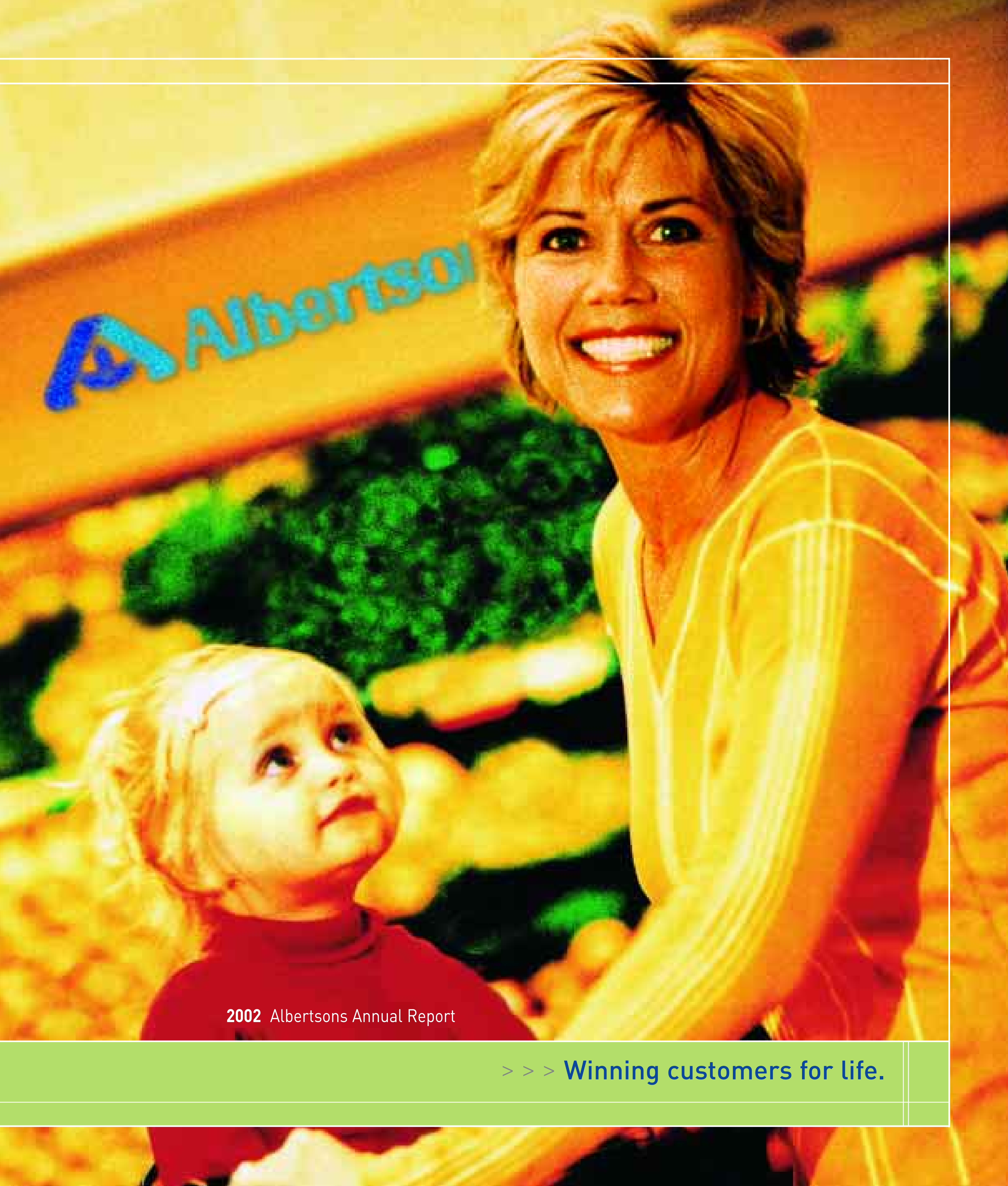


2002 Albertsons Annual Report

> > > Winning customers for life.

At Albertsons, we're working harder to make life easier for our customers.

> > > Here's what's in store.

> > > Ease of shopping.

01

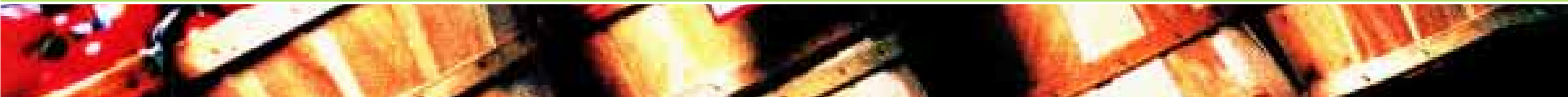
From the aisles to the smiles, a shopping experience designed to be easy and exciting!

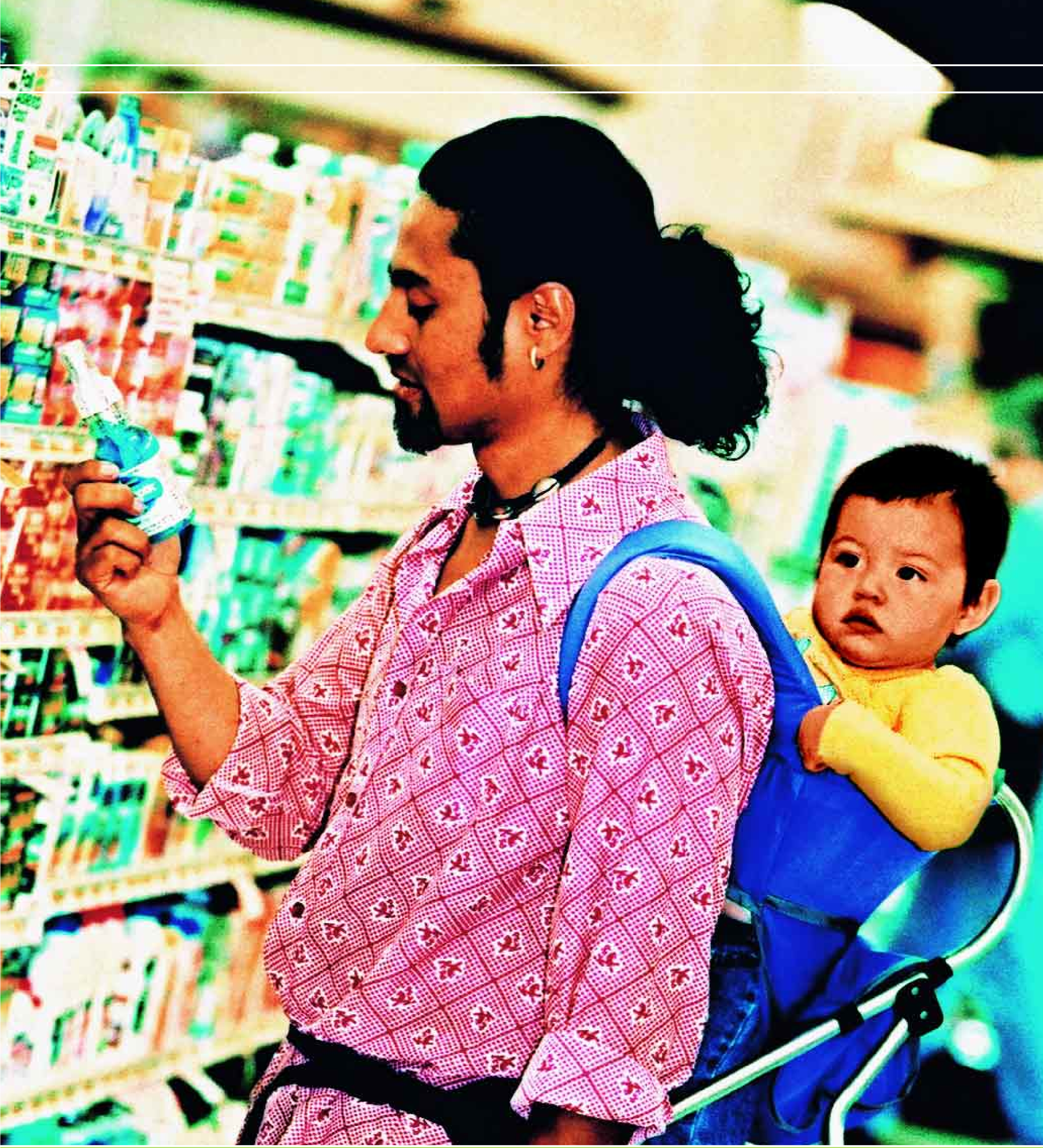
> > > Freshness.

Only the highest quality fruits, vegetables, flowers, meats, seafood, bakery and dairy products, all season-long, all year-long.

> > > Best promotional offering.

The best values and selection all in one store… so there's no need to shop anywhere else.





> > > Health and well-being.

Everything to keep the family healthy and active… and a caring, helpful pharmacist when they're not.

> > > Best consumer-based selection.

The convenience of enjoying your favorite Starbuck's beverage and a wide assortment of the best products.

> > > To Our Shareholders:

Albertsons is in the midst of an exciting transformation! At the core of that change is our passion to win customers for life by "working harder to make their lives easier." That simple promise is creating a new energy across our company. From our distribution centers, to our offices, to the 92 million square feet of retail selling space in our 2,300 stores, over 200,000 men and women come to work each day focused on creating the biggest and best food and drug retailer in the world!

2002 proved to be one of the most demanding years in business history. In that environment, some companies stumbled, most struggled and more than a few failed to survive. Proudly, Albertsons was able to deliver a solid business performance, while at the same time completing one of the largest restructurings in retailing history.

At the heart of that performance were our 10 Core Values coupled with a relentless focus on the five Strategic Imperatives we launched in 2001. In the pages that follow, you will see a progress report highlighting many of our achievements around each imperative as well as letters from shoppers that show our values are forming a new customer-focused DNA that delivers results. Those achievements were the catalyst for change that began to move our company forward in so many areas during the past year.

As proof of our progress, the following results were recorded during the year:

- Earnings from continuing operations grew to $865 million, up from $496 million in 2001
- Cash from operations grew to $2.1 billion, up from $2.0 billion in 2001. This cash allowed us to:
    - Open 92 new food and drug stores
    - Remodel 207 existing stores... a 100% increase
    - Return $862 million to shareowners via the repurchase of 35 million shares of our stock
    - Pay $307 million in dividends... a yield of nearly 4% for shareowners at year end
    - Reduce debt by $143 million
- Operating divisions were consolidated from 19 to 11

We are proud that our balance sheet remains the strongest of the traditional competitors in our industry...

- The planned restructuring of the Company was completed. Since the turnaround began in April 2001, we have closed/sold 441 unprofitable or non-strategic stores and exited 4 major markets.

Out in the marketplace, we accelerated the rollout of several exciting marketing initiatives as we...

- Expanded the launch of our Preferred loyalty card into Oregon, Washington, Northern California, Utah, Texas, Idaho and Florida.
- Expanded our neighborhood marketing focus by launching Kosher, Organic, Asian, and Hispanic platforms to better serve the diverse needs of our consumers
- Launched a new, aggressive pricing and promotion campaign under the banners of "Extreme Value Buys" and "Knock Down Prices."
- Completed dual-branding the Phoenix, Arizona market under the Albertsons/Osco banner.

As these exciting programs kicked in, we began to see concrete proof of their effectiveness:

- Return on invested capital improved for the first time since the American Stores Merger.
- Average shopping basket size improved across the Company as the average sale per customer trip grew 4%.
- Our "Customer First, Second to None" customer service program showed progress across the company as Customer Service Scores improved steadily on a company-wide basis.
- In Phoenix, Arizona, under the new dual-branded banner Albertsons/Osco, total market share grew and sales in drugstore categories accelerated between +10% and +130%.

Also during the year, we continued our relentless focus on cost control. By mid-year 2002, we had reached our first $250 million cost-out plateau ahead of schedule. By year end 2002, we had increased those savings to over $440 million, allowing us to stay ahead of schedule on our path to eliminate $750 million in cost by year end 2004! A new Strategic Sourcing focus was also launched to drive the cost-out mindset deeper into the organization. This ongoing expense rigor is critical to curb rising costs in our industry. In the future as our sales grow, we will leverage this strong cost control program to reinvest in the marketplace and enhance profitability.

...we continue to be the only large traditional grocer to pay a significant dividend to shareowners.

During the year, we continued to build on our strong fundamentals. Our Board of Directors kept us in the lead by strengthening our corporate governance standards ahead of Sarbanes-Oxley and the new SEC guidelines. Our accounting practices, which have always reflected our commitment to simplicity, accuracy and compliance were also further strengthened in 2002. We are proud that our balance sheet remains the strongest of the traditional competitors in our industry, and we continue to be the only large traditional grocer to pay a significant dividend to shareowners. We are a strong company that has a solid foundation!

We believe that the Company's ability in 2002 to improve customer service levels, control costs, execute a major restructuring, navigate a tough economy, and deliver an increase in earnings from continuing operations on a lower sales base was no small feat. More importantly, it proved our resolve to win in a brutally competitive industry.

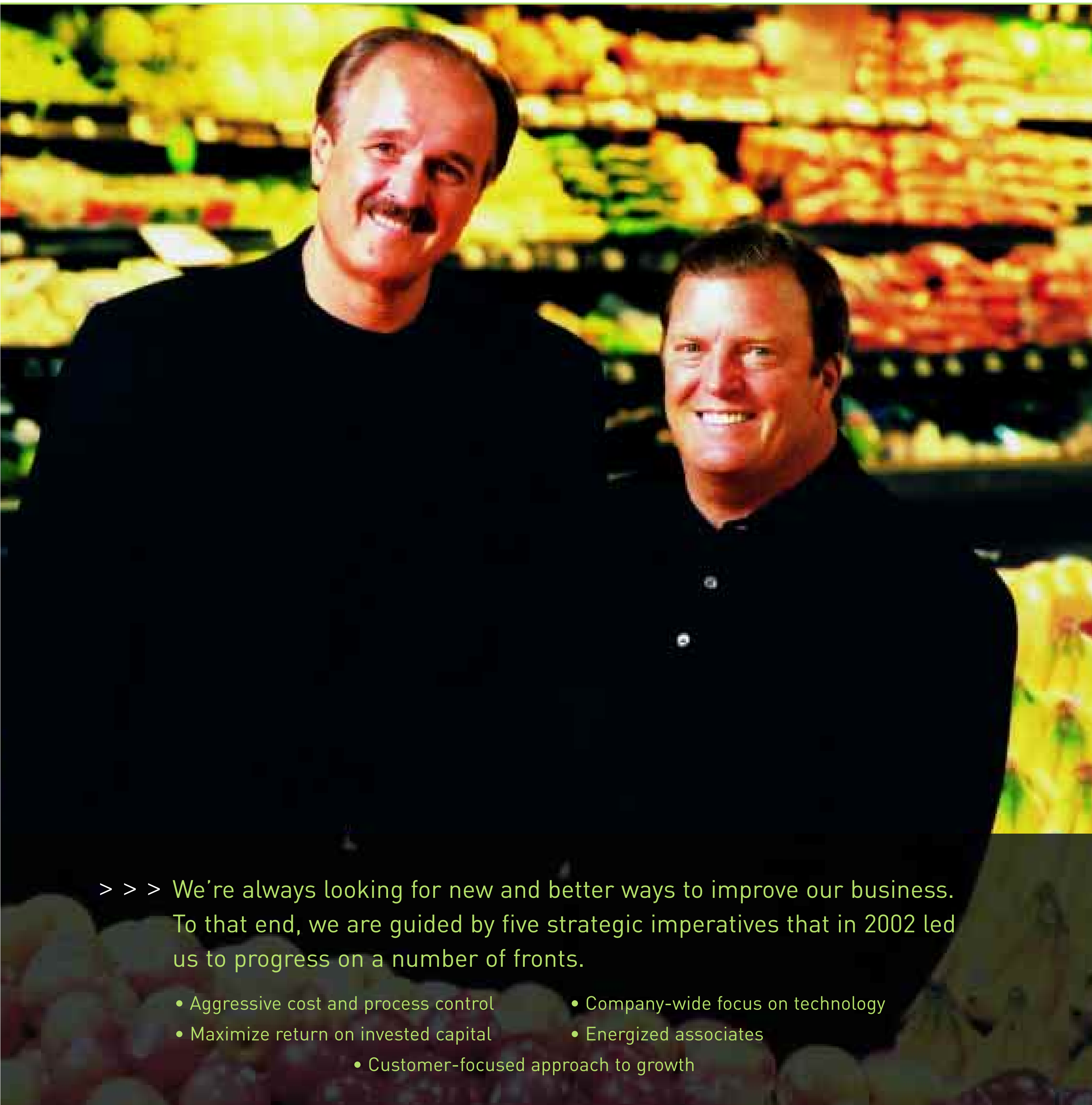
As we look ahead, a new spirit of excitement and winning is in the air. Each day we become more confident than ever of Albertsons future success.

At the heart of that optimism is a newly restructured Company, strong fundamentals, exciting customer-focused marketing programs, and the most important asset of all… our associates. To lead them forward, we are expanding training programs, implementing new pay-for-performance systems, and driving leading-edge mentoring and diversity programs to help them grow. We will continue investing in them, believing that the quality of our people will ultimately determine our future success. At Albertsons, the best days are ahead of us… please join us for an exciting and rewarding ride to the future!

Larry Johnston
Chairman of the Board and Chief Executive Officer

Peter Lynch
President and Chief Operating Officer

As we look ahead, a new spirit of excitement and winning is in the air.



> > > We're always looking for new and better ways to improve our business. To that end, we are guided by five strategic imperatives that in 2002 led us to progress on a number of fronts.

- Aggressive cost and process control
- Maximize return on invested capital
- Company-wide focus on technology
- Energized associates
- Customer-focused approach to growth

Each day we become more confident than ever of Albertsons future success.

> > > 1

PROGRESS REPORT

Aggressive cost and process control

Transforming our company

Albertsons is on a journey to a destination. Our vision is to become the #1 food and drug retailer in the world... not just the biggest, but the best in every dimension. To realize that vision, our associates work together as a unified team to build the most efficient and customer-focused company in the supermarket and drugstore industries.

Executing on our vision

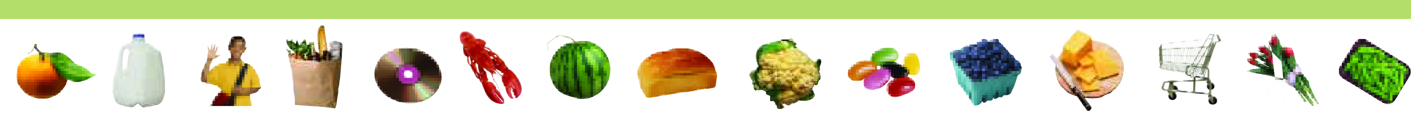
Two years ago we launched an ambitious restructuring program under the guidance of a new leadership team. As part of that effort, we committed to take $750 million dollars out of our cost structure by the end of 2004. This focus on efficiency is a continuous process that now extends throughout our company and is rapidly becoming a part of the DNA that defines our culture.

Leveraging our scale and expertise

By year-end 2002, we had achieved well over $400 million in cost savings and we are ahead of schedule on our way to achieve our $750 million goal. Albertsons is becoming more competitive by bringing best practices to every area of our organization, eliminating bureaucracy as well as streamlining processes in our stores, distribution centers and corporate headquarters. The next major step in our cost reduction and process control effort centers around improving and optimizing our supply chain efficiency. A major program has been launched in this area and is showing outstanding potential.

Delivering on our promise

Over 80 sourcing and procurement initiatives are being implemented and we are seeing improvements in a number of key areas. For example, on the procurement side of our business, we are using adaptive business networking to drive strategic sourcing and supply chain management to a new level. All of these initiatives help build shareholder value by taking unnecessary costs out of the system and in the end ensuring that our customers can count on us to find the right product, at the right place, at the right time.



fresh green kosher dairy insight **fresh** organic services events fun **fresh** photos smiles aisles sweets **fresh** medicine scents advice toys

> > > 2

PROGRESS REPORT

Maximize return on invested capital

Making every investment count

We invested $1.6 billion this past year to strengthen our stores, distribution network and key support systems. To ensure that our capital program is focused where it can do the most good, we have developed a more stringent and systematic decision-making process for guiding our investment policy. In 2002, our investment committee analyzed every significant capital expenditure at Albertsons, approving only those that added shareholder value and improved our ability to serve our customers. Among the results were investments in 92 new stores and the remodeling of 207 stores in our network which now features over 2,300 stores in 31 states. This entire process focuses on directing all our resources to profitable geographic markets where we can eventually be a marketplace leader or strengthen our existing leadership position.

Strengthening our portfolio of assets

In 2002, the reengineering of our company continued with the disposal of a number of non-strategic or under-performing assets. We scrutinized both individual assets as well as groups of assets on a market-by-market basis. This analysis led to our strategic decision to exit unprofitable markets in Houston, San Antonio, Memphis, Nashville, Des Moines, Springfield, MO and Miami. Since the restructuring of our company began in mid 2001, we have closed or sold 441 stores that were either non-strategic or under-performing.

Taking our responsibility seriously

Maximizing returns for shareowners means that we must focus on maximizing every investment that is made in every corner of our company. Consequently, we are working hard to maximize return on invested capital from marketing to human resources, from distribution and logistics to operations, from real estate to information technology. It is our primary responsibility to make sure that every dollar we invest ultimately builds shareowner value no matter where it is spent. Our company's long term success depends on it!

fresh batteries juice lighting music **fresh** background promos latte prints **fresh** attitude seasonings paint sparkle **fresh** carts technology

> > > 3

PROGRESS REPORT

Customer-focused approach to growth

Connecting with our customers

Being responsive to our customers enabled Albertsons to become one of the largest food and drug retailers in the world. Today our company has over 92 million square feet of retail selling space, comprising a powerful network of combination food and drug stores, stand-alone drugstores and fuel centers.

Offering a better shopping experience

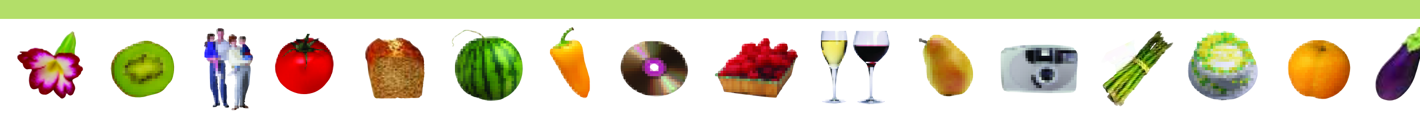
Across our retail network of more than 2,300 stores, we ask our 200,000 associates to come to work each day focused on doing just one thing... "working harder to make life easier for our customers." We are making progress on many fronts to deliver on that promise. As an example, our company-wide customer service program "Service First, Second to None" asks for an absolute commitment from every associate to provide excellent service during every one of the 1.4 billion shopping trips our customers make to our stores each year. This quest for superiority in customer service drives us to gain better insight about our customers in order to more effectively serve their wants and needs. In 2002, customer service scores improved company-wide and we continued to conduct extensive consumer research to help us determine what our customers believe the best value proposition in the industry should be.

Guaranteed quality throughout the store

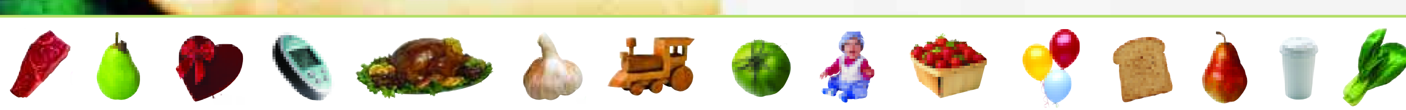
To fulfill their desires, we demonstrated how quickly we could bring innovative ideas to market this year. One example was our "Focus On Fresh" initiative in which our whole supply chain was upgraded to guarantee the availability of the freshest offerings throughout the store. These include the freshest fruits and vegetables, the best floral offering, in-store bakery, and the best meat and seafood in the industry, as well as the freshest dairy and shelf-stable groceries and beverages.

Brands that the consumer trusts

Our company operates some of the most trusted brands in America. We believe that our customer-focused approach to growth backed by the promise of "working harder to make life easier for our customers" is positioning our brands better than the competition to win customers for life!



fresh news service avocados salsa **fresh** strawberries mozzarella hues petals **fresh** water imports berries service **fresh** feel place magic



> > > 4 PROGRESS REPORT

Company-wide focus on technology

Preparing for the future

Albertsons is committed to building shareowner value by embracing technology that makes our processes more efficient and enables us to serve our customers better than anyone else in the industry. A great deal of progress was made in this area of focus in 2002.

Revolutionizing our pharmacies

We are launching what we believe is the most advanced pharmacy automation system in our industry. This new system automatically and accurately fills many commonly requested prescriptions, even labeling the bottle in a fraction of the time required to do it manually. This technology promises to enhance the service experience by reducing wait time and freeing up our pharmacists for more interaction with customers.

Streamlining our distribution system

This year we completed the integration of our distribution centers into one cohesive platform. All stores now benefit from a new synchronous conveyor system that palletizes products based on the individual floor plans in each destination store. This means that when a pallet of product arrives at a store, it is ready to be put out on the shelves in a logical, cost effective order — saving many hours in store labor.

Making life easier for our customers and associates

The future of retail shopping technology may be the system we have been testing in our Barrington, Illinois store. This innovative personal shopping system enables customers to scan their own items with a handheld device and receive alerts about specials across the store. Another exciting project is the installation of interactive multimedia kiosks in our stores. These kiosks are being used for recruitment, hiring and training of our associates, freeing up store leadership to spend more time helping customers. In-store job applications have increased significantly since the kiosks' inception. All these exciting new initiatives allow our associates to benefit from better information technology and leading edge systems that, in the end, enables them to serve our customers better each day!

fresh faces bulbs cereals samples **fresh** beer seminars recipes shrimp **fresh** noodles bottles diapers peas **fresh** mushrooms CDs tuna

fresh processes muffins steaks twists fresh merlot peppers brie words fresh savings candies corn fresh deals crab specials Hispanic

> > > 5

PROGRESS REPORT

Energized associates

Believing in our people

We are convinced that a team of energized associates who shares a positive attitude will help us achieve our vision to become the best food and drug retailer in the world. During the year, we re-engineered our compensation programs to more closely link pay to performance, improved communications to keep associates better informed, streamlined our training and education programs, and revised benefit plans to provide more choices and reduce costs.

Leading by example

We continue to build an energized workforce with a focus on positive leadership and positive attitudes. Our leadership team is expected to set the example by creating an uplifting atmosphere for associates and practicing positive leadership every day. We are continuing to improve recruiting processes to ensure that rigorous hiring standards are consistently met for all positions. Kiosks are being installed in all stores to improve candidate screening and to streamline the hiring process. New associates now begin their careers with a dynamic orientation program that focuses on the Company's Vision, Mission and Core Values, and emphasizes what it takes to be successful.

Diversity and learning

Diversity continues to be a major priority for the company as we implement programs to ensure that our associate population mirrors our customer base at every level of the organization. We are especially proud of the progress we have made in the past year to increase women and minorities in our leadership ranks. We are also focused on establishing a culture of lifelong learning because we believe that well informed and experienced associates make better decisions and develop more innovative solutions. In a major development, a comprehensive on-line and classroom curriculum for leadership and skill development will soon be available to all management associates

Achieving their dreams

We believe that energized associates are motivated to do their best work everyday...they care about customers, service and sales. Our 200,000 associates make our Company successful, and we will continue to do our part to help them achieve their dreams!

The core values that guide us.

With an unyielding commitment to compliance, integrity and quality we will...

> Drive & passionately implement the spirit of **customer first, second to none...** every day... in all we do.

> Embrace a strong **commitment to community citizenship... sharing with those in need** our time & our resources.

> See **change as an opportunity** for growth & renewal... not as a threat.

> Demonstrate **bias for action & speed** to establish & sustain competitive advantage.

> Foster a mindset of **continuous improvement** in every process, person & product... creating a culture that **values the ideas of every associate...** relentlessly searches out & transfers **best practices...** believing that there is an infinite capacity to improve everything we do.

> Create an **uplifting atmosphere for associates...** by practicing **positive leadership** each day... understanding that an organization's attitude always determines its altitude.

> Build a strong **commitment to diversity...** constantly striving to build an associate population at every level that mirrors our customer base, while also developing formats & products that meet the diverse needs of our society.

> Establish an uplifting environment of **recognition & reward...** both in the wallet & the heart.

> Show a clear **intolerance for bureaucracy...** insisting on **excellence in execution... & accountability** for delivering results.

> **Partner with & reward vendors** who assist us in creating compelling offers for our consumers & maximizing returns for our shareholders.

We will take everything we do and direct it toward one goal — to fulfill our promise to our customers.

These letters speak volumes about the quality of our associates, and highlight some of the things they are doing every day to deliver excellent service in making life easier for our customers.

> > > Customer letters from:

Marty Thomsen
Las Vegas, Nevada

Kathleen Hardin
Media, Pennsylvania

Julie H.
Glenview, Illinois

William Hoffmann
Milwaukee, Wisconsin

Sandy Redding
West Valley City, Utah

Tiffany & Dan Barnhart
Denver, Colorado

Jean & Charles Harms
Southampton, New Jersey

25,000,000 Weekly Transactions **750,000** SKUs **200,000** Associates **2,300** Stores **31** States **6** Brands

Sent: Thursday, September 26, 2002 11:56 a.m.
To: absfeedback@eds.com

To Whom It May Concern:
I would like to take the time to compliment the entire staff who provide services at the Sav-On-Drug Store (#9044) located on 3810 E. Sunset Road, Las Vegas, NV 89120 Telephone: (702) 450-3299.

It is rare to find an entire staff of employees that are so consistently polite, friendly and attentive to a customer's needs. I grew up in Los Angeles and the best new drug-store was "Sav-On's" but nothing compares to this store. I originally stopped at this store to place a prescription and was immediately impressed with the Pharmacy staff. I was aided in a professional yet warm manner. I have been a customer for over a year and never had a problem. My fiancee' and I stop by at least weekly due to service rather than the price of an item. The help staff at the counter to the manager who is assisting customers speaks highly of management that includes respect and a congenial atmosphere in which to work. If my new daughter was 18 she would be applying for a position.

Thank you again and thanks to this store.
Sincerely,

Marty Thomsen
Las Vegas, NV

November 18, 2002

TO:
Lawrence R. Johnston, CEO
Albertson's
250 Parkcenter Boulevard
Boise, ID 83726
RE: PLANETFEEDBACK REFERENCE NUMBER 1919781

Dear Mr. Johnston,

I believe in letting people know when they've done a good job, which is why I'm writing this letter. It concerns the pharmacy of one of your stores located at 1067 W. Baltimore Pike Media, Pa.19063.

On Nov. 15th,2002 I went to pick up a prescription after work for my sick husband. Since it was 8:00pm, I thought that the pharmacy was open until 10:00pm and that I had plenty of time. Imagine my shock when I arrived and the pharmacy was closed! I was very upset and sad to think that my husband would have to wait until the next day for his antibiotic and cough medicine. I was standing there looking dejected when a wonderful thing happened. Kathleen,the pharmacist, was walking out the door with her coat on, when she saw me and went back in and unlocked the pharmacy door. She got my prescriptions and we went to the checkout and had them scanned for me so that I could pay for them. She had just worked a 12-hour shift and has a young child at home, but she still found the time to stop and take care of a customer. Kathleen always is polite and friendly to all her customers. I am an R.N. and I cannot say enough about your employee, who is such a professional.

Let me tell you a little bit about myself as a customer. On average I visit your stores 3-5 times per month, and I usually spend $81-$130 when I am there. Because of this experience, I plan on being a repeat customer in the future, and I definitely will tell others that they should shop at your stores. Thank you for taking the time to read this. And keep up the good work!

Sincerely,
Kathleen Hardin

September 9, 2002

Ms. Diane Vanderheide
Osco Drug
3333 Central
Evanston, IL 60201

Dear Diane:

I'm writing to compliment one of your employees who was extremely helpful and went above and beyond "the call of duty".

She wrote down her name for me because I told her I wanted to drop a note to you, her boss, to praise her for her help. I have a hard time reading her writing, but it looks like Vajani/Vajari/Vasawhi Sheth (I'm hoping you can figure out which employee this is!).

In any event, several weeks ago, my father and I were in your store and wanted to make copies and enlargements of some pictures we had on your machine that does that. We basically had no idea what we were doing and she was so kind in walking us through the process and helping us make the copies we wanted in the different sizes and quantities. She would step away to help other customers and then come back to check on us to see if we needed any more help. She truly was terrific and absolutely customer-focused.

That kind of attitude and service are so rare these days that I wanted to specifically call her to your attention for some kind of recognition and praise. She was truly a standout. If you have any questions, please feel free to call me. She deserves commendation from you and kudos to you for managing a staff with a standout like her.

Sincerely,

Julie

January 7, 2002

General Manager
Jewel – Osco
3850 North 124th Street
Wauwatosa, WI 53222

Dear Sir:

I have been shopping at your Jewel-Osco ever since it was built and I have noted a steady improvement in several areas. The selection of specific items has increased. For example, I can now purchase raspberry Celestial Season tea and I can now find Golden Dipt Fish & Chips fish batter. These are just two examples. The shelves are always well stocked and seldom "run out."

In the past, some of the checkers were extremely sullen and unfriendly. There has been a dramatic improvement in this area. There is one particular employee who has really triggered this letter. He works in produce and his name is Irwin. Irwin is consistently busy and hard working but at the same time, he is spontaneously very friendly and goes out of his way to be helpful. He helps to make it a pleasure to shop at your store.

I hope that Irwin can get some recognition for his outstanding work.

Sincerely,

William C. Hoffmann

William C. Hoffmann

CC: Produce Manager
Irwin

VictoriaWoods
Mature Adult Apartments

February 27, 2002

Albertsons' Division Offices
5320 South 900 East
Holladay, UT 84117

Re: Albertsons, Inc.
3555 West 3500 South
West Valley City, UT 84119

Michael Leatham, Store Director

Dear Albertsons:

I just wanted to take a moment to commend you on your staff at your West Valley City store!

We are a community of Seniors living in close proximity to the WillowWood Albertsons. Mike Leatham and his staff have been very gracious and helpful to all of our residents in assisting them with their groceries; bringing them over to the property on occasion and even helping them lift heavy bags into their homes!

Most recently, Mike brought one of our residents home when he observed that she was having some "shortness of breath". This act of kindness was above and beyond his designated responsibilities as Store Director and was very much appreciated!

We always mention the Albertson's store when we are showing our property to prospective residents because we feel that having such a great service provided by Mike and his crew is indeed an amenity to our property. The staff has a key to our West Gate and with their dedication and respect to our Seniors; they also have the key to our hearts.

Congratulations on the quality of your staff.

Most Gratefully,

Sandy Redding

Sandy Redding
Community Manager

Sent: Friday, August 23, 2002 1:03 PM
To: absfeedback@eds.com
Subject: Thank you for making my wedding day perfect!

Dear Albertsons,

My husband and I were married in Grand Teton National Park, Wyoming on Signal Mountain on July 7, 2002. The Jackson, Wyoming Albertsons made our wedding spectacular by providing the most beautiful flower arrangements and our picnic lunches. The bakery also made the beautiful and delicious cupcakes for the big day. We looked all over town at different florists and caterers and went with Albertsons because they provided excellent wrap sandwiches and salads that were perfect for our picnic lunch reception. Sue O'Conner in the floral department also spent a great deal of time helping us create just the right bouquets for my sister and I and all the corsages and boutonnières. They were truly gorgeous and we would like to recognize Janet and Nancy for their work on the arrangements. My husband and I couldn't be happier with the service we received. We received so many compliments from our wedding guests on the flowers, lunch and the cupcakes!

Thank you for helping us make our day perfect!

Sincerely,
Tiffany & Dan Barnhart

December 28, 2002

ALBERTSON'S, INC.

Larry Johnston C.E.O.
Peter Lynch C.O.O.

Dear Sirs:

We are writing to tell you about your Store Dir. Bill McCarthy and ASD 1 Dennis Yates. They are employed at Medford Acme - Rt.70 - Medford, N.J. We are senior citizens living in Leisuretowne, an adult community, in Southampton, N.J. We are both officers of a dance club here and recently had to order 40 party trays and 20 Poinsettias for our Christmas dance. Picking up the trays and flowers was a bit of a problem for us older folks. (most of us can't drive in the dark) Dennis Yates offered to deliver all of it to us after his working hours. We were very appreciative of his kindness and it helped make our dance party of 200 people a great success. We want you to know that our entire adult community appreciates Acme's efforts put forth for us.

I would like to add a note from my own personal experience. Last summer I purchased a wicker set and had no way of getting it home that day. Again Dennis Yates offered to deliver it to me. I have been a loyal Acme customer for many many years no matter where I lived, but your Medford store has been one of the nicest to deal with. All of the employees are always helpful, pleasant and cheerful. Always ready to help you and with a smile.

It would be nice if you let them know we sent this letter to you. They deserve a pat on the back! Especially Dennis!

Your Faithful Acme Shoppers,
Jean & Charles Harms
Jean & Charles Harms


To win customers for life — to deliver on our promise to make our customers' lives easier — requires excellence in execution and the absolute belief that anything is possible.

This spirit of innovation can be seen in the following four areas, where Albertsons is forging clear competitive advantages and continually finding fresh new ways to create a better shopping experience for our customers.

- Dual Branding — Combining Food & Drug Stores
- Neighborhood Marketing
- E-commerce and Personal Shopping
- Community Involvement

Dual branding — Combining Food & Drug Stores

One of our most significant competitive advantages is our dual heritage and expertise in both food and drug retailing. We are moving aggressively to leverage that expertise to create a network of combination food and drug stores that are unlike any others in the industry. This exciting retail concept creates a new and more rewarding shopping experience, giving consumers the best drug store and the best grocery store in their neighborhood... both under one roof.

This strategy continues to achieve outstanding results in the Chicago metro area where the concept has been time-tested with our market leading Jewel-Osco banner. "One-stop" shopping at Jewel-Osco now includes not only food and drug, but also on-site banking, full-service bakeries, prepared meals, floral shops and photo processing services. There are currently 187 Jewel-Osco stores in Illinois, Iowa, Indiana and Wisconsin. Our new Albertsons-Osco brand now operates throughout the Phoenix, Tucson and Omaha markets and plans are underway for additional deployments. Our Albertsons-Sav-on brand is now in place in Reno and, in 2003, we will begin to roll-out this powerful new brand as we invest $1 billion over the next 3 years to dual-brand Las Vegas and Southern California.

Albertsons is the only major grocer who owns drugstore brands and is the sixth largest provider of pharmacy services in the U.S. today. With the rapid aging of America, that capability is very strategic as prescription drug usage continues to escalate. Our continued expansion of pharmacies and drug store merchandising will help drive our future profitability and growth.

A complete grocery store and drug store under one roof.

> > > Albertsons dual branded concept differentiates us in the marketplace, increases return on investment for our shareholders and creates a shopping experience that matches our customers' vision of the ideal store.

Neighborhood marketing

Another way that Albertsons is taking the lead in the grocery and drug store industries is through our progressive focus on building stores that fit the diverse neighborhoods we serve. We begin by listening carefully to our customers and using what we've learned to tailor product assortments and services that meet their unique needs. As part of that process, cross-functional development teams in each of our divisions are continually working to improve the Albertsons value proposition—one neighborhood at a time.

Beginning in Seattle two years ago, we introduced the most successful kosher program in our industry with offerings both in our stores and through our online shopping service. This year we expanded on this popular concept. We now have stores across America which incorporate unique kosher merchandising to take advantage of the demographics of the neighborhood. A key team member at Albertsons and the leader of our kosher initiative is Yakov Yarmove who was identified by *Supermarket News* this year as one of the 50 most innovative people in our industry.

At the heart of our ethnic and neighborhood marketing program is our fundamental focus on serving our customers. Embracing diversity and providing innovative product assortments at the neighborhood level is yet another way that we are delivering on our promise to make life easier for them. The evidence of that comes in many forms. In some neighborhoods, it's an expanded Hispanic or Asian offering. In other neighborhoods, it may be expanded natural and organic sections, kosher departments, or services for the elderly. Albertsons is determined to lead our industry by implementing programs like these that differentiate us from our competitors and win customers for life.

> > > Recognizing that our customers' needs are as diverse as the geographic areas where we do business, we are increasingly tailoring our offerings. From burritos to blintzes, from pad thai noodles to organic assortments, the new Albertsons is winning customer loyalty, one neighborhood at a time.

E-commerce and personal shopping

Albertsons has always used technology as a way to make life easier for our customers. Today we are making additional breakthroughs by providing exciting new ways for people to shop both in our stores and at home using the Internet. We were one of the first supermarket chains to develop a web site offering the convenience of online ordering for home delivery or in-store pick-up.

By leveraging our existing brick-and-mortar store infrastructure we have created a successful online business model. Now serving more than 1,100 zip codes in California, Nevada, Oregon and Washington, Albertsons.com has the largest geographic reach and most convenient delivery times of any online grocery provider. In addition, the site provides a weekly meal planner, online recipes and an award-winning accessibility site for the visually impaired. On the drug store side of the business, Savon.com offers a wide range of products and information for maintaining your health and well-being along with the ability to have prescriptions filled from the convenience of home.

Elsewhere on the technology front, testing of our revolutionary new "Personal Shopper" system is operational at our Barrington, Illinois store. Customers in this Chicago suburb use a handheld device to scan their own items and obtain up-to-the-minute information about products and promotions. By every measure, this alternative shopping experience is a hit with customers of all ages and we plan to roll this service out to more stores in 2003. Whether online or in-store, technology innovations like these are providing us with the insight to improve our services, create an industry-leading shopping experience and make life easier for our customers.

Providing the technology to make shopping easier.

> > > Albertsons.com offers the same quality, service and everyday low prices Albertsons food and drug stores are known for, combined with the added convenience of home delivery. Another technological innovation is the "Personal Shopper" which enables self check-out and generates excitement at our Chicago area test site.

Community involvement

Our heritage of leadership has always included a strong focus on community involvement. In 2002, Albertsons and our family of stores gave $65 million in cash and in-kind donations focusing on hunger relief, health, nutrition, as well as the education and development of our youth.

This year's major activities included the donation of 19 million pounds of food to America's Second Harvest food banks and other local hunger-relief programs throughout our operating areas. Together… Albertsons, our associates, our customers and our vendor partners donated $500,000 to breast cancer awareness; $4.7 million to fight muscular dystrophy; and $2.7 million to United Way. On National Hunger Awareness Day, each of our distribution centers provided a truckload of food to their local community foodbank resulting in 240 tons of food being deployed to those in need. We partnered with Campbell's to give more than $500,000 to schools through the Labels for Education Program and with the Coca-Cola Company to donate 500,000 books for education. Albertsons Community Partners Card program also welcomed its 25,000th member organization and gave over $14 million back to youth-oriented programs.

There were also countless acts of selfless service contributed during the year by our associates. Dedicated to quietly making a difference, examples of their volunteer efforts included keeping day-old bakery products moving to local food banks, serving meals at community soup kitchens and participating in disaster relief programs. In 2003, we will bring the power of our 200,000 associates together to form a new company-wide volunteer program called "CORUS." All of these dedicated associates exemplify the core values underlying the Albertsons spirit… for their caring, selflessness and compassion we salute them.

> > > Albertsons believes in being a good neighbor by contributing to help improve the quality of life in every community where we work and live. We have a rich legacy of caring, due in no small part to the generosity and leadership of our late director emeritus, Mrs. Kathryn Albertson.

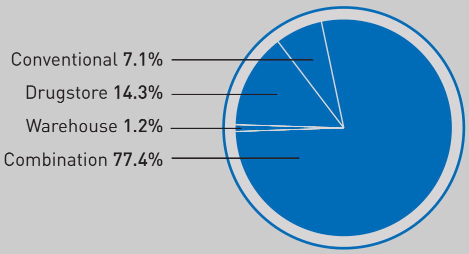
As you have seen in the previous pages, 2002 was a year of reengineering and transformation at Albertsons. We made tough decisions, practiced positive leadership, and made progress in our effort to create a "one team" culture committed to excellence in execution, innovation and industry-leading customer service. The journey is far from over, however. Each day we become more and more determined to reach our vision of becoming the world's #1 food and drug retailer by every measure.

Our success depends on understanding our customers and our role in their daily lives.

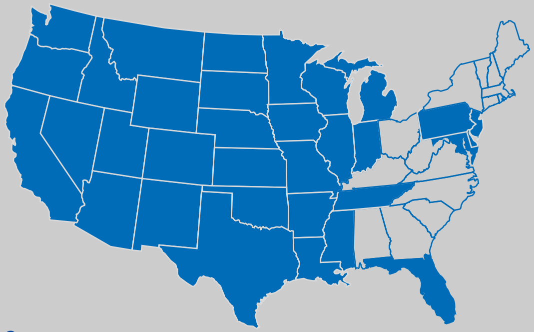
Financial Section

Albertson's, Inc. is one of the largest retail food and drug chains in the world. The Company operates 2,287 stores in 31 states across the country. Retail operations are supported by 17 Company-owned distribution centers. Albertsons is headquartered in Boise, Idaho, and employs 202,000 people. The Company's stock is traded on both the New York Stock Exchange and Pacific Stock Exchange under the symbol ABS.

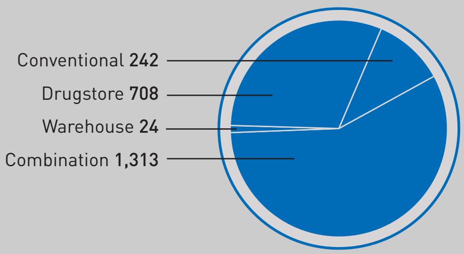
2002 Square Footage by Store Format



Operating Area



2002 Number of Stores by Store Format

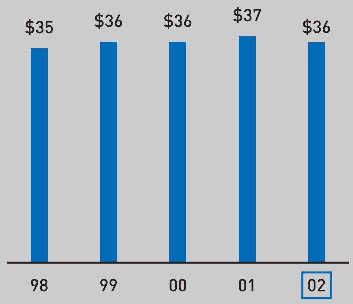


Contents

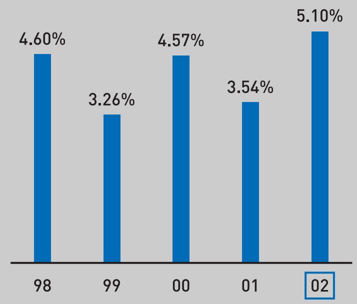
Financial Highlights

(dollars in millions, except per share data)	FISCAL YEAR 2002	FISCAL YEAR 2001	% CHANGE
Sales	$35,626	$36,605	-2.7
Net Earnings	$ 485	$ 501	-3.2
Net Earnings % to Sales	1.4	1.4	0.0
EPS — Basic	$ 1.22	$ 1.23	-0.8
EPS — Diluted	$ 1.22	$ 1.23	-0.8
Dividends Per Share	$ 0.76	$ 0.76	0.0
Total Assets	$15,211	$15,981	4.8
Stockholders' Equity	$ 5,197	$ 5,915	-12.1
Common Shares Outstanding at year end	372,115,000	406,553,000	-8.5
Number of Stores	2,287	2,421	-5.5
Number of Associates	202,000	220,000	-8.2
Average Store Size (square foot):			
Food and Drug Stores	50,000	50,000	0.0
Drug Stores	18,600	18,600	0.0
All Stores	40,300	40,600	-0.7

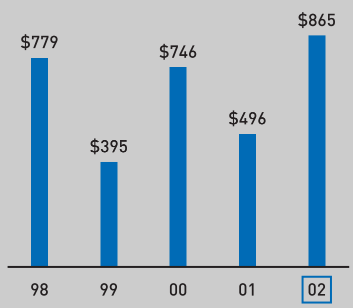
Sales
(dollars in billions)



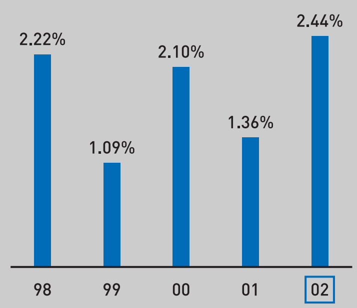
Operating Profit % to Sales



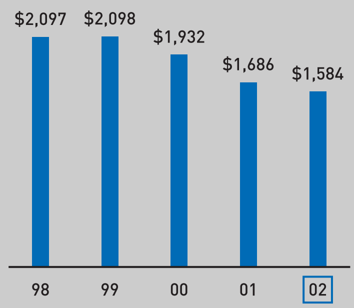
Earnings from Continuing Operations
(dollars in millions)



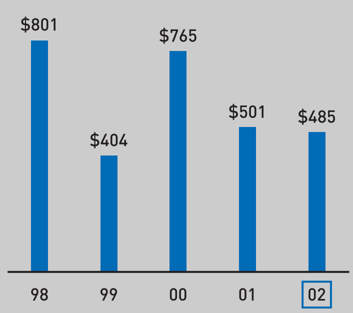
Earnings from Continuing Operations % to Sales



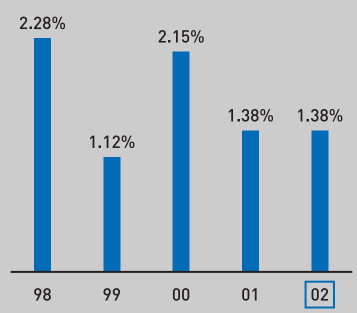
Capital Expenditures
(dollars in millions)



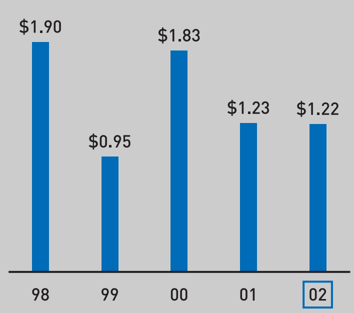
Net Earnings
(dollars in millions)



Net Earnings % to Sales



Diluted Earnings Per Share
(dollars)



Operating activity includes the impact of merger-related charges, restructurings, discontinued operations and the cumulative effect of a change in accounting principle.

Management's Discussion and Analysis

Of Financial Condition and Results of Operations

(dollars in millions, except per share data)

The New Albertsons

The Company's leadership team has identified many actions and programs with which to drive the Company's future competitiveness, profitability and return on invested capital. The Company continues to be focused on its five strategic imperatives that serve as a guide and a filter for all the Company's initiatives. These five imperatives, together with the major actions taken to date, follow:

1) Aggressive Cost and Process Control. Each main category of expense, including labor, is rigorously monitored by a member of executive management. By the end of 2002, the Company had achieved $446 of the $500 mid-2003 annual cost reduction goal. The Company is committed to achieve cost reductions of $750 by the end of 2004. In the third quarter of 2002, the Company expanded its existing strategic sourcing program to realize additional cost reductions by engaging A.T. Kearney to leverage their sourcing expertise to assist with this program.

2) Maximize Return on Invested Capital. The Company has implemented a formal process to review and measure all significant investments in corporate assets. The goal of the Company is to hold a number 1 or 2 market share in an area, or have a plan of action which provides a reasonable expectation of achieving this goal in order to continue to maintain an investment in that area. This process involves thorough review at both the individual asset or store level and at the market area level.

As a result of the review initiated in 2001, the Company closed or disposed of 162 underperforming stores in 2001 and 2002. In addition, the Company formulated plans to accelerate the disposal of surplus property through an auction process for owned properties and aggressive lease termination negotiations for leased properties. As a result of this initial restructuring, the Company reduced its divisions from 19 to 15.

- During the fourth quarter of 2001, the Company sold 80 non-core New England Osco drugstores.
- In the first quarter of 2002, the Company announced the second phase of its asset rationalization process. The Company exited four underperforming markets: Memphis, Tennessee; Nashville, Tennessee; Houston, Texas; and San Antonio, Texas. These market exits occurred through a combination of store closures and store sales and involved a total of 95 stores. In connection with this action, the Company reduced its divisions from 15 to 11 and the Tulsa, Oklahoma and Houston, Texas distribution facilities were sold.

3) Customer-focused Approach to Growth. The Company intends to invest many of the savings from the expense and process control programs back into the marketplace in order to drive sales and earnings growth. The Company's focus is on the following programs that are intended to drive customer loyalty and profitable sales growth. A company-wide "Service First, Second to None" program is reinvigorating the employees' focus on customer service. The "Focus on Fresh" initiative is improving the delivery of fresh foods throughout the Company's fresh departments. The Company's Jewel-Osco stores in Chicago, Illinois have a decade of experience operating a unique dual brand food and drugstore format. This unique format was rolled out to the Tucson, Arizona and Reno, Nevada markets during 2001 and was rolled out to the Phoenix, Arizona and Omaha, Nebraska markets during 2002. During the fourth quarter of 2001, the Company expanded its loyalty card program to the Dallas/Fort Worth, Texas area. During 2002 the loyalty card program was rolled out to the following areas: Northern California, Northwest, Intermountain, and the Florida divisions. The loyalty card program was introduced in the Rocky Mountain division in March 2003, and the Company continues to evaluate additional markets for expansion of the preferred savings card program.

4) Company-wide Focus on Technology. Albertson's use of technology is designed to better serve customers and improve operating efficiencies. In 2002 Albertsons established an information technology plan, which calls for the replacement or upgrade of over three-quarters of the Company's current systems within the next five years. The Company initiated a project that will standardize all front-end point-of-sale systems; built a new data center resulting in the consolidation of two previous data centers; and started the process of implementing a new financial applications system that will lay the foundation for significant future improvements. Technology has been deployed in approximately 60 stores in "self-checkout" lanes, providing customers with the option to complete their shopping trips electronically.

5) Energized Associates. The Albertsons leadership team is charged with creating an uplifting atmosphere for associates everyday, and to inspire positive attitudes throughout the Company. To ensure that our 202,000 associates are energized and motivated to do their best work everyday, the Company realigned processes and programs to provide new opportunities for associates to achieve their professional career goals. The Company changed compensation programs to reward performance that delivers results, improved communications so associates are better informed, streamlined education programs to meet the needs of the business, and revised benefits plans to reduce costs. We are convinced that a team of energized associates who share a positive attitude will achieve Albertson's goal of becoming the best food and drug retailer in the world.

Critical Accounting Policies

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, the Company evaluates its estimates, including those related to bad debts, inventories, vendor funds, intangible assets, income taxes, assets held for sale, impairment of long-lived assets, self-insurance, restructuring, benefit costs, contingencies, litigation and unearned income. The Company bases its estimates on historical experience and on various other assumptions and factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. The Company, based on its ongoing review, will make adjustments to its judgments and estimates where facts and circumstances dictate. Historically, actual results have not significantly deviated from those determined using the estimates described above.

The Company believes the following critical accounting policies are important to the portrayal of the Company's financial condition and results and require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

Vendor Funds: The Company receives funds from the many vendors whose products the Company buys for resale in its stores. These vendor funds are provided to increase the sell-through of the related products. The Company receives funds for a variety of merchandising activities: placement of the vendor's products in the Company's advertising; placement of the vendor's products in prominent locations in the Company's stores; introduction of new products into the Company's distribution system and retail stores; exclusivity rights in certain categories that have slower-turning products; and to compensate for temporary price reductions offered to customers on products held for sale at retail stores. The Company also receives vendor funds for buying activities, such as volume commitment rebates and forward buy credits.

Accounting for vendor funds is discussed in Emerging Issues Task Force "EITF" Issue 02-16: Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor (EITF 02-16), in which the EITF reached consensus on two issues in November 2002 and provided transition rules on those issues in January 2003 and March 2003. As a result of this new guidance, the Company adopted a new method for recognizing the vendor funds for merchandising activities. As of the beginning of 2002, the Company recognizes vendor funds for merchandising activities when the related products are sold. Under the previous accounting method for merchandising vendor funds, these credits were recognized as an offset to cost of sales when the merchandising activity was performed in accordance with the underlying agreements. In connection with the implementation of this new accounting method, the Company recorded a charge in 2002 of $94, net of tax benefit of $60.

The vendor fund inventory offset recorded as of January 30, 2003 was $152, which is a $6 decrease from the balance as of the beginning of 2002. The inventory offset was determined by estimating the average inventory turnover rates by product category for the Company's grocery, general merchandise and lobby departments (these departments received over three-quarters of the Company's vendor funds in 2002) and by average inventory turnover rates by department for the Company's remaining inventory.

Long-Lived Asset Impairments: The Company assesses the impairment of long-lived assets when events or changes in circumstances indicate that the carrying value of the assets or the asset group may not be recoverable. The asset impairment review assesses the fair value of the assets based on the future cash flows the assets are expected to generate. An impairment loss is recognized when estimated undiscounted future cash flows expected to result from the use of the asset plus net proceeds expected from the disposition of the asset (if any) are less than the related asset's carrying amount. Impairment losses are measured as the amount by which the carrying amounts of the assets exceed their fair values. The net proceeds expected from the disposition of the asset are determined by independent quotes or expected sales prices developed by internal specialists. Estimates of future cash flows and expected sales prices are judgments based on the Company's experience and knowledge of local operations. These estimates can be significantly impacted by changes in real estate market conditions, the economic environment, capital spending decisions and inflation.

For properties to be closed that are under long-term lease agreements, the present value of any remaining liability under the lease, discounted using risk-free rates and net of expected sublease recovery, is recognized as a liability and expensed. (Beginning on January 1, 2003, "expected sublease recovery" has been replaced by "estimated sublease rentals that could be reasonably obtained for the property.") The value of any equipment and leasehold improvements related to a closed store is reduced to reflect net recoverable values. Internal specialists estimate the subtenant income, future cash flows and asset recovery values based on their historical experience and knowledge of (1) the market in which the store to be closed is located, (2) the results of its previous efforts to dispose of similar assets and (3) the current economic conditions. The actual cost of disposition for these leases and related assets is affected by specific real estate markets, the economic environment and inflation.

Self-Insurance: The Company is primarily self-insured for workers' compensation, automobile and general liability costs. The Company records its self-insurance liability, determined actuarially, based on claims filed and an estimate of claims incurred but not yet reported. Any actuarial projection of ultimate losses is subject to a high degree of variability. Sources of this variability are numerous and include, but are not limited to, future economic conditions, court decisions and legislative actions. The Company's workers' compensation future funding estimates anticipate no change in the benefit structure. Statutory changes could have a significant impact on future claim costs.

The Company's workers' compensation liabilities are from claims occurring in various states. Individual state workers' compensation regulations have received a tremendous amount of attention from state politicians, insurers, employers and providers, as well as the public in general. Recent years have seen an escalation in the number of legislative reforms, judicial rulings and social phenomena affecting this business. The changes in a state's political and economic environment increase the variability in the unpaid claim liabilities.

Legal Contingencies: The Company records reserves for legal contingencies when the information available to the Company indicates that it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Predicting the outcomes of claims and litigation and estimating related costs and exposures involve substantial uncertainties that could cause actual costs to vary materially from estimates. In addition, the Company regularly monitors its exposure to the loss contingencies associated with these matters and may from time to time change its predictions with respect to outcomes and its estimates with respect to related costs and exposures. It is possible that material differences in actual outcomes, costs and exposures relative to current predictions and estimates, or material changes in such predictions or estimates, could have a material adverse effect on the Company's financial condition, results of operations or cash flows.

Pension Costs: Pension benefit obligations and the related effects on operations are dependent on the Company's selection of actuarial assumptions, including the discount rate and the expected long-term rate of return on plan assets. Actual returns on plan assets exceeded return assumptions over an extended period in the past, which kept pension expense and cash contributions to the plans at modest levels. Recent weaker market performance may significantly increase pension expense and cash contributions in the future unless asset returns again exceed the assumptions used. Changes in the interest rates used to determine the discount rate may also cause volatility in pension expense and cash contributions. Actual results that differ from the Company's assumptions are accumulated and amortized over future periods and, therefore, generally affect the Company's recognized expense and recorded obligation in such future periods.

Recently Adopted Accounting Standards

The Company adopted Statement of Financial Accounting Standard ("SFAS") No. 142, "Goodwill and Other Intangible Assets" effective February 1, 2002. Under this new statement, goodwill and certain other intangible assets with indefinite lives are no longer amortized, but are subject to annual testing, or more frequently if impairment indicators arise, using fair value methodology. Intangible assets with finite, measurable lives continue to be amortized over their respective useful lives until they reach their estimated residual values, and are reviewed for impairment in accordance with SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

When SFAS No. 142 was adopted, the aggregate of the goodwill allocated to the stores in each reporting unit became the reporting units' goodwill balance. In order to determine if a reporting unit's goodwill was impaired, a combination of internal analysis, focusing on each reporting unit's implied EBITDA multiple, and estimates of fair value from valuation specialists were used. Based on these analyses, there was no impairment of goodwill at the adoption date. Subsequently, during the fourth quarter of 2002, the Company completed its annual impairment review based on November 1, 2002 balances and determined that there was no impairment as of that date. The fair value estimates could change in the future depending on internal and external factors.

The Company adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," effective February 1, 2002. This statement replaces SFAS No. 121 regarding impairment losses on long-lived assets to be held and used or to be disposed of. The adoption of this statement did not have a material impact on the company's impairment policy. However, the statement broadens the definition of what constitutes a discontinued operation and how the results of a discontinued operation are to be measured and presented. As a result, stores associated with the company's exit from a particular market are classified as discontinued operations in the Company's Consolidated Earnings Statements. Therefore, activity associated with the Company's market exit plan approved by the Company's Board of Directors in March 2002, involving the sale or closure of 95 stores, two distribution centers and the reduction of division offices from 15 to 11, has been presented as discontinued operations.

Results of Operations

Sales for 2002 were $35,626 compared to $36,605 in 2001 and $35,501 in 2000. 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:

closure.) The sales decrease was offset in part by the Company's capital expansion program. Sales were also impacted by declining consumer confidence (as measured by The Conference Board Index: 78.8 in January 2003 vs. 97.8 in January 2002) and escalating competitive activity. Identical store sales, stores that have been in operation for two full fiscal years, decreased 0.9% in 2002 and increased 0.8% in 2001 and 0.3% in 2000. Comparable store sales, which uses the same store base as the identical store sales computation except it includes replacement stores, decreased 0.4% in 2002 and increased 1.3% in 2001 and 0.6% in 2000. During 2002 the Company opened 92 stores, remodeled 207 stores and closed or sold 226 stores, 177 of which are part of the Company's restructuring plans. Net retail square footage at continuing operations was 92.1 million square feet at the end of 2002 and 92.8 million square feet and 92.9 million square feet at the end of 2001 and 2000, respectively.

	PERCENT TO SALES			PERCENTAGE CHANGE OF DOLLAR AMOUNTS	
	2002	2001	2000	2002 VS. 2001	2001 VS. 2000
Sales	100.00	100.00	100.00	(2.7)	3.1
Gross profit	29.15	28.48	28.43	(0.4)	3.3
Selling, general and administrative expenses	24.15	23.85	23.79	(1.4)	3.4
Restructuring (credits) charges and other	(0.10)	1.28	—	n.m.	n.m.
Gain on sale of New England Osco drugstores	—	(0.15)	—	n.m.	n.m.
Interest expense, net	1.11	1.16	1.06	(6.8)	12.4
Earnings from continuing operations before income taxes	3.95	2.36	3.50	62.8	(30.6)
Net earnings from continuing operations	2.44	1.36	2.10	74.4	(33.5)
Net (loss) gain from discontinued operations	(0.80)	0.02	0.05	n.m.	(73.7)
Cumulative effect of change in accounting principle (net)	(0.26)	—	—	n.m.	n.m.
Net earnings	1.38	1.38	2.15	3.2	(34.5)

n.m. — not meaningful

Sales for 2001 and 2000 have been restated from previously reported amounts to exclude sales associated with discontinued operations which represent sales of the 95 stores included in the second phase of the Company's market exit plan. The decrease in reported sales is primarily attributable to the Company's restructuring plan initiated in July 2001, which included the sale or closure of 165 stores, and the sale of 80 New England Osco drugstores in the fourth quarter of 2001. (These stores' sales are included in the 2000, 2001 and 2002 periods until their

Management estimates that overall deflation in products the Company sells was 0.1% in 2002, 0.3% in 2001 and 0.4% in 2000.

Gross profit, as a percent to sales, increased in 2002 vs. 2001 as a result of improved Company-wide procurement practices and increased generic substitution in the pharmacy department. Gross profit, as a percent to sales, remained relatively flat between 2001 and 2000. The pre-tax LIFO adjustment (as a percent to sales) increased gross profit by $2 (0.01%) in 2002, decreased gross profit by $5 (0.01%) in 2001, and increased gross profit by $23 (0.06%) in 2000. The net pre-tax LIFO charge for 2001 was $5, comprised of $10 of charges recorded in cost of sales, $3 of credits recorded with gain on sale of New England Osco drugstores and $2 of credits recorded with restructuring and other.

Cost of sales includes merchandise, advertising, warehousing and transportation costs, offset by vendor funds and advertising expense related to the Company's buying and merchandising activities. Advertising expense (excluding advertising allowances) totaled $527 in 2002, $537 in 2001, and $550 in 2000.

Selling, general and administrative (SG&A) expenses as a percent to sales increased in 2002, primarily due to the reduction in the Company's sales base, increase in employee benefits and rising insurance costs. The impact of the elimination of goodwill amortization in 2002 due to the adoption of SFAS 142 and a ten basis point reduction in labor costs as a percentage of sales was offset by increased depreciation and rent expense associated with the Company's capital expenditure programs. The increase in 2001 over 2000 was primarily due to workers' compensation costs and benefit expenses caused by sharply higher health care costs. The 2001 increase in SG&A expenses was partially offset by reductions in direct labor costs.

Other income, for the year ended January 31, 2002, includes $16 of charges for a decrease in company-owned life insurance assets, offset by $8 of credits for stock received from the demutualization of two insurance companies.

The Company's effective income tax rate from continuing operations for 2002 was 38.4%, as compared to 42.6% for 2001 and 40.0% for 2000. The decrease resulted from the elimination of goodwill amortization and updated estimates of federal and state taxes which were lower than amounts previously estimated. The increase for 2001 over 2000 was due to lower earnings before income taxes, non-deductible restructuring expenses and increased non-deductible company-owned life insurance costs.

Restructuring and Other Non-Routine Items

The financial statement presentation includes the results of two significant restructuring initiatives that were implemented in 2001 and 2002. On July 18, 2001, the Company's Board of Directors approved a restructuring plan that included the closure of 165 underperforming retail stores, reduction of administrative and corporate overhead and consolidation and elimination of four division offices (refer to "Note F – Restructuring" in the notes to the accompanying consolidated financial statements). On March 13, 2002, the Company's Board of Directors approved the second phase of the restructuring plan which included the complete exit of four underperforming markets resulting in the sale or closure of 95 stores, two distribution centers, and reduction of division offices from 15 to 11 (refer to "Note E – Discontinued Operations/Market Exits" in the notes to the accompanying consolidated financial statements). Although these decisions were similar, the adoption of SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" on February 1, 2002 caused the financial statement presentation of these actions to be dissimilar (SFAS No. 144 does not allow for the retroactive application of its provisions). The Company's 2001 and 2000 financial statements have been restated to classify the results of operations for the 95 stores and two distribution centers as discontinued operations. The operating results of the 165 stores are included in continuing operations of the Company's financial statements for the periods prior to their sale or closure.

Discontinued Operations/Market Exits

On March 13, 2002, the Company's Board of Directors approved the second phase of the Company's restructuring plan designed to improve future financial results and to drive future competitiveness. This phase of the plan included the complete exit of four underperforming markets: Memphis, Tennessee; Nashville, Tennessee; Houston, Texas; and San Antonio, Texas. This involved the sale or closure of 95 stores and two distribution centers, and reduction of division offices from 15 to 11. These sales and closures were evaluated for lease liability or asset impairment, including goodwill, in accordance with the

Company's policy. The operating results and gains and losses related to these market exits have been included in discontinued operations in the Company's Consolidated Earnings Statements. The prior years' operating activities for these 95 stores, two distribution centers, and reduction of division offices from 15 to 11 have been reclassified to discontinued operations: "Operating (loss) income" in the accompanying earnings statement.

The discontinued operations generated sales of $290, $1,326, and $1,261 in 2002, 2001 and 2000, respectively, an operating loss of $429 in 2002, and operating profit of $10 and $31 in 2001 and 2000, respectively. The discontinued operations operating loss of $429 consisted of a loss from operations of $50 and asset impairments, lease settlements and other costs of $379 as described in the following table:

	NONCASH CHARGES	ACCRUALS	TOTAL CHARGES (CREDITS)
Asset impairments	$ 401	$ —	$ 401
Lease settlements	—	26	26
Severance and outplacement	—	23	23
Other	—	2	2
Gain on asset sales	(63)	—	(63)
Favorable lease settlements	—	(10)	(10)
Loss on disposal			$ 379
Cash payments during 2002		(30)	
Reserve balance at January 31, 2003		$ 11	

The reserve balance of $11 as of January 30, 2003 is included with the restructuring reserves in the "other current liabilities" line on the Company's Consolidated Balance Sheet.

Asset impairment adjustments resulted from the Company realizing sales proceeds in excess of amounts originally estimated on stores disposed of and increases to net realizable values for stores under contract for sale. Lease liability adjustments represent more favorable negotiated settlements than had been originally estimated.

Assets related to discontinued operations are recorded at their estimated net realizable value of $25 as of January 30, 2003, and are reported as Assets held for sale in the Company's Consolidated Balance Sheet. These assets include land, buildings, equipment and leasehold improvements and are being actively marketed. As of January 30, 2003, all 95 stores and both distribution centers were closed. In addition, the Company had either sold or terminated the leases related to 82 of the 95 stores and both distribution centers as of January 30, 2003.

Other costs consist of amounts paid in connection with notification regulations and negotiated contract terminations.

Restructuring

In the first half of 2001, the Company initiated a profitability review of all of its retail stores, utilizing a methodology based on return on invested capital. The Company also evaluated its division management structure and the efficiency of its transaction processing departments. Based on these reviews, in July 2001 the Company committed to the following restructuring activities: 1) close and dispose of 165 underperforming stores in 25 states; 2) eliminate four of the existing 19 division offices; 3) sell a store fixture manufacturing operation; 4) centralize certain transaction processing functions in Boise, Idaho; and 5) reduce general office head count.

These restructuring activities called for the elimination of 1,341 managerial and administrative positions (excluding store level terminations). The restructuring charge recorded in 2001 included the following: employee severance and outplacement costs of $44; asset impairments of $361; lease termination costs of $57; and other costs of $6.

In 2001 and 2002, 80 and 82 stores were closed or sold and 995 and 297 managerial and administrative employees were terminated, respectively. In 2002, management revised the planned restructuring activities as follows: the store fixture manufacturing operation's performance was re-evaluated and determined to be more cost-effective than purchasing like-fixtures from external sources in the future, so it will be held and used; one store's operating performance improved due to local market conditions, so it too will be held and used; and one part of the transaction processing consolidation was halted due to a decision to replace the Company's human resource information systems (HRIS) over the next two to three years, which resulted in the reversal of the elimination of 50 positions. The remaining two stores in this restructuring plan will be closed in 2003.

The following table presents the pre-tax restructuring credits and charges and the related restructuring reserves included in the Company's Consolidated Balance Sheets:

	NONCASH CHARGES	ACCRUALS	TOTAL CHARGES (CREDITS)
2001 ACTIVITY			
Asset impairments	$ 361	$ —	$ 361
Lease settlements	—	57	57
Severance and outplacement	—	44	44
Other	—	6	6
Restructuring (credits) charges			$ 468
Cash payments during 2001		(46)	
Reserve balance at January 31, 2002		61	
2002 ACTIVITY			
Retain store fixtures operation	(3)	(2)	$ (5)
Halt part of consolidation — HRIS	—	(2)	(2)
Gain on asset sales	(17)	—	(17)
Favorable lease settlements	—	(14)	(14)
Severance and outplacement	—	2	2
Other	—	(1)	(1)
Restructuring (credits) charges			$ (37)
Cash payments during 2002		(16)	
Reserve balance at January 30, 2003		$ 28	

The reserve balances of $28 at January 30, 2003 and $61 at January 31, 2002 are included in the "Other Current Liabilities" line on the Company's Consolidated Balance Sheets.

Merger-Related Charges (Credits)

On June 23, 1999, the Company and American Stores Company consummated a merger (the "Merger"), which has been accounted for as a pooling-of-interests.

Merger-related (credits) charges for 2001 represents a credit of $15 associated with the sale of an asset for an amount that was greater than originally estimated.

Merger-related (credits) charges for 2000 represents $24 related to one-time asset impairment and severance charges.

In the future, any restructuring activity will be accounted for under the guidance of SFAS No. 146, which will primarily effect the timing of restructuring reserves.

Other Non-Routine Items

The Company recorded a $54 pre-tax gain during the fourth quarter of 2001 resulting from the sale of 80 New England Osco drugstores.

The Company recorded, in selling, general and administrative expenses, a $36 pre-tax gain during the fourth quarter of 2001 resulting from an amendment to the Company's long-term disability plan. The amendment changed the salary continuation feature from a cumulative benefit based on years of service, to a set percentage of salary benefit.

The Company recorded a $20 pre-tax charge during the first quarter of 2000, which is included in selling, general and administrative expenses to reflect liabilities related to certain previously assigned leases and subleases to tenants who were in bankruptcy.

Summary of Discontinued Operations, Restructuring and Other Non-Routine Items

In the past three years, the Company's earnings from continuing operations have included certain non-routine items, including costs associated with restructuring activities and the 1999 merger of Albertsons and American Stores Company, and the cessation of goodwill amortization following the adoption of SFAS 142. The following table summarizes the non-routine items that management excludes when it analyzes the Company's operating trends over the past three years. Management also considers the restructuring (credits) charges and other, merger-related credits, gain on sale of New England Osco drugstores, and discontinued operations to be non-routine items.

	52 WEEKS ENDED JANUARY 30, 2003		52 WEEKS ENDED JANUARY 31, 2002		52 WEEKS ENDED FEBRUARY 1, 2001	
	AS REPORTED	ADJUSTMENTS	AS REPORTED	ADJUSTMENTS	AS REPORTED	ADJUSTMENTS
Sales	$35,626	$ —	$36,605	$ —	$35,501	$ —
Cost of sales	25,242	(1)[a]	26,179	(35)[c]	25,409	(37)[f]
Selling, general and administrative expenses	8,604	(8)[b]	8,731	(40)[d]	8,444	(110)[g]
				(56)[e]		(57)[e]
Income tax expense	540	(11)[h]	367	181 [h]	497	66 [h]

[a] In connection with the market exits classified as discontinued operations in 2002, the Company's distribution center in Fort Worth, Texas recorded inventory write-down costs and incremental labor and transportation costs of $1.

[b] The Company incurred professional fees of $4, asset impairments of $2 and other costs of $2 in connection with the 2002 market exits.

[c] In the 2001 restructuring activities, inventory losses due primarily to closeout price reductions and damage or spoilage at stores slated for closure were incurred. The estimated losses incurred were $35.

[d] In 2001, the Company recorded asset impairments of $52 with respect to land and buildings held for sale, amended its long-term disability program resulting in a gain of $36, recorded merger and integration costs of $12, incurred sign-on bonus charges of $8, and paid for legal and professional services of $4 associated with the 2001 restructuring activities.

[e] The Company recorded $56 and $57 of goodwill amortization in 2001 and 2000, respectively. With the adoption of SFAS 142 as of the beginning of 2002, the Company no longer recognizes a charge for goodwill (See Critical Accounting Policies above).

[f] Following the June 1999 merger between Albertsons and American Stores Company, the Company incurred $37 of incremental advertising costs related to the conversion of the Lucky banner in California to the Albertsons banner.

[g] The Company incurred significant costs in 2000 in connection with the integration of Albertsons and American Stores Company. Direct costs incurred included salaries of $27, legal and professional services of $10, travel and moving expenses of $10, facilities and equipment costs of $12, asset impairment costs of $9 associated with stores divested in connection with the 1999 merger and information technology equipment that was abandoned by the Company and other costs of $22. In addition, the Company recorded a charge of $20 due to the bankruptcy of a retailer that subleased certain of the Company's former retail stores.

[h] Represents, for each of the years presented, the income tax effect of the other adjustments presented for such year.

Liquidity and Capital Resources

Cash provided by operating activities during 2002 was $2,063, compared to $2,009 in 2001 and $1,771 in 2000. Cash provided by operating activities in 2002 was primarily impacted by increased earnings before change in cumulative effect of accounting principle. Cash provided by operating activities in 2001 was primarily impacted by noncash restructuring charges when compared to 2000.

The Company's financing activities for 2002 included payments on long-term borrowings of $143, stock purchased and retired of $862, and dividend payments of $306. The Board of Directors, at its March 2003 meeting, maintained the regular quarterly cash dividend of $0.19 per share, for an effective 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 no commercial paper or bank line borrowings outstanding at January 30, 2003 or January 31, 2002.

The Company had three credit facilities totaling $1,400 during 2002. The first agreement for $100 expired in February 2003 and was renewed for an additional year to expire in February 2004. The second agreement for $350 expired in March 2003 and was renewed for an additional year to expire in March 2004. The third agreement for $950 expires in March 2005. All of the credit agreements contain an option which would allow the Company, upon due notice, to convert any outstanding amounts at the expiration dates to term loans. The agreements in place at year end also contain certain covenants, the most restrictive of which requires the Company to maintain consolidated tangible net worth, as defined, of at least $3,000 and a fixed charge coverage, as defined, of no less than 2.7 times. As of

January 30, 2003, the Company was in compliance with these requirements. No borrowings were outstanding under the credit facilities as of January 30, 2003 or January 31, 2002.

Albertsons filed a shelf registration statement with the Securities and Exchange Commission ("SEC"), which became effective on February 13, 2001 ("2001 Shelf Registration") to authorize the issuance of up to $3,000 in debt securities. In May 2001 the Company issued $600 of term Notes under the 2001 Shelf Registration. The Notes are composed of $200 of principal bearing interest at 7.25% due May 1, 2013 and $400 of principal bearing interest at 8.0% due May 1, 2031. Proceeds were used primarily to repay borrowings under the Company's commercial paper program.

During 2002, no securities were issued under the 2001 Registration Statement. As of January 30, 2003, $2,400 of debt securities remain available for issuance under the 2001 Registration Statement.

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 enabled the Company to purchase stock from April 25, 2000 through December 6, 2001. During 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. No shares were purchased during 2001. The Board of Directors adopted a program on December 3, 2001, authorizing, at management's discretion, the Company to purchase and retire up to $500 of the Company's common stock beginning December 6, 2001 through December 31, 2002. On September 5, 2002, the Board of Directors authorized an increase of $500 to this program for a total of $1,000 of the Company's common stock that could be purchased and retired by the Company through December 31, 2002. The Board of Directors adopted a stock buyback program on December 9, 2002, authorizing, at management's discretion, the Company to purchase and retire up to $500 of the Company's common stock beginning January 1, 2003 and ending December 31, 2003. During 2002, the Company purchased and retired 35.1 million shares for $862 at an average price of $24.54 per share under these programs. The Company may continue or, from time to time suspend, purchasing shares under its stock purchase program without notice, depending on prevailing market conditions, alternate uses of capital and other factors.

The Company's operating results continue to enhance its financial position and ability to continue its internal expansion program. Cash flows from operations and available borrowings are adequate to support currently planned business operations, stock repurchases, acquisitions and capital expenditures. The Company has short-term financing capacity in the form of commercial paper or bank line borrowings up to $1,400 and long-term capacity under the 2001 Registration Statement of $2,400.

As of January 30, 2003, the Company's credit ratings were as follows:

	S & P	MOODY'S	FITCH
Long-term debt	BBB+	Baa1	BBB+
Short-term debt	A2	P2	F2

There are no payment acceleration provisions in the Company's fixed-term debt portfolio related to a downgrade in the Company's credit ratings. Similarly, a downgrade in the Company's credit ratings would not affect the Company's ability to borrow amounts under the revolving credit facilities. However, any adverse changes to the Company's credit ratings could limit the Company's access to the commercial paper market and increase the cost of debt.

Contractual Obligations and Commercial Commitments

Albertsons has assumed various financial obligations and commitments in the normal course of its operations and financing activities. Financial obligations are considered to represent known future cash payments that the Company is required to make under existing contractual arrangements, such as debt and lease agreements. The following table represents the scheduled maturities of the Company's long-term contractual obligations as of January 30, 2003:

	YEAR 1	YEARS 2-3	YEARS 4-5	AFTER 5 YEARS	TOTAL
Long-term debt	$ 105	$ 704	$ 14	$ 4,232	$ 5,055
Capital lease obligations [1]	47	88	79	531	745
Operating leases [1]	330	637	545	2,275	3,787
Contracts for purchase of property and construction of buildings	176	—	—	—	176
Other [2]	96	136	6	—	238
Total contractual cash obligations	$ 754	$ 1,565	$ 644	$ 7,038	$ 10,001

[1] Represents the minimum rents payable and includes leases associated with closed stores accrued for under the Company's restructuring and closed store reserves. Amounts are not offset by expected sublease income.

[2] Includes transportation contracts with third parties. Also, the Company has entered into energy supply agreements which have terms through 2006. These agreements include certain provisions that could potentially require the Company to pay additional amounts if the actual usage is less than the minimum usage per the contract documents or if the contracts were terminated. This number is difficult to estimate due to the uncertainty of future energy usage and change in the market value of energy, therefore no amounts have been included above.

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 parties fail to perform under the agreements.

Albertsons commercial commitments as of January 30, 2003, representing possible commitments triggered by potential future events, are as follows:

	YEAR 1	YEARS 2-3	YEARS 4-5	AFTER 5 YEARS	TOTAL
Available lines of credit	$ 450	$ 950	$ —	$ —	$ 1,400
Letters of credit — standby	95	—	—	—	95
Letters of credit — commercial	13	—	—	—	13
Potential commercial commitments	$ 558	$ 950	$ —	$ —	$ 1,508

Letters of Credit

The Company had outstanding Letters of Credit of $108 as of January 30, 2003, all of which were issued under separate bilateral agreements with multiple financial institutions. Of the $108 outstanding at year end, $95 were standby letters of credit covering primarily workers' compensation or performance obligations. The remaining $13 were commercial letters of credit supporting the Company's merchandise import program. The Company paid issuance fees that varied, depending on type, up to 0.70% of the outstanding balance of the letter of credit.

Off Balance Sheet Arrangements

The Company has no significant investments that are accounted for under the equity method in accordance with accounting principles generally accepted in the United States. Investments that are accounted for under the equity method have no liabilities associated with them that would be considered material to Albertsons.

Capital Expenditures

The Company continues to retain ownership of real estate when possible. As of January 30, 2003 the Company held title to the land and buildings of 41% of the Company's stores and held title to the buildings on leased land of an additional 10% 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 527 stores representing 25% of the Company's retail square footage as of January 30, 2003. 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:

	2002	2001	2000
New and acquired stores	$ 688	$ 875	$1,066
Remodels	455	348	423
Retail replacement equipment, technology and other	221	247	170
Distribution facilities and equipment	70	64	174
Total capital expenditures	1,434	1,534	1,833
Estimated fair value of property financed by operating leases	150	153	99
	$1,584	$1,687	$1,932

Total capital expenditures include capitalized lease obligations incurred of $75 in 2002, $79 in 2001 and $62 in 2000.

The Company's strong financial position provides the flexibility for the Company to grow through its store development program and future acquisitions. The Company's capital expenditure budget for 2003 is approximately $1,400 and approximately $100 in new lease obligations.

Related Party Transactions

Transactions with related parties were not considered material. See "Note U — Related Party Transactions" in the Notes to Consolidated Financial Statements.

Recent Accounting Standards

In July 2001 the Financial Accounting Standard Board ("FASB") issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 will become effective for Albertsons on January 31, 2003. This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Company is currently analyzing the impact that this standard will have on its financial statements, but believes it will not have a material impact on the Company's consolidated financial statements.

In April 2002 the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." The statement rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and an amendment of that statement, SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." As a result, gains and losses from extinguishment of debt will no longer be aggregated and classified as an extraordinary item, net of related income tax effect, on the statement of earnings. SFAS No. 145 is effective for fiscal years beginning after May 15, 2002, with earlier application encouraged. The provisions of SFAS No. 145 will be effective for fiscal year beginning January 31, 2003. The adoption of SFAS No. 145 will not have a material impact on the Company's consolidated financial statements.

In June 2002 the SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" was issued. This statement nullifies existing guidance related to the accounting and reporting for costs associated with exit or disposal activities and requires that the fair value of a liability associated with an exit or disposal activity be recognized when the liability is incurred. Under previous guidance, certain exit costs were permitted to be accrued upon management's commitment to an exit plan, which is generally before an actual liability has been incurred. The provisions of this statement are required to be adopted for all exit or disposal activities initiated after December 31, 2002. This statement will not impact any liabilities recorded prior to adoption. As required the Company will adopt SFAS No. 146 effective in 2003. The Company does not expect that the adoption of this statement will have a material impact on the Company's consolidated financial statements.

In December 2002 the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation, Transition and Disclosure." SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. The accompanying Note Q — Stock Options and Stock Awards — satisfies the disclosure requirements of SFAS No. 148.

In November 2002 the FASB issued FASB Interpretation No. 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 requires that upon issuance of a guarantee, a guarantor must recognize a liability for the fair value of an obligation assumed under a guarantee. FIN 45 also requires additional disclosures by a guarantor in its interim and annual financial statements about the obligations associated with guarantees issued. The recognition provisions of FIN 45 are effective for guarantees issued after December 31, 2002, while the disclosure requirements were effective for financial statements for periods ending after December 15, 2002. At January 30, 2003, the Company had not entered into any material arrangement that would be subject to the disclosure requirements of FIN 45. In addition, the Company does not believe that the adoption of FIN 45 will have a material impact on the Company's consolidated financial statements.

In January 2003 the FASB issued Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. The Company is currently evaluating the impact that the adoption of FIN 46 will have on the Company's consolidated financial statements.

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 properties). The Company conducts an ongoing program for the inspection and evaluation of potential new sites 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 believed to be remote. Although the ultimate outcome and expense of environmental remediation is uncertain, the Company believes that the costs of required remediation and continuing compliance with environmental laws, in excess of current reserves, will not have a material adverse effect on the financial condition, results of operations or cash flows of the Company. Charges against earnings for environmental remediation were not material in 2002, 2001 or 2000.

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 certain derivative transactions allowed by the Company's risk management policy. The Company does not enter into derivative financial instruments for trading purposes. The Company uses derivatives primarily as cash flow hedges to set interest rates for forecasted debt issuances, such as interest rate locks.

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 generally 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.

As of January 30, 2003, the Company had no foreign exchange exposure and no outstanding derivative transactions. 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:

	2003	2004	2005	2006	2007	THEREAFTER	TOTAL	FAIR VALUE
Fixed rate debt obligations	$105	$502	$202	$2	$12	$4,232	$5,055	$5,675
Weighted average interest rate	7.1%	6.6%	7.4%	8.1%	6.9%	7.5%	7.4%	—

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

All statements other than statements of historical fact contained in this and other documents disseminated by the Company, including statements regarding the Company's expected financial performance, are forward-looking information as defined in the Private Securities Litigation Reform Act of 1995. In reviewing such information about the future performance of the Company, it should be kept in mind that actual results may differ materially from those projected or suggested in such forward-looking information since predictions regarding future results of operations and other future events are subject to inherent uncertainties.

These statements may relate to, among other things: investing to increase sales; changes in cash flow; increases in insurance and employee benefit costs; attainment of cost reduction goals; achieving sales increases and increases in identical sales; opening and remodeling stores; and the Company's five strategic imperatives; and are indicated by words or phrases such as "expects," "plans," "believes," "estimate," and "goal." In reviewing such information about the future performance of the Company, it should be kept in mind that actual results may differ materially from those projected or suggested in such forward-looking information.

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 interest rates; changes in consumer spending; actions taken by new or existing competitors (including nontraditional competitors), particularly those intended to improve their market share (such as pricing and promotional activities); 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 energy sources; the Company's ability to recruit, retain and develop employees; the Company's ability to develop new stores or complete remodels as rapidly as planned; the Company's ability to implement new technology successfully; stability of product costs; the Company's ability to integrate the operations of acquired or merged companies; the Company's ability to execute its restructuring plans; and the Company's ability to achieve its five strategic imperatives.

Other factors and assumptions not identified above could also cause the actual results to differ materially from those projected or suggested 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 predictions, assumptions, estimates or changes in other factors affecting such forward-looking information.

Consolidated Earnings

(in millions, except per share data)	FOR THE 52 WEEKS ENDED JANUARY 30, 2003	FOR THE 52 WEEKS ENDED JANUARY 31, 2002	FOR THE 52 WEEKS ENDED FEBRUARY 1, 2001
SALES	$ 35,626	$ 36,605	$ 35,501
Cost of sales	25,242	26,179	25,409
Gross profit	10,384	10,426	10,092
Selling, general and administrative expenses	8,604	8,731	8,444
Restructuring (credits) charges and other	(37)	468	—
Gain on sale of New England Osco drugstores	—	(54)	—
Merger-related (credits) charges	—	(15)	24
Operating profit	1,817	1,296	1,624
Other expenses:			
Interest, net	(396)	(425)	(378)
Other, net	(16)	(8)	(3)
Earnings from continuing operations before taxes	1,405	863	1,243
Income tax expense	540	367	497
Earnings from continuing operations	865	496	746
Discontinued operations:			
Operating (loss) income	(50)	10	31
Loss on disposition	(379)	—	—
Tax (benefit) expense	(143)	5	12
Net (loss) earnings from discontinued operations	(286)	5	19
Earnings before cumulative effect of change in accounting principle	579	501	765
Cumulative effect of change in accounting principle (net of tax of $60)	(94)	—	—
NET EARNINGS	$ 485	$ 501	$ 765
BASIC EARNINGS PER SHARE:			
Continuing operations	$ 2.18	$ 1.22	$ 1.78
Discontinued operations	(0.72)	0.01	0.05
Cumulative effect of change in accounting principle (net of tax of $0.15)	(0.24)	—	—
Net Earnings	$ 1.22	$ 1.23	$ 1.83
DILUTED EARNINGS PER SHARE:			
Continuing operations	$ 2.17	$ 1.22	$ 1.78
Discontinued operations	(0.72)	0.01	0.05
Cumulative effect of change in accounting principle (net of tax of $0.15)	(0.23)	—	—
Net Earnings	$ 1.22	$ 1.23	$ 1.83
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:			
Basic	397	406	418
Diluted	399	408	418

See Notes to Consolidated Financial Statements

Consolidated Balance Sheets

(in millions, except par value data)	JANUARY 30, 2003	JANUARY 31, 2002
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 162	$ 61
Accounts and notes receivable, net	647	696
Inventories	2,973	3,196
Assets held for sale	120	326
Prepaid and other	366	344
Total Current Assets	4,268	4,623
Land, Buildings and Equipment, net	9,029	9,282
Goodwill, net	1,399	1,468
Intangibles, net	214	210
Other Assets	301	398
Total Assets	$15,211	$15,981
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 2,009	$ 2,107
Salaries and related liabilities	599	584
Self-insurance	244	198
Current maturities of long-term debt and capital lease obligations	119	137
Other current liabilities	477	570
Total Current Liabilities	3,448	3,596
Long-Term Debt	4,950	5,060
Capitalized Lease Obligations	307	276
Self-Insurance	367	307
Other Long-Term Liabilities and Deferred Credits	942	827
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 — 372 shares and 407 shares, respectively	372	407
Capital in excess of par	128	94
Accumulated other comprehensive loss	(96)	(19)
Retained earnings	4,793	5,433
Total Stockholders' Equity	5,197	5,915
Total Liabilities and Stockholders' Equity	$15,211	$15,981

See Notes to Consolidated Financial Statements

Consolidated Cash Flows

(in millions)	FOR THE 52 WEEKS ENDED JANUARY 30, 2003	FOR THE 52 WEEKS ENDED JANUARY 31, 2002	FOR THE 52 WEEKS ENDED FEBRUARY 1, 2001
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	$ 485	$ 501	$ 765
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	966	970	944
Goodwill amortization	—	56	57
Discontinued operations noncash charges	338	—	—
Restructuring and other noncash (credits) charges	(10)	442	—
Gain on sale of New England Osco drugstores	—	(54)	—
Cumulative effect of change in accounting principle	94	—	—
Net deferred income taxes and other	124	(106)	14
Changes in operating assets and liabilities:			
Receivables and prepaid expenses	21	(110)	(29)
Inventories	111	40	118
Accounts payable	(99)	(68)	—
Other current liabilities	(89)	287	(175)
Self-insurance	106	71	24
Unearned income	32	3	19
Other long-term liabilities	(16)	(23)	34
Net cash provided by operating activities	2,063	2,009	1,771
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(1,359)	(1,455)	(1,771)
Proceeds from disposal of land, buildings and equipment	101	288	189
Proceeds from disposal of assets held for sale	578	118	—
Decrease (increase) in other assets	15	(31)	33
Net cash used in investing activities	(665)	(1,080)	(1,549)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Stock purchases and retirements	(862)	—	(451)
Cash dividends paid	(306)	(309)	(315)
Payments on long-term borrowings	(143)	(89)	(417)
Proceeds from stock options exercised	14	23	6
Net commercial paper activity and bank borrowings	—	(1,153)	(475)
Proceeds from long-term borrowings	—	623	1,222
Net cash used in financing activities	(1,297)	(905)	(430)
Net Increase (Decrease) in Cash and Cash Equivalents	101	24	(208)
Cash and Cash Equivalents at Beginning of Year	61	37	245
Cash and Cash Equivalents at End of Year	$ 162	$ 61	$ 37

See Notes to Consolidated Financial Statements

Consolidated Stockholders' Equity

(dollars in millions)	COMMON STOCK $1.00 PAR VALUE	CAPITAL IN EXCESS OF PAR VALUE	ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME	RETAINED EARNINGS	TOTAL STOCKHOLDERS' EQUITY	COMPREHENSIVE INCOME
BALANCE AT FEBRUARY 3, 2000	$ 424	$ 145	—	$ 5,133	$ 5,702	$ 404
Net earnings	—	—	—	765	765	$ 765
Deferred tax adjustment related to stock options	—	(12)	—	—	(12)	—
Exercise of stock options	—	6	—	—	6	—
Stock purchases and retirements — 18,659,200 shares	(19)	(92)	—	(340)	(451)	—
Deferred stock unit plan	—	1	—	—	1	—
Dividends	—	—	—	(317)	(317)	—
BALANCE AT FEBRUARY 1, 2001	405	48	—	5,241	5,694	$ 765
Net earnings	—	—	—	501	501	$ 501
Exercise of stock options, including tax benefits	2	26	—	—	28	—
Deferred stock unit plan	—	19	—	—	19	—
Directors' stock plan	—	1	—	—	1	—
Dividends	—	—	—	(309)	(309)	—
Minimum pension liability adjustment (net of tax of $16)	—	—	$ (23)	—	(23)	(23)
Interest rate locks:	—	—	—	—	—	—
Cumulative effect of adoption of new accounting principle (net of tax of $3)	—	—	5	—	5	5
Loss on settled contracts (net of tax of $1)	—	—	(1)	—	(1)	(1)
BALANCE AT JANUARY 31, 2002	407	94	(19)	5,433	5,915	$ 482
Net earnings	—	—	—	485	485	$ 485
Exercise of stock options, including tax benefits	—	15	—	—	15	—
Stock purchases and retirements — 35,129,397 shares	(35)	—	—	(827)	(862)	—
Deferred stock unit plan	—	18	—	—	18	—
Directors' stock plan	—	1	—	—	1	—
Dividends	—	—	—	(298)	(298)	—
Minimum pension liability adjustment (net of tax of $49)	—	—	(77)	—	(77)	(77)
BALANCE AT JANUARY 30, 2003	$ 372	$ 128	$ (96)	$ 4,793	$ 5,197	$ 408

See Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

(dollars in millions, except per share data)

Note A — Business Description and Basis of Presentation

Albertson's, Inc. ("Albertsons" or 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. On June 23, 1999, Albertsons and American Stores Company ("ASC") consummated a merger, which has been accounted for as a pooling-of-interests. Based on sales, the Company is one of the largest retail food and drug chains in the world. As of January 30, 2003 the Company operated 2,287 stores in 31 states. Retail operations are supported by 17 major Company distribution operations, strategically located in the Company's operating markets.

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States and include all entities in which the Company has control, including its majority-owned subsidiaries. All material intercompany transactions and balances have been eliminated.

Note B — Summary of Significant Accounting Policies

Fiscal Year End: The Company's fiscal year ends on the Thursday nearest to January 31. As a result, the Company's fiscal year includes a 53rd week every 5 to 6 years. Fiscal years 2002, 2001, and 2000 each contained 52 weeks and ended on January 30, 2003, January 31, 2002, and February 1, 2001.

Use Of Estimates: The preparation of the Company's consolidated financial statements, in conformity with accounting principles generally accepted in the United States, requires management to make estimates and assumptions. Some of these estimates require difficult, subjective or complex judgments about matters that are inherently uncertain. As a result, actual results could differ from these estimates. 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.

Segment Information: The Company operates retail food and drug stores. These operations are within a single operating segment and all are within the United States.

Derivatives: From time to time, the Company enters into certain derivative transactions allowed by the Company's risk management policy. The Company does not enter into derivative financial instruments for trading purposes. The Company uses derivatives primarily as cash flow hedges to set interest rates for forecasted debt issuances, such as interest rate locks. These contracts are with major financial institutions and are very short-term in nature. The gain or loss on interest rate locks is deferred in other comprehensive income and recognized over the life of the related debt instrument as an adjustment to interest expense.

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.

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.

Vendor Funds: The Company receives funds from many of the vendors whose products the Company buys for resale in its stores. These vendor funds are provided to increase the sell-through of the related products. The Company receives funds for a variety of merchandising activities: placement of the vendor's products in the Company's advertising; placement of the vendor's products in prominent locations in the Company's stores; introduction of new products into the Company's distribution system and retail stores; exclusivity rights in certain categories that have slower-turning products; and to compensate for temporary price reductions offered to customers on products held for sale at retail stores. The Company also receives vendor funds for buying activities, such as volume commitment rebates and forward buy credits.

Accounting for vendor funds is discussed in Emerging Issues Task Force "EITF" Issue 02-16: "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor" (EITF 02-16), in which the EITF reached consensus on two issues in November 2002 and provided transition rules on those issues in January 2003 and March 2003. As a result of this new guidance, the Company adopted a new method for recognizing the vendor funds for merchandising activities. As of the beginning of 2002, the Company recognizes vendor funds for merchandising activities when the related products are sold. Under the previous accounting method for merchandising vendor funds, these credits were recognized as an offset to cost of sales when the merchandising activity was performed in accordance with the underlying agreements. In connection with the implementation of this new accounting method, the Company recorded a charge in 2002 of $94, net of tax benefit of $60.

The vendor fund inventory offset recorded as of January 30, 2003 was $152, which is a $6 decrease from the balance as of the beginning of 2002. The inventory offset was determined by estimating the average inventory turnover rates by product category for the Company's grocery, general merchandise and lobby departments, and by average inventory turnover rates by department for the Company's remaining inventory.

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 8 years; software 3 to 5 years; leasehold improvements 10 to 25 years; intangibles 3 to 10 years; and assets held under 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, and they 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. Beginning in 2002 with the adoption of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," goodwill is no longer amortized, but instead tested for impairment at least annually, or more frequently, if circumstances indicate potential impairment, through a comparison of fair value to its carrying amount. Prior to 2002, goodwill was amortized using the straight-line method over its estimated period of benefit, 40 years.

Company Owned Life Insurance: The Company has purchased life insurance policies to fund 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, net (expense) income in the Company's Consolidated Earnings.

Impairment of Long-Lived Assets and Closed Store Reserves: The Company assesses the impairment of long-lived assets when events or changes in circumstances indicate that the carrying value of the assets or the asset group may not be recoverable. The asset impairment review assesses the fair value of the assets based on the future cash flows the assets are expected to generate. An impairment loss is recognized when estimated undiscounted future cash flows expected to result from the use of the asset plus net proceeds expected from the disposition of the asset (if any) are less than the related asset's carrying amount. Impairment losses are measured as the amount by which the carrying amounts of the assets exceed their fair values. The net proceeds expected from the disposition of the asset are determined by independent quotes or expected sales prices developed by internal specialists. Estimates of future cash flows and expected sales prices are judgments based on the Company's experience and knowledge of local operations. These estimates can be significantly impacted by changes in real estate market conditions, the economic environment, capital spending decisions and inflation.

For properties to be closed that are under long-term lease agreements, the present value of any remaining liability under the lease, discounted using risk-free rates and net of expected sublease recovery, is recognized as a liability and expensed. (Beginning on January 1, 2003, "expected sublease recovery" has been replaced by "estimated sublease rentals that could be reasonably obtained for the property.") The value of any equipment and leasehold improvements related to a closed store is reduced to reflect net recoverable values. Internal specialists estimate the subtenant income, future cash flows and asset recovery values based on their historical experience and knowledge of (1) the market in which the store to be closed is located, (2) the results of its previous efforts to dispose of similar assets and (3) the current economic conditions. The actual cost of disposition for these leases and related assets is affected by specific real estate markets, the economic environment and inflation.

Self-Insurance: The Company is primarily self-insured for property loss, workers' compensation, automobile and general liability costs. 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.

Deferred Rent: The Company recognizes rent holidays and rent escalations on a straight-line basis over the term of the lease. The deferred rent amount is included in other long-term liabilities and deferred credits on the Company's Consolidated Balance Sheets.

Revenue Recognition: Revenue is recognized at the point of sale for retail sales. The discount earned by customers by using their preferred loyalty card is recorded by the Company as a reduction to sales price. The only income recognized from any in-store rental arrangement is the lease amount received based on space occupied.

Store Opening Costs: Noncapital expenditures incurred in opening new stores or remodeling existing stores are expensed in the year in which they are incurred.

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. In 2001 and 2000, cooperative advertising funds from vendors were recorded in the period which the related expense was incurred. In 2002 vendor funds were considered as described above. Gross advertising expenses of $527, $537 and $550, excluding cooperative advertising money received from vendors, were included with cost of sales in the Company's Consolidated Earnings for 2002, 2001 and 2000, respectively.

Stock Based Compensation: SFAS 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 ("APB") No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. Accordingly, compensation cost of stock-based compensation 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.

If the fair value-based accounting method was utilized for stock-based compensation, the Company's pro forma net earnings and earnings per share would have been as follows:

	2002	2001	2000
Net Earnings as reported	$ 485	$ 501	$ 765
Add: Stock based compensation expense included in reported net earnings, net of related tax effects	12	11	1
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	(44)	(41)	(27)
Pro Forma Net Earnings	$ 453	$ 471	$ 739
BASIC EARNINGS PER SHARE:			
As Reported	$1.22	$1.23	$1.83
Pro Forma	1.14	1.16	1.77
DILUTED EARNINGS PER SHARE:			
As Reported	$1.22	$1.23	$1.83
Pro Forma	1.14	1.15	1.77

The 2002, 2001 and 2000 pro forma net earnings resulted from reported net earnings less pro forma after-tax compensation expense. The pro forma effect on net earnings is not representative of the pro forma effect on net earnings in future years.

Income Taxes: Income taxes are accounted for under the asset and liability method. Deferred income taxes represent future net tax effects resulting from temporary differences between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to be settled or realized. The major temporary differences and their net effect are shown in the "Income Taxes" Note to the Consolidated Financial Statements.

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 in-the-money options under the Company's stock option plans.

Comprehensive Income: The Company reports comprehensive income in accordance with SFAS No. 130, "Reporting Comprehensive Income." Comprehensive income refers to revenues, expenses, gains and losses that are not included in net earnings but rather are recorded directly in stockholders' equity. Items of comprehensive income other than net earnings were primarily related to minimum pension liability of $126 ($77 net of tax) and $39 ($23 net of tax) for 2002 and 2001, respectively.

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

Note C — Cumulative Effect of Change in Accounting Principle

As discussed in Note B — Summary of Significant Accounting Policies, in 2002, the Company adopted a new method for recognizing vendor funds related to merchandising activities. The pro forma amounts shown below reflect the retroactive application of the new method as if it had been in effect for 2002, 2001 and 2000.

	2002	2001	2000
Net earnings	$ 579	$ 497	$ 770
Earnings per share — basic	$1.46	$1.22	$1.84
Earnings per share — diluted	$1.45	$1.22	$1.84

Note D — New Accounting Standards

In July 2001 the Financial Accounting Standard Board ("FASB") issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 will become effective for Albertsons on January 31, 2003. This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Company is currently analyzing the impact that this standard will have on its consolidated financial statements, but believes it will not have a material impact on the Company's consolidated financial statements.

In April 2002 the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." The statement rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and an amendment of that statement, SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." As a result, gains and losses from extinguishment of debt will no longer be aggregated and classified as an extraordinary item, net of related income tax effect, on the statement of earnings. SFAS No. 145 is effective for fiscal years beginning after May 15, 2002, with earlier application encouraged. The provisions of SFAS No. 145 will be effective for fiscal year beginning January 31, 2003. The adoption of SFAS No. 145 will not have a material impact on the Company's consolidated financial statements.

In June 2002 the SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" was issued. This statement nullifies existing guidance related to the accounting and reporting for costs associated with exit or disposal activities and requires that the fair value of a liability associated with an exit or disposal activity be recognized when the liability is incurred. Under previous guidance, certain exit costs were permitted to be accrued upon management's commitment to an exit plan, which is generally before an actual liability has been incurred. The provisions of this statement are required to be adopted for all exit or disposal activities initiated after December 31, 2002. This statement will not impact any liabilities recorded prior to adoption. As required the Company will adopt SFAS No. 146 effective in 2003. The Company does not expect that the adoption of this statement will have a material impact on the Company's consolidated financial statements.

In December 2002 the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation, Transition and Disclosure." SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. The accompanying Note Q — Stock Options and Stock Awards — satisfies the disclosure requirements of SFAS No. 148.

In November 2002 the FASB issued FASB Interpretation No. 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 requires that upon issuance of a guarantee, a guarantor must recognize a liability for the fair value of an obligation assumed under a guarantee. FIN 45 also requires additional disclosures by a guarantor in its interim and annual financial statements about the obligations associated with guarantees issued. The recognition provisions of FIN 45 are effective for guarantees issued after December 31, 2002, while the disclosure requirements were effective for financial statements for periods ending after December 15, 2002. At January 30, 2003, the Company had not entered into any material arrangement that would be subject to the disclosure requirements of FIN 45. In addition, the Company does not believe that the adoption of FIN 45 will have a material impact on the Company's consolidated financial statements.

In January 2003 the FASB issued Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. The Company is currently evaluating the effect that the adoption of FIN 46 will have on the Company's consolidated financial statements.

Note E — Discontinued Operations/Market Exits

On March 13, 2002, the Company's Board of Directors approved the second phase of the Company's restructuring plan designed to improve future financial results and to drive future competitiveness. This phase of the plan included the complete exit of four underperforming markets: Memphis, Tennessee; Nashville, Tennessee; Houston, Texas; and San Antonio, Texas. This involved the sale or closure of 95 stores and two distribution centers, and reduction of division offices from 15 to 11. These sales and closures were evaluated for lease liability or asset impairment, including goodwill, in accordance with the Company's policy. The prior years' operating activities for these 95 stores and two distribution centers, and reduction of division offices from 15 to 11 have been reclassified to discontinued operations: "Operating (loss) income" in the accompanying earnings statement.

The discontinued operations generated sales of $290, $1,326, and $1,261, in 2002, 2001, and 2000, respectively, and an operating loss of $429, operating profit of $10 and operating profit of $31, respectively. The discontinued operations operating loss of $429 in 2002 consisted of a loss from operations of $50 and asset impairments, lease settlements and other costs of $379 as described in the following table:

	NONCASH CHARGES	ACCRUALS	TOTAL CHARGES (CREDITS)
Asset impairments	$ 401	$ —	$ 401
Lease settlements	—	26	26
Severance and outplacement	—	23	23
Other	—	2	2
Gain on asset sales	(63)	—	(63)
Favorable lease settlements	—	(10)	(10)
Loss on disposal			$ 379
Cash payments during 2002		(30)	
Reserve balance at January 31, 2003		$ 11	

The reserve balance of $11 as of January 30, 2003 is included with "other current liabilities" in the Company's Consolidated Balance Sheet.

Asset impairment adjustments resulted from the Company realizing sales proceeds in excess of amounts originally estimated on stores disposed of and increases to net realizable values for stores under contract for sale. Lease liability adjustments represent more favorable negotiated settlements than had been originally estimated.

Assets related to discontinued operations are recorded at their estimated net realizable value of $25 as of January 30, 2003 and are reported as Assets held for sale in the Company's Consolidated Balance Sheet. These assets include land, buildings, equipment and leasehold improvements and are being actively marketed. As of January 30, 2003, all 95 stores and both distribution centers were closed. In addition, the Company had either sold or terminated the leases related to 82 of the 95 stores and both distribution centers as of January 30, 2003.

Other costs consist of amounts paid in connection with notification regulations and negotiated contract terminations.

Note F — Restructuring

In the first half of 2001, the Company initiated a profitability review of all of its retail stores, utilizing a methodology based on return on invested capital. The Company also evaluated its division management structure and the efficiency of its transaction processing departments. Based on these reviews, in July 2001 the Company committed to the following restructuring activities: 1) close and dispose of 165 underperforming stores in 25 states; 2) eliminate four of the existing 19 division offices; 3) sell a store fixture manufacturing operation; 4) centralize certain transaction processing functions in Boise, Idaho; and 5) reduce general office head count.

These restructuring activities called for the elimination of 1,341 managerial and administrative positions (excluding store level terminations). The restructuring charge recorded in 2001 included the following: employee severance and outplacement costs of $44; asset impairments of $361; lease termination costs of $57; and other costs of $6.

In 2001 and 2002, 80 and 82 stores were closed or sold and 995 and 297 managerial and administrative employees were terminated, respectively. In 2002, management revised the planned restructuring activities as follows: the store fixture manufacturing operation's performance was re-evaluated and determined to be more cost-effective than purchasing like-fixtures from external sources in the future, so it will be held and used; one store's operating performance improved due to local market conditions, so it too will be held and used; and one part of the transaction processing consolidation was halted due to a decision to replace the Company's human resource information systems (HRIS) over the next two to three years. The remaining two stores in this restructuring plan will be closed in 2003.

The following table presents the pre-tax restructuring credits and charges and the related restructuring reserves included in the Company's Consolidated Balance Sheets:

	NONCASH CHARGES	ACCRUALS	TOTAL CHARGES (CREDITS)
2001 ACTIVITY			
Asset impairments	$ 361	$ —	$ 361
Lease settlements	—	57	57
Severance and outplacement	—	44	44
Other	—	6	6
Restructuring (credits) charges			$ 468
Cash payments during 2001		(46)	
Reserve balance at January 31, 2002		61	
2002 ACTIVITY			
Retain store fixtures operation	(3)	(2)	$ (5)
Halt part of consolidation — HRIS	—	(2)	(2)
Gains on asset sales	(17)	—	(17)
Favorable lease settlements	—	(14)	(14)
Severance and outplacement	—	2	2
Other	—	(1)	(1)
Restructuring (credits) charges			$ (37)
Cash payments during 2002		(16)	
Reserve balance at January 30, 2003		$ 28	

The reserve balances of $28 at January 30, 2003 and $61 at January 31, 2002 are included in the "Other Current Liabilities" line on the Company's Consolidated Balance Sheets.

Note G — Closed Store Reserves

The following table shows the pre-tax expense, and related reserves, for closed stores and other surplus property:

	NONCASH CHARGES	ACCRUALS	TOTAL CHARGES (CREDITS)
Reserve balance at January 3, 2000		$ 25	
2000 ACTIVITY			
Asset impairments	$ 40	–	$ 40
Lease terminations	–	7	7
Favorable lease termination	–	(2)	(2)
Closed store (credits) charges			$ 45
Cash payments during 2000		(8)	
Reserve balance at February 1, 2001		22	
2001 ACTIVITY			
Asset impairments	44	–	$ 44
Lease terminations	–	27	27
Favorable lease termination	–	(2)	(2)
Gains on disposition	(2)	–	(2)
Closed store (credits) charges			$ 67
Cash payments during 2001		(8)	
Reserve balance at January 31, 2002		39	

	NONCASH CHARGES	ACCRUALS	TOTAL CHARGES (CREDITS)
2002 ACTIVITY			
Asset impairments	23	–	$23
Lease terminations	–	8	8
Favorable lease termination	–	(1)	(1)
Loss on disposition	5	–	5
Closed store (credits) charges			$35
Cash payments during 2002		(16)	
Reserve balance at January 30, 2003		$30	

As of January 30, 2003, $25 of the reserve balance was included with accounts payable and the remaining $5 was included with other long-term liabilities and deferred credits in the Company's Consolidated Balance Sheet. During fiscal 2001, the restructuring plan (discussed in "Note F — Restructuring") included actions to accelerate the disposal of surplus property that included terminating leases through negotiated buyouts and selling owned properties through auctions. The $51 pre-tax restructuring adjustments are the additional charges expected to be incurred as a result of these actions. These charges are included in selling, general and administrative expenses in the Company's Consolidated Earnings. $30 of the reserve balance as of January 31, 2002 is included with accounts payable and the remaining $9 is included with other liabilities and deferred credits in the Company's Consolidated Balance Sheets. For the period ended February 1, 2001, $5 of the reserve balance was included with accounts payable with the remaining $17 included with other liabilities and deferred credits. The related assets are recorded at their estimated fair value of $35 as of January 30, 2003, less selling costs, and reported as assets held for sale in the Company's Consolidated Balance Sheets.

In January 2002 the Company sold a total of 80 Osco drugstores in Maine, Massachusetts and New Hampshire for $235 which resulted in a $54 pre-tax gain.

Note H — Merger, Divestitures and Related Costs

Merger-related (credits) charges for 2001 represent a credit of $15 associated with the sale of an asset for an amount that was greater than originally estimated.

Merger-related (credits) charges for 2000 represent $24 related to one-time asset impairment and severance charges.

In the future any restructuring activity will be accounted for under the guidance of SFAS No. 146, which will primarily effect the timing of restructuring reserve.

Note I — Supplemental Cash Flow Information

Selected cash payments and noncash activities were as follows:

	2002	2001	2000
Cash payments for income taxes	$376	$403	$549
Cash payments for interest, net of amounts capitalized	390	299	375
NONCASH INVESTING AND FINANCING ACTIVITIES:			
Capitalized lease obligations incurred	75	79	62
Capitalized lease obligations terminated	46	19	6
Deferred stock units	19	19	1
Tax benefits related to stock options	2	4	1
Deferred tax adjustment — related to stock options	2	3	12

Note J — Accounts and Notes Receivable

Accounts and notes receivable, net, consisted of the following:

	JANUARY 30, 2003	JANUARY 31, 2002
Trade and other accounts receivable	$664	$696
Current portion of notes receivable	6	40
Allowance for doubtful accounts	(23)	(40)
	$647	$696

Note K — Inventories

Approximately 97 percent 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 $589 and $597 higher at the end of 2002 and 2001, respectively. Net earnings (basic and diluted earnings per share) would have been lower by $2 ($0.01) in 2002, higher by $3 ($0.01) in 2001, and lower by $14 ($0.03) in 2000. The replacement cost of inventories valued at LIFO approximates FIFO cost.

During 2002 and 2001, inventory quantities were reduced. These reductions resulted in a liquidation of LIFO inventory quantities carried at lower costs prevailing in prior years as compared with the cost of 2002 and 2001 purchases. As a result, cost of sales was decreased by $4 in 2002, $10 in 2001, and $26 in 2000. This increased net earnings (basic and diluted earnings per share) by $2 ($0.01) in 2002, by $6 ($0.01) in 2001 and by $15 ($0.04) in 2000.

Note L — Land, Buildings and Equipment

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

	JANUARY 30, 2003	JANUARY 31, 2002
Land	$ 1,939	$ 2,105
Buildings	5,713	5,598
Fixtures and equipment	5,561	5,471
Leasehold improvements	1,619	1,535
Capitalized leases	355	326
	15,187	15,035
Accumulated depreciation	(6,060)	(5,641)
Accumulated amortization on capital leases	(98)	(112)
	$ 9,029	$ 9,282

Depreciation expense was $924, $926 and $904 for 2002, 2001 and 2000, respectively. Amortization expense of capital leases was $18, $19 and $17 for 2002, 2001 and 2000, respectively.

Note M — Goodwill and Other Intangible Assets

The Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets," on February 1, 2002. Under these new rules, goodwill and certain other intangibles with indefinite lives are no longer amortized, but are subject to annual testing, or more frequently if impairment indicators arise, using fair value methodology. Intangible assets with finite, measurable lives continue to be amortized over their respective useful lives until they reach their estimated residual values, and are reviewed for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." As a result, the Company did not incur any expense for the amortization of goodwill in 2002. The pretax expense for the amortization of goodwill, included in continuing operations, was $56 and $57 in 2001 and 2000, respectively.

The Company completed its transitional impairment review of its goodwill as of February 1, 2002. The review was performed based on the Company's reporting units which have been defined as the Company's 11 current operating divisions. When this statement was adopted, the aggregate of the goodwill allocated to the stores in each reporting unit became the reporting unit's goodwill balance. In order to determine if a reporting unit's goodwill was impaired, a combination of internal analysis, focusing on each reporting unit's implied EBITDA multiple, and estimates of fair value from independent valuation specialists were used. Based on these analyses, there was no impairment of goodwill at the adoption date. Subsequently, during the fourth quarter of 2002, the Company completed its annual impairment review based on November 1, 2002 balances and determined that there was no impairment as of that date. However, changes in the assumptions used in the analysis could have changed the resulting outcome. For example, to estimate the fair value of the Company's reporting units, management made estimates and judgments about future cash flows based on the Company's 2003 forecast and current long-range plans used to manage the business. These long-range estimates could change in the future depending on internal and external factors. Future changes in estimates could possibly result in a noncash goodwill impairment that could have a material adverse impact on the Company's financial condition and results of operations.

The following table reflects the impact of the adoption of SFAS No. 142:

	JANUARY 30, 2003	JANUARY 31, 2002	FEBRUARY 1, 2001
Net earnings, as reported	$ 485	$ 501	$ 765
Add back goodwill amortization, net of tax	—	56	56
Adjusted net earnings	$ 485	$ 557	$ 821
Basic EPS	$1.22	$1.23	$1.83
Add back goodwill amortization, net of tax	—	0.14	0.13
Adjusted Basic EPS	$1.22	$1.37	$1.96
Diluted EPS	$1.22	$1.23	$1.83
Add back goodwill amortization, net of tax	—	0.14	0.13
Adjusted Diluted EPS	$1.22	$1.37	$1.96

Changes in the net carrying amount of goodwill were as follows:

Goodwill as of January 31, 2002	$1,467
Write-off due to market exits	(68)
Goodwill as of January 30, 2003	$1,399

In connection with the complete exit of certain markets discussed above, the Company wrote off $68 of goodwill, net for the quarter ended May 2, 2002. The goodwill written off arose from the original acquisition of the operating assets in those markets.

The carrying amount of intangible assets was as follows:

	JANUARY 30, 2003	JANUARY 31, 2002
AMORTIZING:		
FMV of operating leases	$ 231	$ 256
Customer lists and other contracts	53	55
	284	311
Accumulated amortization	(173)	(169)
	111	142
NON-AMORTIZING:		
Liquor licenses	39	39
Pension related intangible assets	64	29
	103	68
	$ 214	$ 210

Straight line amortization expense for intangibles was $24, $25, and $23 in 2002, 2001, and 2000, respectively. Amortizing intangible assets have remaining useful lives from 2 to 38 years. Projected amortization expense for existing intangible assets is: $21, $18, $12, $7, and $6, for 2003, 2004, 2005, 2006, and 2007, respectively.

Note N — Indebtedness

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

	JANUARY 30, 2003	JANUARY 31, 2002
2001 SHELF REGISTRATION:		
8.0% Debentures due May 1, 2031	$ 400	$ 400
7.25% Notes due May 1, 2013	200	200
7.5% Notes due February 15, 2011	700	700
8.35% Notes due May 1, 2010	275	275
8.7% Debentures due May 1, 2030	225	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 15, 2026	200	200
7.5% Debentures due May 1, 2037	200	200
8.0% Debentures due June 1, 2026	272	272
7.9% Debentures due May 1, 2017	95	95
7.4% Notes due May 15, 2005	200	200
Medium-term Notes, due 2003 through 2028, average interest rate of 7.0%	245	245
9.125% Notes due April 1, 2002	—	80
Notes due July 3, 2004, average interest rate of 6.7%	200	200
Industrial revenue bonds, average interest rate of 5.9% and 6.1%, respectively due February 1, 2003 through December 15, 2011	8	11
Secured mortgage notes and other notes payable, average interest rates of 9.1% and 10.9%, respectively due 2003 through 2019	18	63
	5,055	5,183
Current maturities	(105)	(123)
	$4,950	$5,060

The Company had three credit facilities totaling $1,400 during 2002. The first agreement for $100 expired in February 2003 and was renewed for an additional year to expire in February 2004. The second agreement for $350 expired in March 2003 and was renewed for an additional year to expire in March 2004. The third agreement for $950 expires in March 2005. All of the credit agreements contain an option which would allow the Company, upon due notice, to convert any outstanding amounts at the expiration dates to term loans. The agreements in place at year end also contain certain covenants, the most restrictive of which requires the Company to maintain consolidated tangible net worth, as defined, of at least $3,000 and a fixed charge coverage, as defined, of no less than 2.7 times. As of January 30, 2003, the Company was in compliance with these requirements. No borrowings were outstanding under the credit facilities as of January 30, 2003 or January 31, 2002.

The Company filed a shelf registration statement with the Securities and Exchange Commission (SEC), which became effective on February 13, 2001 ("2001 Shelf Registration") to authorize the issuance of up to $3,000 in debt securities. In May 2001 the Company issued $600 of term notes under the 2001 Shelf Registration. The notes are composed of $200 of principal bearing interest at 7.25% due May 1, 2013 and $400 of principal bearing interest at 8.0% due May 1, 2031. Proceeds were used primarily to repay borrowings under the Company's commercial paper program.

The $200 term loan agreement due July 3, 2004 involves a pricing schedule (which averages 6.7%) that is dependent upon the Company's long-term debt rating.

The Company has pledged real estate with a cost of $40 as collateral for mortgage notes which are payable on various schedules, including interest at rates ranging from 6.8% to 10.7%. The notes mature from 2003 to 2014.

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

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

Net interest expense was as follows:

	2002	2001	2000
Long-term debt	$ 378	$ 401	$ 366
Capitalized leases	35	30	27
Capitalized interest	(27)	(23)	(21)
Interest expense	386	408	372
Bank service charges, net of interest income	11	17	13
	$ 397	$ 425	$ 385

The scheduled aggregate maturities of long-term debt outstanding at January 30, 2003, are summarized as follows: $105 in 2003, $502 in 2004, $202 in 2005, $2 in 2006, $12 in 2007 and $4,232 thereafter. These figures do not include the accelerations due to put options.

Note O — 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 percent 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 percent 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.

During 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. No shares were purchased during 2001. During 2002, the Company purchased and retired 35.1 million shares for $862, at an average price of $24.54 per share. The Board of Directors adopted a stock buyback program on December 9, 2002, authorizing, at management's discretion, the Company to purchase and retire up to $500 of the Company's common stock beginning January 1, 2003 and ending December 31, 2003. As of January 30, 2003, $78 of this authorization had been utilized.

Note P — Income Taxes

Deferred tax assets and liabilities consist of the following:

	JANUARY 30, 2003	JANUARY 31, 2002
DEFERRED TAX ASSETS (NO VALUATION ALLOWANCE CONSIDERED NECESSARY):		
Compensation and benefits	$ 317	$ 264
Self-insurance	216	188
Basis in fixed assets	184	264
Unearned income	17	18
Other, net	69	91
Total deferred tax assets	803	825
DEFERRED TAX LIABILITIES:		
Basis in fixed assets and capitalized leases	(537)	(515)
Inventories	(82)	(126)
Compensation and benefits	(51)	(59)
Other, net	(25)	(24)
Total deferred tax liabilities	(695)	(724)
Net deferred tax assets	$ 108	$ 101

The change in net deferred tax assets includes total adjustments of $47 for the year ended January 30, 2003 related to stock options of $(2) and other comprehensive income of $49.

The Company has federal and state net operating loss carryforwards of $4 and $75, respectively, that will expire in years 2005 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.

Annual tax provisions include amounts considered sufficient to pay assessments that may result from examination of prior year tax returns; however, the amount ultimately paid upon resolution of issues raised may differ materially from the amount accrued.

Income tax expense related to continuing operations consists of the following:

	2002	2001	2000
CURRENT:			
Federal	$ 448	$ 454	$ 434
State	52	50	52
	500	504	486
DEFERRED:			
Federal	36	(124)	10
State	4	(13)	1
	40	(137)	11
	$ 540	$ 367	$ 497

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

	2002	PERCENT	2001	PERCENT	2000	PERCENT
Taxes computed at statutory rate	$ 492	35.0	$ 302	35.0	$ 435	35.0
State income taxes net of federal income tax benefit	56	4.0	37	4.2	53	4.3
Goodwill amortization	—	—	27	3.1	21	1.7
Merger-related charges	—	—	—	—	2	0.2
Other	(8)	(0.6)	1	0.3	(14)	(1.2)
	$ 540	38.4	$ 367	42.6	$ 497	40.0

Note Q — Stock Options and Stock Awards

The Company's stock option and stock award plan (Albertson's, Inc. 1995 Amended and Restated Stock-Based Incentive Plan) (the "1995 Plan") provide for the grant of options to purchase shares of common stock and stock awards. At January 31, 2002, Albertsons had one stock-based incentive plan in effect under which grants could be made with respect to 50 million shares of the Company's common stock. Under this plan, approved by the stockholders most recently in 2001, options and stock awards may be granted to officers, key employees and non-employee members of the Board of Directors to purchase the Company's common stock. During 2001, the Company's stock-based incentive plan was amended to, among other things, increase the number of shares allowed by the plan from 30 million to 50 million. Generally, options are granted with an exercise price at not less than 100 percent of the closing market price on the date of the grant. The Company's options generally become exercisable in installments of 20 percent per year on each of the first through fifth anniversaries of the grant date or vest 100 percent on the third anniversary of the grant date and have a maximum term of 7 to 10 years.

Deferrable or Deferred Stock Units: From time to time, deferrable or deferred stock units with dividend equivalents paid in cash quarterly are awarded under the 1995 Plan to key officers of the Company. Deferred stock units are also awarded to non-employee members of the Board of Directors.

Grants of 1,080,441 units were made during 2002 to key officers and non-employee directors of the Company of which 392,841 units will vest at a rate of 20 percent per year for the first five years and be distributed in a manner elected by the participant on a date after the participant ceases to be an officer of the Company, 678,540 units will vest at a rate of 20 percent per year for the first five years and be distributed in stock at each vesting date unless otherwise deferred, and 9,060 units were fully vested at their grant date.

Grants of 1,089,104 units were made during 2001 to key officers and non-employee directors of the Company of which 788,670 units will vest over time and be distributed in a manner elected by the participant on a date after the participant ceases to be an officer of the Company, 186,217 units will vest at a rate of 20 percent per year for the first five years and be distributed in stock at each vesting date unless otherwise deferred, and 14,217 were fully vested at their grant date. 100,000 of the units will be distributed in stock on December 5, 2003, unless otherwise deferred.

Grants of 738,705 units were made during 2000 to key officers and non-employee directors of the Company of which 730,100 units will be distributed in stock on December 5, 2003, if the applicable officers are still employed as an officer of the Company on that date, unless otherwise deferred by those officers, and 8,605 were fully vested at their grant date. The Company is recognizing this expense over the three-year service period.

Compensation expense for deferred stock units of $19, $19 and $2 was recorded in selling, general and administrative expenses in 2002, 2001, and 2000, respectively.

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):

	JANUARY 30, 2003		JANUARY 31, 2002		FEBRUARY 1, 2001	
	SHARES	PRICE	SHARES	PRICE	SHARES	PRICE
Outstanding at beginning of year	28,045	$33.06	25,290	$32.79	18,015	$38.34
Granted	5,312	23.06	6,406	32.64	8,683	21.78
Exercised	(722)	23.99	(1,303)	22.71	(287)	21.54
Forfeited	(2,390)	34.43	(2,348)	34.70	(1,121)	39.58
Outstanding at end of year	30,245	$31.41	28,045	$33.06	25,290	$32.79
Options exercisable at end of year	13,523	$35.04	11,414	$35.67	7,251	$37.14

As of January 30, 2003, 16 million shares of the Company's common stock were reserved for future grants of stock options and stock awards.

The following table summarizes options outstanding and options exercisable as of January 30, 2003, and the related weighted average remaining contractual life (years) and weighted average exercise price (shares in thousands):

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
OPTION PRICE PER SHARE	SHARES OUTSTANDING	REMAINING LIFE	PRICE	SHARES EXERCISABLE	PRICE
$20.23 – $22.52	10,757	8.7	$21.82	2,565	$21.69
23.52 – 34.87	13,105	7.6	31.50	5,864	30.93
35.00 – 45.94	2,140	3.9	40.01	2,124	40.03
47.00 – 51.19	4,243	6.4	51.14	2,969	51.12
$20.23 – $51.19	30,245	7.6	$31.41	13,522	$35.04

The weighted average fair value at date of grant for Albertson's options granted during 2002, 2001, and 2000 was $6.80, $10.16, and $6.34 per option, respectively. The fair value of options at date of grant was estimated using the Black-Scholes model with the following weighted average assumptions:

	2002	2001	2000
Expected life (years)	5.7	5.8	6.0
Risk-free interest rate	3.15%	3.62%	5.46%
Volatility	38.0%	34.8%	32.5%
Dividend yield	3.38%	2.33%	3.49%

Note R — 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 unless the collective bargaining agreement provides for participation in Company-sponsored plans. 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 amount necessary to meet the funding requirements, as defined by the Internal Revenue Code.

Net periodic benefit expense (income) 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:

	2002	2001	2000
Weighted-average discount rate	6.15%	6.75%	7.15%
Annual salary increases	3.40-4.50%	3.70-4.50%	3.70-4.50%
Expected long-term rate of return on assets	8.50%	9.00%	9.50%

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

	2002	2001	2000
Service cost — benefits earned during the period	$ 12	$ 11	$ 14
Interest cost on projected benefit obligations	37	35	32
Expected return on assets	(39)	(48)	(55)
Amortization of prior service cost	(7)	(7)	5
Recognized net actuarial loss (gain)	9	—	(4)
Net periodic expense (income)	$ 12	$ (9)	$ (8)

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.

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

	JANUARY 30, 2003	JANUARY 31, 2002
CHANGE IN PROJECTED BENEFIT OBLIGATION:		
Beginning of year benefit obligation	$ 567	$ 495
Service cost	12	11
Interest cost	37	35
Actuarial loss	59	41
Benefits paid	(19)	(15)
End of year benefit obligation	656	567
CHANGE IN PLAN ASSETS:		
Plan assets at fair value at beginning of year	466	537
Actual return on plan assets	(51)	(57)
Employer contributions	2	1
Benefit payments	(19)	(15)
Plan assets at fair value at end of year	398	466
Funded status	(258)	(101)
Unrecognized net loss	304	165
Unrecognized prior service cost	(64)	(71)
Additional minimum liability	(228)	(67)
Net accrued pension cost	$(246)	$ (74)
Accrued prepaid pension cost included with other assets	—	25
Accrued pension cost included with other long-term liabilities	(246)	(99)
Net accrued pension cost	$(246)	$ (74)

At January 30, 2003, the accumulated benefit obligation exceeded the fair value of the plans' assets in the Albertson's Employees Corporate Pension Plan, Albertson's Salaried Employees Pension Plan, and the Executive Pension Makeup

Plan. The provisions of SFAS No. 87, "Employers' Accounting for Pensions," require recognition in the balance sheet of an additional minimum liability and related intangible asset for pension plans with accumulated benefits in excess of plan assets; any portion of such additional liability which is in excess of the plan's prior service cost is a component of other comprehensive income and is reflected in stockholders' equity, net of related tax benefit. Accordingly, at January 30, 2003: a liability of $137 was included in other long-term liabilities; an intangible asset equal to the prior service cost of $36 was included in other assets; and a charge of $77 net of taxes of $49 was reflected as a minimum pension liability adjustment in other comprehensive income.

At January 31, 2002: a liability of $67 was included in other long-term liabilities; an intangible asset equal to prior service cost of $28 was included in other assets; and a charge of $23 net of taxes of $16 was reflected as a minimum pension liability adjustment in other comprehensive income.

The following table summarizes the projected benefit obligation, accumulated benefit obligation, and plan assets of the individual plans that have a projected benefit obligation in excess of plan assets:

	JANUARY 30, 2003	JANUARY 31, 2002
PROJECTED BENEFIT OBLIGATION:		
Albertson's Employees Corporate Pension Plan	$383	$331
Albertson's Salaried Employees Pension Plan	253	216
Executive Pension Makeup Plan	20	20
ACCUMULATED BENEFIT OBLIGATION:		
Albertson's Employees Corporate Pension Plan	381	330
Albertson's Salaried Employees Pension Plan	243	209
Executive Pension Makeup Plan	19	20
PLAN ASSETS (FAIR MARKET VALUE):		
Albertson's Employees Corporate Pension Plan	216	250
Albertson's Salaried Employees Pension Plan	181	216

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 $38 and $52 of the Company's common stock at January 30, 2003 and January 31, 2002, 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 $80 for 2002, $49 for 2001, and $58 for 2000.

Retirement plans expense was as follows:

	2002	2001	2000
Defined benefit pension plans	$ 12	$ (9)	$ (8)
ASRE defined contribution plan	152	154	155
Multi-employer plans	80	49	58
	$244	$194	$205

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:

	2002	2001	2000
Service cost	$3	$3	$3
Interest cost	4	4	4
Amortization of unrecognized gain	(1)	(1)	(1)
	$6	$6	$6

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

	JANUARY 30, 2003	JANUARY 31, 2002
CHANGE IN ACCUMULATED BENEFIT OBLIGATION:		
Beginning of year benefit obligation	$ 71	$ 66
Service cost	3	3
Interest cost	4	4
Curtailment gain	(6)	—
Plan participants' contributions	12	12
Actuarial (gain) loss	(1)	2
Benefits paid	(14)	(16)
End of year benefit obligation	69	71
PLAN ASSETS ACTIVITY:		
Employer contributions	2	5
Plan participants' contributions	12	12
Benefit payments	(14)	(17)
Funded status	(69)	(71)
Unrecognized net gain	(13)	(10)
Accrued postretirement benefit obligations included with other long-term liabilities	$ (82)	$ (81)
Discount rates as of end of year	6.10%	6.75%

For measurement purposes, a 6 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for plans covering ASC retirees for 2002 and 2001 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.

SFAS 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.

During 2001, a plan amendment made to the Company's long-term disability plan changed the salary continuation feature from a cumulative benefit based on years of service to a set percentage of salary benefit. This amendment resulted in a reduction of the obligation by $36, which was recognized immediately in accordance with the Company's policy for plan amendments. Following is a summary of the obligation for postemployment benefits included in the Company's Consolidated Balance Sheets:

	JANUARY 30, 2003	JANUARY 31, 2002
Included with salaries and related liabilities	$25	$12
Included with other long-term liabilities	67	54
	$92	$66

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 $408 for 2002, $362 for 2001, and $286 for 2000.

Note S — Employment Contracts and Change in Control Agreements

The Company has entered into employment contracts with certain executives for periods up to three years (and ten years for the Chairman of the Board and Chief Executive Officer). The agreements include specified amounts for signing bonus, base salary, annual bonus payments, stock option awards and deferrable or deferred stock unit awards. In the event of termination of employment without cause, the executive would be entitled to certain guaranteed payments and the vesting of stock awards.

The Company has entered into change-in-control ("CIC") agreements with certain executives to provide them with stated severance compensation should their employment with the Company be terminated under certain defined circumstances following a CIC. The CIC agreements have varying terms and provisions depending upon the executive's level within the organization and other considerations, including up to three times current base salary and current target bonus, payable in lump sum, and, for senior executives, a tax gross-up payment to make the executive whole for any excise taxes incurred due to Section 280G of the Internal Revenue Code.

The CIC agreements have a term of approximately three years and three months, with each agreement expiring on December 31, 2005. However, beginning on January 1, 2004 and each January 1st thereafter, the term of the agreement will automatically be extended for an additional year unless the Company or the executive gives notice by September 30 of the preceding year that it does not wish to extend the agreement. In the event that a CIC occurs during the term of the agreement, the agreement provides for a two-year protection period (referred to as the severance period) during which the executive is protected from an involuntary termination (other than for cause) or termination for Good Reason as defined in the agreements.

The agreements are considered to be "double trigger" arrangements wherein the payment of severance compensation is predicated upon the occurrence of two triggering events: (1) the occurrence of a CIC as defined in the agreements; and (2) the involuntary termination of the executive (other than for cause) or the executive's termination of employment with the Company for Good Reason as defined in the agreements.

In consideration for the severance protection afforded by such agreements, the senior executives have agreed to non-compete provisions for the term of the agreements and for one year following the date of termination, and all of the executives covered by the CIC program described above have agreed to non-solicitation provisions for the term of the agreements and for one year following the date of termination.

Note T — 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 a summary of the Company's assets under capitalized leases. $2 of real estate and equipment is included in assets held for sale at January 30, 2003:

	JANUARY 30, 2003	JANUARY 31, 2002
Real estate and equipment	$ 355	$ 338
Accumulated amortization	(98)	(112)
	$ 257	$ 226

Future minimum lease payments for noncancelable operating leases (which exclude the amortization of acquisition-related fair value adjustments), related subleases and capital leases at January 30, 2003, are as follows:

	OPERATING LEASES	SUBLEASES	CAPITAL LEASES
2003	$ 330	$ (27)	$ 47
2004	330	(27)	46
2005	307	(22)	42
2006	282	(19)	40
2007	263	(16)	39
Thereafter	2,275	(58)	531
Total minimum obligations (receivables)	$ 3,787	$ (169)	745
Interest			(424)
Present value of net minimum obligations			321
Current portion			(14)
Long-term obligations at January 30, 2003			$ 307

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. If any of the purchases were to become insolvent, the Company could be required to assume the lease obligation. As of January 30, 2003, the Company had guarantees remaining on approximately 103 stores with leases extending through 2026. Assuming that each respective purchaser became insolvent, an event the Company believes to be highly remote because of the wide dispersion among third parties and remedies available, the minimum future undiscounted payments are $188.

Rent expense under operating leases, excluding the amortization of acquisition-related fair value adjustments of $13 in 2002, $13 in 2001, and $14 in 2000, was as follows:

	2002	2001	2000
Minimum rent	$389	$375	$369
Contingent rent	26	28	30
	415	403	399
Sublease rent	(92)	(94)	(97)
	$323	$309	$302

Note U — Related Party Transactions

In the last three years, the Company has leased between seven and nine stores and two office locations ($3, $3 and $3 of rent paid during 2002, 2001 and 2000, respectively), purchased a piece of land ($2 during 2001), and obtained consulting services (insignificant) from entities that have a relationship with certain members of the Company's Board of Directors.

Note V — Financial Instruments

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

The estimated fair values of cash and cash equivalents, accounts receivable, accounts payable, short-term debt, and 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 bank line borrowings) were as follows:

	JANUARY 30, 2003	JANUARY 31, 2002
Fair value	$5,675	$5,516
Carrying amount	5,055	5,183

Note W — 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 properties). The Company conducts an ongoing program for the inspection and evaluation of potential new sites 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 believed to be remote. Although the ultimate outcome and expense of environmental remediation is uncertain, the Company believes that the costs of required remediation and continuing compliance with environmental laws, in excess of current reserves, will not have a material adverse effect on the financial condition, results of operations or cash flows of the Company. Charges against earnings for environmental remediation were not material in 2002, 2001 or 2000.

Note X — Legal Proceedings

The Company is subject to various lawsuits, claims and other legal matters that arise in the ordinary course of conducting business.

In March 2000 a class action complaint was filed against Albertsons as well as American Stores Company, American Drug Stores, Inc., Sav-on Drug Stores, Inc. and Lucky Stores, Inc., wholly-owned subsidiaries of the Company, in the Superior Court for the County of Los Angeles, California (Gardner, et al. v. Albertson's, Inc., et al.) by bonus-eligible managers seeking recovery of additional bonus compensation based upon plaintiffs' allegation that the calculation of profits on which their bonuses were based improperly included expenses for workers' compensation costs, cash shortages, premises liability and "shrink" losses in violation of California law. In October 2001 the court granted summary judgement against Sav-on Drug Stores, finding one of its bonus plans unlawful under plaintiffs' liability theory. In August 2001 a class action complaint with very similar claims, also involving bonus-eligible managers, was filed against Albertson's, Inc., Lucky Stores, Inc. and American Stores Company, wholly-owned subsidiaries of the Company, in the Superior Court for the County of Los Angeles, California (Petersen, et al. v. Lucky Stores, Inc., et al.). In June 2002 the cases were consolidated and in August 2002 a class action with respect to the consolidated case was certified by the court. 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 that the ultimate resolution of this action will have a material adverse effect on the Company's financial condition, results of operations or cash flows.

In April 2000 a class action complaint was filed against Albertsons as well as American Stores Company, American Drug Stores, Inc., Sav-on Drug Stores, Inc. and Lucky Stores, Inc., wholly-owned subsidiaries of the Company, in the Superior Court for the County of Los Angeles, California (Gardner, et al. v. American Stores Company, et al.) by assistant managers seeking recovery of overtime pay based upon plaintiffs' allegation that they were improperly classified as exempt under California law. In May 2001 a class action with respect to Sav-on Drug Stores assistant managers was certified by the court. A case with very similar claims, involving the Sav-on Drug Stores assistant managers and operating managers, was also filed in April 2000 against the Company's subsidiary Sav-on Drug Stores, Inc. in the Superior Court for the County of Los Angeles, California (Rocher, Dahlin, et al. v. Sav-on Drug Stores, Inc.) and was also certified as a class action. In April 2002 the Court of Appeal of the State of California Second Appellate District reversed the Rocher class certification, leaving only two plaintiffs. The California Supreme Court has accepted plaintiffs' request for review of this class decertification. The Gardner case is on hold pending the result in the California Supreme Court. The Company has strong defenses against these lawsuits, and is vigorously defending them. Although these lawsuits are subject to the uncertainties inherent in the litigation process, based on the information presently available to the Company, management does not expect that the ultimate resolution of these lawsuits will have a material adverse effect on the Company's financial condition, results of operations or cash flows.

In August 2000 a class action complaint was filed against Jewel Food Stores, Inc., a 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. In July 2002 a class was certified, consisting of all people residing in the Chicagoland area who bought milk at retail from either or both of the defendants between August 23, 1996 and August 23, 2000. On February 25, 2003, the trial judge granted Jewel's and Dominick's motion to dismiss after presentation of plaintiffs' case, and the case was dismissed with prejudice. The plaintiffs have filed a notice of intent to appeal the decision issued in favor of the defendants.

An agreement has been reached, and court approval granted, to settle eight purported class and/or collective actions which were consolidated in the United States District Court in Boise, Idaho, and which raised various issues including "off-the-clock" work allegations and allegations regarding certain salaried grocery managers' exempt status. Under the settlement agreement, current and former employees who met eligibility criteria have been allowed to present their off-the-clock work claims to a settlement administrator. Additionally, current and former grocery managers employed in the State of California have been allowed to present their exempt status claims to a settlement administrator. The Company mailed notices of the settlement and claims forms to approximately 80,000 associates and former associates. Approximately 6,000 claim forms were returned, of which approximately 5,000 were deemed by the settlement administrator to be incapable of valuation, presumed untimely, or both. The court will consider the status and handling of these 5,000 claims. The claims administrator was able to assign a value to approximately 1,000 claims, which amount to a total of approximately $13.5, although the value of many of those claims is still subject to challenge by the Company. The Company is presently unable to determine the number of individuals who may ultimately submit valid claims or the amounts that it may ultimately be required to pay with respect to such claims. Based on the information presently available to it, management does not expect that the satisfaction of valid claims submitted pursuant to the settlement will have a material adverse effect on the Company's financial condition, results of operations or cash flows.

The Company is also involved in routine legal proceedings incidental to its operations. The Company utilizes various methods of alternative dispute resolution, including settlement discussions, to manage the costs and uncertainties inherent in the litigation process. Management does not expect that the ultimate resolution of these legal proceedings will have a material adverse effect on the Company's financial condition, results of operations or cash flows.

The statements above reflect management's current expectations based on the information presently available to the Company. However, predicting the outcomes of claims and litigation and estimating related costs and exposures involve substantial uncertainties that could cause actual outcomes, costs and exposures to vary materially from current expectations. In addition, the Company regularly monitors its exposure to the loss contingencies associated with these matters and may from time to time change its predictions with respect to outcomes and its estimates with respect to related costs and exposures. It is possible that material differences in actual outcomes, costs and exposures relative to current predictions and estimates, or material changes in such predictions or estimates, could have a material adverse effect on the Company's financial condition, results of operations or cash flows.

Note Y — Contractual Obligations and Commitments

Albertsons has assumed various financial obligations and commitments in the normal course of its operations and financing activities. Financial obligations are considered to represent known future cash payments that the Company is required to make under existing contractual arrangements, such as debt and lease agreements. The following table represents the scheduled maturities of the Company's long-term contractual obligations as of January 30, 2003:

	YEAR 1	YEARS 2-3	YEARS 4-5	AFTER 5 YEARS	TOTAL
Long-term debt	$105	$ 704	$ 14	$4,232	$ 5,055
Capital lease obligations [1]	47	88	79	531	745
Operating leases [1]	330	637	545	2,275	3,787
Contracts for purchase of property and construction of buildings	176	—	—	—	176
Other [2]	96	136	6	—	238
Total contractual cash obligations	$754	$1,565	$644	$7,038	$10,001

[1] Represents the minimum rents payable and includes leases associated with closed stores accrued for under the Company's restructuring and closed store reserves. Amounts are not offset by expected sublease income.

[2] Other includes transportation contracts with third parties. The Company has entered into energy supply agreements which have terms through 2006. These agreements include certain provisions that could potentially require the Company to pay additional amounts if the actual usage is less than the minimum usage per the contract documents or if the contracts were terminated. This number is difficult to estimate due to the uncertainty of future energy usage and change in the market value of energy, therefore no amounts have been included above.

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.

Albertsons commercial commitments as of January 30, 2003, representing possible commitments triggered by potential future events, are as follows:

	YEAR 1	YEARS 2-3	YEARS 4-5	AFTER 5 YEARS	TOTAL
Available lines of credit	$450	$950	$ —	$ —	$1,400
Letters of credit — standby	95	—	—	—	95
Letters of credit — commercial	13	—	—	—	13
Potential commercial commitments	$558	$950	$ —	$ —	$1,508

The Company had outstanding Letters of Credit of $108 as of January 30, 2003, all of which were issued under separate bilateral agreements with multiple financial institutions. Of the $108 outstanding at year end, $95 were standby letters of credit covering primarily workers' compensation or performance obligations. The remaining $13 were commercial letters of credit supporting the Company's merchandise import program. The Company paid issuance fees that varied, depending on type, up to 0.70% of the outstanding balance of the letter of credit.

Note Z — Computation of Earnings Per Share

	2002		2001		2000	
	DILUTED	BASIC	DILUTED	BASIC	DILUTED	BASIC
Net earnings	$ 485	$ 485	$ 501	$ 501	$ 765	$ 765
Weighted average common shares outstanding	397	397	406	406	418	418
Common share equivalents	2		2		—	
Weighted average shares outstanding	399		408		418	
Earnings per common share and common share equivalent:	$ 1.22	$1.22	$ 1.23	$1.23	$ 1.83	$1.83
CALCULATION OF COMMON SHARE EQUIVALENTS:						
Options and awards to purchase common shares	10		17		2	
Common shares assumed purchased with potential proceeds	(8)		(15)		(2)	
Common share equivalents	2		2		—	
CALCULATION OF COMMON SHARES ASSUMED PURCHASED WITH POTENTIAL PROCEEDS:						
Potential proceeds from exercise of options and awards to purchase common shares	$ 227		$ 455		$ 52	
Common stock price used under the treasury stock method	$27.77		$31.12		$27.99	
Common shares assumed purchased with potential proceeds	8		15		2	

Outstanding options excluded in 2002, 2001, and 2000 (option price exceeded the average market price during the period) amounted to 20.2 million shares, 9.4 million shares, and 16.6 million shares, respectively.

Independent Auditors' Report

To 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 January 30, 2003 and January 31, 2002, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the three years in the period ended January 30, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States 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 provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Albertson's, Inc., and subsidiaries at January 30, 2003 and January 31, 2002, and the results of their operations and their cash flows for each of the three years in the period ended January 30, 2003, in conformity with accounting principles generally accepted in the United States of America.

As discussed in the notes to the consolidated financial statements, during the year ended January 30, 2003, the Company changed its methods of accounting for goodwill (Notes B and M) and for closed stores (Note E) to conform to Statements of Financial Accounting Standards No. 142 and 144. Also during the year ended January 30, 2003, the Company changed its method of accounting for vendor funds (Notes B and C) to conform to Emerging Issues Task Force Issue No. 02-16.

Deloitte & Touche LLP

Deloitte & Touche LLP
Boise, Idaho
March 20, 2003

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, including an internal audit department, 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. This system is continually reviewed, improved, and modified in response to changing conditions and operations, and to recommendations made by the independent auditors and internal auditors. 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/Finance 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/Finance 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.

Larry Johnston
Chairman of the Board and Chief Executive Officer

Felicia D. Thornton
Executive Vice President and Chief Financial Officer

Five-Year Summary of Selected Financial Data

The following data have been derived from the consolidated financial statements of the Company and should be read in conjunction with those statements, which are included in this report.

(dollars in millions, except per share data)	52 WEEKS JANUARY 30, 2003	52 WEEKS JANUARY 31, 2002	52 WEEKS FEBRUARY 1, 2001	53 WEEKS FEBRUARY 3, 2000	52 WEEKS JANUARY 28, 1999
OPERATING RESULTS:					
Sales	$35,626	$36,605	$35,501	$36,326	$34,915
Earnings from continuing operations	865	496	746	395	779
Net earnings	485	501	765	404	801
Net earnings as a percent to sales	1.38%	1.38%	2.15%	1.12%	2.28%
COMMON STOCK DATA:					
Earnings from continuing operations:					
Basic	$ 2.18	$ 1.22	$ 1.78	$ 0.93	$ 1.86
Diluted	2.17	1.22	1.78	0.92	1.85
Net earnings per share:					
Basic	1.22	1.23	1.83	0.96	1.91
Diluted	1.22	1.23	1.83	0.95	1.90
Cash dividends per share:					
Albertsons	0.76	0.76	0.76	0.72	0.68
American Stores Company equivalent	—	—	—	0.14	0.57
Financial Position:					
Total assets	$15,211	$15,981	$16,094	$15,719	$15,131
Long-term debt and capitalized lease obligations	5,257	5,336	5,942	4,990	5,108
Other Year End Statistics:					
Number of stores	2,287	2,421	2,512	2,492	2,564

The operating results include two significant restructuring initiatives that were implemented in 2001 and 2002 (refer to "Note F — Restructuring" and "Note E — Discontinued Operations/Market Exits" in the notes to the accompanying consolidated financial statements). Although these decisions were similar, the adoption of Statement of Financial Accounting Standard (SFAS) No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" on February 1, 2002 caused the financial statement presentation of these actions to be dissimilar (SFAS No. 144 does not allow for the retroactive application of its provisions). The Company's financial statements have been restated to classify the results of operations for the 95 stores, two distribution centers and the reduction of division offices from 15 to 11, as discontinued operations for all periods. The operating results of the 165 stores are included in continuing operations of the Company's financial statements for the periods prior to their sale or closure.

The Company adopted SFAS 142 in 2002 (refer to "Note M — Goodwill and Other Intangible Assets" in the notes to the accompanying consolidated financial statements).

On June 23, 1999, Albertsons and American Stores Company consummated a merger, which has been accounted for as a pooling of interests.

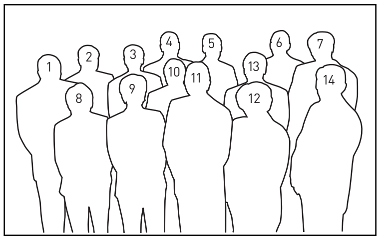
Quarterly Financial Data

(dollars in millions, except per share data — unaudited)	FIRST	SECOND	THIRD	FOURTH	YEAR
2002					
Sales	$8,921	$8,941	$8,657	$9,107	$35,626
Gross profit	2,623	2,631	2,530	2,600	10,384
Operating profit	487	520	385	425	1,817
(Loss) earnings from discontinued operations	(303)	13	(2)	6	(286)
(Loss) earnings before cumulative effect of accounting change	(71)	257	188	205	579
Cumulative effect of accounting change	(94)	—	—	—	(94)
Net (loss) earnings	(165)	257	188	205	485
(Loss) earnings per share:					
Basic	(0.41)	0.63	0.47	0.54	1.22
Diluted	(0.40)	0.63	0.47	0.54	1.22
2001					
Sales	$8,994	$9,235	$9,036	$9,340	$36,605
Gross profit	2,571	2,587	2,570	2,698	10,426
Operating profit (loss)	431	(143)	417	591	1,296
Earnings (loss) from discontinued operations	2	3	(1)	1	5
Net earnings (loss)	186	(151)	176	290	501
Earnings (loss) per share:					
Basic	0.46	(0.37)	0.43	0.71	1.23
Diluted	0.46	(0.37)	0.43	0.71	1.23

The 2002 quarterly financial information presented above includes the impact of the change in the Company's method of accounting for vendor funds; this new accounting method was adopted in the fourth quarter of 2002, retroactive to the first quarter of 2002 (see "Note C — Cumulative Effect of Change in Accounting Principle" in the accompanying notes to the Consolidated Financial Statements). The Company's operating results presented above differ from the previously reported results due to the accounting method change. As compared to the operating results previously reported, gross profit increased by $16 and $7, for the first and second quarters and decreased by $7 in the third quarter; net earnings increased by $10 ($0.02 per diluted share), and $4 ($0.01 per diluted share) in the first and second quarters and decreased by $4 ($0.01 per diluted share) in the third quarter. Earnings per share on earnings before cumulative effect of accounting change was $0.23 per diluted share for the first quarter.

Albertsons Family of Stores

Executive Officers



Larry Johnston[7]
Chairman of the Board &
Chief Executive Officer

Peter Lynch[1]
President &
Chief Operating Officer

Bob Banks[3]
Executive Vice President
Development

Bob Butler[2]
Executive Vice President
Operations

Roe Cefalo[11]
Executive Vice President
Operations

Ertharin Cousin[12]
Senior Vice President
Public Affairs

Eric Cremers[14]
Senior Vice President
Corporate Strategy &
Business Development

Bob Dunst[10]
Executive Vice President &
Chief Technology Officer

Gabe Gabriel[4]
Executive Vice President
Supply Chain

Kathy Herbert[8]
Executive Vice President
Human Resources

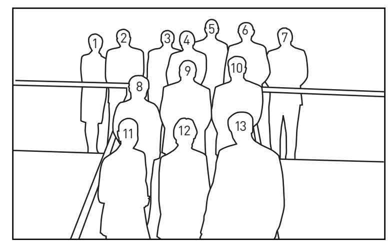
John Sims[13]
Executive Vice President
& General Counsel

Larry Stablein[5]
Executive Vice President
Marketing & Merchandising

Felicia Thornton[9]
Executive Vice President
& Chief Financial Officer

Kevin Tripp[6]
Executive Vice President
Operations & Pharmacy

Board of Directors



Gary Ames[7]
Retired President & Chief Executive Officer of MediaOne International

Cecil Andrus[3]
Chairman of the Andrus Center for Public Policy

Pam Bailey[1]
Chief Executive Officer & President of the Advanced Medical Technology Association

Teresa Beck[12]
Retired President of American Stores Company

Hank Bryant[5]
Retired Managing Director in the Corporate Finance Unit of J.P. Morgan & Co. Incorporated

Paul Corddry[2]
Retired Senior Vice President, Europe, of H.J. Heinz Company

Bonnie Hill[11]
President of B. Hill Enterprises, LLC & retired President & Chief Executive Officer of The Times Mirror Foundation

Larry Johnston[13]
Chairman of the Board & Chief Executive Officer of the Company

Peter Lynch[9]
President & Chief Operating Officer of the Company

Jon Madonna[4]
Chairman of the Board of DigitalThink, Inc.

Betty Rivera[8]
Member of Energy Resource Associates, LLC & formerly Cabinet Secretary of the Energy, Minerals & Natural Resources Department of the State of New Mexico

Joe Scott[10]
Chairman of the Board of Alscott, Inc. & Chairman of the Board of the J.A. & Kathryn Albertson Foundation, Inc.

Will Storey[6]
Retired Executive Vice President & Chief Financial Officer of American President Companies, Inc.

Executive Committee
- **Larry Johnston,** Chairman
- **Gary Ames**
- **Teresa Beck**
- **Hank Bryant**
- **Paul Corddry**

Audit/Finance Committee
- **Hank Bryant,** Chairman
- **Cecil Andrus**
- **Pam Bailey**
- **Teresa Beck**
- **Jon Madonna**
- **Will Storey**

Management Development/ Compensation Committee
- **Gary Ames,** Chairman
- **Pam Bailey**
- **Paul Corddry**
- **Bonnie Hill**
- **Betty Rivera**

Nominating/Corporate Governance Committee
- **Teresa Beck,** Chairman
- **Cecil Andrus**
- **Bonnie Hill**
- **Jon Madonna**
- **Betty Rivera**
- **Joe Scott**

Officers

Larry Johnston, Chairman & CEO
Peter Lynch, President & COO

Bob Banks, EVP, Development
- **Craig Brown,** VP, Project Development
- **Shirley Christoffersen,** VP, Property Management & Store Maintenance
- **Greg Goins**, GVP, Real Estate
  - **Carolyn Bock,** VP, Surplus Property
  - **Sue Kelley,** VP, Economic Research
  - **Mark Lavin,** VP, Real Estate, S. California Division
  - **Colin McKeon,** VP, Real Estate, Eastern/S. Florida/Dallas/Ft. Worth Divisions
  - **Dave McKinney,** GVP, Real Estate, Northwest/Intermountain/N. California/Southwest Divisions
  - **George Redfearn,** VP, Real Estate, Midwest Division
- **Gary Paterson,** VP, Project Development
- **Dan Tobin,** VP, Construction

Bob Butler, EVP, Operations
- **Mike Clawson,** President, Northwest Division
  - **Mike Withers**, VP, Operations
- **Bob Colgrove,** President, Intermountain Division
  - **Ritchie Casteel,** VP, Operations
  - **Frank Yaksitch,** VP, Marketing
- **Jim Gentile,** President, N. California Division
  - **Craig Allen,** SVP, Marketing
  - **Donna Robbins,** SVP, Operations
    - **Pat Adams,** VP, Operations, North Bay Area
    - **Michelle Lawrence,** VP, Operations, South Bay Area
- **Jim Rice,** President, Southwest Division
- **Dave Simonson,** President, S. California Division
  - **Dennis Bassler,** SVP, Marketing
  - **Fred Schuit,** SVP, Operations
    - **Charla Giles,** Area VP, San Diego Area
    - **Ed Little,** Area VP, S. Los Angeles Area
    - **Greg McNiff,** Area VP, Las Vegas Area
    - **Jacque Morris,** Area VP, Central Coast Area
    - **Terry Rocheleau,** Area VP, Quad Counties Area

Roe Cefalo, EVP, Operations
- **Wayne Denningham,** President, Dallas/Ft. Worth Division
  - **John Colgrove,** VP, Marketing
  - **Frank Eckstein,** SVP, Operations
    - **Bart Bohlen,** Area VP, Great Plains/West Texas Areas
    - **Kim Gray,** Area VP, South Dallas/South Louisiana Areas
    - **Mike Patton,** Area VP, North Dallas/North Louisiana Areas
    - **Scott Hays,** Area VP, Ft. Worth/Mid Cities/Austin Areas
- **Carl Jablonski,** President, Eastern Division
  - **Tony Frederico,** VP Operations, East Area
  - **Bill Mann,** VP Operations, West Area
  - **Tom Whitby,** SVP, Merchandising
- **Judy Spires,** President, Rocky Mountain Division
  - **Trey Johnson,** VP, Marketing
  - **Brian Murty,** VP Operations, Rocky Mountain Division
- **Pete Van Helden,** President, Midwest Division
  - **Ed Hanson,** SVP, Marketing & Merchandising
    - **Nancy Chagares,** VP, Fresh Food Merchandising
    - **Doug Cygan,** VP, GM & Grocery Merchandising
    - **Clem Washington,** VP, Sales & Advertising
  - **Keith Nielsen,** SVP, Operations
    - **Greg Gullickson,** Area VP, Central Area
    - **Bob Hughes,** Area VP, South Area
    - **Roy Whitmore,** Area VP, North Area
- **Larry Wahlstrom,** President, Florida Division
  - **Jim LaJeunesse,** VP, Marketing
  - **Gerald Melville,** Area VP, North Florida Area
  - **Jim Perkins,** Area VP, South Florida Area

Ertharin Cousin, SVP, Public Affairs

Bob Dunst, EVP & Chief Technology Officer
- **Mark Bates,** GVP, Technology
  - **Keith DeMeyer,** VP, Telecommunications
  - **Roger Hansen,** VP, Computer Operations
- **Sheila Close,** GVP, IT Applications Services
  - **Jake Jacobsen,** VP, Systems Support
  - **Jeff Osban,** VP, Applications Development
- **Tony Jolley,** VP, IT Architecture
- **Gary Kahl,** VP, IT Sourcing

Clarence "Gabe" Gabriel, EVP, Supply Chain Management
Dario Bell, VP, Transportation
Bruce Christiansen, VP, Distribution Administration
John Raudabaugh, VP, Warehousing
Dave Robertson, GVP, Distribution
Martin Teall, VP, Distribution

Kathy Herbert, EVP, Human Resources
Dave Biderman, VP, HR Administration
Tim Corry, VP, HR, Midwest Division
Liz Garrett, VP, HR, Drug Stores Division
Laura Hamblin, VP, HR, Dallas/Ft. Worth Division
Peggy Jones, VP, HR, S. California Division
Michele Murphy, VP, HR, Eastern Division
Sue Neumann, GVP, Communications & Education
Terri Hughes, VP, Training
Cheryl Nolan, VP, HR, N. California Division
Mike Plecki, VP, Compensation
Jack Snow, GVP, HR & Employee Benefits
Nancy Superchi, VP, Payroll Administration & HRIS
Marcia Williams, VP, Diversity

Eileen Kowalski, GVP, Retail Operations, Corporate
Debra Apker, VP, Front End Operations
Peggy McReynolds, VP, Out of Stock

John Sims, EVP & General Counsel
Bill Arnold, GVP, Real Estate Law
Lee Mumford, VP, Real Estate Law
Linc Sharp, VP, Real Estate Law
John Calleri, VP, Labor Relations & Employment Law/Eastern
Karen Casey, VP, Labor Relations & Employment Law
Virginia Javier, VP, EEO/N. California
Chip Cole, GVP, Litigation & Regulatory Affairs
Mike DePaola, GVP, Asset Management
Peter Bartholomew, VP, Loss Prevention
Ed Raffo, VP, Safety
Kaye O'Riordan, VP & Corporate Secretary
Paul Rowan, GVP, Business Law
Andy Scoggin, VP, Labor Relations & Employment Law
Tom Walter, VP, Labor Relations & Employment Law/Midwest

Larry Stablein, EVP, Marketing & Merchandising
Larry Hansen, GVP, Grocery Merchandising / Procurement
Todd Michael, VP, Grocery Merchandising
Mitch Oddo, VP, Liquor Merchandising / Procurement
Shan Kumar, VP, Category Marketing & Planning
Terry Lee, VP, Corporate Brands
Pam Powell, GVP, Marketing
Chris Mielke, VP, Marketing
Clement Stevens, GVP, Fresh Food Merchandising / Procurement
Kathy Brady, VP, Service Deli Merchandising / Procurement
Susan Fells, VP, Bakery Merchandising / Procurement
Kip Gruell, VP, Meat Merchandising / Procurement
Cindy Rapshus, VP Floral Merchandising / Procurement
Ed Tommack, VP, Produce Merchandising / Procurement
John Strong, VP, Strategic Sourcing
Jim Willyard, GVP, Marketing, Drug & GM Category Management
Mike Massimino, VP, GM Sales, Food Stores
John McGovern, VP, Sales, GM and Drug
Claire Thomas, VP, GM / Procurement Category Management

Felicia Thornton, EVP & CFO
John Boyd, GVP & Treasurer
Mike Bessent, VP & Assistant Treasurer
Pete Collins, GVP & Controller
Boyce Bailey, VP, Corporate Tax
Bob Schuler, VP, Controller Distribution
Eric Cremers, SVP, Corporate Strategy & Business Development
Larry Harmon, VP, Internal Controls
Nick Kormeluk, VP, Investor Relations
Linda Massman, GVP, Finance & Corporate Planning
Kathy Schroeder, VP, Claims Administration
Dan Zvonek, VP, Finance, Drug & GM Operations

Kevin Tripp, EVP, Operations & Pharmacy
Gerry Bay, VP, Pharmacy Operations
Chris Dimos, VP, Pharmacy Services
Dennis Palmer, SVP, Operations, Drug Division
Gary Hunstiger, Area VP, Central Area
Matt Miles, Area VP, S. California, North Area
Bob Potter, Area VP, S. California, South Area
Mark Shadle, VP, Pharmacy Operations
Brad Trom, VP, Pharmacy Operations

Other Information

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

	FIRST		SECOND		THIRD		FOURTH		YEAR	
	HIGH	LOW	HIGH	LOW	HIGH	LOW	HIGH	LOW	HIGH	LOW
2002	$35.49	$26.88	$35.49	$26.51	$28.66	$22.14	$24.60	$18.85	$35.49	$18.85
2001	34.05	27.00	33.72	27.30	36.99	29.25	35.59	28.26	36.99	27.00
2000	34.94	23.06	39.25	30.00	31.50	20.06	28.88	21.00	39.25	20.06

	FIRST	SECOND	THIRD	FOURTH	YEAR
2002	$0.19	$0.19	$0.19	$0.19	$0.76
2001	$0.19	$0.19	$0.19	$0.19	$0.76
2000	$0.19	$0.19	$0.19	$0.19	$0.76

In March 2003, the Board of Directors maintained the regular quarterly cash dividend of $0.19 per share, for an effective annual rate of $0.76 per share. The quarterly rate will be paid on May 10, 2003, to shareholders of record on April 15, 2003.

Top 10 Shareholders as of January 30, 2003

HOLDER	SHARES HELD (millions)	PERCENT OF OUTSTANDING
Capital Research and Management Company	45.5	12.2%
Markus Stiftung	29.2	7.8%
Legg Mason Capital Management, Inc.	20.9	5.6%
J. A. and Kathryn Albertson Foundation, Inc.	19.7	5.3%
Brandes Investment Partners, L.P.	13.0	3.5%
Barclays Global Investors	11.6	3.1%
Templeton Investment Counsel, Inc.	10.8	2.9%
State Street Global Advisors	9.7	2.6%
Vanguard Group, Inc.	6.4	1.7%
Alscott Limited Partnership 1	6.0	1.6%
Outstanding Shares	372.1	

Top Institutional Shareholder information provided by Thomson Financial Corporate Group.

Markus Stiftung, J.A. & Kathryn Albertson Foundation, Inc. and Alscott Limited Partnership 1 information provided by American Stock Transfer & Trust Company.

Shareholders' Information

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

Internet Address
Major press releases and other corporate data are available on Albertsons web site: www.albertsons.com

Auditors
Deloitte & Touche LLP
Boise, Idaho

Stock Transfer Agent and Registrar
American Stock Transfer & Trust Company
59 Maiden Lane
New York, New York 10038
Telephone: (888) 788-5081
Internet address: www.amstock.com

Shareholders of Record
There were 31,241 shareholders of record at March 28, 2003.

Annual Meeting
The 2003 Annual Meeting of Shareholders will be held on Friday, June 6, 2003 in Santa Fe, New Mexico.

Dividend Reinvestment Plan
The Company's Dividend Reinvestment Plan allows shareholders of record to invest their quarterly dividends automatically and to purchase additional shares under the Plan with voluntary cash payments. More information may be obtained from American Stock Transfer & Trust Company at (877) 842-1551, www.investpower.com or from the Corporate Secretary of Albertsons.

Information Contact
Information on individual accounts or on procedures necessary to make changes in an account is provided by American Stock Transfer & Trust Company at (888) 788-5081 Monday – Thursday between the hours of 8:00 a.m. and 7:00 p.m. Eastern Time, and Friday from 8:00 a.m. to 5:00 p.m., Eastern Time, after a shareholder 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 American Stock Transfer & Trust Company at the address shown, shareholders are reminded to include a reference to Albertsons.

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 shareholders on the Company's web site, or without a charge upon request to the Corporate Secretary of Albertsons.

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 January 30, 2003, is available to shareholders on the Company's web site, or without charge upon request to the Corporate Secretary of Albertsons.

Corporate Governance Guidelines
A copy of the Company's Corporate Governance Guidelines is available to shareholders on the Company's web site, or without charge upon request to the Corporate Secretary of Albertsons.

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In Memoriam:

Kathryn McCurry Albertson (1908 – 2002)

This year marked the passing of Kathryn Albertson, the 93-year-old widow of our late founder, Joe Albertson. Kathryn served on our Board of Directors from its inception in 1958, and was appointed Director Emeritus in 1999. She was instrumental in the development of our company, beginning with the $7,500 she borrowed from her aunt to help Joe open the first Albertsons store in 1939.

Known to many at Albertsons as "Mrs. A," she stood by her husband for more than 60 years of marriage until his death in 1993. A quiet and unassuming woman, Mrs. Albertson had a big heart and her generosity was evidenced in many ways.

She first met Joe in Caldwell at the College of Idaho. Both were forced to withdraw as a result of the Great Depression in 1930, but later in life they made up for it many times over by dedicating the bulk of their considerable philanthropic efforts to supporting educational programs statewide. The effort began with the formation of the J.A. and Kathryn Albertson Foundation in 1966 as a catalyst for educational reform and improvement in Idaho. In 1997, Mrs. Albertson donated $660 million in Albertsons stock to the foundation, which propelled its giving level from approximately $2.5 million a year to more than $35 million. That year Fortune magazine named her the second-most-generous person in the United States, after media mogul Ted Turner. Kathryn shunned the spotlight, preferring to work quietly behind the scenes and insisting that her gifts not be subjects of fanfare.

Several years after the Albertsons donated a large tract of land to the city of Boise, Idaho, officials there conspired with her husband Joe to name it Kathryn Albertson Park. Mrs. A could see the park from the family home on the Boise Bench rim. Kathryn will be remembered everywhere as a friend to Idaho's children and through her legacy with all of us here as the embodiment of the Albertsons spirit.

Albertsons, Inc. 250 Parkcenter Boulevard P.O. Box 20 Boise, Idaho 83726 www.albertsons.com