UBS AG
Form 424B2
October 05, 2018
The information in this preliminary pricing supplement is not complete and may be changed. We may not sell these securities until the pricing supplement, the accompanying product supplement, the index supplement and the accompanying prospectus (collectively, the "Offering Documents") are delivered in final form. The Offering Documents are not an offer to sell these securities and we are not soliciting offers to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion Preliminary Pricing Supplement Dated October 5, 2018 Registration Statement No. 333-204908	October 2018 (To Prospectus dated April 29, 2016, Index Supplement dated April 29, 2016 and Product Supplement dated June 28, 2017)

Structured Investments

Opportunities in U.S. and International Equities

Trigger Callable Contingent Yield Securities with Daily Coupon Observation due on or about October 14, 2021

$· Based on the worst performing of the Russell 2000® Index, the S&P 500® Index and the EURO STOXX 50® Index

UBS AG Trigger Callable Contingent Yield Securities with Daily Coupon Observation (the “securities”) are unsubordinated, unsecured debt securities issued by UBS AG (“UBS” or the “issuer”) linked to the worst performing of the Russell 2000® Index, the S&P 500® Index and the EURO STOXX 50® Index (each an “underlying index” and together the “underlying indices”). If the closing level of each underlying index is equal to or greater than its coupon barrier on each trading day during the applicable observation period, UBS will pay you a contingent coupon on the related coupon payment date. If the closing level of any underlying index is less than its coupon barrier on any trading day during an observation period, you will not receive any contingent coupon for that observation period on the related coupon payment date. UBS may elect, on or before any applicable observation end date, to call the securities at its discretion in whole, but not in part (an “issuer call”), on the coupon payment date corresponding to such coupon observation date (the “call settlement date”), regardless of the closing levels of the underlying indices on such observation end date. If UBS elects to call the securities prior to maturity, UBS will pay you on the call settlement date a cash payment per security equal to the stated principal amount plus any contingent coupon otherwise due, and no further payments will be made on the securities. If UBS does not elect to call the securities and a trigger event does not occur, at maturity, UBS will pay you a cash payment per security at maturity equal to the stated principal amount, in addition to any contingent coupon otherwise due. If, however, UBS does not elect to call the securities and a trigger event occurs, UBS will pay you less than the full stated principal amount per security, if anything, at maturity, resulting in a loss on your initial investment that is proportionate to the decline in the closing level of the underlying index with the lowest underlying index return (the “worst performing underlying index”) from its initial level to its final level over the term of the securities and you will lose a significant portion or all of your initial investment. A trigger event is deemed to have occurred if the closing level of any underlying index is less than its trigger level on the “trigger observation date”, which is the final valuation date. The securities are for investors who are willing to risk their principal and seek interest at a potentially above-market rate in exchange for the risk of receiving few or no contingent coupons if any underlying index’s closing level is less than its coupon barrier on any trading day during each

observation period and the risk of an early call at UBS' discretion. **Investing in the securities involves significant risks. You will lose a significant portion or all of your initial investment if UBS does not elect to call the securities and a trigger event occurs. The securities will not pay a contingent coupon if the closing level of any underlying index is less than its coupon barrier on any trading day during an observation period. UBS may elect to call the securities at its discretion regardless of the performance of the underlying indices. Higher contingent coupon rates are generally associated with a greater risk of loss. Investors will not participate in any appreciation of any of the underlying indices. The contingent repayment of principal only applies if you hold the securities until the call settlement date or the maturity date, as applicable. Any payment on the securities, including any repayment of principal, is subject to the creditworthiness of UBS. If UBS were to default on its payment obligations you may not receive any amounts owed to you under the securities and you could lose all of your initial investment.**

SUMMARY TERMS	
Issuer:	UBS AG, London Branch
Underlying indices:	Russell 2000® Index (Bloomberg Ticker: "RTY") S&P 500® Index (Bloomberg Ticker: "SPX") EURO STOXX 50® Index (Bloomberg Ticker: "SX5E")
Aggregate principal amount:	$
Stated principal amount:	$1,000 per security
Issue price:	$1,000 per security (see "Commissions and issue price" below)
Term:	Approximately 3 years, unless called earlier. In the event that we make any change to the expected trade date and settlement date, the calculation agent may adjust the observation end dates and the trigger observation date, as well as the final valuation date and maturity date to ensure that the stated term of the securities remains the same.
Trade date:	Approximately October 10, 2018
Settlement date:	Approximately October 15, 2018 (3 business days after the trade date). We expect to deliver the securities against payment on or about the third business day following the trade date. Under Rule 15c6-1 of the Securities Exchange Act of 1934, as amended, trades in the secondary market generally are required to settle in two business days (T+2), unless the parties to a trade expressly agree otherwise. Accordingly, purchasers who wish to trade the securities in the secondary market on any date prior to two business days before delivery of the securities will be required, by virtue of the fact that each security initially will settle in three business days (T+3), to specify alternative settlement arrangements to prevent a failed settlement of the secondary market trade.
Final valuation date:	October 11, 2021, subject to postponement for certain market disruption events and as described under "General Terms of the Notes — Market Disruption Events" and "— Maturity Date" in the accompanying product supplement.
Maturity date:	October 14, 2021, subject to postponement for certain market disruption events and as described under "General Terms of the Notes — Market Disruption Events" and "— Final Valuation Date" in the accompanying product supplement.
Issuer call feature:	UBS may elect, on or before any observation end date (other than the final valuation date), to call the securities at its discretion in whole, but not in part (an "issuer call"), on the coupon payment date corresponding to such observation end date (the "call settlement date"), regardless of the closing levels of the underlying indices on such observation end date.
Issuer call amount:	If UBS elects to call the securities, UBS will pay you on the call settlement date a cash payment per security equal to the stated principal amount plus any contingent coupon otherwise due, and no further payments will be made on the securities. Before UBS elects to call the securities, UBS

	will deliver written notice to the trustee by the applicable observation end date.
Contingent coupon:	· If the closing level of **each** underlying index is **equal to or greater than** its coupon barrier on each trading day during the applicable observation period (including the final observation period), UBS will pay you the contingent coupon for that observation period on the relevant coupon payment date. · If the closing level of **any** underlying index is **less than** its coupon barrier on any trading day during an observation period, the contingent coupon for that observation period will not accrue or be payable and UBS will not make any payment to you on the relevant coupon payment date. The contingent coupon is a fixed amount based upon equal quarterly installments at the contingent coupon rate. The contingent coupon per security that would be applicable to each coupon payment date for which the closing level of each underlying index is equal to or greater than its coupon barrier on each trading day during the applicable observation period will be: $16.625 **Contingent coupons on the securities are not guaranteed. UBS will not pay you the contingent coupon for any observation period in which the closing level of any underlying index is less than its coupon barrier.**
Contingent coupon rate:	The contingent coupon rate is 6.65% per annum.
Coupon payment dates:	Expected to be three business days following the related observation end date on which the applicable observation period ends, except that the coupon payment date for the final observation end date will be the maturity date.
Observation end dates:	January 10, 2019, April 10, 2019, July 10, 2019, October 10, 2019, January 10, 2020, April 14, 2020, July 10, 2020, October 12, 2020, January 11, 2021, April 12, 2021, July 12, 2021 and October 11, 2021, subject to postponement for non-trading days and certain market disruption events (as described under "General Terms of the Notes — Observation End Dates", " — Final Valuation Date" and "— Market Disruption Events" in the accompanying product supplement). We also refer to October 11, 2021 as the final valuation date. In the event that we make any change to the expected trade date and settlement date, the calculation agent may adjust the observation end dates (including the final valuation date) and maturity date to ensure that the stated term of the securities remains the same.
Observation Period:	The first observation period will consist of each day from but excluding the trade date to and including the first observation end date. Each subsequent observation period will consist of each day from but excluding the prior observation end date to and including the next following observation end date.
Trigger event:	A trigger event is deemed to have occurred if the closing level of **any** of the underlying indices is **less than** its respective trigger level on the trigger observation date. *In this case, you will be fully exposed to the underlying index return of the worst performing underlying index.*
Trigger observation date:	October 11, 2021, which is the final valuation date. The final valuation date is subject to postponement for non-trading days and certain market disruption events (as described under "General Terms of the Notes —Final Valuation Date" and "— Market Disruption Events" in the accompanying product supplement). In the event that we make any change to the expected trade date and settlement date, the calculation agent may adjust the final valuation date and maturity date to ensure that the stated term of the securities remains the same.
Payment at maturity:	· If UBS does not elect to call the securities and a trigger event does not occur, UBS will pay you a cash payment per security on the maturity date equal to the stated principal amount of $1,000 plus any contingent coupon otherwise due with respect to the securities on the maturity date. · If UBS does not elect to call the securities and a trigger event occurs, UBS will pay you a cash payment per security on the maturity date that is significantly less than the stated principal amount, if anything, equal to:

	$1,000 x (1 + Underlying Index Return of the Worst Performing Underlying Index) **You will lose a significant portion or all of your initial investment if UBS does not elect to call the securities and a trigger event occurs.**
Underlying index return:	With respect to each underlying index, the quotient, expressed as a percentage, of the following formula: Final Level – Initial Level Initial Level
Worst performing underlying index:	The underlying index with the lowest underlying index return as compared to any other underlying index.
Final level:	The closing level of each underlying index on the final valuation date, as determined by the calculation agent.
Initial level:	·, which is the closing level of the Russell 2000® Index on the trade date ; ·, which is the closing level of the S&P 500® Index on the trade date; ·, which is the closing level of the EURO STOXX® 50 Index on the trade date
Coupon barrier:	·, which is equal to 60% of the initial level of the Russell 2000® Index; ·, which is equal to 60% of the initial level of the S&P 500® Index; ·, which is equal to 60% of the initial level of the EURO STOXX® 50 Index
Trigger level:	·, which is equal to 60% of the initial level of the Russell 2000® Index; ·, which is equal to 60% of the initial level of the S&P 500® Index; ·, which is equal to 60% of the initial level of the EURO STOXX® 50 Index
CUSIP/ISIN:	90270KUT4 / US90270KUT41
Listing:	The securities will not be listed or displayed on any securities exchange or electronic communications network.
Calculation agent:	UBS Securities LLC

Commissions and issue price:	Price to Public[1]	Fees and Commissions[1]	Proceeds to Issuer
Per security:	100%	1.50%[a] +0.50%[b] 2.00%	98.00%
Total:			

(1) UBS Securities LLC will purchase from UBS AG the securities at the price to public less a fee of $20.00 per $1,000.00 stated principal amount of securities. UBS Securities LLC will agree to resell all of the securities to Morgan Stanley Smith Barney LLC ("Morgan Stanley Wealth Management") at an underwriting discount which reflects:

(a) a fixed sales commission of $15.00 per $1,000.00 stated principal amount of securities that Morgan Stanley Wealth Management sells and

(b) a fixed structuring fee of $5.00 per $1,000.00 stated principal amount of securities that Morgan Stanley Wealth Management sells,

each payable to Morgan Stanley Wealth Management. See "Supplemental information regarding plan of distribution (conflicts of interest); secondary markets (if any)".

The estimated initial value of the securities as of the trade date is expected to be between $930.80 and $960.80. The range of the estimated initial value of the securities was determined on the date hereof by reference to UBS' internal pricing models, inclusive of the internal funding rate. For more information about secondary market offers and the estimated initial value of the securities, see "Risk Factors — Fair value considerations" and "— Limited or no secondary market and secondary market price considerations" beginning on pages 13 and 14 of this document. **The securities involve risks not associated with an investment in ordinary debt securities. See "Risk Factors" beginning on page 12.**

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this document, the accompanying product supplement, the accompanying index supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense. The securities are not bank deposits and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency. You should read this document together with the accompanying product supplement, index supplement and the accompanying prospectus, each of which can be accessed via the hyperlinks below, before you decide to invest.

Product supplement dated June 28, 2017 Index supplement dated April 29, 2016 Prospectus dated April 29, 2016

Trigger Callable Contingent Yield Securities with Daily Coupon Observation due on or about October 14, 2021

$· Based on the worst performing of the Russell 2000® Index, the S&P 500® Index and the EURO STOXX 50® Index

Additional Information about UBS and the Securities

UBS AG ("UBS") has filed a registration statement (including a prospectus as supplemented by a product supplement and an index supplement) with the Securities and Exchange Commission (the "SEC") for the securities to which this document relates. Before you invest, you should read these documents and any other documents relating to this offering that UBS has filed with the SEC for more complete information about UBS and this offering. You may obtain these documents for free from the SEC website at www.sec.gov. Our Central Index Key, or CIK, on the SEC web site is 0001114446.

You may access these documents on the SEC website at www.sec.gov as follows:

Prospectus dated April 29, 2016:
http://www.sec.gov/Archives/edgar/data/1114446/000119312516569341/d161008d424b3.htm

Index Supplement dated April 29, 2016:

http://www.sec.gov/Archives/edgar/data/1114446/000119312516569883/d163530d424b2.htm

Product Supplement dated June 28, 2017:

http://www.sec.gov/Archives/edgar/data/1114446/000091412117000834/ub35175694-424b2.htm

References to "UBS", "we", "our" and "us" refer only to UBS AG and not to its consolidated subsidiaries. In this document, the "securities" refer to the Trigger Callable Contingent Yield Securities that are offered hereby. Also, references to the "accompanying prospectus" mean the UBS prospectus titled "Debt Securities and Warrants", dated April 29, 2016, references to the "accompanying index supplement" mean the UBS index supplement, dated April 29, 2016 and references to the "accompanying product supplement" mean the UBS product supplement titled "Trigger Callable Contingent Yield Notes with Daily Coupon Observation", dated June 28, 2017.

You should rely only on the information incorporated by reference or provided in this document, the accompanying product supplement, index supplement or the accompanying prospectus. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information in this document, the accompanying product supplement or the accompanying prospectus is accurate as of any date other than the date on the front of the document.

UBS reserves the right to change the terms of, or reject any offer to purchase, the securities prior to their issuance. In the event of any changes to the terms of the securities, UBS will notify you and you will be asked to accept such changes in connection with your purchase. You may also choose to reject such changes in which case UBS may reject your offer to purchase.

In the event of any discrepancies between this document, the accompanying product supplement, the accompanying index supplement and the accompanying prospectus, the following hierarchy will govern: first, this document; second, the accompanying product supplement; third the accompanying index supplement; and finally, the accompanying prospectus.

Trigger Callable Contingent Yield Securities with Daily Coupon Observation due on or about October 14, 2021

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Investment Summary

The Trigger Callable Contingent Yield Securities with Daily Coupon Observation due on or about October 14, 2021 based on the worst performing of the Russell 2000® Index, S&P 500® Index and the EURO STOXX 50® Index, which we refer to as the securities, provide an opportunity for investors to earn a contingent coupon, which will be an amount equal to $16.625 (equivalent to 6.65% per annum of the stated principal amount) per security, **but only if** the closing level of **each** underlying index is **equal to or greater than** 60% of its respective initial level, which we refer to as the coupon barrier, on each trading day during the applicable observation period. The contingent coupon, if any, will be payable on the relevant coupon payment date, which is expected to be three business days after the related observation end date. **It is possible that the closing levels of one or more of the underlying indices could remain below their respective coupon barriers for extended periods of time or even throughout the term of the securities so that you may receive few or no contingent coupons.**

If the closing level of any underlying index is less than its coupon barrier on any trading day during the applicable observation period, the contingent coupon for that observation period will not accrue or be payable and UBS will not make any payment to you on the relevant coupon payment date. UBS may elect, on or before any applicable observation end date (other than the final valuation date), to call the securities at its discretion in whole, but not in part (an "issuer call"), on the coupon payment date corresponding to such observation end date (the "call settlement date"), regardless of the closing levels of the underlying indices on such observation end date. If UBS elects to call the securities, UBS will pay you on the call settlement date a cash payment per security equal to the stated principal amount plus any contingent coupon otherwise due, and no further payments will be made on the securities. Before UBS elects to call the securities, UBS will deliver written notice to the trustee by the applicable observation end date. If UBS does not elect to call the securities, the closing levels of **all** of the underlying indices are equal to or greater than their respective coupon barriers on each trading day during the final observation period and a trigger event does not occur, UBS will pay you a cash payment per security on the maturity date equal to the stated principal amount of $1,000 plus the contingent coupon otherwise due on the maturity date. If UBS does not elect to call the securities and the final level of each of the underlying indices are equal to or greater than their respective trigger levels but the closing level of **any** underlying index is less than its coupon barrier on any trading day during the final observation period, the payment at maturity will be equal to the stated principal amount. If, however, UBS does not elect to call the securities and a trigger event occurs, UBS will pay you a cash payment per security on the maturity date that is significantly less than the stated principal amount, if anything, equal to (i) the stated principal amount *times* (ii) one *plus* the underlying index return of the worst performing underlying index. A trigger event is deemed to have occurred if the closing level of any underlying index is less than its trigger level on the trigger observation date. You will lose a significant portion or all of your initial investment if UBS does not elect to call the securities and a trigger event occurs. The value of such cash payment will be significantly less than the stated principal amount of the securities and could be zero. Investors in the securities must be willing to accept the risk of losing a significant portion or all of their initial investment and also the risk of not receiving any contingent coupons. In addition, investors will not participate in any appreciation of the underlying indices.

UBS may elect to call the securities at its discretion prior to the maturity date. UBS is less likely to exercise its issuer call right when the closing level of **any** of the underlying indices is less than its coupon barrier. As such, UBS will be more likely to exercise its issuer call right when the closing level of each underlying index is above its coupon barrier, which would otherwise result in an amount of interest payable on the securities that is greater than instruments of a comparable maturity and credit rating trading in the market. On the other hand, UBS will be less likely to exercise its issuer call right when the closing level of **any** underlying index is less than its coupon barrier and/or when the final

level of any underlying index is expected to be less than its trigger level, such that you will receive no contingent coupons and/or that you will suffer a significant loss on your initial investment in the securities at maturity. Therefore, if UBS does not exercise its issuer call right, it is more likely that you will receive few or no contingent coupons and suffer a significant loss at maturity.

Trigger Callable Contingent Yield Securities with Daily Coupon Observation due on or about October 14, 2021

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Key Investment Rationale

The securities do not guarantee the payment of interest or the repayment of the stated principal amount. Instead, the securities offer the opportunity for investors to earn a contingent coupon equal to $16.625 (equivalent to 6.65% per annum of the stated principal amount) per security, **but only if** the closing level of **each** underlying index is **equal to or greater than** 60% of its respective initial level, which we refer to as the coupon barrier, on **each** trading day during the applicable observation period. UBS may elect, on or before any applicable observation end date (other than the final valuation date), to call the securities at its discretion in whole, but not in part, on the call settlement date for a cash payment equal to the stated principal amount per security *plus* any contingent coupon otherwise due with respect to the related observation end date. The payment at maturity will vary depending on the final level of each underlying index, as follows:

Scenario 1	On or before any observation end date other than the final valuation date, UBS elects to call the securities in whole, but not in part. § On the call settlement date, the securities will be called and UBS will pay a cash payment equal to the stated principal amount *plus* any contingent coupon otherwise due with respect to the applicable observation period. The related contingent coupon will be paid only if all of the closing levels for all of the underlying indices were equal to or greater than their respective coupon barriers on each trading day during the applicable observation period. Following an issuer call, no further payments will be made on the securities. § Investors will not participate in any appreciation of the underlying indices from their respective initial levels.
Scenario 2	UBS does not elect to call the securities, a trigger event does not occur and the closing levels of all of the underlying indices are equal to or greater than their respective coupon barriers on each trading day during the final observation period. § UBS will pay you a cash payment per security on the maturity date equal to (i) the stated principal amount *plus* (ii) the contingent coupon otherwise due on the maturity date. § Investors will not participate in any appreciation of the underlying indices from their respective initial levels.
Scenario 3	UBS does not elect to call the securities, a trigger event does not occur and the closing level of at least one underlying index is less than its respective coupon barrier on at least one trading day during the final observation period. § UBS will pay you a cash payment per security on the maturity date equal to the stated principal amount. § Investors will not participate in any appreciation of the underlying indices from their respective initial index level and will not receive a contingent coupon on the maturity date.
Scenario 4	UBS does not elect to call the securities prior to maturity and a trigger event occurs. § The closing level of **any** underlying index is **less than** its respective trigger level. § UBS will pay you a cash payment per security on the maturity date, if anything, that is significantly less than the stated principal amount, equal to (i) the stated principal amount *times* (ii) one *plus* the underlying

index return of the worst performing underlying index.

§ **Investors will lose a significant portion or all of their initial investment in this scenario.**

Investing in the securities involves significant risks. You may lose a significant portion or all of your initial investment. Any payment on the securities, including payments in respect of an issuer call, contingent coupon or any repayment of principal provided at maturity, is dependent on the ability of UBS to satisfy its obligations when they become due. If UBS were to default on its payment obligations, you may not receive any amounts due to you under the securities and you could lose all of your initial investment.

The securities will not pay a contingent coupon on a coupon payment date (including the maturity date) if the closing level of any underlying index is less than its coupon barrier on any trading day during the applicable observation period, and you may receive few or no contingent coupons during the term of the securities. UBS may elect, on or before any applicable observation end date (other than the final valuation date), to call the securities on the related call settlement date, regardless of the closing levels of the underlying indices on such observation end date. If UBS does not elect to call the securities and a trigger event occurs, you will lose a significant portion or all of your initial investment at maturity.

Trigger Callable Contingent Yield Securities with Daily Coupon Observation due on or about October 14, 2021

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Investor Suitability

The securities may be suitable for you if:

- You fully understand the risks of an investment in the securities, including the risk of loss of a significant portion or all of your initial investment.
- You can tolerate a loss of a significant portion or all of your investment and are willing to make an investment that may have the same downside market risk as an investment in the stocks comprising the worst performing underlying index.
- You understand and accept that an investment in the securities is linked to the performance of the worst performing underlying index and not a basket of the underlying indices, and that you will lose a significant portion or all of your initial investment if the closing level of **any** underlying index is **less than** its trigger level on the trigger observation date.
- You are willing to risk receiving no contingent coupons and believe the closing level of **each** underlying index will be **equal to or greater than** its coupon barrier on each trading day during each observation period.
- You believe a trigger event will not occur, meaning the closing level of **each** underlying index will be equal to or greater than its trigger level on the trigger observation date.
- You accept that the risks of each underlying index are not mitigated by the performance of any other underlying index and the risks of investing in securities with a return based on the performance of multiple underlying indices.
- You understand and accept that you will not participate in any appreciation in the level of any of the underlying indices and that your potential return is limited to any contingent coupons received.
- You can tolerate fluctuations in the price of the securities prior to maturity that may be similar to or exceed the downside fluctuations in the levels of the underlying indices.
- You would be willing to invest in the securities based on the coupon barriers, trigger levels and contingent coupon rate specified on the cover hereof.
- You do not seek guaranteed current income from your investment and are willing to forgo any dividends paid on the stocks comprising the underlying indices (the "index constituents").
- You are willing to invest in securities that UBS may elect to call early at its discretion and you are otherwise willing to hold such securities to maturity and accept that there may be little or no secondary market for the securities.
- You understand and are willing to accept the risks associated with the underlying indices.
- You are willing to assume the credit risk of UBS for all payments under the securities, and understand that if UBS defaults on its obligations you may not receive any amounts due to you including any repayment of principal.
- You understand that the estimated initial value of the securities determined by our internal pricing models is lower than the issue price and that should UBS Securities LLC or any affiliate make secondary markets for the securities, the price (not including their customary bid-ask spreads) will temporarily exceed the internal pricing model price.

The securities may not be suitable for you if:

- You do not fully understand the risks inherent in an investment in the securities, including the risk of loss of a significant portion or all of your initial investment.
- You are not willing to make an investment that may have the same downside market risk as an investment in the index constituents of the worst performing underlying index.
- You do not understand or are unwilling to accept that an investment in the securities is linked to the performance of the worst performing underlying index and not a basket of the underlying indices, and that you will lose a significant portion or all of your initial investment if the closing level of **any** underlying index is **less than** its trigger level on the trigger observation date.
- You require an investment designed to provide a full return of principal at maturity.

- You are unwilling to risk receiving no contingent coupons during the term of the securities or believe that the closing level of at least one of the underlying indices will decline during the term of the securities and is likely to be less than its coupon barrier on at least one trading day during an observation period.

You believe a trigger event will occur, meaning the closing level of **any** underlying index will be **less than** its trigger level on the trigger observation date.

Trigger Callable Contingent Yield Securities with Daily Coupon Observation due on or about October 14, 2021

$· Based on the worst performing of the Russell 2000® Index, the S&P 500® Index and the EURO STOXX 50® Index

You cannot accept that the risks of each underlying index are not mitigated by the performance of any other underlying index and the risks of investing in securities with a return based on the performance of multiple underlying indices.

You seek an investment that participates in the full appreciation in the levels of the underlying indices or that has unlimited return potential.

You cannot tolerate fluctuations in the price of the securities prior to maturity that may be similar to or exceed the downside fluctuations in the levels of the underlying indices.

You would be unwilling to invest in the securities based on the coupon barriers, trigger levels or contingent coupon rate specified on the cover hereof.

You seek guaranteed current income from this investment or prefer to receive any dividends paid on the index constituents.

You are unable or unwilling to hold securities that UBS may elect to call early at its discretion, or you are otherwise unable or unwilling to hold such securities to maturity or you seek an investment for which there will be an active secondary market.

You do not understand or are not willing to accept the risks associated with the underlying indices.

You are not willing to assume the credit risk of UBS for all payments under the securities, including any repayment of principal.

Trigger Callable Contingent Yield Securities with Daily Coupon Observation due on or about October 14, 2021

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How the Securities Work

The following diagrams illustrate the potential outcomes for the securities depending on (1) the closing levels, (2) whether UBS elects to call the securities and (3) the final levels.

Diagram #1: Observation Periods (other than the Final Observation Period)

Diagram #2: Payment at Maturity if No Issuer Call Occurs

For more information about the payout upon an early redemption or at maturity in different hypothetical scenarios, see "Hypothetical Examples" starting on page 8.

Trigger Callable Contingent Yield Securities with Daily Coupon Observation due on or about October 14, 2021

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Hypothetical Examples

The below examples are based on the following terms and are purely hypothetical (the actual terms of your security will be determined on the trade date and will be specified in the applicable pricing supplement; amounts may have been rounded for ease of analysis):

Hypothetical Initial Level:	
Underlying Index A:	1,700
Underlying Index B:	3,000
Underlying Index C:	3,500
Hypothetical Coupon Barrier:	
Underlying Index A:	1,020, which is 60% of the initial level
Underlying Index B:	1,800, which is 60% of the initial level
Underlying Index C:	2,100, which is 60% of the initial level
Hypothetical Trigger Level:	
Underlying Index A:	1,020, which is 60% of the initial level
Underlying Index B:	1,800, which is 60% of the initial level
Underlying Index C:	2,100, which is 60% of the initial level
Hypothetical Term:	Approximately 3 years
Hypothetical Contingent Coupon:	$16.625 per security (equivalent to 6.65% per annum of the stated principal amount)
Stated Principal Amount:	$1,000.00 per security

In Examples 1 and 2, on a specified observation end date UBS elects and delivers written notice to the trustee to call the securities on the related call settlement date. In Examples 3, 4 and 5, UBS does not elect to call the securities and the securities and remain outstanding until maturity.

	Example 1 - UBS calls the securities on the first observation end date.					**Example 2 - UBS calls the securities on the thi**			
Observation Periods	Underlying Index A	Underlying Index B	Underlying Index C	Contingent Coupon	Payment (per security)	Underlying Index A	Underlying Index B	Underlying Index C	Conting Coupon
	A. Lowest Hypothetical Closing Level During the Applicable	A. Lowest Hypothetical Closing Level During the Applicable	A. Lowest Hypothetical Closing Level During the Applicable			A. Lowest Hypothetical Closing Level During the Applicable	A. Lowest Hypothetical Closing Level During the Applicable	A. Lowest Hypothetical Closing Level During the Applicable	

	Observation Period	Observation Period	Observation Period			Observation Period	Observation Period	Observation Period	
	B. Hypothetical Closing Level on the Applicable Observation End Date or Final Valuation Date	B. Hypothetical Closing Level on the Applicable Observation End Date or Final Valuation Date	B. Hypothetical Closing Level on the Applicable Observation End Date or Final Valuation Date			B. Hypothetical Closing Level on the Applicable Observation End Date or Final Valuation Date	B. Hypothetical Closing Level on the Applicable Observation End Date or Final Valuation Date	B. Hypothetical Closing Level on the Applicable Observation End Date or Final Valuation Date	
#1	A. 1,400 (**at or above** coupon barrier) B. 1,450 (**at or above** coupon barrier)	A. 1,900 (**at or above** coupon barrier) B. 1,950 (**at or above** coupon barrier)	A. 2,450 (**at or above** coupon barrier) B. 2,700 (**at or above** coupon barrier)	—*	$1,016.625	A. 1,200 (**at or above** coupon barrier) B. 1,250 (**at or above** coupon barrier)	A. 2,000 (**at or above** coupon barrier) B. 2,050 (**at or above** coupon barrier)	A. 2,450 (**at or above** coupon barrier) B. 2,700 (**at or above** coupon barrier)	$16.625
#2	N/A	N/A	N/A	N/A	N/A	A. 1,150 (**at or above** coupon barrier) B. 1,200 (**at or above** coupon barrier)	A. 1,400 (**below** coupon barrier) B. 1,900 (**at or above** coupon barrier)	A. 2,450 (**at or above** coupon barrier) B. 2,475 (**at or above** coupon barrier)	$0
#3	N/A	N/A	N/A	N/A	N/A	A. 850 (**below** coupon barrier) B. 2,040 (**at or above** coupon barrier)	A. 2,000 (**at or above** coupon barrier) B. 3,600 (**at or above** coupon barrier)	A. 2,550 (**at or above** coupon barrier) B. 4,200 (**at or above** coupon barrier)	—*

#4 - #11	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Final Valuation Date	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Payment at Maturity	N/A					N/A			

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Trigger Callable Contingent Yield Securities with Daily Coupon Observation due on or about October 14, 2021

$· Based on the worst performing of the Russell 2000® Index, the S&P 500® Index and the EURO STOXX 50® Index

* The issuer call amount includes any unpaid contingent coupon with respect to the observation end date on which the issuer, at their sole discretion, decides to call the securities.

In **Example 1**, UBS notifies the trustee on the first observation end date that it would like to call the securities and the closing level of each underlying index is equal to or greater than its coupon barrier on each trading day during the first observation period. You receive the issuer call amount (reflecting your principal amount plus the applicable contingent coupon with respect to the first observation period), calculated as follows:

Stated Principal Amount + Contingent Coupon = $1,000.00 + $16.625 = $1,016.625

In this example, the issuer call feature limits the term of your investment to approximately 3 months and you may not be able to reinvest at comparable terms or returns. If the securities are subject to issuer call, you will stop receiving contingent coupons. Your total payment per security in this example is $1,016.625 (a 1.6625% total return on the securities over 3 months).

In **Example** 2, UBS notifies the trustee on the third observation end date that it would like to call the securities. As the closing level of each underlying index is equal to or greater than its coupon barrier on each trading day during the first observation period, you receive the contingent coupon of $16.625 with respect to the first observation period. As the closing level of at least one of the underlying indices was less than its coupon barrier on a trading day during the second observation period, you will not receive a contingent coupon with respect to the second observation period. As the closing level of at least one of the underlying indices was less than its coupon barrier on a trading day during the third observation period, you will not receive a contingent coupon with respect to the third observation period. Following the third observation period, you receive an issuer call amount of $1,000.00, reflecting your principal amount. When added to the contingent coupon of $16.625 received in respect of the prior observation periods, you will have received a total of $1,016.625. You will not receive any further payments on the securities.

In this example, the issuer call feature limits the term of your investment to approximately 9 months and you may not be able to reinvest at comparable terms or returns. If the securities are subject to an issuer call, you will stop receiving contingent coupons. Further, although all of the underlying indices have appreciated by 20% from their respective initial levels on the third observation end date, you receive only $1,016.625 per security and do not benefit from such appreciation. Your total payment per security in this example is $1,016.625 (a 1.6625% total return on the securities over 9 months).

Example 3- UBS does not call the securities and a trigger event does not occur.

Observation Periods	Underlying Index A A. Lowest Hypothetical Closing Level During the Applicable Observation Period B. Hypothetical Closing Level on the Applicable Observation End Date or Final Valuation Date	Underlying Index B A. Lowest Hypothetical Closing Level During the Applicable Observation Period B. Hypothetical Closing Level on the Applicable Observation End Date or Final Valuation Date	Underlying Index C A. Lowest Hypothetical Closing Level During the Applicable Observation Period B. Hypothetical Closing Level on the Applicable Observation End Date or Final Valuation Date	Contingent Coupon	Payment (per security)
#1	A. 840		A. 1,900	$0	N/A

	(**below** coupon barrier) B. 850 (**below** coupon barrier)	A. 1,300 (**below** coupon barrier) B. 1,200 (**below** coupon barrier)	(**below** coupon barrier) B. 1,800 (**below** coupon barrier)		
#2	A. 800 (**below** coupon barrier) B. 825 (**below** coupon barrier)	A. 1,400 (**below** coupon barrier) B. 1,400 (**below** coupon barrier)	A. 1,850 (**below** coupon barrier) B. 1,750 (**below** coupon barrier)	$0	N/A
#3 - #8	A. Various (**all below** coupon barrier) B. Various (**all below** coupon barrier)	A. Various (**all below** coupon barrier) B. Various (**all below** coupon barrier)	A. Various (**all below** coupon barrier) B. Various (**all below** coupon barrier)	$0	N/A
Final Valuation Date	A. 1,600 (**at or above** coupon barrier) B. 1,650 (**at or above** trigger level)	A. 1,900 (**at or above** coupon barrier) B. 2,100 (**at or above** trigger level)	A. 2,500 (**at or above** coupon barrier) B. 2,650 (**at or above** trigger level)	$16.25	N/A
Payment at Maturity	**$1,016.625**				

Trigger Callable Contingent Yield Securities with Daily Coupon Observation due on or about October 14, 2021

$· Based on the worst performing of the Russell 2000® Index, the S&P 500® Index and the EURO STOXX 50® Index

		In **Example 3**, UBS does not elect to c"1%" bgColor=#c0c0c0>	$1,500,000		
J. Michael Schlotman	$	450,000		$ 500,000	$ 500,000
W. Rodney McMullen	$	950,000		$1,000,000	$1,000,000
Don W. McGeorge	$	950,000		$1,000,000	$1,000,000
Donald E. Becker	$	550,000		$ 550,000	$ 550,000

The amount of bonus that the named executive officers earn each year is determined by Kroger’s performance compared to targets established by the Committee based on the business plan adopted by the Board of Directors. In 2008, thirty percent of bonus was earned based on an identical sales target for Kroger’s supermarkets and other business operations; thirty percent was based on a target for EBITDA; thirty percent was based on a set of measures for implementation and results under our strategic plan; and ten percent was based on the performance of new capital projects compared to their budgets. Over time the Committee has placed an increased emphasis on the strategic plan by making the target more difficult to achieve. The bonus plan allows for minimal bonus to be earned at relatively low levels to provide incentive for achieving even higher levels of performance.

Following the close of the year, the Committee reviewed Kroger’s performance against the identical sales, EBITDA, strategic plan and capital projects objectives and determined the extent to which Kroger achieved those objectives. Kroger’s EBITDA for 2008 was $4.088 billion, exceeding the target established by the Committee at the beginning of the year for 100% payout for that metric. Kroger’s identical sales for 2008 were 4.9%, also exceeding the target for 100% payout of that metric. As a result of the Company’s excellent performance when compared to the targets established by the Committee, and based on the business plan adopted by the Board of Directors, the named executive officers earned 104.948% of their bonus potentials.

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The 2008 targets established by the Committee for annual bonus amounts based on identical sales and EBITDA results, the actual 2008 results, and the bonus percentage earned in each of the four components of named executive officer bonus, were as follows:

	Targets			
Component	**Minimum**	**100%**	**Result**	**Amount Earned**
Identical Sales	3.0%	4.0%	4.9%	43.397%
EBITDA	$3.760 Billion	$4.065 Billion	$4.088 Billion	30.518%
Strategic Plan*				20.790%
Capital Projects*				10.243%
				104.948%

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* The Strategic Plan and Capital Projects components also were established by the Committee but are not disclosed as they are competitively sensitive.

In 2008, as in all years, the Committee retained discretion to reduce the bonus payout for named executive officers if the Committee determined for any reason that the bonus payouts were not appropriate. The independent directors retained that discretion for the CEOs bonus. Those bodies also retained discretion to adjust the targets under the plan should unanticipated developments arise during the year. No adjustments were made to the payout or the targets during 2008.

The percentage paid for 2008 represented and resulted from an excellent performance against the business plan objectives. A comparison of bonus percentages for the named executive officers in prior years demonstrates the variability of incentive compensation:

Fiscal Year	Annual Cash Bonus Percentage
2008	104.948%
2007	128.104%
2006	141.118%
2005	132.094%
2004	55.174%
2003	24.100%
2002	9.900%
2001	31.760%
2000	80.360%
1999	122.130%

The actual amounts of annual performance-based cash bonuses paid to the named executive officers for 2008 are shown in the Summary Compensation Table under the heading Non-Equity Incentive Plan Compensation. These amounts represent the bonus potentials for each named executive officer multiplied by the percentage earned in 2008. In no event can any participant receive a performance-based annual cash bonus in excess of $5,000,000. Beginning with the 2009 annual cash bonus, the maximum amount that a participant, including each named executive officer, can earn is further limited to 200% of the participants potential amount.

PERFORMANCE-BASED LONG-TERM CASH BONUS

After reviewing executive compensation with its consultant in 2005, the Committee determined that the long-term component, which was made up of equity awards, of Krogers executive compensation was not competitive. The Committee developed a plan to provide an incentive to the named executive officers to achieve the long-term goals established by the Board of Directors by conditioning a portion of compensation on the achievement of those goals. Beginning in 2006, approximately 140 Kroger executives, including the named executive officers, are eligible to participate in a performance-based cash bonus plan designed to reward participants for improving the long-term performance of Kroger. Bonuses are earned based on the extent to which Kroger advances its strategic plan by:

- improving its performance in four key categories, based on results of customer surveys; and
- reducing total operating costs as a percentage of sales, excluding fuel.

The 2006 plan consists of two components. The phase-in component measured improvements through fiscal year 2007. The other component measures the improvements through fiscal year 2009. Actual payouts are based on the degree to which improvements are achieved, and are awarded in increments based on the participants salary at the end of fiscal year 2005. Participants receive a 1% payout for each point by which the performance in

the key categories increases, and a 0.25% payout for each percentage reduction in operating costs. The Committee administers the plan and determines the bonus payout amounts based on achievement of the performance criteria. Total operating costs as a percentage of sales, excluding fuel, at the commencement of the 2006 plan were 28.78%, and at the end of the phase-in period were 27.89%. Combining this operating cost improvement with our performance in our key categories resulted in payouts for the phase-in component of 36.25% of the participants annual salary in effect at the end of fiscal year 2005.

After reviewing an analysis conducted by its independent compensation consultant in 2007, the Committee determined that continuation of the long-term cash bonus was necessary in order for long-term compensation for the named executive officers to be competitive and to continue to focus the officers on achieving Krogers long-term business objectives. As a result, the Committee adopted a 2008 long-term bonus plan under which bonuses are earned based on the extent to which Kroger advances its strategic plan by:

- improving its performance in four key categories, based on results of customer surveys;
- reducing total operating costs as a percentage of sales, excluding fuel; and
- improving its performance in eleven key attributes designed to measure associate satisfaction and one key attribute designed to measure how Krogers focus on its values supports how associates do business, based on the results of associate surveys.

The 2008 plan measures improvements through fiscal year 2011. Participants receive a 1% payout for each point by which the performance in the key categories increases, a 0.25% payout for each percentage reduction in operating costs, and a 1% payout based on improvement in associate engagement measures. Total operating costs as a percentage of sales, excluding fuel, at the commencement of the 2008 Plan were 27.89%. Actual payouts are based on the degree to which improvements are achieved, and will be awarded based on the participants salary at the end of fiscal year 2007. In no event can any participant receive a performance-based long-term cash bonus in excess of $5,000,000.

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EQUITY

Awards based on Krogers common stock are granted periodically to the named executive officers and a large number of other employees. Equity participation aligns the interests of employees with your interest as shareholders, and Kroger historically has distributed equity awards widely. In 2008, Kroger granted 3,533,505 stock options to approximately 6,850 employees, including the named executive officers, under one of Krogers long-term incentive plans. The options permit the holder to purchase Kroger common stock at an option price equal to the closing price of Kroger common stock on the date of the grant. Historically options could be granted at any regularly scheduled meeting of the Committee. In 2008 the Committee adopted a policy of granting options only at one of the four Committee meetings conducted in the same week following Krogers public release of its quarterly earnings results.

Krogers long-term incentive plans also provide for other equity-based awards, including restricted stock. During 2008 Kroger awarded 2,515,752 shares of restricted stock to approximately 17,350 employees, including the named executive officers. This amount is comparable to last year but substantially higher than in past years, as in 2006 we began reducing the number of stock options granted and increasing the number of shares of restricted stock awards. The change in Krogers broad-based equity program from predominantly stock options to a mixture of options and restricted shares was precipitated by (a) the perception of increased value that restricted shares offer, (b) the retention benefit to Kroger of restricted shares, and (c) changes in accounting conventions that permitted the change without added cost.

The Committee considers several factors in determining the amount of options and restricted shares awarded to the named executive officers or, in the case of the CEO, recommending to the independent directors the amount awarded. These factors include:

- The compensation consultants benchmarking report regarding equity-based and other long-term compensation awarded by our competitors;
- The officers level in the organization and the internal relationship of equity-based awards within Kroger;
- Individual performance; and
- The recommendation of the CEO, for all named executive officers other than in the case of the CEO.

The Committee has long recognized that the amount of compensation provided to the named executive officers through equity-based pay is often below the amount paid by our competitors. Lower equity-based awards for the named executive officers and other senior management permit a broader base of Kroger associates to participate in equity awards.

Amounts of equity awards issued and outstanding for the named executive officers are set forth in the tables that follow this discussion and analysis.

RETIREMENT AND OTHER BENEFITS

Kroger maintains a defined benefit and several defined contribution retirement plans for its employees. The named executive officers participate in one or more of these plans, as well as one or more excess plans designed to make up the shortfall in retirement benefits created by limitations under the Internal Revenue Code on benefits to highly compensated individuals under qualified plans. Additional details regarding retirement benefits available to the named executive officers can be found in the 2008 Pension Benefits table and the accompanying narrative description that follows this discussion and analysis.

Kroger also maintains an executive deferred compensation plan in which some of the named executive officers participate. This plan is a nonqualified plan under which participants can elect to defer up to 100% of their cash compensation each year. Compensation deferred during a deferral year bears interest at the rate equal to Krogers cost of ten year debt. Deferred amounts are paid out only in cash, in accordance with a deferral option selected by the participant at the time the deferral election is made.

We adopted The Kroger Co. Employee Protection Plan, or KEPP, during fiscal year 1988. That plan was amended and restated in 2007. All of our management employees and administrative support personnel whose employment is not covered by a collective bargaining agreement, with at least one year of service, are covered. KEPP provides for severance benefits and extended Kroger-paid health care, as well as the continuation of other benefits as described in the plan, when an employee is actually or constructively terminated without cause within two years following a change in control of Kroger (as defined in the plan). Participants are entitled to severance pay up to 24 months salary and bonus. The actual amount is dependent upon pay level and years of service. KEPP can be amended or terminated by the Board at any time prior to a change in control.

Stock option and restricted stock agreements with participants in Krogers long-term incentive plans provide that those awards vest, with options becoming immediately exercisable and restrictions on restricted stock lapsing, upon a change in control as described in the agreements.

None of the named executive officers is party to an employment agreement.

PERQUISITES

The Committee does not believe that it is necessary for the attraction or retention of management talent to provide the named executive officers a substantial amount of compensation in the form of perquisites. In 2008,

the only perquisites provided were:

- payments of premiums of life insurance, accidental death and dismemberment insurance and long term disability insurance policies, and reimbursement of the tax effects of the life insurance and accidental death and dismemberment insurance payments, and
- reimbursement for the tax effects of participation in a nonqualified retirement plan.

The life insurance benefit, along with reimbursement of the tax effect of that benefit, was offered beginning several years ago to replace a split-dollar life insurance benefit that was substantially more costly to Kroger. Currently, 164 active executives, including the named executive officers, and 64 retired executives, receive this benefit.

In addition, the named executive officers are entitled to the following benefits that do not constitute perks as defined by the SEC rules:

- personal use of Kroger aircraft, which officers may lease from Kroger, and pay the average variable cost of operating the aircraft, making officers more available and allowing for a more efficient use of their time; and
- incidental personal use by Kroger's CEO of a lunch club that is used primarily for business purposes.

The total amount of perquisites furnished to the named executive officers is shown in the Summary Compensation Table and described in more detail in footnote 4 to that table.

SECTION 162(M) OF THE INTERNAL REVENUE CODE

Tax laws place a limit of $1,000,000 on the amount of some types of compensation for the CEO and the next four most highly compensated officers that is tax deductible by Kroger. Compensation that is deemed to be "performance-based" is excluded for purposes of the calculation and is tax deductible. Awards under Kroger's long-term incentive plans, when payable upon achievement of stated performance criteria, should be considered performance-based and the compensation paid under those plans should be tax deductible. Generally, compensation expense related to stock options awarded to the CEO and the next four most highly compensated officers should be deductible. On the other hand, Kroger's awards of restricted stock that vest solely upon the passage of time are not performance-based. As a result, compensation expense for those awards to the CEO and the next four most highly compensated officers is not deductible.

Kroger's bonus plans rely on performance criteria, and have been approved by shareholders. As a result, bonuses paid under the plans to the CEO and the next four most highly compensated officers will be deductible by Kroger. In Kroger's case, this group of individuals is not identical to the group of named executive officers.

Kroger's policy is, primarily, to design and administer compensation plans that support the achievement of long-term strategic objectives and enhance shareholder value. Where it is material and supports Kroger's compensation philosophy, the Committee also will attempt to maximize the amount of compensation expense that is deductible by Kroger.

COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed and discussed with management of the Company the Compensation Discussion and Analysis contained in this proxy statement. Based on its review and discussions with management, the Compensation Committee has recommended to the Company’s Board of Directors that the Compensation Discussion and Analysis be included in the Company’s proxy statement and incorporated by reference into its annual report on Form 10-K.

Compensation Committee:

John T. LaMacchia, Chair
Robert D. Beyer
Jorge P. Montoya
Clyde R. Moore
James A. Runde

EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

The following table shows the compensation of the Chief Executive Officer, Chief Financial Officer and each of the Company’s three most highly compensated executive officers other than the CEO and CFO (the “named executive officers”) during fiscal years 2006, 2007 and 2008:

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($) (1)	Option Awards ($) (1)	Non-Equity Incentive Plan Compensation ($) (2)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($) (3)	All Other Compensation ($) (4)	Total ($)
David B. Dillon	2008	$ 1,204,758	—	$ 1,517,177	$ 1,373,516	$ 1,574,220	$ 2,191,743	$ 170,307	$ 8,031,721
Chairman and CEO	2007	$ 1,173,291	—	$ 849,743	$ 3,739,167	$ 2,320,310	$ 922,570	$ 168,543	$ 9,173,624
	2006	$ 1,155,991	—	$ 519,160	$ 3,311,870	$ 2,116,770	$ 2,833,415	$ 142,437	$ 10,079,643
J. Michael Schlotman	2008	$ 537,124	—	$ 130,386	$ 260,890	$ 524,740	$ 292,491	$ 41,135	$ 1,786,766
Senior Vice President	2007	$ 518,726	—	$ 83,207	$ 312,554	$ 788,864	$ 202,069	$ 38,690	$ 1,994,110
and CFO	2006	$ 499,099	—	$ 97,835	$ 339,653	$ 635,031	$ 331,079	$ 31,819	$ 1,934,516
W. Rodney McMullen	2008	$ 848,686	—	$ 408,313	$ 626,386	$ 1,049,480	$ 348,933	$ 59,900	$ 3,341,698
Vice Chairman	2007	$ 823,948	—	$ 220,907	$ 741,288	$ 1,546,472	$ 216,946	$ 57,367	$ 3,606,928
	2006	$ 809,969	—	$ 195,956	$ 794,327	$ 1,340,621	$ 499,583	$ 44,530	$ 3,684,986
Don W. McGeorge	2008	$ 848,686	—	$ 408,313	$ 798,434	$ 1,049,480	$ 723,203	$ 107,203	$ 3,935,319
President and COO	2007	$ 823,948	—	$ 220,907	$ 850,480	$ 1,546,472	$ 536,736	$ 105,803	$ 4,084,346
	2006	$ 809,969	—	$ 195,956	$ 811,355	$ 1,340,621	$ 904,099	$ 83,891	$ 4,145,891
Donald E. Becker	2008	$ 611,712	—	$ 565,482	$ 241,792	$ 577,214	$ 902,879	$ 120,668	$ 3,019,747

Executive Vice	2007	$ 592,312	—	$ 385,421	$ 577,329	$ 900,322	$ 657,628	$ 121,428	$ 3,234,440
President	2006	$ 575,413	—	$ 533,782	$ 576,090	$ 767,496	$ 920,760	$ 87,552	$ 3,461,093

(1) This amount represents the dollar amount recognized for financial statement reporting purposes with respect to the fiscal year in accordance with FAS 123(R). See discussion of the assumptions made in the valuation in Note 10 to the consolidated financial statements in the Company's Form 10-K filed with the SEC on March 31, 2009. Expense for 2008 excludes 6% estimate of cumulative forfeitures for both non-qualified stock options and restricted stock awards. This amount includes an acceleration of expense for options granted in 2008 to those reaching age 62 with at least 5 years of service during the option vesting period, and an acceleration of expense for options granted in 2007 and 2006 to those reaching age 55 with at least 5 years of service during the option vesting period. Options granted in years prior to 2006 are expensed over the vesting period without regard to age or years of service of the optionee. The named executive officers had no forfeitures in the years presented.

(2) Non-equity incentive plan compensation for 2008 consists of payments under an annual cash bonus program. In accordance with the terms of the 2008 performance-based annual cash bonus program, Kroger paid 104.948% of bonus potentials for the executive officers including the named executive officers. These amounts were earned with respect to performance in 2008, and paid in March 2009.

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(3) Amounts are attributable to change in pension value and preferential earnings on nonqualified deferred compensation. During 2008, pension values increased significantly primarily due to increases in final average earnings used in determining pension benefits. Since the benefits are based on final average earnings and service, the effect of the final average earnings increase is larger for those with longer service. Please refer to the Pension Benefits table for further information regarding credited service. The amount listed for Mr. McMullen includes preferential earnings on nonqualified deferred compensation in the amount of $2,329 and change in pension value in the amount of $346,604. The amounts for the remaining named executive officers represent only change in pension value.

(4) The following table provides the items and amounts included in All Other Compensation for 2008:

	Life Insurance Premium	Tax Effect of Life Insurance Premium	Accidental Death and Dismemberment Insurance Premium	Tax Effect of Accidental Death and Dismemberment Premium	Long Term Disability Insurance Premium	Tax Effect of Participation in Nonqualified Retirement Plan
Mr. Dillon	$90,339	$55,602	$228	$140	—	$ 23,998
Mr. Schlotman	$21,599	$12,494	$228	$132	—	$ 6,682
Mr. McMullen	$28,367	$16,957	$228	$136	$ 2,778	$ 11,434
Mr. McGeorge	$55,989	$32,858	$228	$134	—	$ 17,994
Mr. Becker	$58,542	$36,041	$228	$140	$ 2,852	$ 22,865

The life insurance and payment of the tax effect of the premium payment by Kroger have been offered over the past several years to a large number of executives, including the named executive officers, in substitution for split-dollar life insurance coverage that was substantially more costly to Kroger. Excluded from the amounts shown in the table is income imputed to the named executive officer when accompanied on our aircraft during business travel by non-business travelers. These amounts for Mr. Dillon and Mr. Schlotman, calculated using the applicable terminal charge and Standard Industry Fare Level (SIFL) mileage rates, were $3,046 and $793, respectively. The other named executive officers had no such imputed income for 2008. Separately, we require

that officers who make personal use of our aircraft reimburse us for the average variable cost associated with the operation of the aircraft on such flights in accordance with a time-sharing arrangement consistent with FAA regulations. Also excluded is the pro rata portion of annual membership dues at a lunch club used primarily for business purposes but used by Mr. Dillon on occasion for personal use. That pro rata portion equals $147.

GRANTS OF PLAN-BASED AWARDS

The following table provides information about equity and non-equity awards granted to the named executive officers in 2008:

2008 GRANTS OF PLAN-BASED AWARDS

Name	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards Target ($)	Estimated Future Payouts Under Equity Incentive Plan Awards Target (#)	Exercise or Base Price of Option Awards ($/Sh) (5)	Grant Date Fair Value of Stock and Option Awards
David B. Dillon		$ 1,500,000(1)			
		$ 1,185,000(2)			
	6/26/2008		115,000(3)		$3,290,150
	6/26/2008		225,000(4)	$28.61	$2,015,123
J. Michael Schlotman		$ 500,000(1)			
		$ 525,000(2)			
	6/26/2008		10,000(3)		$ 286,100
	6/26/2008		20,000(4)	$28.61	$ 179,122
W. Rodney McMullen		$ 1,000,000(1)			
		$ 833,000(2)			
	6/26/2008		35,000(3)		$1,001,350
	6/26/2008		65,000(4)	$28.61	$ 582,147
Don W. McGeorge		$ 1,000,000(1)			
		$ 833,000(2)			
	6/26/2008		35,000(3)		$1,001,350
	6/26/2008		65,000(4)	$28.61	$ 582,147
Donald E. Becker		$ 550,000(1)			
		$ 600,000(2)			
	6/26/2008		42,500(3)		$1,215,925
	6/26/2008		25,000(4)	$28.61	$ 233,903

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(1) This amount represents the bonus potential of the named executive officer under the Company's 2008 performance-based annual cash bonus program. By the terms of this plan, no single cash bonus to a participant may exceed $5,000,000. The amount actually earned under this plan is shown in the Summary Compensation Table.

(2) This amount represents the bonus potential of the named executive officer under the Company's performance-based 2008 Long-Term Bonus Plan, a performance-based long-term cash bonus program. "Target" amounts equal the annual base salaries of the respective named executive officers as of the last day of fiscal year 2007. Bonuses are determined upon completion of the performance period as of fiscal year ending 2011. By the terms of this plan, no single cash bonus to a participant may exceed $5,000,000.

(3) This amount represents the number of restricted shares awarded under one of the Company’s long-term incentive plans.

(4) This amount represents the number of stock options granted under one of the Company’s long-term incentive plans.

(5) Options are granted at fair market value of Kroger common stock on the date of the grant. Fair market value is defined as the closing price of Kroger stock on the date of the grant.

The Compensation Committee of the Board of Directors, and the independent members of the Board in the case of the CEO, established bonus potentials, shown in this table as “target” amounts, for the performance-based annual cash bonus award for the named executive officers. Amounts were payable to the extent that performance met specific objectives established at the beginning of the performance period. As described in the Compensation Discussion and Analysis, actual earnings can exceed the target amounts if performance exceeds the thresholds.

Restrictions on restricted stock awards made to the named executive officers lapse in equal amounts on each of the five anniversaries of the date the award is made, as long as the officer is then in our employ, except restrictions on 30,000 shares awarded to Mr. Becker in 2008 lapse in 2011 if he is then in our employ. Any dividends declared on Kroger common stock are payable on restricted stock. Nonqualified stock options granted to the named executive officers vest in equal amounts on each of the five anniversaries of the date of grant. Those options were granted at the fair market value of Kroger common stock on the date of the grant. Options are granted only on one of the four dates of board meetings conducted in the same week following Kroger’s public release of its quarterly earnings results.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

The following table discloses outstanding equity-based incentive compensation awards for the named executive officers as of the end of fiscal year 2008. Each outstanding award is shown separately. Option awards include performance-based nonqualified stock options. The vesting schedule for each award is described in the footnotes to this table.

OUTSTANDING EQUITY AWARDS AT 2008 FISCAL YEAR-END

	Option Awards					Stock Awards	
Name	**Number of Securities Underlying Unexercised Options (#) Exercisable**	**Number of Securities Underlying Unexercised Options (#) Unexercisable**	**Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)**	**Option Exercise Price ($)**	**Option Expiration Date**	**Number of Shares or Units of Stock That Have Not Vested (#)**	**Market Value of Shares or Units of Stock That Have Not Vested ($)**
David B. Dillon	50,000			$27.17	5/27/2009	72,000(9)	$1,620,000
	50,000			$27.17	5/27/2009	88,000(10)	$1,980,000
	175,000			$16.59	2/11/2010	115,000(11)	$2,587,500
			35,000(6)	$16.59	2/11/2010		
	35,000			$24.43	5/10/2011		
			35,000(7)	$24.43	5/10/2011		
	70,000			$23.00	5/9/2012		
			35,000(8)	$23.00	5/9/2012		
	210,000			$14.93	12/12/2012		
	240,000	60,000(1)		$17.31	5/6/2014		
	180,000	120,000(2)		$16.39	5/5/2015		
	96,000	144,000(3)		$19.94	5/4/2016		

	44,000	176,000(4)		$28.27	6/28/2017		
		225,000(5)		$28.61	6/26/2018		

OUTSTANDING EQUITY AWARDS AT 2008 FISCAL YEAR-END

	Option Awards					Stock Awards	
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)
J. Michael Schlotman	10,000			$27.17	5/27/2009	6,000(9)	$135,000
	10,000			$27.17	5/27/2009	8,000(10)	$180,000
			10,000(6)	$16.59	2/11/2010	10,000(11)	$225,000
	10,000			$24.43	5/10/2011		
			10,000(7)	$24.43	5/10/2011		
	20,000			$23.00	5/9/2012		
			10,000(8)	$23.00	5/9/2012		
	60,000			$14.93	12/12/2012		
	32,000	8,000(1)		$17.31	5/6/2014		
	24,000	16,000(2)		$16.39	5/5/2015		
	8,000	12,000(3)		$19.94	5/4/2016		
	4,000	16,000(4)		$28.27	6/28/2017		
		20,000(5)		$28.61	6/26/2018		
W. Rodney McMullen	30,000			$27.17	5/27/2009	18,000(9)	$405,000
	30,000			$27.17	5/27/2009	24,000(10)	$540,000
	125,000			$16.59	2/11/2010	35,000(11)	$787,500
			25,000(6)	$16.59	2/11/2010		
	25,000			$24.43	5/10/2011		
			25,000(7)	$24.43	5/10/2011		
	50,000			$23.00	5/9/2012		
			25,000(8)	$23.00	5/9/2012		
	150,000			$14.93	12/12/2012		
	60,000	15,000(1)		$17.31	5/6/2014		
	45,000	30,000(2)		$16.39	5/5/2015		
	24,000	36,000(3)		$19.94	5/4/2016		
	12,000	48,000(4)		$28.27	6/28/2017		
		65,000(5)		$28.61	6/26/2018		

OUTSTANDING EQUITY AWARDS AT 2008 FISCAL YEAR-END

	Option Awards					Stock Awards	
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)
Don W. McGeorge	30,000			$27.17	5/27/2009	18,000(9)	$405,000
	30,000			$27.17	5/27/2009	24,000(10)	$540,000
	125,000			$16.59	2/11/2010	35,000(11)	$787,500
			25,000(6)	$16.59	2/11/2010		
	25,000			$24.43	5/10/2011		
			25,000(7)	$24.43	5/10/2011		
	50,000			$23.00	5/9/2012		
			25,000(8)	$23.00	5/9/2012		
	150,000			$14.93	12/12/2012		
	60,000	15,000(1)		$17.31	5/6/2014		
	45,000	30,000(2)		$16.39	5/5/2015		
	24,000	36,000(3)		$19.94	5/4/2016		
	12,000	48,000(4)		$28.27	6/28/2017		
		65,000(5)		$28.61	6/26/2018		
Donald E. Becker	18,000			$27.17	5/27/2009	7,500(9)	$168,750
	18,000			$27.17	5/27/2009	10,000(10)	$225,000
			15,000(6)	$16.59	2/11/2010	12,500(11)	$281,250
	12,500			$24.43	5/10/2011	30,000(12)	$675,000
			12,500(7)	$24.43	5/10/2011		
	26,667			$23.00	5/9/2012		
			13,333(8)	$23.00	5/9/2012		
	80,000			$14.93	12/12/2012		
	32,000	8,000(1)		$17.31	5/6/2014		
	24,000	16,000(2)		$16.39	5/5/2015		
	10,000	15,000(3)		$19.94	5/4/2016		
	5,000	20,000(4)		$28.27	6/28/2017		
		25,000(5)		$28.61	6/26/2018		

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(1) Stock options vest on 5/6/2009.
(2) Stock options vest in equal amounts on 5/5/2009 and 5/5/2010.
(3) Stock options vest in equal amounts on 5/4/2009, 5/4/2010 and 5/4/2011.
(4) Stock options vest in equal amounts on 6/28/2009, 6/28/2010, 6/28/2011 and 6/28/2012.
(5) Stock options vest in equal amounts on 6/26/2009, 6/26/2010, 6/26/2011, 6/26/2012 and 6/26/2013.
(6) Performance stock options vest on 8/11/2009 or earlier if performance criteria is satisfied prior to such date.
(7) Performance stock options vest on 11/10/2010 or earlier if performance criteria is satisfied prior to such date.

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(8) Performance stock options vest on 11/9/2011 or earlier if performance criteria is satisfied prior to such date.
(9) Restricted stock vests in equal amounts on 5/4/2009, 5/4/2010 and 5/4/2011.

(10) Restricted stock vests in equal amounts on 6/28/2009, 6/28/2010, 6/28/2011 and 6/28/2012.
(11) Restricted stock vests in equal amounts on 6/26/2009, 6/26/2010, 6/26/2011, 6/26/2012 and 6/26/2013.
(12) Restricted stock vests as follows: 30,000 shares on 6/26/2011.

From 1997 through 2002, Kroger granted to the named executive officers performance-based nonqualified stock options. These options, having a term of ten years, vest six months prior to their date of expiration unless earlier vesting because Kroger's stock price has achieved the specified annual rate of appreciation set forth in the stock option agreement. That rate ranged from 13 to 16%. To date, only the performance-based options granted in 1997, 1998 and 1999 have vested.

OPTION EXERCISES AND STOCK VESTED

The following table provides the stock options exercised and restricted stock vested during 2008.

2008 OPTION EXERCISES AND STOCK VESTED

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)
David B. Dillon	35,000	$ 76,846	46,000	$1,283,820
J. Michael Schlotman	68,000	$ 670,491	4,000	$ 111,760
W. Rodney McMullen	60,000	$ 93,936	12,000	$ 335,280
Don W. McGeorge	45,000	$ 127,602	12,000	$ 335,280
Donald E. Becker	111,000	$1,053,577	35,000	$ 951,800

Options granted under our various long-term incentive plans have a ten-year life and expire if not exercised within that ten-year period.

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PENSION BENEFITS

The following table provides information on pension benefits as of 2008 year-end for the named executive officers.

2008 PENSION BENEFITS

Name	Plan Name	Number of Years Credited Service (#)	Present Value of Accumulated Benefit ($)	Payments During Last Fiscal Year ($)
David B. Dillon	The Kroger Consolidated Retirement Benefit Plan	13	$ 310,118	$0
	The Kroger Co. Excess Benefit Plan	13	$3,646,372	$0
	Dillon Companies, Inc. Excess Benefit Pension Plan	20	$4,388,300	$0
J. Michael Schlotman	The Kroger Consolidated Retirement Benefit Plan	23	$ 351,953	$0
	The Kroger Co. Excess Benefit Plan	23	$1,219,657	$0
W. Rodney McMullen	The Kroger Consolidated Retirement Benefit Plan	23	$ 301,799	$0
	The Kroger Co. Excess Benefit Plan	23	$2,246,547	$0

Don W. McGeorge	The Kroger Consolidated Retirement Benefit Plan	29	$ 540,529	$0
	The Kroger Co. Excess Benefit Plan	29	$4,058,060	$0
Donald E. Becker	The Kroger Consolidated Retirement Benefit Plan	34	$ 951,438	$0
	The Kroger Co. Excess Benefit Plan	34	$4,060,346	$0

The named executive officers all participate in The Kroger Consolidated Retirement Benefit Plan (the "Consolidated Plan"), which is a qualified defined benefit pension plan. The Consolidated Plan generally determines accrued benefits using a cash balance formula, but retains benefit formulas applicable under prior plans for certain "grandfathered participants" who were employed by Kroger on December 31, 2000. Each of the named executive officers is eligible for these grandfathered benefits under the Consolidated Plan. Their benefits, therefore, are determined using formulas applicable under prior plans, including the Kroger formula covering service to The Kroger Co. and the Dillon Companies, Inc. Pension Plan formula covering service to Dillon Companies, Inc.

The named executive officers also are eligible to receive benefits under The Kroger Co. Excess Benefit Plan (the "Kroger Excess Plan"), and Mr. Dillon also is eligible to receive benefits under the Dillon Companies, Inc. Excess Benefit Pension Plan (the "Dillon Excess Plan"). These plans are collectively referred to as the "Excess Plans." The Excess Plans are each considered to be nonqualified deferred compensation plans as defined in Section 409A of the Internal Revenue Code. The purpose of the Excess Plans is to make up the shortfall in retirement benefits caused by the limitations on benefits to highly compensated individuals under qualified plans in accordance with the Internal Revenue Code.

Each of the named executive officers will receive benefits under the Consolidated Plan and the Excess Plans, determined as follows:

- 1½% times years of credited service multiplied by the average of the highest five consecutive years of total earnings (base salary and annual bonus) during the last ten calendar years of employment, reduced by 1¼% times years of credited service multiplied by the primary social security benefit;
- normal retirement age is 65;
- unreduced benefits are payable beginning at age 62; and

- benefits payable between ages 55 and 62 will be reduced by [illegible] of one percent for each of the first 24 months and by ½ of one percent for each of the next 60 months by which the commencement of benefits precedes age 62.

Although participants generally receive credited service beginning at age 21, those participants who commenced employment prior to 1986, including all of the named executive officers, began to accrue credited service after attaining age 25. In the event of a termination of employment, Mr. Becker and Mr. Dillon currently are eligible for a reduced early retirement benefit, as they each have attained age 55.

Mr. Dillon also participates in the Dillon Employees' Profit Sharing Plan (the "Dillon Plan"). The Dillon Plan is a qualified defined contribution plan under which Dillon Companies, Inc. and its participating subsidiaries may choose to make discretionary contributions each year that are then allocated to each participant's account. Participation in the Dillon Plan was frozen effective January 1, 2001. Participants in the Dillon Plan elect from among a number of investment options and the amounts in their accounts are invested and credited with investment earnings in accordance with their elections. Prior to July 1, 2000, participants could elect to make voluntary contributions under the Dillon Plan, but that option was discontinued effective as of July 1, 2000.

Participants can elect to receive their Dillon Plan benefit in the form of either a lump sum payment or installment payments.

Due to offset formulas contained in the Consolidated Plan and the Dillon Excess Plan, Mr. Dillon's accrued benefit under the Dillon Plan offsets a portion of the benefit that would otherwise accrue for him under those plans for his service with Dillon Companies, Inc. Although benefits that accrue under defined contribution plans are not reportable under the accompanying table, we have added narrative disclosure of the Dillon Plan because of the offsetting effect that benefits under that plan has on benefits accruing under the Consolidated Plan and the Dillon Excess Plan.

The assumptions used in calculating the present values are set forth in Note 13 to the consolidated financial statements in the Company's Form 10-K filed with the SEC on March 31, 2009. The discount rate used to determine the present values is 7%, which is the same rate used at the measurement date for financial reporting purposes.

NONQUALIFIED DEFERRED COMPENSATION

The following table provides information on nonqualified deferred compensation for the named executive officers for 2008.

2008 NONQUALIFIED DEFERRED COMPENSATION

Name	Executive Contributions in Last FY ($)	Registrant Contributions in Last FY ($)	Aggregate Earnings in Last FY ($)	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance at Last FYE ($)
David B. Dillon	$ 0	$0	$ 41,838	$0	$ 604,569
J. Michael Schlotman	$ 0	$0	$ 0	$0	$ 0
W. Rodney McMullen	$347,692(1)	$0	$275,083	$0	$4,157,956
Don W. McGeorge	$ 0	$0	$ 15,457	$0	$ 195,107
Donald E. Becker	$ 0	$0	$ 0	$0	$ 0

(1) The amount of $97,692 is included in the executive's 2008 base salary in the Summary Compensation Table. The amount of $250,000 represents the deferral of annual bonus earned in fiscal year 2007 and paid in March 2008. This amount is included in the Summary Compensation Table for 2007.

Eligible participants may elect to defer up to 100% of the amount of their salary that exceeds the sum of the FICA wage base and pre-tax insurance and other Internal Revenue Code Section 125 plan deductions, as well as 100% of their annual and long-term bonus compensation. Deferral account amounts are credited with interest at the rate representing Kroger's cost of 10-year debt as determined by Kroger's CEO prior to the beginning of each deferral year. The interest rate established for deferral amounts for each deferral year will be applied to those deferral amounts for all subsequent years until the deferred compensation is paid out. Participants can elect to receive lump sum distributions or quarterly installments for periods up to ten years. Participants also can elect between lump sum distributions and quarterly installments to be received by designated beneficiaries if the participant dies before distribution of deferred compensation is completed.

DIRECTOR COMPENSATION

The following table describes the fiscal year 2008 compensation for non-employee directors. Employee directors receive no compensation for their Board service.

2008 DIRECTOR COMPENSATION

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($) (2)	Option Awards ($) (3)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($) (15)	Total ($)
Reuben V. Anderson	$74,589	$63,020(4)	$ 77,792(6)	$0	(13)	$114	$215,515
Robert D. Beyer	$86,523	$63,020(4)	$ 43,733(6)	$0	$ 392(14)	$114	$193,782
John L. Clendenin (1)	$30,839	(5)	$ 42,909(7)	$0	$ 151(14)	$114	$ 74,013
Susan J. Kropf	$84,086	$38,563(4)	$ 11,601(8)	$0	N/A	$114	$134,364
John T. LaMacchia	$86,523	$63,020(4)	$ 77,792(6)	$0	$ 3,208(13)	$114	$230,657
David B. Lewis	$96,465	$63,020(4)	$ 77,792(9)	$0	N/A	$114	$237,391
Jorge P. Montoya	$81,589	$38,563(4)	$ 13,646(8)	$0	N/A	$114	$133,912
Clyde R. Moore	$78,699	$63,020(4)	$ 77,829(6)	$0	$ 7(13)	$114	$219,669
Katherine D. Ortega (1)	$35,773	(5)	$ 42,909(10)	$0	N/A	$114	$ 78,796
Susan M. Phillips	$84,542	$63,020(4)	$109,299(11)	$0	$ 192(14)	$114	$257,167
Steven R. Rogel	$83,634	$63,020(4)	$ 77,792(6)	$0	N/A	$114	$224,560
James A. Runde	$74,589	$63,020(4)	$ 21,402(12)	$0	N/A	$114	$159,125
Ronald L. Sargent	$84,530	$63,020(4)	$ 19,162(12)	$0	N/A	$114	$166,826
Bobby S. Shackouls	$98,265	$63,020(4)	$ 26,472(6)	$0	N/A	$114	$187,871

(1) Retired from the Board on June 26, 2008.

(2) This amount represents the dollar amount recognized for financial statement reporting purposes with respect to the fiscal year in accordance with FAS 123(R). See discussion of the assumptions made in the valuation in Note 10 to the consolidated financial statements in the Company's Form 10-K filed with the SEC on March 31, 2009. Expense for 2008 excludes 6% estimate of cumulative forfeitures for restricted stock awards. The grant date fair value of the award of 3,250 shares of restricted stock to each Board member on December 11, 2008 was $84,955.

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(3) This amount represents the dollar amount recognized for financial statement reporting purposes with respect to the fiscal year in accordance with FAS 123(R). See discussion of the assumptions made in the valuation in Note 10 to the consolidated financial statements in the Company's Form 10-K filed with the SEC on March 31, 2009. Expense for 2008 excludes 6% estimate of cumulative forfeitures for non-qualified stock option awards. This amount includes an acceleration of expense for options granted in 2008 to those reaching age 62 with at least 5 years of service during the option vesting period, and an acceleration of expense for options granted in 2007 and 2006 to those reaching age 55 with at least 5 years of service during the option vesting period. Options granted in years prior to 2006 are expensed over the vesting period without regard to age or years of service of the optionee. The grant date fair value of the award of 6,500 stock options to each Board member on December 11, 2008 was $53,189.

(4) Aggregate number of stock awards outstanding at fiscal year end was 4,500 shares.

(5) Amounts are negative, reflecting the reversal of the previously booked expense due to the director's retirement prior to the end of the fiscal year.

(6) Aggregate number of stock options outstanding at fiscal year end was 44,500 shares.

(7) Aggregate number of stock options outstanding at fiscal year end was 38,000 shares.

(8) Aggregate number of stock options outstanding at fiscal year end was 11,500 shares.

(9) Aggregate number of stock options outstanding at fiscal year end was 36,500 shares.

(10) Aggregate number of stock options outstanding at fiscal year end was 29,000 shares.
(11) Aggregate number of stock options outstanding at fiscal year end was 26,500 shares.
(12) Aggregate number of stock options outstanding at fiscal year end was 16,500 shares.
(13) This amount reflects the change in pension value for the applicable directors. Only those directors elected to the Board prior to July 17, 1997 are eligible to participate in the outside director retirement plan. Mr. Anderson's pension value decreased by $2,715. In accordance with SEC rules, negative amounts are required to be disclosed, but not reflected in the sum of total compensation.
(14) This amount reflects preferential earnings on nonqualified deferred compensation.
(15) This amount reflects the cost to the Company per director for providing accidental death and dismemberment insurance coverage for non-employee directors. These premiums are paid on an annual basis in February.

Each non-employee director receives an annual retainer of $75,000. The chair of each committee receives an additional annual retainer of $12,000. Each member of the Audit Committee receives an additional annual retainer of $10,000. The director designated as the "Lead Director" received an additional annual retainer of $10,000 through December 31, 2008. Each non-employee director also receives annually, at the regularly scheduled meeting held in December, restricted stock and nonqualified stock option awards. The Corporate Governance Committee retained Mercer Human Resource Consulting to review non-employee director compensation and determined that equity awards to the non-employee directors, and the additional annual retainer to the Lead Director, were not competitive. Accordingly, non-employee directors received an award of 3,250 shares of restricted stock, compared to 2,500 shares in the prior year, and an award of 6,500 nonqualified stock options, compared to 5,000 stock options in the prior year. Effective January 1, 2009, the Lead Director's additional annual retainer was increased to $20,000.

Non-employee directors first elected prior to July 17, 1997 receive a major medical plan benefit as well as an unfunded retirement benefit. The retirement benefit equals the average cash compensation for the five calendar years preceding retirement. Participants who retire from the Board prior to age 70 will be credited with 50% vesting after five years of service, and 10% for each additional year up to a maximum of 100%. Benefits for participants who retire prior to age 70 begin at the later of actual retirement or age 65.

We also maintain a deferred compensation plan, in which all non-employee members of the Board are eligible to participate. Participants may defer up to 100% of their cash compensation. They may elect from either or both of the following two alternative methods of determining benefits:

- interest accrues during the deferral year based on that rate of interest determined at the beginning of the deferral year to equal our cost of ten-year debt; and

- amounts are credited in "phantom" stock accounts and the amounts in those accounts fluctuate with the price of Kroger common stock.

In both cases, deferred amounts are paid out only in cash, based on deferral options selected by the participants at the time the deferral elections are made. Participants can elect to have distributions made in a lump sum or in quarterly installments, and may make comparable elections for designated beneficiaries who receive benefits in the event that deferred compensation is not completely paid out upon the death of the participant.

The Board has determined that compensation of non-employee directors must be competitive on an on-going basis to attract and retain directors who meet the qualifications for service on Kroger's Board. Non-employee director compensation will be reviewed from time to time as the Corporate Governance Committee deems appropriate.

POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL

Kroger has no contracts, agreements, plans or arrangements that provide for payments to the named executive officers in connection with resignation, severance, retirement, termination, or change in control, except for those available generally to salaried employees. The Kroger Co. Employee Protection Plan, or KEPP, applies to all management employees and administrative support personnel who are not covered by a collective bargaining agreement, with at least one year of service, and provides severance benefits when a participants employment is terminated actually or constructively within two years following a change in control of Kroger. For purposes of KEPP, a change in control occurs if:

- any person or entity (excluding Krogers employee benefit plans) acquires 20% or more of the voting power of Kroger;
- a merger, consolidation, share exchange, division, or other reorganization or transaction with Kroger results in Krogers voting securities existing prior to that event representing less than 60% of the combined voting power immediately after the event;
- Krogers shareholders approve a plan of complete liquidation or winding up of Kroger or an agreement for the sale or disposition of all or substantially all of Krogers assets; or
- during any period of 24 consecutive months, individuals at the beginning of the period who constituted Krogers Board of Directors cease for any reason to constitute at least a majority of the Board of Directors.

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Assuming that a change in control occurred on the last day of Krogers fiscal year 2008, and the named executive officers had their employment terminated, they would receive a maximum payment or, in the case of group term life insurance, a benefit having a cost to Kroger in the amounts shown below:

Name	Severance Benefit	Additional Vacation and Bonus	Accrued and Banked Vacation	Group Term Life Insurance	Tuition Reimbursement	Outplacement Reimbursement
David B. Dillon	$5,059,190	$120,864	$563,077	$29	$5,000	$10,000
J. Michael Schlotman	$1,923,238	$ 39,959	$251,538	$29	$5,000	$10,000
W. Rodney McMullen	$3,426,302	$ 79,365	$413,462	$29	$5,000	$10,000
Don W. McGeorge	$3,426,302	$ 79,365	$215,000	$29	$5,000	$10,000
Donald E. Becker	$2,196,332	$ 45,809	$476,923	$29	$5,000	$10,000

Each of the named executive officers also is entitled to continuation of health care coverage for up to 24 months at the same contribution rate as existed prior to the change in control. The cost to Kroger cannot be calculated, as Kroger self insures the health care benefit and the cost is based on the health care services utilized by the participant and eligible dependents.

Under KEPP benefits will be reduced, to the extent necessary, so that payments to an executive officer will in no event exceed 2.99 times the officers average W-2 earnings over the preceding five years.

Krogers change in control benefits under KEPP and under stock option and restricted stock agreements are discussed further in the Compensation Discussion and Analysis section under the Retirement and Other Benefits heading.

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BENEFICIAL OWNERSHIP OF COMMON STOCK

As of February 13, 2009, Krogers directors, the named executive officers, and the directors and executive officers as a group, beneficially owned shares of Krogers common stock as follows:

Name	Amount and Nature of Beneficial Ownership
Reuben V. Anderson	68,515(1)
Donald E. Becker	390,704(2)(3)(4)
Robert D. Beyer	110,562(1)
David B. Dillon	2,206,057(2)(3)(5)
Susan J. Kropf	8,750(6)
John T. LaMacchia	80,350(1)
David B. Lewis	36,250(7)
Don W. McGeorge	830,663(2)(8)
W. Rodney McMullen	1,039,323(2)(3)
Jorge P. Montoya	6,750(6)
Clyde R. Moore	59,250(1)
Susan M. Phillips	36,785(9)
Steven R. Rogel	57,778(1)
James A. Runde	11,250(10)
Ronald L. Sargent	13,250(10)
J. Michael Schlotman	273,742(2)(3)(11)
Bobby S. Shackouls	44,750(1)
Directors and Executive Officers as a group (including those named above)	7,772,703(2)(3)(12)

(1) This amount includes 27,000 shares that represent options that are or become exercisable on or before April 14, 2009.

(2) This amount includes shares that represent options that are or become exercisable on or before April 14, 2009, in the following amounts: Mr. Becker, 226,167; Mr. Dillon, 1,150,000; Mr. McGeorge, 551,000; Mr. McMullen, 551,000; Mr. Schlotman, 178,000; and all directors and executive officers as a group, 4,460,434.

(3) The fractional interest resulting from allocations under Krogers defined contribution plans has been rounded to the nearest whole number.

(4) This amount includes 10,228 shares owned by Mr. Beckers wife. Mr. Becker disclaims beneficial ownership of these shares.

(5) This amount includes 168,432 shares owned by Mr. Dillons wife, and 18,008 shares in his childrens trust. Mr. Dillon disclaims beneficial ownership of these shares.

(6) This amount includes 1,000 shares that represent options that are or become exercisable on or before April 14, 2009.

(7) This amount includes 19,000 shares that represent options that are or become exercisable on or before April 14, 2009.

(8) This amount includes 10,115 shares owned by Mr. McGeorges wife. Mr. McGeorge disclaims beneficial ownership of these shares.

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(9) This amount includes 9,000 shares that represent options that are or become exercisable on or before April 14, 2009.

(10) This amount includes 3,000 shares that represent options that are or become exercisable on or before April 14, 2009.

(11) This amount includes 2,805 shares owned by Mr. Schlotmans son. Mr. Schlotman disclaims beneficial ownership of these shares.

(12)

The figure shown includes an aggregate of 320 additional shares held by, or for the benefit of, the immediate families or other relatives of all directors and executive officers as a group not listed above. In each case the director or executive officer disclaims beneficial ownership of those shares.

No director or officer owned as much as 1% of the common stock of Kroger. The directors and executive officers as a group beneficially owned 1% of the common stock of Kroger.

No director or officer owned Kroger common stock pledged as security.

As of February 13, 2009, the following reported beneficial ownership of Kroger common stock based on reports on Schedule 13G filed with the Securities and Exchange Commission or other reliable information as follows:

Name	Address of Beneficial Owner	Amount and Nature of Ownership	Percentage of Class
The Kroger Co. Savings Plan	1014 Vine Street Cincinnati, OH 45202	35,055,853(1)	5.4%

(1) Shares beneficially owned by plan trustees for the benefit of participants in employee benefit plan.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires our officers and directors, and persons who own more than 10% of a registered class of our equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Those officers, directors and shareholders are required by SEC regulation to furnish us with copies of all Section 16(a) forms they file.

Based solely on our review of the copies of forms received by Kroger, or written representations from certain reporting persons that no Forms 5 were required for those persons, we believe that during fiscal year 2008 all filing requirements applicable to our officers, directors and 10% beneficial owners were timely satisfied.

RELATED PERSON TRANSACTIONS

Pursuant to our *Statement of Policy with Respect to Related Person Transactions* and the rules of the SEC, Kroger has the following related person transactions, which were approved by Kroger's Audit Committee, to disclose:

- During fiscal year 2008, Kroger entered into a series of purchase transactions with Weyerhaeuser Company, totaling approximately $36 million, involving primarily the purchase of corrugate and other paper products used for packaging at Kroger's manufacturing facilities. This amount represents substantially less than 2% of Weyerhaeuser's annual consolidated gross revenue. A significant portion of these purchases was conducted via a competitive bidding process. Steven R. Rogel, a member of Kroger's Board of Directors, was CEO of Weyerhaeuser for a portion of fiscal year 2008, and Chairman of the Board of Weyerhaeuser for all of 2008.

- During fiscal year 2008, First Service Networks provided facility maintenance services totaling approximately $150,000 to Kroger's Ralphs subsidiary. This amount represents substantially less than 2% of First Service Networks' annual consolidated gross revenue. Clyde R. Moore, a member of Kroger's Board of Directors, is Chairman and Chief Executive Officer of First Service Networks. Kroger's relationship existed prior to Mr. Moore's affiliation with First Service Networks.

- During fiscal year 2008, Kroger entered into a series of purchase transactions with Staples, Inc., totaling approximately $12 million, involving primarily the purchase of office supplies. This amount represents substantially less than 2% of Staples annual consolidated gross revenue. Virtually all of this amount represents purchases from Corporate Express from and after July 2008 when Corporate Express was acquired by Staples. Krogers relationship with Corporate Express existed prior to its acquisition by Staples. Ronald L. Sargent, a member of Krogers Board of Directors, is Chairman and Chief Executive Officer of Staples.

- During fiscal year 2008, Kroger paid J.P. Morgan/Chase approximately $3 million for commercial banking and investment banking fees. This amount represents substantially less than 2% of J.P. Morgan/Chases annual consolidated gross revenue. The son of Kroger CFO J. Michael Schlotman was employed by J.P. Morgan during fiscal year 2008, but had no responsibility for or involvement with any services provided to Kroger.

Director independence is discussed above under the heading Information Concerning the Board of Directors. Krogers policy on related person transactions is as follows:

**STATEMENT OF POLICY
WITH RESPECT TO
RELATED PERSON TRANSACTIONS**

A. INTRODUCTION

It is the policy of Krogers Board of Directors that any Related Person Transaction may be consummated or may continue only if the Committee approves or ratifies the transaction in accordance with the guidelines set forth in this policy. The Board of Directors has determined that the Audit Committee of the Board is best suited to review and approve Related Person Transactions.

For the purposes of this policy, a Related Person is:

1. any person who is, or at any time since the beginning of Krogers last fiscal year was, a director or executive officer of Kroger or a nominee to become a director of Kroger;

2. any person who is known to be the beneficial owner of more than 5% of any class of Krogers voting securities; and

3. any immediate family member of any of the foregoing persons, which means any child, stepchild, parent, stepparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law of the director, executive officer, nominee or more than 5% beneficial owner, and any person (other than a tenant or employee) sharing the household of such director, executive officer, nominee or more than 5% beneficial owner.

For the purposes of this policy, a Related Person Transaction is a transaction, arrangement or relationship (or any series of similar transactions, arrangements or relationships) since the beginning of Krogers last fiscal year in which Kroger (including any of its subsidiaries) was, is or will be a participant and the amount involved exceeds $120,000, and in which any Related Person had, has or will have a direct or indirect material interest (other than solely as a result of being a director or a less than 10 percent beneficial owner of another entity).

Notwithstanding the foregoing, the Audit Committee has reviewed the following types of transactions and has determined that each type of transaction is deemed to be pre-approved, even if the amount involved exceeds $120,000.

1. Certain Transactions with Other Companies. Any transaction for property or services in the ordinary course of business involving payments to or from another company at which a Related Persons only

relationship is as an employee (including an executive officer), director, or beneficial owner of less than 10% of that company's shares, if the aggregate amount involved in any fiscal year does not exceed the greater of $1,000,000 or 2 percent of that company's annual consolidated gross revenues.

2. Certain Company Charitable Contributions. Any charitable contribution, grant or endowment by Kroger (or one of its foundations) to a charitable organization, foundation, university or other not for profit organization at which a Related Person's only relationship is as an employee (including an executive officer) or as a director, if the aggregate amount involved does not exceed $250,000 or 5 percent, whichever is lesser, of the charitable organization's latest publicly available annual consolidated gross revenues.

3. Transactions where all Shareholders Receive Proportional Benefits. Any transaction where the Related Person's interest arises solely from the ownership of Kroger common stock and all holders of Kroger common stock received the same benefit on a pro rata basis.

4. Executive Officer and Director Compensation. (a) Any employment by Kroger of an executive officer if the executive officer's compensation is required to be reported in Kroger's proxy statement, (b) any employment by Kroger of an executive officer if the executive officer is not an immediate family member of a Related Person and the Compensation Committee approved (or recommended that the Board approve) the executive officer's compensation, and (c) any compensation paid to a director if the compensation is required to be reported in Kroger's proxy statement.

5. Other Transactions. (a) Any transaction involving a Related Person where the rates or charges involved are determined by competitive bids, (b) any transaction with a Related Person involving the rendering of services as a common or contract carrier, or public utility, at rates or charges fixed in conformity with law or governmental authority, or (c) any transaction with a Related Person involving services as a bank depositary of funds, transfer agent, registrar, trustee under a trust indenture or similar services.

B. AUDIT COMMITTEE APPROVAL

In the event management becomes aware of any Related Person Transactions that are not deemed pre-approved under paragraph A of this policy, those transactions will be presented to the Committee for approval at the next regular Committee meeting, or where it is not practicable or desirable to wait until the next regular Committee meeting, to the Chair of the Committee (who will possess delegated authority to act between Committee meetings) subject to ratification by the Committee at its next regular meeting. If advance approval of a Related Person Transaction is not feasible, then the Related Person Transaction will be presented to the Committee for ratification at the next regular Committee meeting, or where it is not practicable or desirable to wait until the next regular Committee meeting, to the Chair of the Committee for ratification, subject to further ratification by the Committee at its next regular meeting.

In connection with each regular Committee meeting, a summary of each new Related Person Transaction deemed pre-approved pursuant to paragraphs A(1) and A(2) above will be provided to the Committee for its review.

If a Related Person Transaction will be ongoing, the Committee may establish guidelines for management to follow in its ongoing dealings with the Related Person. Thereafter, the Committee, on at least an annual basis, will review and assess ongoing relationships with the Related Person to see that they are in compliance with the Committee's guidelines and that the Related Person Transaction remains appropriate.

The Committee (or the Chair) will approve only those Related Person Transactions that are in, or are not inconsistent with, the best interests of Kroger and its shareholders, as the Committee (or the Chair) determines in good faith in accordance with its business judgment.

No director will participate in any discussion or approval of a Related Person Transaction for which he or she, or an immediate family member (as defined above), is a Related Person except that the director will provide all material information about the Related Person Transaction to the Committee.

C. DISCLOSURE

Kroger will disclose all Related Person Transactions in Kroger's applicable filings as required by the Securities Act of 1933, the Securities Exchange Act of 1934 and related rules.

AUDIT COMMITTEE REPORT

The primary function of the Audit Committee is to represent and assist the Board of Directors in fulfilling its oversight responsibilities regarding the Company's financial reporting and accounting practices including the integrity of the Company's financial statements; the Company's compliance with legal and regulatory requirements; the independent public accountants' qualifications and independence; the performance of the Company's internal audit function and independent public accountants; and the preparation of this report that SEC rules require be included in the Company's annual proxy statement. The Audit Committee performs this work pursuant to a written charter approved by the Board of Directors. The Audit Committee charter most recently was revised during fiscal year 2009 and is available on the Company's website at http://www.thekrogerco.com/documents/GuidelinesIssues.pdf. The Audit Committee has implemented procedures to assist it during the course of each fiscal year in devoting the attention that is necessary and appropriate to each of the matters assigned to it under the Committee's charter. The Audit Committee held seven meetings during fiscal year 2008. The Audit Committee meets separately at least quarterly with the Company's internal auditor and PricewaterhouseCoopers LLP, the Company's independent public accountants, without management present, to discuss the results of their audits, their evaluations of the Company's internal controls over financial reporting, and the overall quality of the Company's financial reporting. The Audit Committee also meets separately at least quarterly with the Company's Chief Financial Officer and General Counsel. Following these separate discussions, the Audit Committee meets in executive session.

Management of the Company is responsible for the preparation and presentation of the Company's financial statements, the Company's accounting and financial reporting principles and internal controls, and procedures that are designed to provide reasonable assurance regarding compliance with accounting standards and applicable laws and regulations. The independent public accountants are responsible for auditing the Company's financial statements and expressing opinions as to the financial statements' conformity with generally accepted accounting principles and the effectiveness of the Company's internal control over financial reporting.

In the performance of its oversight function, the Audit Committee has reviewed and discussed with management and PricewaterhouseCoopers LLP the audited financial statements for the year ended January 31, 2009, management's assessment of the effectiveness of the Company's internal control over financial reporting as of January 31, 2009, and PricewaterhouseCoopers' evaluation of the Company's internal control over financial reporting as of that date. The Audit Committee has also discussed with the independent public accountants the matters required to be discussed by Statement on Auditing Standards No. 61, "Communication With Audit Committees," as amended (AICPA, Professional Standards, Vol. 1, AU section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T.

With respect to the Company's independent public accountants, the Audit Committee, among other things, discussed with PricewaterhouseCoopers LLP matters relating to its independence and has received the written disclosures and the letter from the independent public accountants required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent public accountants' communications with the Audit Committee concerning independence. The Audit Committee has reviewed and approved in advance all services provided to the Company by PricewaterhouseCoopers LLP. The Audit Committee conducted a review of services provided by PricewaterhouseCoopers LLP which included an evaluation by management and members of the Audit Committee.

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Based upon the review and discussions described in this report, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements be included in the Company’s Annual Report on Form 10-K for the year ended January 31, 2009, as filed with the SEC.

This report is submitted by the Audit Committee.

David B. Lewis, Chair

Ronald L. Sargent, Vice Chair

Susan J. Kropf

Susan M. Phillips

Bobby S. Shackouls

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SELECTION OF AUDITORS
(ITEM NO. 2)

The Audit Committee of the Board of Directors is responsible for the appointment, compensation and retention of Kroger’s independent auditor, as required by law and by applicable NYSE rules. On March 11, 2009, the Audit Committee appointed PricewaterhouseCoopers LLP as Kroger’s independent auditor for the fiscal year ending January 30, 2010. While shareholder ratification of the selection of PricewaterhouseCoopers LLP as Kroger’s independent auditor is not required by Kroger’s Regulations or otherwise, the Board of Directors is submitting the selection of PricewaterhouseCoopers LLP to shareholders for ratification, as it has in past years, as a good corporate governance practice. If the shareholders fail to ratify the selection, the Audit Committee may, but is not required to, reconsider whether to retain that firm. Even if the selection is ratified, the Audit Committee in its discretion may direct the appointment of a different auditor at any time during the year if it determines that such a change would be in the best interests of Kroger and its shareholders.

A representative of PricewaterhouseCoopers LLP is expected to be present at the meeting to respond to appropriate questions and to make a statement if he or she desires to do so.

THE BOARD OF DIRECTORS AND MANAGEMENT RECOMMEND A VOTE FOR THIS PROPOSAL.

DISCLOSURE OF AUDITOR FEES

The following describes the fees billed to Kroger by PricewaterhouseCoopers LLP related to the fiscal years ended January 31, 2009 and February 2, 2008:

	Fiscal Year 2008	Fiscal Year 2007
Audit Fees	$ 4,093,444	$ 4,221,063
Audit-Related Fees	54,248	122,878
Tax Fees	—	—

All Other Fees		
Total	$ 4,147,692	$ 4,343,941

Audit Fees for the years ended January 31, 2009 and February 2, 2008, respectively, were for professional services rendered for the audits of Kroger's consolidated financial statements, the issuance of comfort letters to underwriters, consents, income tax provision procedures and assistance with the review of documents filed with the SEC.

Audit-Related Fees for the years ended January 31, 2009 and February 2, 2008, respectively, were for assurance and related services pertaining to accounting consultation in connection with acquisitions, attest services that are not required by statute or regulation, and consultations concerning financial accounting and reporting standards.

Tax Fees. We did not engage PricewaterhouseCoopers LLP for other tax services for the years ended January 31, 2009 and February 2, 2008.

All Other Fees. We did not engage PricewaterhouseCoopers LLP for other services for the years ended January 31, 2009 and February 2, 2008.

The Audit Committee requires that it approve in advance all audit and non-audit work performed by PricewaterhouseCoopers LLP. On March 11, 2009, the Audit Committee approved services to be performed by PricewaterhouseCoopers LLP for the remainder of fiscal year 2009 that are related to the audit of Kroger

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or involve the audit itself. In 2007, the Audit Committee adopted an audit and non-audit service pre-approval policy. Pursuant to the terms of that policy, the Committee will annually pre-approve certain defined services that are expected to be provided by the independent auditors. If it becomes appropriate during the year to engage the independent accountant for additional services, the Audit Committee must first approve the specific services before the independent accountant may perform the additional work.

PricewaterhouseCoopers LLP has advised the Audit Committee that neither the firm, nor any member of the firm, has any financial interest, direct or indirect, in any capacity in Kroger or its subsidiaries.

SHAREHOLDER PROPOSAL
(ITEM NO. 3)

We have been notified by a shareholder, the name and shareholdings of which will be furnished promptly to any shareholder upon written or oral request to Kroger's Secretary at Kroger's executive offices, that it intends to propose the following resolution at the annual meeting:

SHAREHOLDER RESOLUTION

WHEREAS, in our "2008 Sustainability Report," The Kroger Co. (the "Corporation") asserts, "The humane treatment of animals from farm to table is important to Kroger and our customers." Further: "We continue to push for the vendor community to embrace new best practices in animal welfare. Kroger is taking an active role in facilitating an industry approach to producing sustainable and comprehensive improvements in animal welfare standards."

Yet our Corporation lags behind other retailers in an important measure of animal welfare: confining egg-laying hens in cramped, wire, battery cages. The cages are so small the birds can't spread their wings. While our suppliers are asked to comply with Food Marketing Institute standards, these still allow producers to provide

each hen with less space than a letter-sized sheet of paper for nearly her entire life.

This practice is steadily falling out of favor with industry and consumers. For example, Whole Foods Market only sells eggs produced by hens living in cage-free environments, and Trader Joes converted all its private-label eggs to cage-free. Safeway and Harris Teeter have implemented policies to double the percentage of cage-free eggs they carry. Eleven percent of the eggs Costco sells (approximately three times our last reported percentage) are cage-free. All shell eggs used by Compass Group, the worlds largest food service company, are cage-free. National chains, including Burger King, Dennys, Carls Jr., and Hardees, are phasing in cage-free eggs. Wolfgang Puck uses only cage-free eggs in his restaurants and packaged foods. More than 350 U.S. universities serve cage-free eggs on campus.

In November, Californians overwhelmingly enacted the Prevention of Farm Animal Cruelty Act, making it illegal to confine laying hens in cages so small they cannot spread their wings (with a phase-out period).

The prestigious Pew Commission on Industrial Farm Animal Productionan independent panel including former U.S. Secretary of Agriculture Dan Glickmanconcluded after an extensive two-year study that battery cages should be phased out on animal welfare and food safety grounds.

In October, *The New York Times* editorial board condemned battery cages: [industrial farming] means endless rows of laying hens kept in battery cages so small that the birds cannot even stretch their wings. **No philosophy can justify this kind of cruelty, not even the philosophy of cheapness.** (Emphasis added.)

Increasingly, consumers, companies, and voters agree with scientists who have established that egg production best practices include not confining birds in battery cages.

We risk loss of business and reputation if we do not phase out the sale of eggs from battery-caged hens. In doing so, our Corporation can keep pace with competitors, better meet public expectations, and make a meaningful step toward our claim of being an animal welfare leader.

RESOLVED that, in keeping with our animal welfare policy, shareholders encourage our Corporation to establish a schedule for increasing the percentage of eggs stocked from hens not confined in battery cagesconfinement consumers widely view as cruel and unacceptable.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE AGAINST THIS PROPOSAL FOR THE FOLLOWING REASONS:

As one of the largest supermarket companies in the United States, our commitment, leadership and results with respect to animal welfare matters are well established and recognized within the industry. Animal welfare is an important issue to Kroger, our customers and our associates.

According to experts, both hens housed in cages and cage-free hens can be treated humanely or poorly, with one method not being superior from an animal welfare point of view. Although hens housed in cages cannot flap their wings, they are protected from dust, poor air quality, cannibalism, and parasites. In order to ensure humane treatment of the hens that produce eggs sold to Kroger, we require that our egg suppliers adhere to the animal welfare guidelines adopted by the United Egg Producers. These guidelines, which apply to both caged and cage-free egg production, require suppliers to adhere to modern farming techniques designed to protect the safety of the eggs and to treat the hens humanely.

Many of our customers have indicated a preference for cage-free eggs. That is why we offer cage-free eggs in virtually all of our supermarkets. We will continue to monitor the purchasing practices of our customers and will continue to meet their demand to the extent our suppliers are able to do so. We do not believe, however, that it is

appropriate to increase the percentage of cage-free eggs that we stock absent customer demand when it has not been scientifically established that hens housed in modern cages are treated less humanely or less ethically than cage-free hens.

SHAREHOLDER PROPOSAL
(ITEM NO. 4)

We have been notified by a shareholder, the name and shareholdings of which will be furnished promptly to any shareholder upon written or oral request to Kroger's Secretary at Kroger's executive offices, that it intends to propose the following resolution at the annual meeting:

DIRECTOR ELECTION MAJORITY VOTE STANDARD PROPOSAL

RESOLVED: That the shareholders of The Kroger Company (Company) hereby request that the Board of Directors initiate the appropriate process to amend the Company's articles of incorporation to provide that director nominees shall be elected by the affirmative vote of the majority of votes cast at an annual meeting of shareholders, with a plurality vote standard retained for contested director elections, that is, when the number of director nominees exceeds the number of board seats.

SUPPORTING STATEMENT: In order to provide shareholders a meaningful role in director elections, our Company's director election vote standard should be changed to a majority vote standard. A majority vote standard would require that a nominee receive a majority of the votes cast in order to be elected. The standard is particularly well-suited for the vast majority of director elections in which only board nominated candidates are on the ballot. We believe that a majority vote standard in board elections would establish a challenging vote standard for board nominees and improve the performance of individual directors and entire boards. Our Company presently uses a plurality vote standard in all director elections. Under the plurality vote standard, a nominee for the board can be elected with as little as a single affirmative vote, even if a substantial majority of the votes cast are withheld from the nominee.

In response to strong shareholder support for a majority vote standard in director elections, a strong majority of the nation's leading companies, including Intel, General Electric, Motorola, Hewlett-Packard, Morgan Stanley, Wal-Mart, Home Depot, Gannett, Marathon Oil, and Safeway have adopted a majority vote standard in company bylaws or articles of incorporation. Additionally, these companies have adopted director resignation policies in their bylaws or corporate governance policies to address post-election issues related to the status of director nominees that fail to win election. However, our Company has responded only partially to the call for change, simply adopting a post-election director resignation policy that sets procedures for addressing the status of director nominees that receive more withhold votes than for votes. The plurality vote standard remains in place.

We believe that a post-election director resignation policy without a majority vote standard in Company bylaws or articles is an inadequate reform. The critical first step in establishing a meaningful majority vote policy is the adoption of a majority vote standard. With a majority vote standard in place, the Board can then consider action on developing post-election procedures to address the status of directors that fail to win election. A majority vote standard combined with a post-election director resignation policy would establish a meaningful right for shareholders to elect directors, and reserve for the Board an important post-election role in determining the continued status of an unelected director. We feel that this combination of the majority vote standard with a post-election policy represents a true majority vote standard.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE <u>AGAINST</u> THIS PROPOSAL FOR THE FOLLOWING REASONS:

This proposal requests that we adopt a voting standard for director elections that differs from the plurality voting standard, the current default standard under Ohio law. Prior to January 1, 2008, Ohio law required all

directors to be elected by a plurality. The plurality voting standard provides that the nominees who receive the most affirmative votes are elected to serve as directors.

After careful consideration, the Board of Directors recommends a vote against this proposal because:

- we already have implemented a policy that addresses the proponents concerns;
- our current corporate governance practices already ensure that our directors are highly qualified;
- the shareholder proposal creates uncertainty; and
- the shareholder proposal is premature given the current state of director election practices.

We Have Already Implemented a Majority Voting Policy

Like a number of other large public companies facing this issue, in order to address concerns relating to director candidates who do not receive a majority of the votes cast, we have adopted a majority voting policy. Our policy, as set forth in *The Kroger Co. Board of Directors Guidelines on Issues of Corporate Governance*, was adopted on March 15, 2007. The *Guidelines*, including our majority vote policy, may be viewed on our website at www.thekrogerco.com.

Our policy provides that, in an uncontested election where cumulative voting is not in effect, any director nominee who receives a greater number of withheld votes than for votes is required promptly to submit his or her resignation to the Board. In addition:

- The Corporate Governance Committee will promptly consider the tendered resignation and will recommend to the Board whether to accept the resignation or take some other action.
- The Board will act on the Committees recommendation within 90 days following the certification of the shareholder vote.

- Any director who tenders his or her resignation will not participate in the Committees recommendation or the Boards consideration of the tendered resignation.
- We will promptly disclose publicly the Boards decision, along with the reasons for rejecting the resignation offer, if applicable, in a press release.

We believe that our policy strikes an appropriate balance in ensuring that our shareholders continue to have a meaningful role in electing directors while preserving the ability of the Board to exercise its independent judgment and to consider all relevant factors in accepting the resignation of a director who receives fewer than a majority of votes cast.

Our Current Process Elects Highly Qualified Directors

We have a strong corporate governance process designed to identify and propose director nominees who will best serve the interests of Kroger and our shareholders. The Board maintains a Corporate Governance Committee that is composed entirely of independent directors, and all of the members of the Board, other than the Chairman/Chief Executive Officer, Vice Chairman, and Chief Operating Officer, are independent. The Corporate Governance Committee applies a rigorous set of criteria in identifying director nominees and has established procedures to consider and evaluate persons recommended by shareholders. Our strong corporate governance

has been recognized by RiskMetrics Group. According to its March 1, 2009 rankings, RiskMetrics has ranked Kroger ahead of 96.8% of the companies in the Food and Staples Retailing group, as measured by the RiskMetrics Group Corporate Governance Quotient.

As a result of these practices, our shareholders have consistently elected, by a plurality, highly qualified directors from diverse business backgrounds, substantially all of whom have been “independent” within standards adopted by the New York Stock Exchange. Adoption of a strict majority voting standard seems especially unwarranted in our case. Changing our current voting system to majority voting would have had no effect on director elections since Kroger’s recapitalization in 1988. The Board believes that the votes over this period reflect our shareholders’ confidence in the Board and in the governance protections the Board has implemented.

The Proposal Causes Uncertainty

In contrast to our existing majority voting policy, the majority voting amendment requested by the proposal causes uncertainty. Under Ohio law, an incumbent director who is not re-elected “holds over” and continues to serve with the same voting rights and powers until his or her successor is elected and qualified. If the proposal were adopted, we could not force a director who failed to receive a majority vote to leave the Board until his or her successor is elected and qualified. In contrast, under our existing majority voting policy, a director who receives more “withhold” votes than “for” votes is required promptly to tender his or her resignation. The Board in turn will act on the tendered resignation after considering all relevant facts and circumstances in a process that will be completed and publicly disclosed promptly.

The Proposal is Premature

Ohio law requires the plurality voting standard in director elections unless the corporation’s articles of incorporation provide otherwise. Our Board cannot adopt majority voting in our Code of Regulations, an approach that other companies have recently taken. We can adopt majority voting only through shareholder approval of an amendment to our Articles of Incorporation. We believe that it is premature to ask our shareholders to amend our Articles of Incorporation to adopt majority voting in light of the on-going discussions and debates in this developing area. The legal community, shareholder advocates, governance experts, public companies and other groups continue to evaluate and debate the benefits, disadvantages and consequences of plurality and majority voting and whether some modified model of plurality voting might be preferable.

Plurality voting has long been the accepted standard, and the rules governing plurality voting are well established and widely understood. Any change in voting standards should be undertaken with full understanding of the consequences. We do not believe that our shareholders should be asked to approve a proposal relating to a voting system without the benefit of a consensus in this area and a greater understanding of the full ramifications of its adoption. We have been monitoring, and we will continue to monitor, developments on this topic. We do not believe that our interests, or our shareholders’ interests, would be best served by adopting such a change.

SHAREHOLDER PROPOSALS — 2010 ANNUAL MEETING. Shareholder proposals intended for inclusion in our proxy material relating to Kroger’s annual meeting in June 2010 should be addressed to the Secretary of Kroger and must be received at our executive offices not later than January 15, 2010. These proposals must comply with the proxy rules established by the SEC. In addition, the proxy solicited by the Board of Directors for the 2010 annual meeting of shareholders will confer discretionary authority to vote on any shareholder proposal presented at the meeting unless we are provided with notice of the proposal on or before March 31, 2010. Please note, however, that Kroger’s Regulations require a minimum of 45 days’ advance notice to Kroger in order for a matter to be brought before shareholders at the annual meeting. As a result, any attempt to present a proposal without notifying Kroger on or before March 31, 2010, will be ruled out of order and will not be permitted.

Attached to this Proxy Statement is Kroger's 2008 Annual Report which includes a brief description of Kroger's business, including the general scope and nature thereof during 2008, together with the audited financial information contained in our 2008 report to the SEC on Form 10-K. **A copy of that report is available to shareholders on request by writing to: Scott M. Henderson, Treasurer, The Kroger Co., 1014 Vine Street, Cincinnati, Ohio 45202-1100 or by calling 1-513-762-1220**. Our SEC filings are available to the public from the SEC's web site at www.sec.gov.

The management knows of no other matters that are to be presented at the meeting but, if any should be presented, the Proxy Committee expects to vote thereon according to its best judgment.

By order of the Board of Directors,
Paul W. Heldman, Secretary

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2008 ANNUAL REPORT

FINANCIAL REPORT 2008

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The management of The Kroger Co. has the responsibility for preparing the accompanying financial statements and for their integrity and objectivity. The statements were prepared in accordance with generally accepted accounting principles applied on a consistent basis and are not misstated due to material error or fraud. The financial statements include amounts that are based on management's best estimates and judgments. Management also prepared the other information in the report and is responsible for its accuracy and consistency with the financial statements.

The Company's financial statements have been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, whose selection has been approved by the shareholders. Management has made available to PricewaterhouseCoopers LLP all of the Company's financial records and related data, as well as the minutes of the shareholders' and directors' meetings. Furthermore, management believes that all representations made to PricewaterhouseCoopers LLP during its audit were valid and appropriate.

Management also recognizes its responsibility for fostering a strong ethical climate so that the Company's affairs are conducted according to the highest standards of personal and corporate conduct. This responsibility is characterized and reflected in *The Kroger Co. Policy on Business Ethics*, which is publicized throughout the Company and available on the Company's website at www.thekrogerco.com. *The Kroger Co. Policy on Business Ethics* addresses, among other things, the necessity of ensuring open communication within the Company; potential conflicts of interests; compliance with all domestic and foreign laws, including those related to financial disclosure; and the confidentiality of proprietary information. The Company maintains a systematic program to assess compliance with these policies.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. With the participation of the Chief Executive Officer and the Chief Financial Officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework and criteria established in *Internal Control — Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management has concluded that the Company's internal control over financial reporting was effective as of January 31, 2009.

David B. Dillon
Chairman of the Board and
Chief Executive Officer

J. Michael Schlotman
Senior Vice President and
Chief Financial Officer

SELECTED FINANCIAL DATA

	Fiscal Years Ended				
	January 31, 2009 (52 weeks)	**February 2, 2008 (52 weeks)**	**February 3, 2007 (53 weeks)**	**January 28, 2006 (52 weeks)**	**January 29, 2005 (52 weeks)**
	(In millions, except per share amounts)				
Sales	**$76,000**	$70,235	$66,111	$60,553	$56,434
Net earnings (loss)	**1,249**	1,181	1,115	958	(104)
Diluted earnings (loss) per share:					
Net earnings (loss)	**1.90**	1.69	1.54	1.31	(0.14)
Total assets	**23,211**	22,293	21,210	20,478	20,491
Long-term liabilities, including obligations under capital leases and financing obligations	**10,311**	8,696	8,711	9,377	10,537
Shareowners equity	**5,176**	4,914	4,923	4,390	3,619
Cash dividends per common share	**0.345**	0.29	0.195		

COMMON STOCK PRICE RANGE

	2008		2007	
Quarter	**High**	**Low**	**High**	**Low**
1st	**$28.13**	**$23.39**	$30.43	$24.74
2nd	**$30.99**	**$25.86**	$31.94	$23.95
3rd	**$29.91**	**$22.30**	$30.00	$25.30
4th	**$29.03**	**$22.40**	$29.35	$24.23

Main trading market: New York Stock Exchange (Symbol KR)

Number of shareholders of record at year-end 2008: 45,939

Number of shareholders of record at March 27, 2009: 45,712

During fiscal 2006, the Companys Board of Directors adopted a dividend policy and paid three quarterly dividends of $0.065 per share. During fiscal 2007, the Company paid one quarterly dividend of $0.065 and three quarterly dividends of $0.075. During fiscal 2008, the Company paid one quarterly dividend of $0.075 and three quarterly dividends of $0.09. On March 1, 2009, the Company paid a quarterly dividend of $0.09 per share. On March 12, 2009, the Company announced that its Board of Directors has declared a quarterly dividend of $0.09 per share, payable on June 1, 2009, to shareholders of record at the close of business on May 15, 2009.

PERFORMANCE GRAPH

Set forth below is a line graph comparing the five-year cumulative total shareholder return on Krogers common stock, based on the market price of the common stock and assuming reinvestment of dividends, with the cumulative total return of companies in the Standard & Poors 500 Stock Index, a peer group composed of food and drug companies and a former peer group.

Historically, our peer group has consisted of the major food store companies. In recent years there have been significant changes in the industry, including consolidation and increased competition from supercenters, drug chains, and discount stores. As a result, several years ago we changed our peer group (the Former Peer Group) to include companies operating supermarkets, supercenters and warehouse clubs in the United States as well as the major drug chains with which Kroger competes. This year, we changed our peer group (the Peer Group) once again to add Tesco plc, as it has become a significant competitor in the U.S. market.

	Base Period	**INDEXED RETURNS Years Ending**				
Company Name/Index	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
The Kroger Co.	100	93.04	100.22	140.78	143.01	125.42
S&P 500 Index	100	105.34	117.59	135.22	132.78	80.51
Peer Group	100	108.99	107.87	122.24	125.95	102.29
Former Peer Group	100	107.06	104.95	115.57	119.97	96.11

Krogers fiscal year ends on the Saturday closest to January 31.

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* Total assumes $100 invested on February 1, 2004, in The Kroger Co., S&P 500 Index, the Peer Group and the Former Peer Group with reinvestment of dividends.

** The Peer Group consists of Albertsons, Inc., Costco Wholesale Corp., CVS Corp, Delhaize Group SA (ADR), Great Atlantic & Pacific Tea Company, Inc., Koninklijke Ahold NV (ADR), Marsh Supermarkets Inc. (Class A), Safeway, Inc., Supervalu Inc., Target Corp., Tesco plc, Wal-Mart Stores Inc., Walgreen Co., Whole Foods Market Inc. and Winn-Dixie Stores, Inc. Albertsons, Inc., was substantially acquired by Supervalu in July 2006, and is included through 2005. Marsh Supermarkets was acquired by Marsh Supermarkets Holding Corp. in September 2006, and is included through 2005. Winn-Dixie emerged from bankruptcy in 2006 as a new issue and returns for the old and new issue were calculated then weighted to determine the 2006 return.

*** The Former Peer Group consists of Albertsons, Inc., Costco Wholesale Corp., CVS Corp, Delhaize Group SA (ADR), Great Atlantic & Pacific Tea Company, Inc., Koninklijke Ahold NV (ADR), Marsh Supermarkets Inc. (Class A), Safeway, Inc., Supervalu Inc., Target Corp., Wal-Mart Stores Inc., Walgreen Co., Whole Foods Market Inc. and Winn-Dixie Stores, Inc. Albertsons, Inc., was substantially acquired by Supervalu in July 2006, and is included through 2005. Marsh Supermarkets was acquired by Marsh Supermarkets Holding Corp. in September 2006, and is included through 2005. Winn-Dixie emerged from bankruptcy in 2006 as a new issue and returns for the old and new issue were calculated then weighted to determine the 2006 return.

Data supplied by Standard & Poors.

The foregoing Performance Graph will not be deemed incorporated by reference into any other filing, absent an express reference thereto.

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ISSUER PURCHASES OF EQUITY SECURITIES

Period (1)	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (3) (in millions)
First period four weeks November 9, 2008 to December 6, 2008	13,315	$28.63		$493
Second period four weeks December 7, 2008 to January 3, 2009	479,385	$25.62	450,500	$493
Third period four weeks January 4, 2009 to January 31, 2009	164	$24.77		$493
Total	492,864	$25.70	450,500	$493

(1) The reported periods conform to the Companys fiscal calendar composed of thirteen 28-day periods. The fourth quarter of 2008 contained three 28-day periods.

(2) Shares were repurchased under a program announced on December 6, 1999, to repurchase common stock to reduce dilution resulting from our employee stock option plans. The program is limited to proceeds received from exercises of stock options and the tax benefits associated therewith. The program has no expiration date but may be terminated by the Board of Directors at any time. Total shares purchased include shares that were surrendered to the Company by participants in the Companys long-term incentive plans to pay for taxes on restricted stock awards.

(3) Amounts shown in this column reflect amounts remaining under the $1 billion stock repurchase program, authorized by the Board of Directors on January 18, 2008. The program has no expiration date but may be terminated by the Board of Directors at any time. Amounts to be invested under the program utilizing option exercise proceeds are dependent upon option exercise activity.

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BUSINESS

The Kroger Co. was founded in 1883 and incorporated in 1902. As of January 31, 2009, the Company was one of the largest retailers in the United States based on annual sales. The Company also manufactures and processes some of the food for sale in its supermarkets. The Company's principal executive offices are located at 1014 Vine Street, Cincinnati, Ohio 45202, and its telephone number is (513) 762-4000. The Company maintains a web site (www.kroger.com) that includes additional information about the Company. The Company makes available through its web site, free of charge, its annual reports on Form 10-K, its quarterly reports on Form 10-Q and its current reports on Form 8-K, including amendments thereto. These forms are available as soon as reasonably practicable after the Company has filed with, or furnished them electronically to, the SEC.

The Company's revenues are earned and cash is generated as consumer products are sold to customers in its stores. The Company earns income predominantly by selling products at price levels that produce revenues in excess of its costs to make these products available to its customers. Such costs include procurement and distribution costs, facility occupancy and operational costs, and overhead expenses.

EMPLOYEES

As of January 31, 2009, the Company employed approximately 326,000 full and part-time employees. A majority of the Company's employees are covered by collective bargaining agreements negotiated with local unions affiliated with one of several different international unions. There are approximately 309 such agreements, usually with terms of three to five years.

During fiscal 2009, the Company has major labor contracts to be negotiated covering store employees in Albuquerque, Arizona, Atlanta, Dallas, Dayton, Denver and Portland. Negotiations in 2009 will be challenging as the Company must have competitive cost structures in each market while meeting our associates' needs for good wages, affordable health care and increases in Company pension contributions due to the recent downturns in the equity markets.

STORES

As of January 31, 2009, the Company operated, either directly or through its subsidiaries, 2,481 supermarkets and multi-department stores, 781 of which had fuel centers. Approximately 43% of these supermarkets were operated in Company-owned facilities, including some Company-owned buildings on leased land. The Company's current strategy emphasizes self-development and ownership of store real estate. The Company's stores operate under several banners that have strong local ties and brand equity. Supermarkets are generally operated under one of the following formats: combination food and drug stores ("combo stores"); multi-department stores; marketplace stores; or price impact warehouses.

The combo stores are the primary food store format. They are typically able to earn a return above the Company's cost of capital by drawing customers from a 2 – 2½ mile radius. The Company believes this format is successful because the stores are large enough to offer the specialty departments that customers desire for one-stop shopping, including natural food and organic sections, pharmacies, general merchandise, pet centers and high-quality perishables such as fresh seafood and organic produce. Many combo stores include a fuel center.

Multi-department stores are significantly larger in size than combo stores. In addition to the departments offered at a typical combo store, multi-department stores sell a wide selection of general merchandise items such as apparel, home fashion and furnishings, electronics, automotive products, toys and fine jewelry. Many multi-department stores include a fuel center.

Marketplace stores are smaller in size than multi-department stores. They offer full-service grocery and pharmacy departments as well as an expanded general merchandise area that includes outdoor living products, electronics, home goods and toys. Many marketplace stores include a fuel center.

Price impact warehouse stores offer a no-frills, low cost warehouse format and feature everyday low prices plus promotions for a wide selection of grocery and health and beauty care items. Quality meat, dairy, baked goods and fresh produce items provide a competitive advantage. The average size of a price impact warehouse store is similar to that of a combo store.

In addition to the supermarkets, as of January 31, 2009, the Company operated through subsidiaries, 684 convenience stores and 385 fine jewelry stores. All of our fine jewelry stores located in malls are operated in leased locations. In addition, 87 convenience stores were operated through franchise agreements. Approximately 50% of the convenience stores operated by subsidiaries were operated in Company-owned facilities. The convenience stores offer a limited assortment of staple food items and general merchandise and, in most cases, sell gasoline.

SEGMENTS

The Company operates retail food and drug stores, multi-department stores, jewelry stores, and convenience stores throughout the United States. The Companys retail operations, which represent substantially all of the Companys consolidated sales, earnings and total assets, are its only reportable segment. All of the Companys operations are domestic. Revenues, profit and losses, and total assets are shown in the Companys Consolidated Financial Statements set forth below.

MERCHANDISING AND MANUFACTURING

Corporate brand products play an important role in the Companys merchandising strategy. Supermarket divisions typically stock approximately 14,000 private label items. The Companys corporate brand products are produced and sold in three tiers. Private Selection is the premium quality brand designed to be a unique item in a category or to meet or beat the gourmet or upscale brands. The banner brand (Kroger, Ralphs, King Soopers, etc.), which represents the majority of the Companys private label items, is designed to satisfy our customers families with quality products. Before Kroger will carry a banner brand product, the product quality must meet our customers expectations in taste and efficacy, and we guarantee it. Kroger Value is the value brand, designed to deliver good quality at a very affordable price.

Approximately 40% of the corporate brand units sold are produced in the Companys manufacturing plants; the remaining corporate brand items are produced to the Companys strict specifications by outside manufacturers. The Company performs a make or buy analysis on corporate brand products and decisions are based upon a comparison of market-based transfer prices versus open market purchases. As of January 31, 2009, the Company operated 40 manufacturing plants. These plants consisted of 18 dairies, 10 deli or bakery plants, five grocery product plants, three beverage plants, two meat plants and two cheese plants.

MANAGEMENTS DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OUR BUSINESS

The Kroger Co. was founded in 1883 and incorporated in 1902. It is one of the nations largest retailers, as measured by revenue, operating 2,481 supermarket and multi-department stores under two dozen banners including Kroger, Ralphs, Fred Meyer, Food 4 Less, King Soopers, Smiths, Frys, Frys Marketplace, Dillons, QFC and City Market. Of these stores, 781 have fuel centers. We also operate 771 convenience stores and 385 fine

jewelry stores.

Kroger operates 40 manufacturing plants, primarily bakeries and dairies, which supply approximately 40% of the corporate brand units sold in our retail outlets.

Our revenues are earned and cash is generated as consumer products are sold to customers in our stores. We earn income predominately by selling products at price levels that produce revenues in excess of the costs we incur to make these products available to our customers. Such costs include procurement and distribution costs, facility occupancy and operational costs, and overhead expenses. Our operations are reported as a single reportable segment: the retail sale of merchandise to individual customers.

OUR 2008 PERFORMANCE

By focusing on the customer through our Customer 1st strategy, we were able to report solid results for fiscal year 2008 in a particularly tough economy. At the beginning of the year, we expected to grow supermarket identical sales, excluding fuel, by 3% to 5%. For 2008, supermarket identical sales, excluding fuel, were 5.0%, meeting the upper end of our original guidance.

At the outset of fiscal year 2008, Kroger’s earnings guidance was a range of $1.83 to $1.90 per diluted share. Our 2008 earnings was $1.90 per diluted share or $1.92 per diluted share, excluding the effect of a $.02 per diluted share charge for damage and disruption caused by Hurricane Ike. Our 2008 earnings of $1.92 per diluted share, excluding the charge for damage and disruption caused by Hurricane Ike, represents a growth rate of 13.6% over Kroger’s 2007 full-year earnings of $1.69 per diluted share. We believe that this growth plus Kroger’s dividend yield of more than 1%, creates a strong return for shareholders.

Our market share also rose in 2008. Based on our internal data and analysis, we estimate that our market share increased approximately 61 basis points in 2008 across our 42 major markets. We define a major market as one in which we operate nine or more stores. This is the fourth consecutive year Kroger has achieved significant market share gain. Over the past four years combined, Kroger’s market share in our major markets has increased approximately 225 basis points. Market share is critical to us because it allows us to leverage the fixed costs in our business over a wider revenue base. We hold the number one or number two market share position in 39 of or our 42 major markets. Our fundamental operating philosophy is to maintain and increase market share.

These market share results demonstrate to us that our long-term strategy is working. As population growth continues in the major markets where we operate, we intend to continue to grow Kroger’s business by maintaining our existing strong market share and by building on additional opportunities for sales growth. We estimate that approximately 45% of the share in our major markets — as much as $100 billion — is held by competitors who do not have Kroger’s economies of scale. Our economies of scale allow us to deliver increasing value to customers, which is a competitive edge, particularly in today’s economic climate.

Kroger’s business model is structured to produce sustainable earnings per share growth in a variety of economic and competitive conditions, primarily through strong identical sales growth. We believe this is the right approach to produce sustainable earnings growth over a long period of time. We recognize that continual investment in our Customer 1st strategy is necessary to drive strong, sustainable identical sales growth. We believe that this Customer 1st strategy along with our financial strategies are delivering value to customers, shareholders, bondholders, and our associates, and so we remain committed to our plan.

RESULTS OF OPERATIONS

The following discussion summarizes our operating results for 2008 compared to 2007 and for 2007 compared to 2006. Comparability is affected by certain income and expense items that fluctuated significantly between and among the periods.

Net Earnings

Net earnings totaled $1.2 billion for 2008, compared to net earnings totaling $1.2 billion in 2007 and $1.1 billion in 2006. The increase in our net earnings for 2008, compared to 2007 and 2006, resulted from strong non-fuel identical supermarket sales growth and strong fuel results. In addition, 2006 net earnings included a 53rd week.

Earnings per diluted share totaled $1.90 or $1.92, excluding the effect of a $.02 per diluted share charge for damage and disruption caused by Hurricane Ike, in 2008, compared to $1.69 per diluted share in 2007 and $1.54 per diluted share in 2006. Earnings per diluted share increased 13.6% in 2008, excluding the effect of a $.02 per diluted share charge for damage and disruption caused by Hurricane Ike, compared to 2007. Earnings per diluted share increased 15% in 2007, compared to 2006, after adjusting for the extra week in fiscal 2006. Net earnings in 2006 benefited from a 53rd week by an estimated $.07 per share. Our earnings per share growth in 2008, 2007 and 2006 resulted from increased net earnings, strong identical sales growth and the repurchase of Kroger stock. During fiscal 2008, we repurchased 24 million shares of Kroger stock for a total investment of $637 million. During fiscal 2007, we repurchased 53 million shares of our stock for a total investment of $1.4 billion. During fiscal 2006, we repurchased 29 million shares of Kroger stock for a total investment of $633 million.

Sales

Total Sales
(in millions)

	2008	**Percentage Increase**	**2007**	**Percentage Increase**	**2006**
Total food store sales without fuel	$63,795	6.1%	$60,142	4.2%	$57,712
Total food store fuel sales	7,464	30.0%	5,741	28.9%	4,455
Total food store sales	$71,259	8.2%	$65,883	6.0%	$62,167
Other sales (1)	4,741	8.9%	4,352	10.3%	3,944
Total Sales	$76,000	8.2%	$70,235	6.2%	$66,111

(1) Other sales primarily relate to sales at convenience stores, including fuel, jewelry stores and sales by our manufacturing plants to outside customers.

The growth in our total sales in 2008 over fiscal 2007 was primarily the result of identical supermarket sales increases, increased fuel gallon sales, and inflation across most departments. Identical supermarket sales and total sales, excluding fuel, increased due to increased transaction count and average transaction size, and inflation across all departments. After adjusting for the extra week in fiscal 2006, total sales increased 8.2% in 2007 over fiscal 2006.

We define a supermarket as identical when it has been in operation without expansion or relocation for five full quarters. Fuel center discounts received at our fuel centers and earned based on in-store purchases are included in all of the supermarket identical sales results calculations illustrated below. Differences between total supermarket sales and identical supermarket sales primarily relate to changes in supermarket square footage. Annualized identical supermarket sales include all sales at the Fred Meyer multi-department stores. We calculate annualized identical supermarket sales by adding together four quarters of identical supermarket sales. Our identical supermarket sales results are summarized in the table below, based on the 52-week period of 2008, compared to the 52-week period of the previous year. The identical store count in the table below represents the total number of identical supermarkets as of January 31, 2009 and February 2, 2008.

Identical Supermarket Sales
(in millions)

	2008	2007
Including supermarket fuel centers	$ 67,185	$ 62,878
Excluding supermarket fuel centers	$ 60,300	$ 57,416
Including supermarket fuel centers	6.9%	6.9%
Excluding supermarket fuel centers	5.0%	5.3%
Identical 4th Quarter store count	2,369	2,280

We define a supermarket as comparable when it has been in operation for five full quarters, including expansions and relocations. As is the case for identical supermarket sales, fuel center discounts received at our fuel centers and earned based on in-store purchases are included in all of the supermarket comparable sales results calculations illustrated below. Annualized comparable supermarket sales include all Fred Meyer multi-department stores. We calculate annualized comparable supermarket sales by adding together four quarters of comparable sales. Our annualized comparable supermarket sales results are summarized in the table below, based on the 52-week period of 2008, compared to the same 52-week period of the previous year. The comparable store count in the table below represents the total number of comparable supermarkets as of January 31, 2009 and February 2, 2008.

Comparable Supermarket Sales
(in millions)

	2008	2007
Including supermarket fuel centers	$ 69,762	$ 65,066
Excluding supermarket fuel centers	$ 62,492	$ 59,372
Including supermarket fuel centers	7.2%	7.2%
Excluding supermarket fuel centers	5.3%	5.5%
Comparable 4th Quarter store count	2,444	2,352

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FIFO Gross Margin

We calculate First-In, First-Out (FIFO) Gross Margin as sales minus merchandise costs, including advertising, warehousing and transportation, but excluding the Last-In, First-Out (LIFO) charge. Merchandise costs exclude depreciation and rent expense. FIFO gross margin is an important measure used by management to evaluate merchandising and operational effectiveness.

Our FIFO gross margin rates were 23.20% in 2008, 23.65% in 2007 and 24.27% in 2006. Our retail fuel sales reduce our FIFO gross margin rate due to the very low FIFO gross margin on retail fuel sales as compared to non-fuel sales. Excluding the effect of retail fuel operations, our FIFO gross margin rates decreased 15 basis points in 2008, 20 basis points in 2007 and 26 basis points in 2006. The decrease in our non-fuel FIFO gross margin rate reflects our continued reinvestment of operating cost savings into lower prices for our customers. In addition, FIFO gross margin in 2008, compared to 2007, decreased due to high inflation in product costs.

LIFO Charge

The LIFO charge was $196 million in 2008, $154 million in 2007 and $50 million in 2006. Like many food retailers, we continued to experience product cost inflation in 2008 at levels that have not occurred for several years. This increase in product cost inflation caused the increase in the LIFO charge in 2008, compared to 2007 and 2006. In addition, product cost inflation in 2007, compared to 2006, caused the increase in the LIFO charge

in 2007 compared to 2006.

Operating, General and Administrative Expenses

Operating, general and administrative (OG&A) expenses consist primarily of employee-related costs such as wages, health care benefit costs and retirement plan costs, utilities and credit card fees. Rent expense, depreciation and amortization expense, and interest expense are not included in OG&A.

OG&A expenses, as a percent of sales, were 16.95% in 2008, 17.31% in 2007 and 17.91% in 2006. The growth in our retail fuel sales reduces our OG&A rate due to the very low OG&A rate on retail fuel sales as compared to non-fuel sales. OG&A expenses, as a percent of sales excluding fuel, decreased 3 basis points in 2008, 33 basis points in 2007 and 9 basis points in 2006. The decrease in our OG&A rate in 2008, excluding the effect of retail fuel operations, was primarily the result of increased identical supermarkets sales growth and a settlement received from credit card processers, partially offset by the $25 million charge related to Hurricane Ike and increases in credit card fees and health care costs. The decrease in our OG&A rate in 2007, excluding the effect of retail fuel operations, was primarily the result of strong identical sales growth, increased productivity, and progress that was made in 2007 in controlling our utility, health care and pension costs. These improvements were partially offset by increases in credit card fees. Excluding the effect of retail fuel operations and expenses recorded for one-time legal reserves, our OG&A rate declined 16 basis points in 2006.

Rent Expense

Rent expense was $659 million in 2008, as compared to $644 million in 2007 and $649 million in 2006. Rent expense, as a percent of sales, was 0.87% in 2008, as compared to 0.92% in 2007 and 0.98% in 2006. The decrease in rent expense, as a percent of sales, reflects our increasing sales and our continued emphasis on owning rather than leasing whenever possible.

Depreciation and Amortization Expense

Depreciation expense was $1.4 billion in 2008, $1.4 billion in 2007 and $1.3 billion in 2006. The increases in depreciation and amortization expense were the result of capital expenditures totaling $2.2 billion in 2008, $2.1 billion in 2007 and $1.8 billion in 2006. Depreciation and amortization expense, as a percent of sales, was 1.90% in 2008, 1.93% in 2007 and 1.92% in 2006. The decrease in depreciation and amortization expense in 2008, compared to 2007, as a percent of sales, is primarily the result of increasing sales. The increase in our depreciation and amortization expense in 2007, compared to 2006, as a percent of sales, is due to an annual depreciation charge in both years with 2006 containing 53 weeks of sales due to the structure of our fiscal calendar.

Interest Expense

Net interest expense totaled $485 million in 2008, $474 million in 2007 and $488 million in 2006. The increase in interest expense in 2008, compared to 2007, was primarily the result of an increase in the average total debt balance for the year, partially offset by interest income related to the mark-to-market of ineffective fair value swaps. The decrease in interest expense in 2007, compared to 2006, was the result of replacing borrowings with new borrowings at a lower interest rate. The average total debt balance in 2007 was comparable to 2006.

Income Taxes

Our effective income tax rate was 36.5% in 2008, 35.4% in 2007 and 36.2% in 2006. The effective tax rates for those years differed from the federal statutory rate primarily due to the effect of state income taxes. In addition, the effective tax rate for 2007 differs from the expected federal statutory rate due to the resolution of some tax

issues. The effective rate in 2006 includes an adjustment of some deferred tax balances.

During the third quarter of 2007, we resolved favorably some outstanding tax issues. This resulted in a 2007 tax benefit of approximately $40 million and reduced our effective tax rate by 1.9%.

In 2006, during the reconciliation of our deferred tax balances, and after the filing of our annual federal and state tax returns, we identified adjustments to be made in prior years deferred tax reconciliation. We corrected these deferred tax balances in our Consolidated Financial Statements for the year ended February 3, 2007, which resulted in a reduction of our fiscal 2006 provision for income tax expense of approximately $21 million and reduced the rate by 1.2%. We do not believe these adjustments are material to our Consolidated Financial Statements for the year ended February 3, 2007, or to any prior years Consolidated Financial Statements. As a result, we have not restated any prior year amounts.

COMMON STOCK REPURCHASE PROGRAM

We maintain stock repurchase programs that comply with Securities Exchange Act Rule 10b5-1 and allow for the orderly repurchase of our common stock, from time to time. We made open market purchases totaling $448 million in 2008, $1.2 billion in 2007 and $374 million in 2006 under these repurchase programs. In addition to these repurchase programs, in December 1999 we began a program to repurchase common stock to reduce dilution resulting from our employee stock option plans. This program is solely funded by proceeds from stock option exercises, and the tax benefit from these exercises. We repurchased approximately $189 million in 2008, $270 million in 2007 and $259 million in 2006 under the stock option programs.

In 2008, to preserve liquidity and financial flexibility, we reduced the amount of stock repurchased during the year, decreasing the cash used for stock purchases in 2008, compared to 2007.

CAPITAL EXPENDITURES

Capital expenditures, including changes in construction-in-progress payables and excluding acquisitions, totaled $2.2 billion in 2008 compared to $2.1 billion in 2007 and $1.8 billion in 2006. The increase in capital spending in 2008 compared to 2007 and 2006 was the result of increasing our focus on remodels, merchandising and productivity projects. The table below shows our supermarket storing activity and our total food store square footage:

Supermarket Storing Activity

	2008	**2007**	**2006**
Beginning of year	**2,486**	2,468	2,507
Opened	**21**	23	20
Opened (relocation)	**14**	9	17
Acquired	**6**	38	1
Acquired (relocation)	**3**	1	
Closed (operational)	**(32)**	(43)	(60)
Closed (relocation)	**(17)**	(10)	(17)
End of year	**2,481**	2,486	2,468
Total food store square footage (in millions)	**147**	145	142

CRITICAL ACCOUNTING POLICIES

We have chosen accounting policies that we believe are appropriate to report accurately and fairly our operating results and financial position, and we apply those accounting policies in a consistent manner. Our significant accounting policies are summarized in Note 1 to the Consolidated Financial Statements.

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, and related disclosures of contingent assets and liabilities. We base our estimates on historical experience and other factors we believe 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. Actual results could differ from those estimates.

We believe that the following accounting policies are the most critical in the preparation of our financial statements because they involve the most difficult, subjective or complex judgments about the effect of matters that are inherently uncertain.

Self-Insurance Costs

We primarily are self-insured for costs related to workers compensation and general liability claims. The liabilities represent our best estimate, using generally accepted actuarial reserving methods, of the ultimate obligations for reported claims plus those incurred but not reported for all claims incurred through January 31, 2009. We establish case reserves for reported claims using case-basis evaluation of the underlying claim data and we update as information becomes known.

For both workers compensation and general liability claims, we have purchased stop-loss coverage to limit our exposure to any significant exposure on a per claim basis. We are insured for covered costs in excess of these per claim limits. We account for the liabilities for workers compensation claims on a present value basis utilizing a risk-adjusted discount rate. A 25 basis point decrease in our discount rate would increase our liability by approximately $4 million. General liability claims are not discounted.

We are also similarly self-insured for property-related losses. We have purchased stop-loss coverage to limit our exposure to losses in excess of $25 million on a per claim basis, except in the case of an earthquake, for which stop-loss coverage is in excess of $50 million per claim, up to $200 million per claim in California and $300 million outside of California.

The assumptions underlying the ultimate costs of existing claim losses are subject to a high degree of unpredictability, which can affect the liability recorded for such claims. For example, variability in inflation rates of health care costs inherent in these claims can affect the amounts realized. Similarly, changes in legal trends and interpretations, as well as a change in the nature and method of how claims are settled can affect ultimate costs. Our estimates of liabilities incurred do not anticipate significant changes in historical trends for these variables, and any changes could have a considerable effect on future claim costs and currently recorded liabilities.

Impairments of Long-Lived Assets

In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, we monitor the carrying value of long-lived assets for potential impairment each quarter based on whether certain trigger events have occurred. These events include current period losses combined with a history of losses or a projection of continuing losses or a significant decrease in the market value of an asset. When a trigger event occurs, we perform an impairment calculation, comparing projected undiscounted cash flows, utilizing current cash flow information and expected growth rates related to specific stores, to the carrying value for those stores. If we identify impairment for long-lived assets to be held and used, we compare the assets current carrying value to the assets fair value. Fair value is determined based

on market values or discounted future cash flows. We record impairment when the carrying value exceeds fair market value. With respect to owned property and equipment held for disposal, we adjust the value of the property and equipment to reflect recoverable values based on our previous efforts to dispose of similar assets and current economic conditions. We recognize impairment for the excess of the carrying value over the estimated fair market value, reduced by estimated direct costs of disposal. We recorded asset impairments in the normal course of business totaling $26 million in 2008, $24 million in 2007 and $61 million in 2006. We record costs to reduce the carrying value of long-lived assets in the Consolidated Statements of Operations as Operating, general and administrative expense.

The factors that most significantly affect the impairment calculation are our estimates of future cash flows. Our cash flow projections look several years into the future and include assumptions on variables such as inflation, the economy and market competition. Application of alternative assumptions and definitions, such as reviewing long-lived assets for impairment at a different organizational level, could produce significantly different results.

Goodwill

We review goodwill for impairment during the fourth quarter of each year, and also upon the occurrence of trigger events. We perform reviews at the operating division level. Generally, fair value is determined using a multiple of earnings, or discounted projected future cash flows, and we compare

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fair value to the carrying value of a division for purposes of identifying potential impairment. We base projected future cash flows on managements knowledge of the current operating environment and expectations for the future. If we identify potential for impairment, we measure the fair value of a division against the fair value of its underlying assets and liabilities, excluding goodwill, to estimate an implied fair value of the divisions goodwill. We recognize goodwill impairment for any excess of the carrying value of the divisions goodwill over the implied fair value. If actual results differ significantly from anticipated future results for certain reporting units, we would need to recognize an impairment loss for any excess of the carrying value of the divisions goodwill over the implied fair value. Results of the goodwill impairment reviews performed during 2008, 2007 and 2006 are summarized in Note 2 to the Consolidated Financial Statements.

The annual impairment review requires the extensive use of accounting judgment and financial estimates. Application of alternative assumptions and definitions, such as reviewing goodwill for impairment at a different organizational level, could produce significantly different results. Similar to our policy on impairment of long-lived assets, the cash flow projections embedded in our goodwill impairment reviews can be affected by several items such as inflation, business valuations in the market, the economy and market competition.

Store Closing Costs

We provide for closed store liabilities relating to the present value of the estimated remaining noncancelable lease payments after the closing date, net of estimated subtenant income. We estimate the net lease liabilities using a discount rate to calculate the present value of the remaining net rent payments on closed stores. We usually pay closed store lease liabilities over the lease terms associated with the closed stores, which generally have remaining terms ranging from one to 20 years. Adjustments to closed store liabilities primarily relate to changes in subtenant income and actual exit costs differing from original estimates. We make adjustments for changes in estimates in the period in which the change becomes known. We review store closing liabilities quarterly to ensure that any accrued amount that is not a sufficient estimate of future costs, or that no longer is needed for its originally intended purpose, is adjusted to earnings in the proper period.

We estimate subtenant income, future cash flows and asset recovery values based on our experience and knowledge of the market in which the closed store is located, our previous efforts to dispose of similar assets and current economic conditions. The ultimate cost of the disposition of the leases and the related assets is affected by current real estate markets, inflation rates and general economic conditions.

We reduce owned stores held for disposal to their estimated net realizable value. We account for costs to reduce the carrying values of property, equipment and leasehold improvements in accordance with our policy on impairment of long-lived assets. We classify inventory write-downs in connection with store closings, if any, in Merchandise costs. We expense costs to transfer inventory and equipment from closed stores as they are incurred.

Post-Retirement Benefit Plans

(a) Company-sponsored defined benefit Pension Plans

We account for our defined benefit pension plans using the recognition and disclosure provisions of SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans-an amendment of FASB Statements No. 87, 99, 106 and 132(R)* (SFAS 158), which require the recognition of the funded status of retirement plans on the Consolidated Balance Sheet. We record, as a component of Accumulated Other Comprehensive Income (AOCI), actuarial gains or losses, prior service costs or credits

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and transition obligations that have not yet been recognized. We adopted the measurement date provisions of SFAS 158 effective February 3, 2008. The majority of our pension and postretirement plans previously used a December 31 measurement date. All plans are now measured as of our fiscal year end. The non-cash effect of the adoption of the measurement date provisions of SFAS 158 decreased shareowners equity by approximately $5 million ($3 million after-tax) and increased long-term liabilities by approximately $5 million. There was no effect on our results of operations.

The determination of our obligation and expense for Company-sponsored pension plans and other post-retirement benefits is dependent upon our selection of assumptions used by actuaries in calculating those amounts. Those assumptions are described in Note 13 to the Consolidated Financial Statements and include, among others, the discount rate, the expected long-term rate of return on plan assets, average life expectancy and the rate of increases in compensation and health care costs. Actual results that differ from our assumptions are accumulated and amortized over future periods and, therefore, generally affect our recognized expense and recorded obligation in future periods. While we believe that our assumptions are appropriate, significant differences in our actual experience or significant changes in our assumptions, including the discount rate used and the expected return on plan assets, may materially affect our pension and other post-retirement obligations and our future expense. Note 13 to the Consolidated Financial Statements discusses the effect of a 1% change in the assumed health care cost trend rate on other post-retirement benefit costs and the related liability.

The objective of our discount rate assumption is to reflect the rate at which the pension benefits could be effectively settled. In making this determination, we take into account the timing and amount of benefits that would be available under the plans. Our methodology for selecting the discount rate as of year-end 2008 was to match the plans cash flows to that of a yield curve that provides the equivalent yields on zero-coupon corporate bonds for each maturity. Benefit cash flows due in a particular year can be settled theoretically by investing them in the zero-coupon bond that matures in the same year. The discount rate is the single rate that produces the same present value of cash flows. The selection of the 7.00% discount rate as of year-end 2008 represents the equivalent single rate under a broad-market AA yield curve constructed by an outside consultant. We utilized a discount rate of 6.50% for year-end 2007. The 50 basis point increase in the discount rate decreased the projected pension benefit obligation as of January 31, 2009, by approximately $147 million.

To determine the expected return on pension plan assets, we consider current and forecasted plan asset allocations as well as historical and forecasted returns on various asset categories. For 2008 and 2007, we assumed a pension plan investment return rate of 8.5%. Our pension plans average return was 4.1% for the 10 calendar years ended December 31, 2008, net of all investment management fees and expenses, primarily due to the poor performance of the financial markets in 2008. The value of all investments in our Company-sponsored defined benefit pension plans during the calendar year ending December 31, 2008, net of investment management fees and expenses declined 26.1%. We believe our 8.5% pension return assumption is appropriate

because we expect that future returns will achieve the same level of performances as the very long-term historical average annual return (for example, the S&P 500 Index has returned 8.4% annually on a compound basis for the 20 years ending December 31, 2008) for the various markets in which the plan invests. We have been advised that during 2009, the trustees plan to increase the allocation of non-core assets, including high yield debt securities, commodities and real estate. Collectively, these changes should improve the diversification of pension plan assets. The trustees have advised us that they expect these changes will have little effect on the total portfolio risk but will increase the likelihood of achieving the 8.5% expected rate of return. See Note 13 to the Consolidated Financial Statements for more information on the asset allocations of pension plan assets.

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Sensitivity to changes in the major assumptions used in the calculation of Kroger's pension plan liabilities for the qualified plans is illustrated below (in millions).

	Percentage Point Change	Projected Benefit Obligation Decrease/(Increase)	Expense Decrease/(Increase)
Discount Rate	+/- 1.0%	$ 257/($309)	$13/($28)
Expected Return on Assets	+/- 1.0%	—	$21/($21)

We contributed $20 million in 2008, $52 million in 2007 and $150 million in 2006 to our Company-sponsored defined benefit pension plans. Although Kroger is not required to make cash contributions to its Company-sponsored defined benefit pension plans during fiscal 2009, we made a $200 million cash contribution on February 2, 2009. Additional contributions may be made if required under the Pension Protection Act to avoid any benefit restrictions. We expect any voluntary contributions made during 2009 will reduce our minimum required contributions in future years. Among other things, investment performance of plan assets, the interest rates required to be used to calculate the pension obligations, and future changes in legislation, will determine the amounts of any additional contributions.

Net periodic benefit cost decreased in 2008 and 2007 compared to 2006 due to participants in the Cash Balance formula of the Consolidated Retirement Benefit Plan being moved to a defined contribution 401(k) retirement savings account plan effective January 1, 2007. Participants under that formula continue to earn interest on prior contributions but no additional pay credits will be earned. The 401(k) retirement savings plan provides to eligible employees both matching contributions and automatic contributions from Kroger based on participant contributions, plan compensation, and length of service. We contributed and expensed $92 million in 2008 and $90 million in 2007 to employee 401(k) retirement savings accounts.

(b) Multi-Employer Plans

We also contribute to various multi-employer pension plans based on obligations arising from most of our collective bargaining agreements. These plans provide retirement benefits to participants based on their service to contributing employers. The benefits are paid from assets held in trust for that purpose. Trustees are appointed in equal number by employers and unions. The trustees typically are responsible for determining the level of benefits to be provided to participants as well as for such matters as the investment of the assets and the administration of the plans.

We recognize expense in connection with these plans as contributions are funded, in accordance with GAAP. We made contributions to these plans, and recognized expense, of $219 million in 2008, $207 million in 2007, and $204 million in 2006.

Based on the most recent information available to us, we believe that the present value of actuarially accrued liabilities in most or all of these multi-employer plans substantially exceeds the value of the assets held in trust to pay benefits. We have attempted to estimate the amount by which these liabilities exceed the assets, (i.e., the

amount of underfunding), as of December 31, 2008. Because Kroger is only one of a number of employers contributing to these plans, we also have attempted to estimate the ratio of Kroger's contributions to the total of all contributions to these plans in a year as a way of assessing Kroger's "share" of the underfunding. Nonetheless, the underfunding is not a direct obligation or liability of Kroger or of any employer. As of December 31, 2008, we estimate that Kroger's share of the underfunding of multi-employer plans to which Kroger contributes was $3.0 billion, pre-tax, or $1.9 billion, after-tax. This represents an increase in the amount of underfunding estimated as of December 31, 2008, compared to December 31, 2007. The increase in the amount of underfunding is attributable to the recent market downturn. Our

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estimate is based on the best information available to us including actuarial evaluations and other data (that include the estimates of others), and such information may be outdated or otherwise unreliable. Our estimate is imprecise and not necessarily reliable.

We have made and disclosed this estimate not because this underfunding is a direct liability of Kroger. Rather, we believe the underfunding is likely to have important consequences. In 2008, our contributions to these plans increased approximately 6% over the prior year and have grown at a compound annual rate of approximately 6% since 2004. We do not expect a significant increase in our contributions to multi-employer pension plans in 2009, compared to 2008, subject to collective bargaining and capital market conditions. We believe our contributions to multi-employer pension plans could as much as double over the next several years, after 2009, to reduce this underfunding. Finally, underfunding means that, in the event we were to exit certain markets or otherwise cease making contributions to these funds, we could trigger a substantial withdrawal liability. Any adjustment for withdrawal liability will be recorded when it is probable that a liability exists and can be reasonably estimated, in accordance with SFAS No. 87, *Employers' Accounting for Pensions.*

The amount of underfunding described above is an estimate and could change based on contract negotiations, returns on the assets held in the multi-employer plans and benefit payments. The amount could decline, and Kroger's future expense would be favorably affected, if the values of the assets held in the trust significantly increase or if further changes occur through collective bargaining, trustee action or favorable legislation. On the other hand, Kroger's share of the underfunding could increase and Kroger's future expense could be adversely affected if the asset values decline, if employers currently contributing to these funds cease participation or if changes occur through collective bargaining, trustee action or adverse legislation.

Deferred Rent

We recognize rent holidays, including the time period during which we have access to the property for construction of buildings or improvements, as well as construction allowances and escalating rent provisions on a straight-line basis over the term of the lease. The deferred amount is included in Other Current Liabilities and Other Long-Term Liabilities on the Consolidated Balance Sheets.

Fair Value of Financial Instruments

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157), which defines fair value, establishes a market-based framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 does not expand or require any new fair value measurements. SFAS 157 is effective for financial assets and financial liabilities for fiscal years beginning after November 15, 2007. FASB Staff Position (FSP) 157-2 *Partial Deferral of the Effective Date of Statement No. 157* (FSP 157-2), deferred the effective date of SFAS 157 for most non-financial assets and non-financial liabilities to fiscal years beginning after November 15, 2008. Effective February 3, 2008, we adopted SFAS 157, except for non-financial assets and non-financial liabilities which are deferred until February 1, 2009 by FSP 157-2.

SFAS 157 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The three levels of the fair value hierarchy defined by SFAS 157 are as follows:

Level 1 Quoted prices are available in active markets for identical assets or liabilities;

Level 2 Pricing inputs are other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable;

Level 3 Unobservable pricing inputs in which little or no market activity exists, therefore requiring an entity to develop its own assumptions about the assumptions that market participants would use in pricing an asset or liability.

For those financial instruments carried at fair value in the consolidated financial statements, the following table summarizes the fair value of these instruments at January 31, 2009:

Fair Value Measurements Using
(in millions)

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Available-for-Sale Securities	$11	$	$	$11

Variable Interest Entities

In December 2008, the FASB issued FAS 140-4 and FIN 46(R)-8, *Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities* (FAS 140-4 and FIN 46(R)-8). FAS 140-4 and FIN 46(R)-8 require additional disclosures about an entitys involvement with variable interest entities and transfers of financial assets. Effective January 31, 2009, we adopted FAS 140-4 and FIN 46(R)-8.

In the first quarter of 2008, we made an investment in The Little Clinic LLC (TLC). TLC operates supermarket walk-in medical clinics in seven states, primarily in the Midwest and Southeast. At the date of investment, TLC was determined to be a variable-interest entity (VIE) under FASB Interpretation No. 46R, *Consolidation of Variable Interest Entities* (FIN 46R), with Kroger being the primary beneficiary. We were deemed the primary beneficiary due to our current ownership interest and half of our written put options being at a floor price. As a result, we consolidated TLC in accordance with FIN 46R. The minority interest was recorded at fair value on the acquisition date. The fair value of TLC was determined based on the amount of the investment made by Kroger and the percentage acquired. Our assessment of goodwill represents the excess of this amount over the fair value of TLCs net assets as of the investment date. Creditors of TLC have no recourse to the general credit of Kroger. Conversely, creditors of Kroger have no recourse to the assets of TLC. In addition, if requested by TLCs Board of Directors by January 1, 2010, we have agreed to make a pro rata portion of an additional capital contribution.

The table below shows the unaudited amounts of assets and liabilities from TLC included in our consolidated results, after eliminating intercompany items, as of January 31, 2009 (in millions of dollars):

	2008
Current assets	$ 31

Property, plant and equipment, net	7
Goodwill	102
Other assets	1
Total Assets	$ 141
Current liabilities	$ 4
Minority interests	$ 82

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In the fourth quarter of 2008, we became the primary beneficiary of i-wireless, LLC a VIE in which we have a 25% ownership interest. We were deemed the primary beneficiary due to our current ownership interest, $25 million line of credit guarantee, and $8 million loan to i-wireless, LLC. We became the primary beneficiary, in the fourth quarter of 2008, under FIN 46R after lending $8 million to i-wireless, LLC. i-wireless, LLC sells prepaid phones primarily in our stores. The minority interest was recorded at fair value. The fair value of i-wireless, LLC was determined based on the amount of the investment made by Kroger in the fourth quarter of 2007 and the percentage acquired. Our assessment of goodwill represents the excess of this amount over the fair value of i-wireless, LLC net assets as of the date of the loan. We have guaranteed the indebtedness of i-wireless, LLC, up to $25 million, which is collateralized by $8 million of inventory located in our stores. The creditors of Kroger have no recourse to the assets of i-wireless, LLC.

The table below shows the preliminary and unaudited amounts of assets and liabilities from i-wireless, LLC included in our consolidated results, after eliminating intercompany items, as of January 31, 2009 (in millions of dollars):

	2008
Current assets	$ 10
Property, plant and equipment, net	2
Goodwill	25
Other assets	5
Total Assets	$ 42
Current liabilities	$ 5
Long-term debt	$ 30
Minority interests	$ 1

Share-Based Compensation Expense

We account for stock options under the fair value recognition provisions of SFAS No. 123(R), *Share-Based Payment* (SFAS 123(R)). Under this method, we recognize compensation expense for all share-based payments granted after January 29, 2006, as well as all share-based payments granted prior to, but not yet vested as of, January 29, 2006, in accordance with SFAS 123(R). Under the fair value recognition provisions of SFAS 123(R), we recognize share-based compensation expense, net of an estimated forfeiture rate, over the requisite service period of the award. In addition, we account for restricted stock awards under SFAS 123(R). We record expense for restricted stock awards in an amount equal to the fair market value of the underlying stock on the grant date of the award, over the period the awards lapse.

Inventories

Inventories are stated at the lower of cost (principally on a LIFO basis) or market. In total, approximately 98% in 2008 and 97% in 2007 of inventories were valued using the LIFO method. Cost for the balance of the inventories was determined using the FIFO method. Replacement cost was higher than the carrying amount by $800 million at January 31, 2009, and by $604 million at February 2, 2008. We follow the Link-Chain,

Dollar-Value LIFO method for purposes of calculating our LIFO charge or credit.

We follow the item-cost method of accounting to determine inventory cost before the LIFO adjustment for substantially all store inventories at our supermarket divisions. This method involves counting each item in inventory, assigning costs to each of these items based on the actual purchase costs (net of vendor allowances and cash discounts) of each item and recording the cost of items sold. The item-cost method

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of accounting allows for more accurate reporting of periodic inventory balances and enables management to more precisely manage inventory and purchasing levels when compared to the methodology followed under the retail method of accounting.

We evaluate inventory shortages throughout the year based on actual physical counts in our facilities. We record allowances for inventory shortages based on the results of recent physical counts to provide for estimated shortages from the last physical count to the financial statement date.

Vendor Allowances

We recognize all vendor allowances as a reduction in merchandise costs when the related product is sold. In most cases, vendor allowances are applied to the related product by item, and therefore reduce the carrying value of inventory by item. When it is not practicable to allocate vendor allowances to the product by item, we recognize vendor allowances as a reduction in merchandise costs based on inventory turns and as the product is sold. We recognized approximately $3.5 billion in 2008, $3.6 billion in 2007 and $3.3 billion in 2006 of vendor allowances as a reduction in merchandise costs. We recognized more than 85% of all vendor allowances in the item cost with the remainder being based on inventory turns.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow Information

Net cash provided by operating activities

We generated $2.9 billion of cash from operations in 2008 compared to $2.6 billion in 2007 and $2.4 billion in 2006. The increase in cash generated from operating activities was primarily due to strong operating results adjusted for non-cash expenses. In addition, changes in our operating assets and liabilities also affected the amount of cash provided by our operating activities. We realized decreases in cash from changes in operating assets and liabilities of $411 million in 2008, $164 million in 2007 and $129 million in 2006. The increase in the change in operating assets and liabilities in 2008, compared to 2007, is primarily due to an increase in income taxes receivable. The increase in the change in operating assets and liabilities in 2007, compared to 2006, is primarily attributable to an increase in forward inventory buying activity. These amounts are also net of cash contributions to our Company-sponsored defined benefit pension plans totaling $20 million in 2008, $52 million in 2007, and $150 in 2006.

Net cash used by investing activities

Cash used by investing activities was $2.2 billion in 2008, compared to $2.2 billion in 2007 and $1.6 billion in 2006. Our use of cash for investing activities was consistent in 2008, compared to 2007. The amount of cash used by investing activities increased in 2007, compared to 2006, due primarily to higher capital spending and payments for two acquisitions. Capital expenditures, including changes in construction-in-progress payables and excluding acquisitions, were $2.2 billion in 2008, $2.1 billion in 2007 and $1.8 billion in 2006. Refer to the Capital Expenditures section for an overview of our supermarket storing activity during the last three years.

Net cash used by financing activities

Financing activities used $769 million of cash in 2008 compared to $310 million in 2007 and $785 million in 2006. The increase in the amount of cash used in 2008, compared to 2007, was primarily a result of payments on long term-debt and the bank revolver, offset by decreased stock repurchases.

The decrease in the amount of cash used in 2007, compared to 2006, was primarily a result of proceeds received from the issuance of long term-debt, offset by greater stock repurchases and dividends paid. We repurchased $637 million of Kroger stock in 2008 compared to $1.4 billion in 2007 and $633 million in 2006. We paid dividends totaling $227 million in 2008, $202 million in 2007 and $140 million in 2006.

Debt Management

Total debt, including both the current and long-term portions of capital leases and financing obligations, decreased $59 million to $8.1 billion as of year-end 2008 from $8.1 billion as of year-end 2007. The slight decrease in 2008, compared to 2007, resulted from the issuance of $400 million of senior notes bearing an interest rate of 5.00%, $375 million of senior notes bearing an interest rate of 6.90% and $600 million of senior notes bearing an interest rate of 7.50%, offset by decreased commercial paper, the payments on the bank revolver, the repayment of $200 million of senior notes bearing an interest rate of 6.375% and $750 million of senior notes bearing an interest rate of 7.45% that came due in 2008. Total debt increased to $8.1 billion as of year-end 2007 from $7.1 billion as of year-end 2006. The increases in 2007, compared to 2006, resulted from the issuance of $600 million of senior notes bearing an interest rate of 6.4%, $750 million of senior notes bearing an interest rate of 6.15% and borrowings under the bank credit facility in 2007, offset by the repayment of $200 million of senior notes bearing an interest rate of 7.65% and $300 million of senior notes bearing an interest rate of 7.80% that came due in 2007.

Our total debt balances were also affected by our prefunding of employee benefit costs and by the mark-to-market adjustments necessary to record fair value interest rate hedges of our fixed rate debt, pursuant to SFAS No. 133, *Accounting for Derivative Investments and Hedging Activities*, as amended. We had prefunded employee benefit costs of $300 million in each of the three years ended 2008, 2007 and 2006. The mark-to-market adjustments increased the carrying value of our debt by $45 million in 2008 and $44 million in 2007.

Factors Affecting Liquidity

We currently borrow on a daily basis approximately $250 million under our F2/P2/A3 rated commercial paper ("CP") program. These borrowings are backed by our credit facility, and reduce the amount we can borrow under the credit facility. We have capacity available under our credit facility to backstop all CP amounts outstanding. If our credit rating declines below its current level of BBB/ Baa2/BBB-, the ability to borrow under our current CP program could be adversely affected for a period of time immediately following the reduction of our credit rating. This could require us to borrow additional funds under the credit facility, under which we believe we have sufficient capacity. However, in the event of a ratings decline, we do not anticipate that access to the CP markets currently available to us would be significantly limited for an extended period of time (i.e., in excess of 30 days). Although our ability to borrow under the credit facility is not affected by our credit rating, the interest cost on borrowings under the credit facility could be affected by a decrease in our credit rating or a decrease in our Applicable Percentage Ratio.

Our credit facility also requires the maintenance of a Leverage Ratio and a Fixed Charge Coverage Ratio (our "financial covenants"). A failure to maintain our financial covenants would impair our ability to borrow under the credit facility. These financial covenants and ratios are described below:

- Our Applicable Percentage Ratio (the ratio of Consolidated EBITDA to Consolidated Total Interest Expense, as defined in the credit facility) was 8.59 to 1 as of January 31, 2009. Our current borrowing rates are determined from the better of our Applicable Percentage Ratio or our credit ratings as defined by the credit facility.

- Our Leverage Ratio (the ratio of Net Debt to Consolidated EBITDA, as defined in the credit facility) was 2.02 to 1 as of January 31, 2009. If this ratio exceeded 3.50 to 1, we would be in default of our credit facility and our ability to borrow under the facility would be impaired.

- Our Fixed Charge Coverage Ratio (the ratio of Consolidated EBITDA plus Consolidated Rental Expense to Consolidated Cash Interest Expense plus Consolidated Rental Expense, as defined in the credit facility) was 4.12 to 1 as of January 31, 2009. If this ratio fell below 1.70 to 1, we would be in default of our credit facility and our ability to borrow under the facility would be impaired.

Consolidated EBITDA, as defined in our credit facility, includes an adjustment for unusual gains and losses. Our credit agreement is more fully described in Note 5 to the Consolidated Financial Statements. We were in compliance with our financial covenants at year-end 2008.

The tables below illustrate our significant contractual obligations and other commercial commitments, based on year of maturity or settlement, as of January 31, 2009 (in millions of dollars):

	2009	**2010**	**2011**	**2012**	**2013**	**Thereafter**	**Total**
Contractual Obligations (1) (2)							
Long-term debt (5)	$ 528	$ 542	$ 544	$ 1,414	$ 1,019	$ 3,550	$ 7,597
Interest on long-term debt (3)	479	426	398	350	286	2,442	4,381
Capital lease obligations	53	51	57	48	45	219	473
Operating lease obligations	778	738	674	624	575	3,274	6,663
Low-income housing obligations	2	—	—	—	—	—	2
Financed lease obligations	13	13	13	13	13	172	237
Self-insurance liability (4)	192	110	73	45	26	22	468
Construction commitments	128	—	—	—	—	—	128
Purchase obligations	394	87	63	51	28	19	642
Total	$ 2,567	$ 1,967	$ 1,822	$ 2,545	$ 1,992	$ 9,698	$ 20,591
Other Commercial Commitments							
Credit facility (5)	$ 129	$ —	$ —	$ —	$ —	$ —	$ 129
Standby letters of credit	344	—	—	—	—	—	344
Surety bonds	106	—	—	—	—	—	106
Guarantees	27	—	—	—	—	—	27
Total	$ 606	$ —	$ —	$ —	$ —	$ —	$ 606

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(1) The contractual obligations table excludes funding of pension and other postretirement benefit obligations, which totaled approximately $45 million in 2008. This table also excludes contributions under various multi-employer pension plans, which totaled $219 million in 2008.

(2) We adopted FIN 48 on February 4, 2007. See Note 4 to our Consolidated Financial Statements for information regarding the adoption of FIN 48. The liability related to unrecognized tax benefits

has been excluded from the contractual obligations table because a reasonable estimate of the timing of future tax settlements cannot be determined.

(3) Amounts include contractual interest payments using the interest rate as of January 31, 2009 applicable to our variable interest debt instruments, excluding commercial paper borrowings due to the short-term nature of these borrowings, and stated fixed and swapped interest rates, if applicable, for all other debt instruments.

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(4) The amounts included in the contractual obligations table for self-insurance liability have been stated on a present value basis.

(5) Long-term debt includes amounts under our credit facility which are also included in the Other Commercial Commitments table.

Our construction commitments include funds owed to third parties for projects currently under construction. These amounts are reflected in other current liabilities in our Consolidated Balance Sheets.

Our purchase obligations include commitments to be utilized in the normal course of business, such as several contracts to purchase raw materials utilized in our manufacturing plants and several contracts to purchase energy to be used in our stores and manufacturing facilities. Our obligations also include management fees for facilities operated by third parties. Any upfront vendor allowances or incentives associated with outstanding purchase commitments are recorded as either current or long-term liabilities in our Consolidated Balance Sheets.

As of January 31, 2009, we maintained a $2.5 billion, five-year revolving credit facility that, unless extended, terminates in 2011. Outstanding borrowings under the credit agreement and commercial paper borrowings, and some outstanding letters of credit, reduce funds available under the credit agreement. In addition to the credit agreement, we maintained three uncommitted money market lines totaling $75 million in the aggregate. The money market lines allow us to borrow from banks at mutually agreed upon rates, usually at rates below the rates offered under the credit agreement. As of January 31, 2009, we had no borrowings under our credit agreement and net outstanding commercial paper of $90 million, that reduced amounts available under our credit agreement. In addition, as of January 31, 2009, we had borrowings under our money market lines totaling $39 million. The outstanding letters of credit that reduce funds available under our credit agreement totaled $337 million as of January 31, 2009.

In addition to the available credit mentioned above, as of January 31, 2009, we had authorized for issuance $1.4 billion of securities under a shelf registration statement filed with the SEC and effective on December 20, 2007.

We also maintain surety bonds related primarily to our self-insured workers compensation claims. These bonds are required by most states in which we are self-insured for workers compensation and are placed with third-party insurance providers to insure payment of our obligations in the event we are unable to meet our claim payment obligations up to our self-insured retention levels. These bonds do not represent liabilities of Kroger, as we already have reserves on our books for the claims costs. Market changes may make the surety bonds more costly and, in some instances, availability of these bonds may become more limited, which could affect our costs of, or access to, such bonds. Although we do not believe increased costs or decreased availability would significantly affect our ability to access these surety bonds, if this does become an issue, we would issue letters of credit, in states where allowed, against our credit facility to meet the state bonding requirements. This could increase our cost and decrease the funds available under our credit facility.

Most of our outstanding public debt is jointly and severally, fully and unconditionally guaranteed by The Kroger Co. and some of our subsidiaries. See Note 16 to the Consolidated Financial Statements for a more detailed discussion of those arrangements. In addition, we have guaranteed half of the indebtedness of two real estate entities in which we have 50% ownership interest. Our share of the responsibility for this indebtedness,

should the entities be unable to meet their obligations, totals approximately $7 million. Based on the covenants underlying this indebtedness as of January 31, 2009, it is unlikely that we will be responsible for repayment of these obligations. We have also agreed to guarantee, up to $25 million, the indebtedness of an entity of which we have 25% ownership interest. Our share of the responsibility, as

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of January 31, 2009, should the entity be unable to meet its obligations, totals approximately $25 million and is collateralized by approximately $8 million of inventory located in our stores. In addition, we have guaranteed half of the lease payments of a location leased by an entity in which we have a 50% ownership interest. The net present value of the guaranteed rental payments is approximately $6 million.

We also are contingently liable for leases that have been assigned to various third parties in connection with facility closings and dispositions. We could be required to satisfy obligations under the leases if any of the assignees are unable to fulfill their lease obligations. Due to the wide distribution of our assignments among third parties, and various other remedies available to us, we believe the likelihood that we will be required to assume a material amount of these obligations is remote. We have agreed to indemnify certain third-party logistics operators for certain expenses, including pension trust fund contribution obligations and withdrawal liabilities.

In addition to the above, we enter into various indemnification agreements and take on indemnification obligations in the ordinary course of business. Such arrangements include indemnities against third party claims arising out of agreements to provide services to Kroger; indemnities related to the sale of our securities; indemnities of directors, officers and employees in connection with the performance of their work; and indemnities of individuals serving as fiduciaries on benefit plans. While Kroger's aggregate indemnification obligation could result in a material liability, we are not aware of any current matter that could result in a material liability.

RECENTLY ADOPTED ACCOUNTING STANDARDS

Effective January 31, 2009, we adopted FAS 140-4 and FIN 46(R)-8, *Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities* (FAS 140-4 and FIN 46(R)-8). FAS 140-4 and FIN 46(R)-8 require additional disclosures about an entity's involvement with variable interest entities and transfers of financial assets. See Note 2 to the Consolidated Financial Statements for further discussion of the adoption of FAS 140-4 and FIN 46(R)-8.

Effective February 3, 2008, we adopted SFAS No. 157, *Fair Value Measurements* (SFAS 157), except for non-financial assets and non-financial liabilities as deferred until February 1, 2009 by FASB Staff Position (FSP) 157-2 *Partial Deferral of the Effective Date of Statement No. 157* (FSP 157-2). SFAS 157 defines fair value, establishes a market-based framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 does not expand or require any new fair value measurements. FSP 157-2 deferred the effective date of SFAS 157 for most non-financial assets and non-financial liabilities to fiscal years beginning after November 15, 2008. See Note 7 to the Consolidated Financial Statements for further discussion of the adoption of SFAS 157.

Effective February 4, 2007, we adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* (FIN No. 48), which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. See Note 4 to the Consolidated Financial Statements for further discussion of the adoption of FIN No. 48.

Effective February 3, 2007, we adopted the recognition and disclosure provisions (except for the measurement date change) of SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans-an amendment of FASB Statement No. 87, 99, 106 and 132(R)* (SFAS 158), which requires the recognition

of the funded status of our retirement plans on the Consolidated Balance Sheet. Actuarial gains or losses, prior service costs or credits and transition obligations that have not yet

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been recognized are required to be recorded as a component of AOCI. We adopted the measurement date provisions of SFAS 158 effective February 3, 2008. The majority of our pension and postretirement plans previously used a December 31 measurement date. All plans are now measured as of our fiscal year end. The non-cash effect of the adoption of the measurement date provisions of SFAS 158 decreased shareowners equity by approximately $5 million ($3 million after-tax) and increased long-term liabilities by approximately $5 million. There was no effect on our results of operations. See Note 13 to the Consolidated Financial Statements for further discussion of the adoption of this standard.

RECENTLY ISSUED ACCOUNTING STANDARDS

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements-an amendment of ARB No. 51* (SFAS 160). SFAS 160 will require the consolidation of noncontrolling interests as a component of equity. SFAS 160 will become effective for our fiscal year beginning February 1, 2009. We are currently evaluating the effect the adoption of SFAS 160 will have on our Consolidated Financial Statements.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), *Business Combinations* (SFAS 141R), which replaces SFAS No. 141. SFAS 141R further expands the definitions of a business and the fair value measurement and reporting in a business combination. SFAS 141R will become effective for our fiscal year beginning February 1, 2009. Because the standard will only impact transactions entered into after February 1, 2009, SFAS 141R will not effect our Consolidated Financial Statements upon adoption.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS 161). SFAS 161 requires enhanced disclosures of an entitys derivative and hedging activities. SFAS 161 will become effective for our fiscal year beginning February 1, 2009. We are currently evaluating the effect the adoption of SFAS 161 will have on our Consolidated Financial Statements.

In June 2008, the FASB issued FSP No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (FSP No. EITF 03-6-1). FSP No. EITF 03-6-1 clarifies that share-based payment awards that entitle their holders to receive nonforfeitable dividends before vesting should be considered participating securities and included in the calculation of basic EPS. FSP No. EITF 03-6-1 will become effective for our fiscal year beginning February 1, 2009. We are currently evaluating the effect the adoption of FSP No. EITF 03-6-1 will have on our Consolidated Financial Statements.

OUTLOOK

This discussion and analysis contains certain forward-looking statements about Krogers future performance. These statements are based on managements assumptions and beliefs in light of the information currently available. Such statements relate to, among other things: projected change in net earnings; identical sales growth; expected pension plan contributions; our ability to generate operating cash flow; projected capital expenditures; square footage growth; opportunities to reduce costs; cash flow requirements; and our operating plan for the future; and are indicated by words such as comfortable, committed, will, expect, goal, should, target, believe, anticipate, and similar words or phrases. These forward-looking statements are subject to uncertainties and other factors that could cause actual results to differ materially.

Statements elsewhere in this report and below regarding our expectations, projections, beliefs, intentions or strategies are forward-looking statements within the meaning of Section 21 E of the Securities Exchange Act of 1934. While we believe that the statements are accurate, uncertainties about the general economy, our labor relations, our ability to execute our plans on a timely basis and other uncertainties described below could cause actual results to differ materially.

- We expect earnings per diluted share in the range of $2.00-$2.05 for 2009. This represents earnings per share growth of approximately 4%-7% in 2009, excluding the $0.02 per diluted share charge in 2008 related to Hurricane Ike. In addition, our shareholder return is enhanced by our dividend by over 1%.
- We expect identical supermarket sales growth, excluding fuel sales, of 3%-4% in 2009, assuming product cost inflation of 1%-2%. In 2009, we will continue to focus on driving sales growth and balancing investments in gross margin and improved customer service to provide a better shopping experience for our customers. We expect to finance these investments with operating cost reductions. We expect non-fuel operating margins to improve slightly in 2009, excluding the benefit of an expected lower LIFO charge.
- In 2009, we expect fuel margins to be approximately $0.11 per gallon, as well as continued strong growth in gallons sold.
- In 2009, we expect the LIFO charge to be $75 million, assuming product cost inflation of 1%-2%.
- We plan to use cash flow primarily for capital investments, debt reduction and to pay cash dividends. As market conditions change, we plan to re-evaluate the above uses of cash flow and our stock repurchase activity.
- We expect to obtain sales growth from new square footage, as well as from increased productivity from existing locations.
- Capital expenditures reflect our strategy of growth through expansion, as well as focusing on productivity increase from our existing store base through remodels. In addition, we will continue our emphasis on self-development and ownership of real estate, logistics and technology improvements. The continued capital spending in technology is focused on improving store operations, logistics, manufacturing procurement, category management, merchandising and buying practices, and should reduce merchandising costs. We intend to continue using cash flow from operations to finance capital expenditure requirements. We expect capital investment for 2009 to be in the range of $1.9-$2.1 billion, excluding acquisitions. Total food store square footage is expected to grow approximately 1.5%-2.0% before acquisitions and operational closings.
- Based on current operating trends, we believe that cash flow from operations and other sources of liquidity, including borrowings under our commercial paper program and bank credit facility, will be adequate to meet anticipated requirements for working capital, capital expenditures, interest payments and scheduled principal payments for the foreseeable future. We also believe we have adequate coverage of our debt covenants to continue to respond effectively to competitive conditions.
- We believe we have adequate sources of cash if needed under our credit agreement.
- We expect that our OG&A results will be affected by increased costs, such as higher pension costs and credit card fees, as well as any potential future labor disputes, offset by improved productivity from process changes and leverage gained through sales increases.
- We expect that our effective tax rate for 2009 will be approximately 37%.

- We expect rent expense, as a percent of total sales and excluding closed-store activity, will decrease due to the emphasis our current strategy places on ownership of real estate.

- We believe that in 2009 there will be opportunities to reduce our operating costs in such areas as administration, productivity improvements, shrink, warehousing and transportation. These savings will be invested in our core business to drive profitable sales growth and offer improved value and shopping experiences for our customers.

- Although we were not required to make cash contributions to Company-sponsored defined benefit pension plans during 2008 and do not anticipate being required to do so in 2009, we contributed $20 million to these plans in 2008 and we made a $200 million contribution in 2009 on February 2, 2009. We expect any elective contributions made during 2009 will decrease our required contributions in future years. Among other things, investment performance of plan assets, the interest rates required to be used to calculate the pension obligations, and future changes in legislation, will determine the amounts of any additional contributions. We also expect 2009 expense for Company-sponsored defined benefit pension plans to be comparable to 2008. In addition, we expect our cash contributions and expense to the 401(k) Retirement Savings Account Plan from automatic and matching contributions to participants to increase in 2009, compared to 2008.

- We do not expect a significant increase in our contributions to multi-employer pension plans in 2009 compared to 2008 subject to collective bargaining and capital market conditions. In addition, we believe our contributions to multi-employer pension plans could as much as double over the next several years after 2009.

- We expect our expense from the credit extended to our customers through our company branded credit card in 2009 to be comparable to 2008 of $14 million. The 2008 expense represents an increase in net charge-offs of approximately $8 million, compared to 2007, due to the weak economy, higher outstanding balances, and portfolio maturation. This rate is still below the credit card industry average and the credit portfolio continues to have an above-average credit score.

Various uncertainties and other factors could cause us to fail to achieve our goals. These include:

- The extent to which our sources of liquidity are sufficient to meet our requirements may be affected by the state of the financial markets and the impact that such condition has on our ability to issue commercial paper at acceptable rates. Our ability to borrow under our committed lines of credit, including our bank credit facilities, could be impaired if one or more of our lenders under those lines is unwilling or unable to honor its contractual obligation to lend to us.

- We have various labor agreements that will be negotiated in 2009, covering associates in Albuquerque, Arizona, Atlanta, Dallas, Dayton, Denver and Portland. In all of these store contracts, rising health care and pension costs will continue to be an important issue in negotiations. A prolonged work stoppage affecting a substantial number of locations could have a material effect on our results.

- If market conditions change, it could affect our uses of cash flow.

- Our ability to achieve sales and earnings goals may be affected by: labor disputes; industry consolidation; pricing and promotional activities of existing and new competitors, including non-traditional competitors; our response to these actions; the state of the economy, including the inflationary and deflationary trends in certain commodities; trends in consumer spending; stock repurchases; and the success of our future growth plans.

- Our estimate of product cost inflation could be affected by general economic conditions, weather, availability of raw materials and ingredients in the products that we sell and their packaging, and other factors beyond our control.
- The timing of our recognition of LIFO expense will be affected primarily by expected food inflation during the year.
- If actual results differ significantly from anticipated future results for certain reporting units and variable interest entities, an impairment loss for any excess of the carrying value of the division’s goodwill over the implied fair value would need to be recognized.
- In addition to the factors identified above, our identical store sales growth could be affected by increases in Kroger private label sales, the effect of our “sister stores” (new stores opened in close proximity to an existing store) and reductions in retail pricing.
- Our operating margins, without fuel, could fail to slightly improve as expected if we are unable to pass on any cost increases, fail to deliver the cost savings contemplated or if changes in the cost of our inventory and the timing of those changes differs from our expectations.
- Our expected operating margin per gallon of fuel and fuel gallons sold could be affected by changes in the price of fuel or a change in our operating costs.
- We have estimated our exposure to the claims and litigation arising in the normal course of business, as well as to the material litigation facing Kroger, and believe we have made adequate provisions for them where it is reasonably possible to estimate and where we believe an adverse outcome is probable. Unexpected outcomes in these matters, however, could result in an adverse effect on our earnings.
- Consolidation in the food industry is likely to continue and the effects on our business, either favorable or unfavorable, cannot be foreseen.
- Rent expense, which includes subtenant rental income, could be adversely affected by the state of the economy, increased store closure activity and future consolidation.
- Depreciation expense, which includes the amortization of assets recorded under capital leases, is computed principally using the straight-line method over the estimated useful lives of individual assets, or the remaining terms of leases. Use of the straight-line method of depreciation creates a risk that future asset write-offs or potential impairment charges related to store closings would be larger than if an accelerated method of depreciation was followed.
- Our effective tax rate may differ from the expected rate due to changes in laws, the status of pending items with various taxing authorities and the deductibility of certain expenses.
- The actual amount of automatic and matching cash contributions to our 401(k) Retirement Savings Account Plan will depend on the number of participants, savings rate, plan compensation, and length of service of participants.
- Our contributions and recorded expense related to multi-employer pension funds could increase more than anticipated. Should asset values in these funds further deteriorate, if employers withdraw from these funds without providing for their share of the liability, or should our estimates prove to be understated, our contributions could increase more rapidly than we have anticipated, after 2009.

- If weakness in the financial markets continues or worsens, our contributions to Company-sponsored defined benefit pension plans could increase more than anticipated.

- Changes in laws or regulations, including changes in accounting standards, taxation requirements and environmental laws may have a material effect on our financial statements.
- Changes in the general business and economic conditions in our operating regions, including the rate of inflation, population growth and employment and job growth in the markets in which we operate, may affect our ability to hire and train qualified employees to operate our stores. This would negatively affect earnings and sales growth. General economic changes may also affect the shopping habits of our customers, which could affect sales and earnings.
- Changes in our product mix may negatively affect certain financial indicators. For example, we continue to add supermarket fuel centers to our store base. Since gasoline generates low profit margins, we expect to see our FIFO gross profit margins decline as gasoline sales increase. Although this negatively affects our FIFO gross margin, gasoline sales provide a positive effect on OG&A expense as a percent of sales.
- Our capital expenditures, expected square footage growth, and number of store projects completed during the year could differ from our estimate if we are unsuccessful in acquiring suitable sites for new stores, if development costs vary from those budgeted or if our logistics and technology projects are not completed in the time frame expected or on budget.
- Interest expense could be adversely affected by the interest rate environment, changes in the Company's credit ratings, fluctuations in the amount of outstanding debt, decisions to incur prepayment penalties on the early redemption of debt and any factor that adversely affects our operations and results in an increase in debt.
- Impairment losses could be affected by changes in our assumptions of future cash flows or market values. Our cash flow projections include several years of projected cash flows and include assumptions on variables such as inflation, the economy and market competition.
- Our estimated expense and obligation for Company-sponsored pension plans and other post-retirement benefits could be affected by changes in the assumptions used in calculating those amounts. These assumptions include, among others, the discount rate, the expected long-term rate of return on plan assets, average life expectancy and the rate of increases in compensation and health care costs.
- Adverse weather conditions could increase the cost our suppliers charge for their products, or may decrease the customer demand for certain products. Increases in demand for certain commodities could also increase the cost our suppliers charge for their products. Additionally, increases in the cost of inputs, such as utility costs or raw material costs, could negatively affect financial ratios and earnings.
- Although we presently operate only in the United States, civil unrest in foreign countries in which our suppliers do business may affect the prices we are charged for imported goods. If we are unable to pass on these increases to our customers, our FIFO gross margin and net earnings will suffer.

Other factors and assumptions not identified above could also cause actual results to differ materially from those set forth in the forward-looking information. Accordingly, actual events and results may vary significantly

from those included in, contemplated or implied by forward-looking statements made by us or our representatives.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareowners and Board of Directors of
The Kroger Co.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, cash flows and changes in shareowners equity present fairly, in all material respects, the financial position of The Kroger Co. and its subsidiaries at January 31, 2009 and February 2, 2008, and the results of their operations and their cash flows for each of the three years in the period ended January 31, 2009 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 31, 2009, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Companys management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Managements Report on Internal Control over Financial Reporting appearing on page A-1. Our responsibility is to express opinions on these financial statements and on the Companys internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 14 to the consolidated financial statements, the Company adopted the measurement date provision of Statement of Financial Accounting Standards No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans*, as of January 31, 2009, the provisions of Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, for financial assets and financial liabilities as of February 3, 2008, the provisions of Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, as of February 4, 2007 and the recognition and disclosure provisions of SFAS No. 158 as of February 3, 2007.

A companys internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A companys internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the companys assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Cincinnati, Ohio
March 31, 2009

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THE KROGER CO.

CONSOLIDATED BALANCE SHEETS

(In millions, except par values)	**January 31, 2009**	February 2, 2008
ASSETS		
Current assets		
Cash and temporary cash investments	**$ 263**	$ 242
Deposits in-transit	**631**	676
Receivables	**944**	786
FIFO Inventory	**5,659**	5,453
LIFO credit	**(800)**	(604)
Prefunded employee benefits	**300**	300
Prepaid and other current assets	**209**	255
Total current assets	**7,206**	7,108
Property, plant and equipment, net	**13,161**	12,498
Goodwill	**2,271**	2,144
Other assets	**573**	543
Total Assets	**$ 23,211**	$ 22,293
LIABILITIES		
Current liabilities		
Current portion of long-term debt including obligations under capital leases and financing obligations	**$ 558**	$ 1,592
Trade accounts payable	**3,822**	3,867
Accrued salaries and wages	**828**	815
Deferred income taxes	**344**	239
Other current liabilities	**2,077**	2,170
Total current liabilities	**7,629**	8,683
Long-term debt including obligations under capital leases and financing obligations		
Face value long-term debt including obligations under capital leases and financing obligations	**7,460**	6,485
Adjustment to reflect fair value interest rate hedges	**45**	44

Long-term debt including obligations under capital leases and financing obligations	**7,505**	6,529
Deferred income taxes	**384**	367
Pension and postretirement benefit obligations	**1,174**	554
Other long-term liabilities	**1,248**	1,246
Total Liabilities	**17,940**	17,379
Minority interests	**95**	
Commitments and Contingencies (See Note 11)		
SHAREOWNERS EQUITY		
Preferred stock, $100 par, 5 shares authorized and unissued		
Common stock, $1 par, 1,000 shares authorized: 955 shares issued in 2008 and 947 shares issued in 2007	**955**	947
Additional paid-in capital	**3,266**	3,031
Accumulated other comprehensive loss	**(495)**	(122)
Accumulated earnings	**7,489**	6,480
Common stock in treasury, at cost, 306 shares in 2008 and 284 shares in 2007	**(6,039)**	(5,422)
Total Shareowners Equity	**5,176**	4,914
Total Liabilities and Shareowners Equity	**$ 23,211**	$ 22,293

The accompanying notes are an integral part of the consolidated financial statements.

THE KROGER CO.

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended January 31, 2009, February 2, 2008 and February 3, 2007

(In millions, except per share amounts)	**2008 (52 weeks)**	2007 (52 weeks)	2006 (53 weeks)
Sales	**$ 76,000**	$ 70,235	$ 66,111
Merchandise costs, including advertising, warehousing, and transportation, excluding items shown separately below	**58,564**	53,779	50,115
Operating, general and administrative	**12,884**	12,155	11,839
Rent	**659**	644	649
Depreciation and amortization	**1,442**	1,356	1,272
Operating Profit	**2,451**	2,301	2,236
Interest expense	**485**	474	488
Earnings before income tax expense	**1,966**	1,827	1,748
Income tax expense	**717**	646	633
Net earnings	**$ 1,249**	$ 1,181	$ 1,115
Net earnings per basic common share	**$ 1.92**	$ 1.71	$ 1.56
Average number of common shares used in basic calculation	**652**	690	715
Net earnings per diluted common share	**$ 1.90**	$ 1.69	$ 1.54
Average number of common shares used in diluted calculation	**659**	698	723
Dividends declared per common share	**$ .36**	$ .30	$ .26

The accompanying notes are an integral part of the consolidated financial statements.

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THE KROGER CO.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended January 31, 2009, February 2, 2008 and February 3, 2007

(In millions)	2008 (52 weeks)	2007 (52 weeks)	2006 (53 weeks)
Cash Flows From Operating Activities:			
Net earnings	**$ 1,249**	$ 1,181	$1,115
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	**1,442**	1,356	1,272
LIFO charge	**196**	154	50
Stock-based employee compensation	**91**	87	72
Expense for Company-sponsored pension plans	**44**	67	161
Deferred income taxes	**341**	(86)	(60)
Other	**(36)**	37	20
Changes in operating assets and liabilities net of effects from acquisitions of businesses:			
Store deposits in-transit	**45**	(62)	(125)
Inventories	**(193)**	(381)	(173)
Receivables	**(28)**	(17)	(90)
Prepaid expenses	**47**	3	(43)
Accounts payable	**(53)**	165	220
Accrued expenses	**(33)**	174	134
Income taxes receivable (payable)	**(206)**	43	(4)
Contribution to Company-sponsored pension plans	**(20)**	(51)	(150)
Other	**10**	(89)	(48)
Net cash provided by operating activities	**2,896**	2,581	2,351
Cash Flows From Investing Activities:			
Payments for capital expenditures	**(2,149)**	(2,126)	(1,683)
Proceeds from sale of assets	**59**	49	143