who were terminated or were notified of termination under a plan authorized by senior management. Total merger-related terminations were 663 employees as of February 1, 2001, and no further terminations are expected under this plan.

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. These include such costs as advertising, labor associated with systems conversions and training and relocation costs.

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 pre-tax 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 pre-tax 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 \$20 pre-tax one-time charge to earnings during first quarter of 2000 and included it in selling, general and administrative expenses to reflect liabilities related to certain previously assigned leases and subleases to tenants who are in bankruptcy.

The Company recorded a \$37 pre-tax one-time charge to earnings during the third quarter of 1999 resulting from an agreement reached to settle eight multi-state cases combined in the United States District Court in Boise, Idaho, which raised various issues including "off-the-clock" work allegations. Under the 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.

The Company's effective income tax rate from continuing operations for 2000 was 40.0%, as compared to 52.5% for 1999 and 40.2% for 1998. 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:

	52 Weeks Ended February 1, 2001				53 Weeks Ended February 3, 2000		52 Weeks Ended January 28, 1999	
	As Reported	One-Time	W/O One-Time		W/O One-Time		W/O One-Time	
Sales	\$ 36,762		\$ 36,762	100.00%	\$ 37,478	100.00%	\$ 35,872	100.00%
Cost of sales	26,336	\$ (37)	26,299	71.54	27,122	72.37	26,156	72.92
Gross profit	10,426	37	10,463	28.46	10,356	27.63	9,716	27.08
Selling, general and administrative expenses	8,740	(110)	8,630	23.47	8,427	22.49	7,845	21.87
Merger-related and exit costs	24	(24)						
Operating profit	1,662	171	1,833	4.99	1,929	5.15	1,871	5.22
Interest expense, net	(385)		(385)	(1.05)	(352)	(0.94)	(337)	(0.94)
Other (expense) income, net	(3)		(3)	(0.01)	12	0.03	24	0.07
Earnings before income taxes	1,274	171	1,445	3.93	1,589	4.24	1,558	4.34
Income taxes	509	66	575	1.56	634	1.69	609	1.70
Net earnings	\$ 765	\$ 105	\$ 870	2.37%	\$ 955	2.55%	\$ 949	2.65%

The costs of integrating the two companies have resulted in significant non-recurring charges and incremental expenses. These costs had a significant effect on both 2000 and 1999 results of operations of the Company. Non-recurring charges and expenses of implementing integration actions were originally estimated to total \$700 after income tax benefits. On an after-tax basis, and subsequent to the first quarter 1999, the Company has incurred \$638 of merger-related costs and does not expect to exceed its original estimate.

### Liquidity and Capital Resources

Cash provided by operating activities during 2000 was \$1,780, compared to \$1,418 in 1999 and \$1,441 in 1998. Cash provided by operating activities in fiscal 2000 was primarily impacted by higher earnings when compared to fiscal 1999. Also, driving the change is the decrease in inventories offset by the decrease in other current liabilities, mostly tax related. 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. During 2000 the Company implemented several initiatives designed to enhance working capital, which include reducing inventory levels and increasing accounts payable leverage. The Company intends to continue these initiatives, which are expected to reduce the cash requirements of the business.

The Company's financing activities for 2000 included net new borrowings of \$340 and dividend payments of \$315 (which represents 36.3% of 2000 net earnings without merger-related costs and one-time expenses). The Company also purchased and retired 18.7 million shares of its common stock at a total cost of \$451. The Board of Directors at its March 2001 meeting maintained the regular quarterly cash dividend of \$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 \$1,128 of commercial paper borrowings outstanding at February 1, 2001, as compared to \$1,628 outstanding as of February 3, 2000.

In support of the Company's commercial paper program, the Company had two credit facilities totaling \$1,900 during fiscal 2000. One agreement for \$950 expired in March 2001 and was replaced by a \$700 364-day credit agreement. A second agreement for \$950 expires in March 2005. 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 executed a \$200 forward underwriting agreement in December 2000 to support the commercial paper program. This agreement expired in March 2001. The Company also has an uncommitted bank line of credit totaling \$25. The entire amount under the bank line was outstanding as of February 1, 2001. No borrowings were outstanding under the credit facilities (including the forward underwriting agreement) as of February 1, 2001, and 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.

Albertson's filed a shelf registration statement with the Securities and Exchange Commission (SEC), which became effective in February 2001 (the "2001 Registration Statement"), to authorize the issuance of up to \$3,000 in debt securities. The Company intends to use the net proceeds of any securities sold pursuant to the 2001 Registration Statement for retirement of debt and general corporate purposes, including the potential purchase of outstanding shares of Albertson's common stock.

Albertson's filed a shelf registration statement with the SEC, which became effective in February 1999 (the "1999 Registration Statement"), to authorize issuance of up to \$2,500 in debt securities.

In January 2001 the Company issued \$700 of term notes under the 1999 Registration Statement. The notes consist of \$700 of principal bearing interest at 7.5% due February 15, 2011. Proceeds were used primarily to repay borrowings under the Company's commercial paper program.

In May 2000 the Company issued \$500 of term notes under the 1999 Registration Statement. The notes are composed of \$275 of principal bearing interest at 8.35% due May 1, 2010, and \$225 of principal bearing interest at 8.7% due May 1, 2030. Proceeds were used primarily to repay borrowings under the Company's commercial paper program.

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.

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. Proceeds from this issuance 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 Board of Directors adopted a program on April 25, 2000, authorizing, but not requiring, the Company to purchase and retire up to \$500 of the Company's common stock. This program was increased by an additional \$1,000 by the Board of Directors on December 6, 2000, for a total of \$1,500. The revised program enables the Company to purchase stock from April 25, 2000, through December 6, 2001. During fiscal 2000 the Company purchased and retired 18.7 million shares at a total cost of \$451 or an average price of \$24.15 per share.

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 1, 2001	February 3, 2000
Long-term debt and capitalized lease obligations to capital <sup>1</sup>	51.1%	46.7%
Long-term debt and capitalized lease obligations to total assets	37.0	31.7

<sup>1</sup>Capital includes long-term debt, capitalized lease obligations and stockholders' equity

The Company continues to retain ownership of real estate when possible. As of February 1, 2001, the Company held title to the land and buildings of 40% 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 727 stores representing 32% of the Company's retail square footage as of February 1, 2001. 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:

	2000	1999	1998
New and acquired stores	<b>\$ 1,066</b>	\$ 1,126	\$ 1,146
Remodels	<b>423</b>	296	299
Retail replacement equipment, technology and other	<b>170</b>	248	289
Distribution facilities and equipment	<b>174</b>	198	139
<b>Total capital expenditures</b>	<b>1,833</b>	1,868	1,873
<b>Estimated fair value of property financed by operating leases</b>	<b>99</b>	230	224
	<b>\$ 1,932</b>	\$ 2,098	\$ 2,097

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

#### 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," which is effective for all fiscal years beginning after June 15, 2000. This new standard as amended 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. The Company will adopt SFAS No. 133 effective February 2, 2001. The Company has completed its evaluation of this standard and its impact on the Company's accounting and reporting requirements and management does not expect the adoption of this statement to have a significant impact on the financial position, results of operations or cash flows of the Company.

#### 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 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:

	2001	2002	2003	2004	2005	There- after	Total	Fair Value
Debt obligations (excluding commercial paper and bank line):								
Fixed rate	\$ 62	\$ 104	\$ 104	\$ 504	\$ 203	\$ 3,647	\$ 4,624	\$ 4,470
Weighted average interest rate	6.6%	10.4%	7.3%	6.6%	7.4%	7.5%	7.4%	

### Environmental

The Company has identified environmental contamination sites related primarily to underground petroleum storage tanks and groundwater 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 2000, 1999 or 1998.

### 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 operations of acquired or merged companies, 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 using 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 cost and stability of power sources, the Company's ability to recruit and develop employees, 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 acquired or merged companies.

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)	52 weeks February 1, 2001	53 weeks February 3, 2000	52 weeks January 28, 1999
<b>Sales</b>	<b>\$ 36,762</b>	<b>\$ 37,478</b>	<b>\$ 35,872</b>
Cost of sales	26,336	27,164	26,156
Gross profit	10,426	10,314	9,716
Selling, general and administrative expenses	8,740	8,641	7,846
Merger-related and exit costs	24	396	195
Litigation settlement		37	
Impairment – store closures			24
Operating profit	1,662	1,240	1,651
Other (expense) income:			
Interest, net	(385)	(353)	(337)
Other, net	(3)	12	24
Earnings before income taxes and extraordinary item	1,274	899	1,338
Income taxes	509	472	537
Earnings before extraordinary item	765	427	801
Extraordinary loss on extinguishment of debt, net of tax benefit of \$7		(23)	
<b>Net Earnings</b>	<b>\$ 765</b>	<b>\$ 404</b>	<b>\$ 801</b>
<b>Basic Earnings Per Share:</b>			
Earnings before extraordinary item	\$ 1.83	\$ 1.01	\$ 1.91
Extraordinary item		(.05)	
Net Earnings	\$ 1.83	\$ 0.96	\$ 1.91
<b>Diluted Earnings Per Share:</b>			
Earnings before extraordinary item	\$ 1.83	\$ 1.00	\$ 1.90
Extraordinary item		(.05)	
Net Earnings	\$ 1.83	\$ 0.95	\$ 1.90
<b>Weighted Average Common Shares Outstanding:</b>			
Basic	418	422	419
Diluted	418	423	422

See Notes to Consolidated Financial Statements

> CONSOLIDATED BALANCE SHEETS

(in millions, except per share data)	February 1, 2001	February 3, 2000
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 57	\$ 245
Accounts and notes receivable, net	547	581
Inventories	3,364	3,481
Prepaid expenses	155	155
Property held for sale	71	100
Refundable income taxes	36	
Deferred income taxes	70	29
Total Current Assets	4,300	4,591
Land, Buildings and Equipment, net	9,622	8,911
Goodwill and Intangibles, net	1,705	1,761
Other Assets	451	456
<b>Total Assets</b>	<b>\$ 16,078</b>	<b>\$ 15,719</b>
<b>Liabilities and Stockholders' Equity</b>		
Current Liabilities:		
Accounts payable	\$ 2,163	\$ 2,176
Salaries and related liabilities	561	555
Taxes other than income taxes	141	172
Income taxes		82
Self-insurance	218	187
Unearned income	112	110
Merger-related reserves	13	33
Current portion of capitalized lease obligations	20	19
Current maturities of long-term debt	62	620
Other	105	115
Total Current Liabilities	3,395	4,069
Long-Term Debt	5,715	4,803
Capitalized Lease Obligations	227	187
Self-Insurance	216	222
Deferred Income Taxes	116	52
Other Long-Term Liabilities and Deferred Credits	715	684
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 – 405 shares and 424 shares, respectively	405	424
Capital in excess of par	48	145
Retained earnings	5,241	5,133
Total Stockholders' Equity	5,694	5,702
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 16,078</b>	<b>\$ 15,719</b>

See Notes to Consolidated Financial Statements

> CONSOLIDATED CASH FLOWS

(in millions)	52 weeks February 1, 2001	53 weeks February 3, 2000	52 weeks January 28, 1999
<b>Cash Flows From Operating Activities:</b>			
Net earnings	\$ 765	\$ 404	\$ 801
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	944	853	803
Goodwill amortization	57	58	58
Noncash merger-related charges	21	272	195
Impairment – store closures			24
Net gain on asset sales	(4)	(2)	(14)
Net deferred income taxes	11	(53)	(72)
Decrease (increase) in cash surrender value of Company-owned life insurance	4	(12)	(23)
Changes in operating assets and liabilities, net of business acquisitions:			
Receivables and prepaid expenses	(4)	46	(86)
Inventories	118	(233)	(156)
Accounts payable	(12)	(9)	7
Other current liabilities	(175)	108	54
Self-insurance	25	(79)	(134)
Unearned income	19	76	(16)
Other long-term liabilities	11	(11)	
Net cash provided by operating activities	<b>1,780</b>	<b>1,418</b>	<b>1,441</b>
<b>Cash Flows From Investing Activities:</b>			
Capital expenditures	(1,771)	(1,837)	(1,627)
Proceeds from disposal of land, buildings and equipment	189	83	162
Proceeds from divestitures and duplicate assets		393	
Business acquisitions, net of cash acquired			(260)
Decrease (increase) in other assets	33	(122)	(90)
Net cash used in investing activities	<b>(1,549)</b>	<b>(1,483)</b>	<b>(1,815)</b>
<b>Cash Flows From Financing Activities:</b>			
Proceeds from long-term borrowings	1,232	1,841	462
Payments on long-term borrowings	(417)	(970)	(213)
Net commercial paper activity and bank borrowings	(475)	(430)	300
Proceeds from stock options exercised	7	32	66
Cash dividends paid	(315)	(265)	(263)
Tax payments for options exercised		(14)	
Stock purchases and retirements	(451)		(18)
Net cash (used in) provided by financing activities	<b>(419)</b>	<b>194</b>	<b>334</b>
Net (Decrease) Increase in Cash and Cash Equivalents	<b>(188)</b>	<b>129</b>	<b>(40)</b>
Cash and Cash Equivalents at Beginning of Year	<b>245</b>	<b>116</b>	<b>156</b>
Cash and Cash Equivalents at End of Year	<b>\$ 57</b>	<b>\$ 245</b>	<b>\$ 116</b>

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
<b>Balance at January 29, 1998</b>	\$ 435	\$ 384	\$ 4,502	\$ (580)	\$ 4,741
Net earnings			801		801
Issuance of 1,989,505 shares of stock for stock options, awards and Employee Stock Purchase Plan (ESPP)		(11)		63	52
Merger-related stock option charge		195			195
Exercise of stock options, including tax benefits		13			13
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)
<b>Balance at January 28, 1999</b>	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, including tax benefits	1	30			31
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)
<b>Balance at February 3, 2000</b>	424	145	5,133		5,702
Net earnings			765		765
Deferred tax adjustment related to stock options		(12)			(12)
Exercise of stock options, including tax benefits		6			6
Stock purchases and retirements – 18,659,200 shares	(19)	(92)	(340)		(451)
Deferred stock unit plan		1			1
Dividends			(317)		(317)
<b>Balance at February 1, 2001</b>	\$ 405	\$ 48	\$ 5,241		\$ 5,694

See Notes to Consolidated Financial Statements

(dollars in millions, except per share data)

## Basis of Presentation

On June 23, 1999, Albertson's, Inc. ("Albertson's" or the "Company") and American Stores Company ("ASC") consummated a merger, with the issuance of 177 million shares of Albertson's common stock (the "Merger"). 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 one of the largest retail food and drug chains in the United States.

As of February 1, 2001, the Company operated 2,512 stores in 36 Western, Midwestern, Eastern and Southern states. Retail operations are supported by 19 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 year 1998). 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; software—3 to 5 years; leasehold improvements—10 to 25 years; intangibles—3 to 10 years; and capitalized leases—20 to 30 years.

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. Assets under 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 and lease liabilities are amortized over the lease term using the straight-line 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 \$660 and \$603 in 2000 and 1999, respectively.

**IMPAIRMENT OF LONG-LIVED ASSETS** The Company reviews and evaluates long-lived assets for impairment when events or circumstances indicate costs may not be recoverable. The net book value of long-lived assets is compared to expected undiscounted future cash flows. An impairment loss would be recorded for the excess of net book value over the fair value of the asset impaired. The fair value is estimated based on expected discounted future cash flows.

**SELF-INSURANCE** The Company is partially self-insured for property loss, workers' compensation and general liability costs. For ASC, beginning in fiscal 1998 through first quarter 2000, insurance was purchased for workers' compensation, general liability and automotive liability coverage. Self-insurance liabilities are determined actuarially based on claims filed and estimates for claims incurred but not reported. The majority of these liabilities are not discounted.

**REVENUE RECOGNITION** Revenue is recognized at the point of sale for retail sales. Vendor allowances and credits that relate to the Company's buying and merchandising activity are recognized as earned.

**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 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 \$550, \$654 and \$631, excluding cooperative advertising income from vendors, were included with cost of sales in the Company's Consolidated Earnings for 2000, 1999 and 1998, 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, key employees 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.

**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 primarily of outstanding options under the Company's stock option plans. Outstanding options excluded in 2000 and 1999 (option price exceeded the average market price during the period) amounted to 16.6 million shares and 3.5 million shares, respectively. There were no outstanding options excluded from the computation of potential common shares in 1998. 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. For purposes of the EPS calculation, all shares and potential common shares of ASC were converted at the 0.63 to 1 exchange ratio.

**COMPREHENSIVE INCOME** The Company has no items of other comprehensive income in any period presented. Therefore, net earnings as presented in the Company's Consolidated Earnings equals comprehensive income.

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.

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

### 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:

	Albertson's	ASC	Combined
Net revenues	\$ 16,005	\$ 19,867	\$ 35,872
Net earnings	567	234	801

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. Under these agreements, the Company was required to divest 145 stores to enable the Merger to proceed under applicable antitrust, competition and trade regulation law. The stores divested had sales of \$2,300 in fiscal 1998.

Results of operations for year ended February 1, 2001, included \$151 of merger-related costs (\$93 after tax) and the results of operations for year ended February 3, 2000, included \$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 Sheets:

	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	11			7	18
Write-down of assets to net realizable value	13			23	36
Integration costs				97	97
Total costs	24			127	151
Cash expenditures	(30)	(2)		(107)	(139)
Write-down of assets to net realizable value	(13)			(19)	(32)
Merger-related accruals at February 1, 2001	\$ 7	\$ 1		\$ 5	\$ 13

Severance costs consist of obligations to employees who were terminated or were notified of termination under a plan authorized by senior management. Total merger-related terminations were 663 employees as of February 1, 2001, and no further terminations are expected under this plan.

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. These include such costs as advertising, labor associated with systems conversions and training and relocation costs.

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 resulted in significant non-recurring charges and incremental expenses. These costs had a significant effect on both 2000 and 1999 results of operations of the Company. Non-recurring charges and expenses of implementing integration actions were originally estimated to total \$700 after income tax benefits. On an after-tax basis, and subsequent to first quarter 1999, the Company has incurred \$638 of merger-related costs and does not expect to exceed its original estimate.

### Supplemental Cash Flow Information

Selected cash payments and noncash activities were as follows:

	2000	1999	1998
Cash payments for income taxes	\$ 549	\$ 520	\$ 589
Cash payments for interest, net of amounts capitalized	373	413	331
Noncash investing and financing activities:			
Tax benefits related to stock options	1	11	10
Capitalized lease obligations incurred	62	24	25
Capitalized lease obligations terminated	6	14	6
Liabilities assumed in connection with asset acquisitions		7	2
Deferred tax adjustment – related to stock options	12		

### 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 1, 2001	February 3, 2000
Trade and other accounts receivable	\$ 578	\$ 597
Current portion of notes receivable	7	15
Allowance for doubtful accounts	(38)	(31)
	<b>\$ 547</b>	<b>\$ 581</b>

## Inventories

Approximately 97% 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 \$591 and \$614 higher at the end of 2000 and 1999, respectively. Net earnings (basic and diluted earnings per share) would have been lower by \$14 (\$0.03) in 2000, higher by \$18 (\$0.04) in 1999, and higher by \$10 (\$0.02) in 1998. The replacement cost of inventories valued at LIFO approximates FIFO cost.

During 2000, inventory quantities were reduced. This reduction resulted in a liquidation of LIFO inventory quantities carried at lower costs prevailing in prior years as compared with the cost of 2000 purchases, the effect of which decreased cost of goods sold by approximately \$26 and increased net income by approximately \$15 or \$0.04 per share.

## Land, Buildings and Equipment, net

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

	February 1, 2001	February 3, 2000
Land	\$ 2,224	\$ 1,999
Buildings	5,504	4,908
Fixtures and equipment	5,558	5,309
Leasehold improvements	1,648	1,504
Capitalized leases	314	275
	<b>15,248</b>	<b>13,995</b>
Accumulated depreciation and amortization	(5,626)	(5,084)
	<b>\$ 9,622</b>	<b>\$ 8,911</b>

## Indebtedness

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

	February 1, 2001	February 3, 2000
Commercial paper and bank lines of credit	\$ 1,153	\$ 1,628
7.5% Notes due February 15, 2011	700	
8.35% Notes due May 1, 2010	275	
8.7% Debentures due May 1, 2030	225	
7.45% Debentures due August 1, 2029	650	650
6.95% Notes due August 1, 2009	350	350
6.55% Notes due August 1, 2004	300	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
Medium-term notes due 2000, average interest rate of 6.1%		90
7.5% Debentures due 2037	200	200
8.0% Debentures due 2026	272	272
7.9% Debentures due 2017	95	95
7.4% Notes due 2005	200	200
Medium-term notes, due 2000 through 2028, average interest rate of 7.0%	245	295
9.125% Notes due 2002	80	80
Notes due 2004, average interest rate of 6.5%	200	200
Industrial revenue bonds, average interest rate of 6.1%	11	14
Secured mortgage notes and other notes payable, average interest rates of 9.4% and 8.3%, respectively	104	132
	5,777	5,423
Current maturities	(62)	(620)
	<b>\$ 5,715</b>	<b>\$ 4,803</b>

Interest rates on the outstanding commercial paper borrowings as of February 1, 2001, ranged from 6.2% to 8.0% with an effective weighted average rate of 7.3%. 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. 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 during 1999:

	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 under the commercial paper program with interest based on LIBOR commercial paper rates that reset monthly. These notes were paid in full during July 2000.

Effective March 2000 the Company entered into two new revolving credit agreements for \$1,900. One agreement for \$950 expired in March 2001 and was replaced by a \$700 364-day credit agreement. A second agreement for \$950 expires in March 2005. 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. In addition, the Company executed a \$200 forward underwriting agreement in December 2000 to support the commercial paper program. This agreement expired in March 2001. No borrowings were outstanding under the credit facilities (including the forward underwriting agreement) as of February 1, 2001.

During fiscal 2000 the Company had an uncommitted bank line of credit totaling \$25. The entire amount under the bank line was outstanding as of February 1, 2001.

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.

In January 2001 the Company issued the remaining \$700 of term notes under the 1999 Registration Statement. The \$700 principal bears interest at 7.5% and matures February 15, 2011. Proceeds were used primarily to reduce borrowings under the Company's commercial paper program.

In May 2000 the Company issued \$500 of term notes under the 1999 Registration Statement. The notes are composed of \$275 of principal bearing interest at 8.35% due May 1, 2010, and \$225 of principal bearing interest at 8.7% due May 1, 2030. Proceeds were used primarily to repay borrowings under the Company's commercial paper program.

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.

In July 1999 the Company negotiated an amendment to a \$200 term loan agreement between ASC and a group of commercial banks. The amended 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. Proceeds were used to reduce borrowings under the Company'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 \$161 as collateral for mortgage notes which are payable on various schedules, including interest at rates ranging from 6.8% to 16.5%. The notes mature from 2001 to 2019.

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.

Albertson's filed a shelf registration statement with the Securities and Exchange Commission (SEC), which became effective on February 13, 2001 ("2001 Registration Statement") to authorize the issuance of up to \$3,000 in debt securities. The Company will use the net proceeds of any securities sold pursuant to the 2001 Registration Statement for retirement of debt and general corporate purposes including the potential purchase of outstanding shares of Albertson's common stock. No amounts have been issued pursuant to this registration statement.

Net interest expense was as follows:

	2000	1999	1998
Debt	\$ 366	\$ 350	\$ 322
Capitalized leases	27	27	25
Capitalized interest	(21)	(26)	(17)
Interest expense	372	351	330
Bank service charges, net of interest income	13	2	7
	<b>\$ 385</b>	<b>\$ 353</b>	<b>\$ 337</b>

The scheduled aggregate maturities of debt outstanding at February 1, 2001, are summarized as follows: \$62 in 2001, \$104 in 2002, \$104 in 2003, \$504 in 2004, \$203 in 2005 and \$4,800 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.

The Board of Directors adopted a program on April 25, 2000, authorizing, but not requiring, the Company to purchase and retire up to \$500 of the Company's common stock. This program was increased by an additional \$1,000 by the Board of Directors on December 6, 2000, for a total of \$1,500. The revised program enables the Company to purchase stock from April 25, 2000 through December 6, 2001. During fiscal 2000 the Company purchased and retired 18.7 million shares at a total cost of \$451 or an average price of \$24.15 per share.

## Income Taxes

Deferred tax assets and liabilities consist of the following:

	February 1, 2001	February 3, 2000
Deferred tax assets (no valuation allowance considered necessary):		
Basis in fixed assets	\$ 157	\$ 123
Self-insurance	162	174
Compensation and benefits	238	181
Unearned income	22	36
Other, net	128	140
<b>Total deferred tax assets</b>	<b>707</b>	<b>654</b>
Deferred tax liabilities:		
Basis in fixed assets and capitalized leases	(584)	(515)
Inventories	(104)	(105)
Compensation and benefits	(36)	(33)
Other, net	(29)	(24)
<b>Total deferred tax liabilities</b>	<b>(753)</b>	<b>(677)</b>
<b>Net deferred tax liability</b>	<b>\$ (46)</b>	<b>\$ (23)</b>

The change in the net deferred tax liability includes an adjustment related to stock options of \$12.

The Company has federal and state net operating loss carryforwards of \$10 and \$34, respectively, that will expire in years 2006 through 2021. 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:

	2000	1999	1998
Current:			
Federal	\$ 458	\$ 476	\$ 537
State	40	48	72
	<b>498</b>	<b>524</b>	<b>609</b>
Deferred:			
Federal	10	(47)	(63)
State	1	(5)	(9)
	<b>11</b>	<b>(52)</b>	<b>(72)</b>
	<b>\$ 509</b>	<b>\$ 472</b>	<b>\$ 537</b>

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

	2000	Percent	1999	Percent	1998	Percent
Taxes computed at statutory rate	\$ 446	35.0	\$ 315	35.0	\$ 468	35.0
State income taxes net of federal income tax benefit	41	3.3	28	3.2	51	3.8
Goodwill amortization	21	1.6	22	2.4	22	1.6
Merger-related charges	2	0.2	115	12.8	15	1.1
Other	(1)	(0.1)	(8)	(0.9)	(19)	(1.3)
	<b>\$ 509</b>	<b>40.0</b>	<b>\$ 472</b>	<b>52.5</b>	<b>\$ 537</b>	<b>40.2</b>

### 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 1, 2001, 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.

**DEFERRED STOCK UNITS PLAN** The Board of Directors adopted a program effective December 6, 2000, which authorized the award of 1,081,300 deferred stock units with dividend equivalents paid in cash quarterly under Albertson's, Inc. 1995 Amended and Restated Stock-Based Incentive Plan to key officers of the Company. Under this program, three-quarters of the units will be distributed in stock on December 5, 2003, if the officer is still employed by the Company on that date as an officer of the Company and one-quarter will be distributed in stock on December 5, 2003, if the preceding condition is met and the closing price of the Company's stock is at least \$28.84 for at least 20 consecutive trading days at any time from December 6, 2000, through December 5, 2003. The Company is recognizing this expense over the three-year service period.

**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 pre-tax 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 pre-tax 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 1, 2001		February 3, 2000		January 28, 1999	
	Shares	Price	Shares	Price	Shares	Price
Outstanding at beginning of year	18,015	\$ 38.34	9,989	\$ 35.01	16,527	\$ 32.74
Granted	8,683	21.78	12,536	39.76	159	40.39
Exercised	(287)	21.54	(3,907)	33.00	(5,858)	29.16
Forfeited	(1,121)	39.58	(603)	39.43	(839)	32.11
Outstanding at end of year	25,290	\$ 32.79	18,015	\$ 38.34	9,989	\$ 35.01

As of February 1, 2001, there were 5.5 million shares of Company common stock reserved for the granting of additional options and deferred stock units.

The following table summarizes options outstanding and options exercisable as of February 1, 2001, 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
\$16.87 to \$22.63	8,849	9.6	\$ 21.61	228	\$ 18.50
24.31 to 33.25	8,067	7.9	30.27	2,792	29.83
34.87 to 45.94	3,130	5.8	40.14	3,130	40.14
47.00 to 51.19	5,244	8.4	51.15	1,101	51.01
\$16.87 to \$51.19	25,290	8.4	\$ 32.79	7,251	\$ 37.14

The weighted average fair value at date of grant for Albertson's options granted during 2000 and 1999 was \$7.30 and \$10.42 per option, respectively. Pre-merger Albertson's grants per option were \$17.14 for 1998. Pre-merger ASC grants per option were \$11.86 for 1998. The fair value of options at date of grant was estimated using the Black-Scholes model with the following weighted average assumptions:

	2000	1999	1998	
			ABS	ASC
Expected life (years)	3.0	3.0	8.0	6.5
Risk-free interest rate	5.46%	5.96%	5.74%	4.70%
Volatility	54.83	37.03	26.70	21.20
Dividend yield	3.49	1.81	1.48	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:

	2000	1999	1998
Net earnings:			
As reported	<b>\$ 765</b>	\$ 404	\$ 801
Pro forma	<b>738</b>	375	914
Basic earnings per share:			
As reported	<b>1.83</b>	0.96	1.91
Pro forma	<b>1.77</b>	0.89	2.16
Diluted earnings per share:			
As reported	<b>1.83</b>	0.95	1.90
Pro forma	<b>1.76</b>	0.89	2.14

The 2000 pro forma net income of \$738 resulted from reported net income of \$765, less the 2000 pro forma after-tax compensation expense of \$27. 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 (income) expense for defined benefit plans is determined using assumptions as of the beginning of each year. The projected benefit obligation and related funded status are 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:

	2000	1999	1998
Weighted-average discount rate	7.15%	7.50%	6.25%
Annual salary increases	3.70–4.50	4.35–4.50	4.50–4.95
Expected long-term rate of return on assets	9.50	9.50	9.50

Net periodic benefit (income) expense for Company-sponsored defined benefit pension plans was as follows:

	2000	1999	1998
Service cost – benefits earned during the period	\$ 14	\$ 45	\$ 42
Interest cost on projected benefit obligations	32	34	30
Expected return on assets	(55)	(49)	(42)
Amortization of prior service cost	5		1
Recognized net actuarial (gain) loss	(4)	1	2
	<b>\$ (8)</b>	<b>\$ 31</b>	<b>\$ 33</b>

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

	February 1, 2001	February 3, 2000
Change in projected benefit obligation:		
Beginning of year benefit obligation	\$ 423	\$ 547
Service cost	14	45
Interest cost	32	34
Actuarial loss (gain)	29	(105)
Amendments	11	(88)
Benefits paid	(14)	(10)
End of year benefit obligation	495	423
Change in plan assets:		
Plan assets at fair value at beginning of year	582	549
Actual return on plan assets	(32)	89
Employer contributions (return)	1	(46)
Benefit payments	(14)	(10)
Plan assets at fair value at end of year	537	582
Funded status	42	159
Unrecognized net loss (gain)	19	(100)
Unrecognized prior service cost	(79)	(85)
Additional minimum liability	(1)	
Net accrued pension cost	\$ (19)	\$ (26)
Prepaid pension cost included with other assets	\$ 16	\$ 8
Accrued pension cost included with other long-term liabilities	(35)	(34)
Net accrued pension cost	\$ (19)	\$ (26)

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

	February 1, 2001	February 3, 2000
Projected benefit obligation	\$ 18	\$ 15
Accumulated benefit obligation	16	13

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 \$52 and \$33 of the Company's common stock at February 1, 2001 and February 3, 2000, 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 \$58 for 2000, \$98 for 1999 and \$100 for 1998.

Retirement plans expense was as follows:

	2000	1999	1998
Defined benefit pension plans	\$ (8)	\$ 31	\$ 33
ASRE defined contribution plan	167	110	93
Multi-employer plans	58	98	100
	<b>\$ 217</b>	<b>\$ 239</b>	<b>\$ 226</b>

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:

	2000	1999	1998
Service cost	\$ 3	\$ 3	\$ 3
Interest cost	4	4	5
Amortization of unrecognized gain	(1)	(1)	(1)
	<b>\$ 6</b>	<b>\$ 6</b>	<b>\$ 7</b>

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

	February 1, 2001	February 3, 2000
Change in accumulated benefit obligation:		
Beginning of year benefit obligation	\$ 62	\$ 69
Service cost	3	3
Interest cost	4	4
Plan participants' contributions	10	9
Actuarial loss (gain)	2	(12)
Benefits paid	(15)	(11)
End of year benefit obligation	<b>66</b>	<b>62</b>
Plan assets activity:		
Employer contributions	5	2
Plan participants' contributions	10	9
Benefit payments	(15)	(11)
Funded status	<b>(66)</b>	<b>(62)</b>
Unrecognized net gain	<b>(16)</b>	<b>(21)</b>
Accrued postretirement benefit obligations included with other long-term liabilities	<b>\$ (82)</b>	<b>\$ (83)</b>
Discount rates as of end of year	<b>7.15%</b>	<b>7.50%</b>

For measurement purposes, a 6% annual rate of increase in the per capita cost of covered health care benefits was assumed for plans covering ASC retirees for 2000 and is expected to 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 1, 2001	February 3, 2000
Included with salaries and related liabilities	\$ 12	\$ 11
Included with other long-term liabilities	74	53
	<b>\$ 86</b>	<b>\$ 64</b>

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 \$286 for 2000, \$316 for 1999, and \$270 for 1998.

### Employment Contract

In December 2000 the Company entered into a severance agreement with the current Chairman of the Board and Chief Executive Officer, under which he will receive a severance payment of \$3 upon his retirement from the Company (expected to occur in June 2001). He has agreed not to become employed by a competitor of the Company during the two-year period following his retirement and to cooperate with the Company in connection with certain routine matters.

### 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 1, 2001	February 3, 2000
Real estate and equipment	\$ 314	\$ 275
Accumulated amortization	(132)	(132)
	<b>\$ 182</b>	<b>\$ 143</b>

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 1, 2001, were as follows:

	Operating Leases	Subleases	Capital Leases
2001	\$ 318	\$ (34)	\$ 46
2002	312	(33)	37
2003	295	(22)	34
2004	280	(15)	33
2005	254	(10)	31
Remainder	2,138	(43)	386
Total minimum obligations (receivables)	\$ 3,597	\$ (157)	567
Interest			(320)
Present value of net minimum obligations			247
Current portion			(20)
Long-term obligations at February 1, 2001			\$ 227

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 2000, 1999 and 1998, was as follows:

	2000	1999	1998
Minimum rent	\$ 369	\$ 330	\$ 309
Contingent rent	30	29	25
	399	359	334
Sublease rent	(97)	(58)	(60)
	\$ 302	\$ 301	\$ 274

### 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, commercial paper and bank line 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 and bank line borrowings) were as follows:

	February 1, 2001	February 3, 2000
Fair value	\$ 4,470	\$ 3,718
Carrying amount	4,624	3,800

## 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 2000, 1999 or 1998.

## Legal Proceedings

On August 23, 2000, a class action complaint was filed against Jewel Food Stores, Inc., an indirect wholly-owned subsidiary of the Company, in the Circuit Court of Cook County, Illinois (Maureen Baker, et al., v. Jewel Food Stores, Inc. and Dominick's Supermarkets, Inc., Case No. 00L 009664) alleging milk price fixing. The Company has strong defenses against this lawsuit, and is vigorously defending it. Although this lawsuit is subject to the uncertainties inherent in the litigation process, based on the information presently available to the Company, management does not expect the ultimate resolution of this action to have a material adverse effect on the Company's financial condition.

An agreement has been reached, and court approval granted, 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. Under the settlement agreement, current and former employees who meet eligibility criteria are in the process of presenting their claims to a settlement administrator. While the Company cannot specify 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 standard and has determined that its operations are within a single operating segment. All of the Company's operations are within the United States.

## 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," which is effective for all fiscal years beginning after June 15, 2000. This new standard as amended 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. The Company will adopt SFAS No. 133 effective February 2, 2001. The Company has completed its evaluation of this standard and its impact on the Company's accounting and reporting requirements and management does not expect the adoption of this statement to have a significant impact on the financial position, results of operations or cash flows of the Company.

## Independent Auditors' Report

# Deloitte & Touche

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 1, 2001 and February 3, 2000, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the three years in the period ended February 1, 2001. 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 statements of earnings, stockholders' equity, and cash flows of American Stores Company for the year ended January 28, 1999, which statements reflect net earnings of approximately \$234 million for the year ended January 28, 1999. 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, 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 1, 2001 and February 3, 2000, and the results of their operations and their cash flows for each of the three years in the period ended February 1, 2001, in conformity with accounting principles generally accepted in the United States of America.

*Deloitte & Touche LLP*

Deloitte & Touche LLP  
Boise, Idaho  
March 19, 2001

## Independent Auditors' Report



Shareholders and Board of Directors of American Stores Company:

We have audited the accompanying consolidated statements of earnings, shareholders' equity and cash flows of American Stores Company and subsidiaries for the year ended January 30, 1999 (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 audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

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

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

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

## 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 at least 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

## Five-Year Summary of Selected Financial Data

(dollars in millions, except per share data)	52 weeks February 1, 2001	53 weeks February 3, 2000	52 weeks January 28, 1999	52 weeks January 29, 1998	52 weeks January 30, 1997
<b>Operating Results:</b>					
Sales	\$ 36,762	\$ 37,478	\$ 35,872	\$ 33,828	\$ 32,455
Earnings before extraordinary item	765	427	801	797	781
Extraordinary item		(23)			
Net earnings	765	404	801	797	781
Net earnings as a percent to sales	2.08%	1.08%	2.23%	2.36%	2.41%
<b>Common Stock Data:</b>					
Earnings per share before extraordinary item:					
Basic	\$ 1.83	\$ 1.01	\$ 1.91	\$ 1.89	\$ 1.79
Diluted	1.83	1.00	1.90	1.88	1.79
Extraordinary item:					
Basic		(0.05)			
Diluted		(0.05)			
Earnings per share:					
Basic	1.83	0.96	1.91	1.89	1.79
Diluted	1.83	0.95	1.90	1.88	1.79
Cash dividends per share:					
Albertson's, Inc.	0.76	0.72	0.68	0.64	0.60
American Stores Company Equivalent		0.14	0.57	0.56	0.51
<b>Financial Position:</b>					
Total assets	\$ 16,078	\$ 15,719	\$ 15,131	\$ 13,767	\$ 12,608
Long-term debt and capitalized lease obligations	5,942	4,990	5,108	4,333	3,665
<b>Other Year End Statistics:</b>					
Number of stores	2,512	2,492	2,564	2,435	2,355

All fiscal years consist of 52 weeks, except for 1999 which is a 53-week year.

2000 operating results included pre-tax merger-related costs of \$151 (\$93 after tax or \$0.22 per share), and a pre-tax charge of \$20 (\$12 after tax or \$0.03 per share) for an impairment – lease contingency. Merger-related costs included severance, the write-down of assets to net realizable value and integration costs.

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
<b>2000</b>					
Sales	\$ 9,013	\$ 9,214	\$ 8,991	\$ 9,544	\$ 36,762
Gross profit	2,509	2,642	2,553	2,722	10,426
Operating profit	376	421	384	481	1,662
Net earnings	179	194	172	220	765
Earnings per share:					
Basic	0.42	0.46	0.41	0.54	1.83
Diluted	0.42	0.46	0.41	0.54	1.83
<b>1999</b>					
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

Fourth quarter of 1999 includes 14 weeks of operations. All other quarters include 13 weeks of operations.

During 2000 and 1999 all four quarters' operating results were affected by pre-tax merger-related costs totaling \$151 (\$93 after tax) and \$683 (\$529 after tax), respectively. Merger-related costs included severance, the write-down of assets to net realizable value and integration costs. In addition, 1999 merger-related costs included transaction and financing costs and stock option charges. First quarter 2000 included a pre-tax one-time charge of \$20 (\$12 after tax) for an impairment – lease contingency. Third quarter 1999 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	
Earnings (Loss)	Net	EPS	Net	EPS	Net	EPS	Net	EPS	Net	EPS
	Loss	Effect	Loss	Effect	Loss	Effect	Loss	Effect	Loss	Effect
<b>2000</b>										
Merger-related costs	\$ (35)	\$ (0.08)	\$ (17)	\$ (0.04)	\$ (16)	\$ (0.04)	\$ (25)	\$ (0.06)	\$ (93)	\$ (0.22)
Impairment – Lease contingency	(12)	(0.03)							(12)	(0.03)
<b>1999</b>										
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)

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:

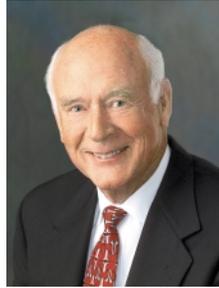
	First	Second	Third	Fourth	Year
<b>2000</b>					
Net earnings	\$ (3)	\$ (3)	\$ (5)	\$ 25	\$ 14
Basic and diluted EPS	(0.01)	(0.01)	(0.01)	0.06	0.03
<b>1999</b>					
Net earnings	\$ (5)	\$ (5)	\$ (5)	\$ (3)	\$ (18)
Basic and diluted EPS	(0.01)	(0.01)	(0.01)	(0.01)	(0.04)

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



**A. Gary Ames**

Retired 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 Advanced Medical Technology Association, a worldwide medical technology trade association



**Teresa Beck**

Retired President of American Stores Company



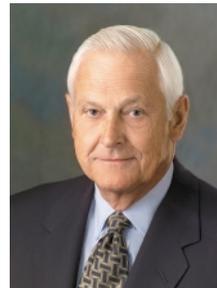
**Henry I. Bryant**

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



**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**

Paul I. Corddry, Chairman  
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

**Corporate Governance Committee**

Paul I. Corddry, Chairman  
Cecil D. Andrus  
Teresa Beck  
Henry I. Bryant  
Beatriz Rivera  
Will M. Storey

\* Retiring from the Board of Directors effective on the date of the Company's 2001 Annual Meeting of Stockholders.

\*\* In order to reduce the size of the Board of Directors in accordance with the Company's Corporate Governance Guidelines, these Board members have volunteered to resign from the Board effective on the date of the Company's 2001 Annual Meeting of Stockholders.

> EXECUTIVE OFFICERS

Includes age and years of Albertson's experience

**Gary G. Michael**  
Chairman of the Board and Chief Executive Officer  
60, 34 years

**Michael F. Reuling**  
Vice Chairman of the Company  
54, 27 years

**Peter L. Lynch**  
President and Chief Operating Officer  
49, 33 years

**Robert K. Banks**  
Executive Vice President, Development  
51, 19 years

**Thomas E. Brother**  
Executive Vice President, Distribution  
59, 27 years

**Robert C. Butler**  
Executive Vice President, Operations  
52, 28 years

**Romeo R. Cefalo**  
Executive Vice President, Operations  
51, 29 years

**Wayne A. Denningham**  
Executive Vice President, Operations  
39, 23 years

**A. Craig Olson**  
Executive Vice President and Chief Financial Officer  
49, 29 years

**Thomas R. Saldin**  
Executive Vice President and General Counsel  
54, 22 years

**Lawrence A. Stablein**  
Executive Vice President, Marketing and Merchandising  
43, 20 years

**Patrick S. Steele**  
Executive Vice President, Information Systems and Technology  
51, 34 years

**Kevin H. Tripp**  
Executive Vice President, Drug and General Merchandise  
46, 22 years

**Steven D. Young**  
Executive Vice President, Human Resources  
52, 25 years

#### 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](http://www.albertsons.com)

#### Auditors

Deloitte & Touche LLP  
Boise, Idaho

#### Stock Transfer Agent and Registrar

Mellon Investor Services LLC  
Shareholder Relations Department  
P.O. Box 3315  
South Hackensack, New Jersey 07606

or

Mellon Investor Services LLC  
Shareholder Relations Department  
Overpeck Centre, 85 Challenger Road  
Ridgefield Park, New Jersey 07660  
Telephone: (888) 788-5081  
Internet address: [www.mellon-investor.com](http://www.mellon-investor.com)

#### Stockholders of Record

There were 32,000 stockholders of record at March 19, 2001.

#### Annual Meeting

The 2001 Annual Meeting of Stockholders will be held at 10:00 a.m. Mountain Daylight Time on Thursday, June 14, 2001, 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 Mellon Investor Services 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 Mellon Investor Services 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 Mellon Investor Services 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 on the Company's Web site, or 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 1, 2001, is available to stockholders on the Company's Web site, or without charge upon request to the Corporate Secretary of Albertson's, Inc.

#### Corporate Governance Guidelines

A copy of the Company's Corporate Governance Guidelines is available to stockholders on the Company's Web site, or 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:

	High	First Low	High	Second Low	High	Third Low	High	Fourth Low	High	Year Low
2000	\$ 34.94	\$ 23.06	\$ 39.25	\$ 30.00	\$ 31.50	\$ 20.06	\$ 28.88	\$ 21.00	\$ 39.25	\$ 20.06
1999	61.94	49.06	56.94	48.56	52.25	37.00	38.31	29.00	61.94	29.00
1998	54.94	46.31	53.69	44.00	58.13	44.50	67.13	53.38	67.13	44.00

Cash dividends declared per share were:

	First	Second	Third	Fourth	Year
2000	\$ 0.19	\$ 0.19	\$ 0.19	\$ 0.19	\$ 0.76
1999	0.18	0.18	0.18	0.18	0.72
1998	0.17	0.17	0.17	0.17	0.68

In March 2001 the Board of Directors maintained the regular quarterly cash dividend of \$0.19 per share, for an annual rate of \$0.76 per share. The quarterly rate will be paid on May 10, 2001, to stockholders of record on April 16, 2001.

> ALBERTSON'S FAMILY OF STORES



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 Recycled/recyclable



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